



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

# Audit of the General Services Administration's FY 2012 Improper Payments Performance

*Report Number A130014/B/F/F13002  
March 14, 2013*



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

## REPORT ABSTRACT

### OBJECTIVES

The audit objective was to determine if GSA is in compliance with the Improper Payments Information Act of 2002 and the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2012.

*Finance and Information  
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### Audit of the General Services Administration's FY 2012 Improper Payments Performance

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### WHAT WE FOUND

GSA has complied with IPERA for FY 2012. Although GSA is in compliance with the IPERA requirements, we identified three areas that need to be addressed to improve and strengthen the agency's implementation of IPERA's requirements:

Finding 1 – Due to a transposition error, the GSA Agency Financial Report does not accurately present the aging of outstanding overpayments.

Finding 2 – The recovery audit contract does not meet the minimum requirements for using an external contractor for payment recapture audits.

Finding 3 – The CFO has not completed policy revisions to incorporate IPERA requirements.

### WHAT WE RECOMMEND

The Chief Financial Officer should:

1. Strengthen internal controls surrounding the preparation and review of the Other Accompanying Information section of the Agency Financial Report to ensure accurate reporting;
2. Modify the contract language to satisfy OMB requirements for using an external contractor for payment recapture audit services and ensure the requirements are fulfilled; and
3. Issue official policy incorporating all IPERA requirements.

### MANAGEMENT COMMENTS

Management agreed with our findings and recommendations. See the CFO's written response to our draft report in **Appendix B**.



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**Office of Audits  
Office of Inspector General  
U.S. General Services Administration**

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DATE: March 14, 2013

TO: Michael Casella  
Chief Financial Officer (B)

FROM: *Michael Capper*  
Michael Capper  
Audit Manager, JA-6

SUBJECT: Audit of the General Services Administration's FY 2012 Improper  
Payments Performance  
*Report Number A130014/B/F/F13002*

This report presents the results of our Audit of the General Services Administration's FY 2012 Improper Payments Performance. Our findings and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in Appendix B of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

Michael Capper	Audit Manager	<a href="mailto:Michael.Capper@gsaig.gov">Michael.Capper@gsaig.gov</a>	816-926-8612
Matthew Jacobs	Auditor-In-Charge	<a href="mailto:Matthew.Jacobs@gsaig.gov">Matthew.Jacobs@gsaig.gov</a>	202-357-3628
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On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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## **Table of Contents**

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<b>Introduction .....</b>	<b>1</b>
<b>Results</b>	
<i>Finding 1 – Due to a transposition error, the GSA Agency Financial Report does not accurately present the aging of outstanding overpayments.....</i>	<i>3</i>
<i>    Recommendation 1 .....</i>	<i>3</i>
<i>    Management Comments .....</i>	<i>3</i>
<i>Finding 2 – The recovery audit contract does not meet the minimum requirements for using an external contractor for payment recapture audits.....</i>	<i>3</i>
<i>    Recommendation 2 .....</i>	<i>4</i>
<i>    Management Comments .....</i>	<i>4</i>
<i>Finding 3 – The CFO has not completed policy revisions to incorporate IPERA requirements. ....</i>	<i>4</i>
<i>    Recommendation 3 .....</i>	<i>4</i>
<i>    Management Comments .....</i>	<i>4</i>
<b>Conclusion.....</b>	<b>5</b>
<b>Appendixes</b>	
<b>Appendix A – Purpose, Scope, and Methodology.....</b>	<b>A-1</b>
<b>Appendix B – Management Comments .....</b>	<b>B-1</b>
<b>Appendix C – Report Distribution.....</b>	<b>C-1</b>

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## ***Introduction***

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According to the U.S. Government Accountability Office, federal agencies reported an estimated \$108 billion in improper payments out of approximately \$2 trillion in payments made to individuals, businesses, and other entities in fiscal year (FY) 2012. An improper payment occurs when: funds go to the wrong recipient, the amount paid is incorrect, documentation is not available to support the payment, or the recipient uses the funds in an improper manner. Most improper payments are the result of inadequate recordkeeping, inaccurate eligibility determinations, inadvertent processing errors, lack of timely and reliable information to confirm payment accuracy, or fraud.

The Improper Payments Information Act of 2002 (IPIA) was enacted to enhance the accuracy and integrity of federal payments by providing a framework that allows federal agencies to identify the specific causes of their improper payments and implement necessary solutions to reduce them. Following the issuance of Executive Order 13520, IPIA was amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The Office of Management and Budget issued Memorandum 11-16 (OMB M-11-16) to provide guidance to all federal agencies regarding the implementation of IPIA as amended by IPERA. OMB M-11-16 requires agencies to review all the programs and activities they administer; identify those that may be susceptible to significant erroneous payments; and take mandatory actions to reduce any erroneous payments.

Starting in FY 2011, this guidance also required Offices of Inspectors General to perform annual reviews of their particular agency's improper payments reporting. These annual reviews are to determine agency compliance with IPERA and must be completed within 120 days of the agency publishing its Annual Financial Report. To be in compliance with IPERA an agency must:

- Publish an Annual Financial Report;<sup>1</sup>
- Conduct a program specific risk assessment for each of its programs or activities;
- Issue improper payment estimates for all programs and activities;
- Publish programmatic corrective action plans in the annual financial report;
- Issue annual reduction targets for each program;
- Report a gross improper payment rate of less than 10 percent for each program and activity included in its improper payments report; and
- Report information on efforts to recapture improper payments.

In accordance with IPERA, the General Services Administration (GSA) Office of the Chief Financial Officer (OCFO) conducted a risk assessment in FY 2012 of all its programs for FY 2011 payments. Using both quantitative and qualitative risk assessment methods, the OCFO identified two programs (Rental of Space and Purchase Cards) and two sub-programs (Building Operations and Other Payments – Utilities and ITS-Wide Area Network) as high risk for improper payments. Additionally,

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<sup>1</sup> GSA has chosen to publish an Agency Financial Report.

the OCFO concluded that Other Sensitive Payments<sup>2</sup> are also high risk for improper payments.<sup>3</sup> Each program, sub-program, and payment category will be reviewed and reported on during FY 2013.

## Objective

Our objective was to determine if GSA complied with IPIA as modified by IPERA in FY 2012.

See **Appendix A** – Purpose, Scope, and Methodology for additional details.

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<sup>2</sup> Other Sensitive Payments are discretionary costs determined to be high risk to the agency throughout all programs, including conferences, speaking honoraria, gifts, training, and membership fees.

<sup>3</sup> GSA considered FY 2012 publicity surrounding the Western Regions Conference for this payment category.

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## Results

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We found GSA to be in compliance with IPERA for FY 2012. Although GSA is in compliance with the IPERA requirements, we identified three areas that need to be addressed to improve and strengthen the agency's implementation of IPERA requirements.<sup>4</sup>

### **Finding 1 – Due to a transposition error, the GSA Agency Financial Report does not accurately present the aging of outstanding overpayments.**

The Chief Financial Officer (CFO) did not accurately report the aging of its outstanding overpayments for GSA's Rental of Space program for FY 2012. When preparing the Other Accompanying Information section of the Agency Financial Report, a transposition error occurred in reporting the total amount of current year outstanding overpayments for those dated 0 to 6 months with those dated 6 months to 1 year. OMB Circular A-136 requires agencies to report an aging schedule of the amount of overpayments identified through the payment recapture audit program that are outstanding.

#### Recommendation 1

We recommend that the CFO strengthen internal controls surrounding the preparation and review of the Other Accompanying Information section of the Agency Financial Report to ensure accurate reporting.

#### Management Comments

In its comments, management agreed with the audit finding and concurred with the recommendation (See **Appendix B**).

### **Finding 2 – The recovery audit contract does not meet the minimum requirements for using an external contractor for payment recapture audits.**

The CFO did not appropriately consider OMB requirements when developing the statement of work for payment recapture services. The current payment recapture audit contract does not contain all of the contractual language required by OMB for payment recapture audit contracts. These omissions currently preclude GSA from seeking monetary damages or obtaining required documents and services, should the contractor fail to communicate identified payments beyond the scope of the contract or submit required root cause reports. Specifically, OMB M-11-16 requires that a contract for an external payment recapture contractor include: (1) a deliverable requirement for semi-annual reports pertaining to the root causes of improper payments, and (2) language

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<sup>4</sup> Although these issues need to be addressed, they do not impact the agency's compliance with the IPERA requirements.

requiring the contractor to notify the agency of any identified overpayments beyond the scope of the contract.

### Recommendation 2

We recommend that the CFO modify the contract language to satisfy OMB requirements for using an external contractor for payment recapture audit services and ensure the requirements are fulfilled.

### Management Comments

In its comments, management agreed with the audit finding and concurred with the recommendation (See **Appendix B**).

### **Finding 3 – The CFO has not completed policy revisions to incorporate IPERA requirements.**

The CFO has not finalized revisions to policy that incorporate IPERA reporting requirements, resulting in a lack of assurance that GSA employees are fully aware of IPERA requirements and their responsibilities for reporting improper payments. In our prior audit of GSA's FY 2011 improper payments performance, we recommended the CFO issue official policy providing guidance to agency personnel regarding the reporting of GSA's improper payments to direct the implementation of IPERA. In response to our FY 2011 finding, the CFO stated that it would be updating its Accounts Payable Policy Manual. At the date of this report, the CFO has not yet issued the official policy.

### Recommendation 3

We recommend the CFO issue official policy incorporating all IPERA requirements.

### Management Comments

In its comments, management agreed with the audit finding and concurred with the recommendation (See **Appendix B**).



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## ***Conclusion***

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Although GSA has complied with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, it still needs to improve and strengthen aspects of the agency's implementation of the IPERA requirements. The steps identified in this report will assist GSA in identifying and reporting on improper payments and in maintaining compliance in the future.

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## ***Appendix A – Purpose, Scope, and Methodology***

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### **Purpose**

This audit was included in the GSA Office of Inspector General's (OIG) FY 2013 Audit Plan, in compliance with the requirements of IPERA.

### **Scope**

The audit reviewed GSA's improper payments program for FY 2012.

### **Methodology**

To accomplish our objectives, we:

- Reviewed the following:
  - Prior audit reports related to improper payments issued by the Government Accountability Office (GAO), GSA OIG, and other federal agency OIGs;
  - Applicable laws and guidance, including: Public Laws, Executive Orders, Office of Management and Budget Memoranda and GAO testimony, and GSA directives, internal procedures, and policies;
  - Supporting documentation for GSA's:
    - Payment Recapture Audit:
      - Report on Results of the Payment Recapture Audit for FY 2011;
      - Report on Results of the Payment Recapture Audit for FY 2012;
      - FY 2011 Payment Recapture Audit Plan;
      - FY 2012 Payment Recapture Audit Review Schedule;
      - Aging schedule for outstanding payment recapture claims; and
      - Statement of Work documentation related to the payment recapture audit contractor;
    - Agency Financial Report:
      - GSA's FY 2011 Agency Financial Report; and
      - GSA's FY 2012 Agency Financial Report;
    - Risk Assessment:
      - GSA's FY 2009 Risk Assessment; and
      - GSA's FY 2012 Risk Assessment;
    - Organizational structure for the improper payments program;
    - Corrective actions to address prior year GSA OIG audit recommendations;
- Conducted meetings or corresponded with:
  - GSA improper payments personnel;

- GSA Independent Public Accountant;
- GAO/IG Audit Response Branch; and,
- OMB counsel; and
- Obtained:
  - Access to the OMB Max Information System; and
  - An understanding of the agency's pre-payment continuous monitoring process.

We conducted the audit between October 2012 and January 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Internal Controls**


We limited our assessment of internal controls to those related to the OCFO's improper payment recapture audit program. We reviewed the OCFO's procedures and processes to assess compliance with IPIA and IPERA; the improper payments contract for recapture audit services; and financial documentation to assess the effectiveness of the controls. Based on our audit, we made recommendations to strengthen and improve the controls discussed in the Results section of this report.

## Appendix B – Management Comments



GSA Office of the Chief Financial Officer

MEMORANDUM FOR CAROLYN PRESLEY-DOSS  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR  
FINANCE AND INFORMATION TECHNOLOGY AUDITS  
(JA-F)

FROM: AGNES LEUNG   
ACTING CHIEF FINANCIAL OFFICER (B)

SUBJECT: GSA Response to OIG Draft Report #A130014, *Audit of  
GSA's FY2012 Improper Payments Performance Report*

Thank you for the opportunity to provide comments to the above draft report. We appreciate your efforts to evaluate the performance of the GSA improper payment program and the recommendations you provide. Management's response to your findings and recommendations are included below.

**Finding 1 – Due to a transposition error, the GSA Agency Financial Report (AFR) does not accurately present the aging of outstanding overpayments.**

**Recommendation 1:** We recommend that the Office of the Chief Financial Officer (OCFO) strengthen internal controls surrounding the preparation and review of the Other Accompanying Information section of the AFR to ensure accurate reporting.

**OCFO Response:** Management agrees. As the preparation and review of the Other Accompanying information section of the AFR requires mostly manual controls, there is a human element that cannot be completely prevented. Going forward, we will include an additional layer of control review to test and validate the accuracy of the presentation.

**Finding 2 – The recovery audit contract does not meet the minimum requirements for using an external contractor for payment recapture audits.**

**Recommendation 2:** We recommend that the OCFO modify the contract language to satisfy the Office of Management and Budget (OMB) requirements for using an external contractor for payment recapture audit services and ensure the requirements are fulfilled.

**OCFO Response:** Management agrees. The statement of work used in the contract for payment recapture audit services has been modified and now contains all contractual language required by OMB.

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**Finding 3 – The OCFO has not completed policy revisions to incorporate IPERA requirements.**

**Recommendation 3:** We recommend the OCFO issue official policy incorporating all IPERA requirements.

**OCFO Response:** Management Agrees. A draft policy memo that incorporates IPERA reporting requirements has been developed, with planned issuance as final policy no later than March 31, 2013.

If you have any questions, please contact Edward Gramp at (202) 501-0593 or [edward.gramp@gsa.gov](mailto:edward.gramp@gsa.gov).

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## ***Appendix C – Report Distribution***

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Chief Financial Officer (B)

Division Director, GAO/IG Audit Response Division (H1C)

Audit Liaison, Office of the Chief Financial Officer (B)

Assistant IG for Auditing (JA)

Deputy Assistant IG for Investigations (JID)

Director, Audit Planning, Policy, and Operations (JAO)