



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

# GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015

*Report Number A160018/B/5/F16002  
May 11, 2016*



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

**REPORT ABSTRACT**

**OBJECTIVES**

The objectives of our audit were to determine if GSA:

- Complied with the Improper Payments Acts;
- Accurately and completely reported improper payment estimates and figures in its fiscal year (FY) 2015 Agency Financial Report (AFR); and
- Took efforts to reduce and recapture improper payments in FY 2015.

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**GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015**

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**WHAT WE FOUND**

In FY 2015, GSA complied with five of the six requirements of the Improper Payments Acts. GSA did not comply with the requirement to test or report improper payment estimates for the Hurricane Sandy Disaster Relief Fund. Also, though GSA has taken constructive measures related to improper payments, GSA's Office of the Chief Financial Officer (OCFO) could improve its evaluation, reduction, recapture, and reporting of improper payments.

We identified the following during our audit:

Finding 1 – GSA did not fully comply with the Improper Payments Acts because OCFO did not test or report improper payment estimates for the Hurricane Sandy Disaster Relief Fund in FY 2015.

Finding 2 – OCFO's FY 2015 risk assessment process was flawed.

Finding 3 – OCFO does not promptly implement payment recapture audit recommendations, employ effective continuous monitoring, or determine root causes of improper payments.

Finding 4 – OCFO did not accurately report improper payments in its FY 2015 AFR.

Finding 5 – Regional reviewers are not aware of policies related to the claim review and validation process for recapture of improper payments.

**WHAT WE RECOMMEND**

Based on our audit findings, we recommend the Chief Financial Officer:

1. Implement a process to ensure all required programs are tested and reported for improper payments and submit a plan for addressing noncompliance within 90 days as required by Office of Management and Budget guidance;
2. Adopt a quantitative approach or develop an improved qualitative approach to increase reliability and objectivity of future risk assessment results;
3. Ensure timely implementation of payment recapture audit recommendations, improve continuous monitoring processes, and identify and correct root causes of improper payments;
4. Implement controls to ensure accurate and reliable reporting of improper payments; and
5. Implement controls and develop and disseminate guidance for the claims review and validation process.

These summary level recommendations are presented in detail in the report body.

**GSA COMMENTS**

The Chief Financial Officer concurred with our findings and recommendations. GSA's comments are included in their entirety as **Appendix D**.

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## **Introduction**

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We performed an audit of GSA's compliance with the Improper Payments Acts in fiscal year (FY) 2015.

### **Purpose**

The Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012, hereinafter collectively referred to as the Improper Payments Acts, aim to eliminate and recover payments improperly made by federal agencies. The Improper Payments Acts require federal agencies to review their programs and identify those that are susceptible to significant improper payments. For programs identified, agencies are required to estimate, report, and reduce improper payments through corrective action. Each agency's Office of Inspector General is tasked with examining the agency's efforts. We performed this audit as required by the Improper Payments Acts.

### **Objectives**

The objectives of our audit were to determine if GSA:

- Complied with the Improper Payments Acts;
- Accurately and completely reported improper payment estimates and figures in its FY 2015 Agency Financial Report (AFR); and
- Took efforts to reduce and recapture improper payments in FY 2015.

### **Background**

For FY 2014, the federal government reported a total of \$124.7 billion in estimated improper payments.<sup>1</sup> Improper payments — payments that under statutory, contractual, administrative, or other legally applicable requirements should not have been made or were made in an incorrect amount — are a long-standing, widespread, and significant problem in the federal government. To address this problem, the President made reducing improper payments a top priority by signing two laws and issuing three directives, including an Executive Order, that have called for agencies to reduce improper payments in their programs.

### **Guidance and Regulations**

The Improper Payments Acts define improper payments as both overpayments and underpayments, payments to ineligible recipients, payments for ineligible goods or services, duplicate payments, payments for goods or services not received, and

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<sup>1</sup> Government Accountability Office report *Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals*, March 16, 2015.

payments that do not account for applicable discounts. The Office of Management and Budget (OMB) has also instructed agencies to report any payment whose correctness cannot be determined due to lacking or insufficient documentation as improper. The definition of improper payments was later amended to include payments to federal employees (including salary, locality pay, and travel pay), in addition to payments made to non-federal persons or entities.

The Improper Payments Acts require federal agencies to review their programs and identify those that are susceptible to significant improper payments. For programs identified, agencies are required to estimate, report, and reduce improper payments through corrective action.

These requirements were expanded by Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, which, among other things, required federal agencies to decrease improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the federal government.

OMB Memorandum 15-02, issued on October 20, 2014, (OMB guidance) provides the most updated guidance to federal agencies regarding the implementation of the Improper Payments Acts.<sup>2</sup>

OMB guidance states that, for an agency to eliminate improper payments, it must first conduct a risk assessment to identify the programs most susceptible to significant improper payments. Improper payments are considered “significant” if, in a given year: (1) they exceed both 1.5 percent of program payments and \$10 million, or (2) the payments exceed \$100 million regardless of the percentage of program payments. An agency is required to assess each program’s risk at least every three years.

OMB guidance also references the Disaster Relief Appropriations Act of 2013, which states that all federal programs receiving funds under the Act are automatically considered susceptible to significant improper payments and are required to be included in the agency’s calculation and reporting of its improper payment estimate.

If a program is susceptible to significant improper payments, the agency is required to estimate and report improper payments for that program annually, in addition to implementing corrective actions to reduce its improper payments. The estimation of improper payments must be statistically valid, using an OMB-approved methodology. The estimates are then included in the accompanying materials to the AFR. Agencies must also provide these estimates to OMB for inclusion in governmentwide improper payment estimates.

Once a program is identified as susceptible to significant improper payments, the annual reporting requirement applies, regardless of determinations in subsequent risk

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<sup>2</sup> OMB Memorandum 15-02 modified “Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.”

assessments. However, if the program's estimated and reported improper payments are below the statutory thresholds for a minimum of two consecutive years, the agency may request relief from the annual reporting requirements for that program. This request must be submitted to and approved by the agency's Office of Inspector General and OMB. If OMB approves the request, it issues a waiver and the program is no longer subject to reporting requirements.

Since the aim of the Improper Payments Acts is to eliminate improper payments, agencies must implement a plan to reduce future improper payments. Agencies must identify root causes of improper payments and implement corrective action to mitigate them. Agencies are also required to publish and meet annual reduction targets for programs susceptible to significant improper payments.<sup>3</sup> Finally, agencies must ensure designated program officials are held accountable for reducing improper payments.

Another fundamental requirement of the Improper Payments Acts is for agencies to recover any federal funding that was improperly expended. Specifically, any program that expends at least \$1 million should implement payment recapture audits, if cost-effective to the agency, in order to recover improper payments.

Agencies provide their annual improper payments estimates and results of payment recapture efforts in two main tables in the AFR.

"Table 1, Improper Payment Reduction Outlook" (Table 1, see **Appendix B**), shows the agency's annual improper payment estimates and reduction targets for programs deemed susceptible to significant improper payments (high risk). For high risk programs, agencies are required to select statistically valid samples of transactions for review. For those transactions, agencies evaluate supporting documentation and determine if improper payments were made. The improper payments are then extrapolated and shown as the current year improper payment estimates in Table 1. This table also shows the prior year estimates and future reduction targets established by the agency.

"Table 3, Improper Payment Recaptures with and without Audit Programs" (Table 3, see **Appendix B**) shows the results of the agency's payment recapture efforts. Table 3 is separated into overpayments recaptured through payment recapture audit and outside of payment recapture audit. For each, the table lists the current year's overpayments identified and recovered. It also lists the current recovery rate and targets for future recovery. Table 3 is based on actual results, not estimates.

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<sup>3</sup> OMB Memorandum 15-02 requires agencies to set reduction targets for future improper payment levels and a timeline within which the targets will be reached. Reduction targets must be approved by OMB. Agencies are considered to have met their reduction targets if they are within plus or minus 0.1 percentage points of the reduction targets set in the previous year's AFR.

## **GSA's Assessment and Reporting of Improper Payments**

GSA's Office of the Chief Financial Officer (OCFO) is responsible for GSA's compliance with the Improper Payments Acts. OCFO last performed its improper payments risk assessment in FY 2012 and was, therefore, required to perform the assessment again in FY 2015. In FY 2012, OCFO used a mostly statistical approach to evaluate the risk of significant improper payments for its programs. The risk assessment identified two programs, Rental of Space and Purchase Cards, and two sub-programs, Building Operations - Utilities and Integrated Technology Services - Wide Area Network, as being susceptible to significant improper payments. OCFO also considered Other Sensitive Payments, which are discretionary costs throughout all programs, to be high-risk based on recent events involving such payments.<sup>4</sup>

OCFO's FY 2015 risk assessment used a mostly qualitative approach, employing risk assessment questionnaires to determine program risk. The result was that no GSA program was identified as susceptible to significant improper payments. Even so, OCFO was required to continue reporting on previously identified programs unless it obtained a waiver to exclude those programs from reporting requirements.

In FY 2014, OCFO reported on the five programs/subprograms identified in its FY 2012 risk assessment and was also required to report improper payment estimates for the Hurricane Sandy Disaster Relief Fund. OCFO estimated total FY 2014 improper payments of \$44 million for these programs/subprograms. OCFO subsequently requested and received waivers to exclude Integrated Technology Services – Wide Area Network and Other Sensitive Payments from future reporting requirements.<sup>5</sup>

Based on its risk assessments and waivers, in FY 2015, OCFO reported on three programs/sub-programs susceptible to significant improper payments: (1) Rental of Space, (2) Purchase Cards, and (3) Building Operations – Utilities. Among the three areas, OCFO estimated total FY 2015 improper payments of \$9 million. OCFO did not report improper payment estimates for the Hurricane Sandy Disaster Relief Fund because it considered the amounts immaterial. The Agency's FY 2015 Table 1 and other AFR tables are provided under **Appendix B**.

## **The Office of Inspector General's Role**

The Improper Payments Acts require the Office of Inspector General to test for compliance by determining if an agency:

- Published an AFR for the most recent fiscal year and posted it on the agency's website;

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<sup>4</sup> According to OCFO, Other Sensitive Payments include conferences, speaking honoraria, gifts, training, and membership fees. OCFO concluded these payments are high risk based on the 2010 Western Regions Conference and associated publicity. We found abuses associated with conference spending in our report entitled *2010 Western Regions Conference*, April 2, 2012.

<sup>5</sup> OMB provided the waivers on July 9, 2015.

- Conducted a program-specific risk assessment for each program or activity;
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
- Published programmatic corrective action plans;
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments; and
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate is obtained and published in the AFR.

OMB also allows the Office of Inspector General to evaluate the accuracy and completeness of agency reporting and agency performance in reducing and recapturing improper payments. As such, we evaluated GSA's compliance, reporting, and performance in reducing and recapturing improper payments.

In our FY 2015 audit, we found GSA noncompliant with the Improper Payments Acts in FY 2014 because GSA did not meet its improper payment reduction targets. In response to the audit, OCFO has taken constructive measures. These measures included providing additional training to OCFO staff on improper payments, improving the timeliness of claim review and validation, and hiring a contractor to document changes in improper payments reporting. GSA also exceeded its improper payments reduction targets in FY 2015.

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

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## Results

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In FY 2015, GSA complied with five of the six requirements of the Improper Payments Acts. GSA's Office of the Chief Financial Officer (OCFO) did not comply with the requirement to test or report improper payment estimates for its Hurricane Sandy Disaster Relief Fund. Also, though OCFO has taken constructive measures related to improper payments, its processes for evaluation, reduction, recapture, and reporting of improper payments could be improved.

### **Finding 1 – GSA did not fully comply with the Improper Payments Acts because OCFO did not test or report improper payment estimates for the Hurricane Sandy Disaster Relief Fund in FY 2015.**

Though GSA made four payments related to the Hurricane Sandy Disaster Relief Fund in FY 2015, OCFO did not test or report improper payment estimates for the program, as required by OMB guidance. On January 29, 2013, GSA's Federal Buildings Fund received \$7 million in Hurricane Sandy Disaster Relief Funds. OCFO officials informed us that \$1.1 million was expended and the remaining funds expired on September 30, 2015. GSA's FY 2015 AFR contains a narrative related to the Hurricane Sandy Disaster Relief Fund. The narrative states:

In accordance with Section 904(b) of the Disaster Relief Act, GSA estimated and measured the use of the funds as it was required to be reported as "susceptible to significant improper payments" for the purposes of the Improper Payments Information Act (IPIA) of 2002 (IPIA; Public Law 107-300). For FY 2014 GSA had \$11,434.00 in obligations and \$569,131 in outlays. In FY 2015 GSA had \$415,856 in outlays. Due to the immateriality of the amounts GSA did not test these transactions.

OMB guidance references the Disaster Relief Appropriations Act of 2013 and states all federal programs receiving funds under this Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk assessment results. OMB guidance requires such funds to be included in an agency's calculation and reporting of its improper payment estimate. OMB informed us that agencies are required to measure and report funds received under the Disaster Relief Appropriations Act of 2013, regardless of amount, until those funds are expended or until the program is explicitly granted a waiver from OMB. GSA did not receive a waiver to exclude the Hurricane Sandy Disaster Relief Fund from its reporting requirements. After we alerted OCFO of this oversight, OCFO tested the four payments and found no improper payments.

As this testing was required prior to issuance of its FY 2015 AFR, GSA did not fully comply with the Improper Payments Acts. Consequently, in accordance with OMB requirements, GSA must submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, within 90 days of the determination of noncompliance, describing the

actions that GSA will take to become compliant with the Improper Payments Acts. These actions must include: the establishment of measurable milestones to be accomplished in order to achieve compliance for each program area, designation of a senior agency official who shall be accountable for GSA's progress towards compliance, and the establishment of an accountability mechanism with appropriate incentives and consequences tied to the success of the designated senior agency official in leading GSA's efforts to achieve compliance for each program area.

### Recommendation 1

We recommend the Chief Financial Officer:

- 1a. Implement a process to ensure all required programs are tested and reported for improper payments as required by OMB guidance; and
- 1b. Submit a plan for addressing noncompliance within 90 days as required by OMB guidance.

### GSA Comments

The Chief Financial Officer concurred with our audit finding and recommendations. GSA's comments are included in their entirety as **Appendix D**.

### **Finding 2 – OCFO's FY 2015 risk assessment process was flawed.**

Although OCFO's FY 2015 risk assessment complied with OMB requirements, the risk assessment process was flawed. OCFO needs to improve the risk assessment process to ensure reliable results.

OMB requires agencies to conduct risk assessments for all programs using a qualitative or quantitative approach. OMB further requires agencies to consider specific risk factors that likely contribute to improper payments such as the age and complexity of the programs, volume of payments, training of staff, and prior audit findings.

In FY 2012, OCFO used a mostly quantitative approach to evaluate the risk of significant improper payments for its 12 programs. This included reviewing a statistical sample of transactions from each program and extrapolating the results to the payment population. This method produced a statistically valid estimate of the improper payment error rate associated with each program. The error rate was used to determine each program's overall risk of improper payments. The FY 2012 risk assessment identified three programs and two subprograms as susceptible to significant improper payments.

By contrast, OCFO's FY 2015 risk assessment used a mostly qualitative approach, employing risk assessment questionnaires to determine program risk. OCFO selected 32 subprograms for evaluation and provided the program heads (assessors) with questionnaires asking them to evaluate the OMB-prescribed risk factors for their

programs.<sup>6</sup> OCFO then used a weighted analysis of three factors to determine each program’s overall risk: the tabulated results of the questionnaires, value of FY 2014 disbursements, and shared services risk (based on payment programs being shared with other agencies).

| <b>Analysis Factor</b> | <b>Percentage</b> |
|------------------------|-------------------|
| Questionnaires         | 70                |
| FY 2014 Disbursements  | 20                |
| Shared Services Risk   | <u>10</u>         |
| Total                  | 100               |

Based on the overall risk, OCFO determined that none of the 32 subprograms are susceptible to significant improper payments.

To evaluate the adequacy of OCFO’s FY 2015 risk assessment, we reviewed completed questionnaires and interviewed assessors for the six subprograms with the greatest FY 2014 disbursements. In doing so, we found several issues related to OCFO’s risk assessment process:

- OCFO’s FY 2015 risk assessment questionnaires did not ask if the programs actually experienced improper payments, nor were assessors required to calculate or estimate the value of their programs’ improper payments.
- In FY 2015, questionnaires were distributed to individuals who did not have direct or specific knowledge of improper payments. The use of questionnaires presents a risk that assessors will not have full or reliable information upon which to base responses.
- Assessors stated they did not conduct research to determine if any relevant reports had been issued, although OMB requires that programs evaluate “significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office audit report findings, or other relevant management findings that might hinder accurate payment certification.”
- Two of the six questionnaires we reviewed included incomplete information. One of the questionnaires had approximately half of the questions blank. In cases where assessors left response fields to questions blank, OCFO generally selected the middle value (moderate risk) rather than following up on responses.

We also have concerns with the use of questionnaires, in general, to determine program risk. The questionnaire methodology relies on individuals to accurately mark responses and on OCFO to manually tabulate such responses. In addition, questionnaires can be

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<sup>6</sup> OCFO selected all subprograms that had disbursements over \$10 million. These 36 subprograms accounted for 99.2 percent of FY 2014 disbursements; however, 4 were subsequently deemed not applicable because the programs expired.

vulnerable to inherent biases and conflicts of interest, because assessors have several incentives to consider their programs to be low risk.

OCFO officials told us that the Agency moved from a quantitative approach to a qualitative approach to save time and money. Though we have not evaluated the costs associated with either approach, to properly conduct a qualitative assessment would also be time-consuming. However, using a quantitative approach, as was used in FY 2012, could ensure OCFO obtains reliable, objective results, which are more difficult to obtain using a qualitative questionnaire. If OCFO continues using a qualitative approach, it should make improvements to produce more reliable and objective results.

## Recommendation 2

We recommend the Chief Financial Officer:

2. Adopt a quantitative approach or develop an improved qualitative approach to increase the reliability and objectivity of future risk assessment results.

## GSA Comments

The Chief Financial Officer concurred with our audit finding and recommendation. GSA's comments are included in their entirety as **Appendix D**.

## **Finding 3 – OCFO does not promptly implement payment recapture audit recommendations, employ effective continuous monitoring, or determine root causes of improper payments.**

In FY 2015, OCFO identified approximately \$72 million in improper payments. This amount could be significantly reduced if OCFO takes additional action. However, OCFO has not been timely in implementing recommendations provided by its payment recapture auditor to reduce future improper payments. Also, OCFO's continuous monitoring of vendor payments could benefit from an improved sampling methodology and stronger controls. Finally, OCFO does not determine root causes of improper payments that the Agency identifies. This information could be useful in preventing future improper payments.

## **Implementing Payment Recapture Audit Recommendations**

OCFO has not promptly implemented recommendations to reduce improper payments identified by its payment recapture auditor.

OMB requires agencies to conduct payment recapture audits for each program that expends \$1 million or more annually, if conducting such audits is cost-effective. OMB allows agencies to hire contractors to conduct their payment recapture audits or to perform such audits with their own staff.

OCFO determined that it is cost-effective to perform payment recapture audits for its Rental of Space program. OCFO uses PRGX Global, Inc. (PRGX) as its payment recapture auditor. PRGX is responsible for identifying overpayments for the program and reporting them for collection.<sup>7</sup> PRGX is paid a commission on all collections resulting from its efforts.

PRGX also provides GSA with an annual engagement management report (engagement report) that includes an analysis of PRGX's recovery efforts and detailed results and recommendations for GSA to minimize future losses and implement industry best practices. In its FY 2012 engagement report, PRGX stated that implementing its recommendations could save GSA millions of dollars in improper payments annually. Effectively implementing the recommendations would also save GSA on its collection efforts and payment of PRGX commissions resulting from those improper payments.

OMB guidance states that, whenever possible, agencies should incorporate refinements to their improper payment methodologies based on recommendations from agency staff or auditors, including private auditors. However, PRGX provided recurring recommendations to GSA in its 2012, 2013, and 2014 engagement reports. For example:

- PRGX stated GSA needed to standardize how information is presented and interpreted in its lease digest forms. PRGX noted there were multiple dates and amounts on the forms that were hard to understand and were, therefore, inconsistently treated by GSA staff.
- PRGX recommended that GSA create a checklist for new leases to ensure GSA accounts for broker commission credits, free rent credits, and leases in holdover status prior to sending the lease digests to finance for processing and payment.
- PRGX found that GSA did not take some real estate tax credits because GSA did not have lessors' tax bills. PRGX recommended that GSA send automatic notices to lessors, shortly before tax year-end, to remind them to submit tax bills to GSA. PRGX further recommended that GSA identify all leases that did not receive tax bills after 60 days and send second notices to ensure tax bills are provided.

Although PRGX provided these recommendations for three consecutive years, GSA did not promptly implement them. In FY 2015, GSA took action by developing a Lease Contract Administration Center. This center, which is not yet fully staffed, will focus on issues identified by PRGX related to leasing and implement best business practices.

### **Continuous Monitoring**

OCFO's continuous monitoring of vendor payments could benefit from an improved sampling methodology and stronger controls.

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<sup>7</sup> Though both overpayments and underpayments are considered improper payments, PRGX is only responsible for identifying overpayments made by GSA.

OMB guidance states “continuous monitoring and testing should help to identify poorly designed or ineffective controls and should be reported upon periodically. Management is then responsible for redesigning or improving upon those controls.”

**Sample Selection.** In performing its continuous monitoring, OCFO selects a random sample of vendor payments for testing on a quarterly basis. GSA then sends the sampled payments to its finance centers for verification. The finance centers review the selected payments and send OCFO their comments and supporting documentation related to the payments. OCFO summarizes the information received and relies on the finance centers to follow their ordinary collection process for improper payments identified.

OCFO should improve its sampling methodology to increase the likelihood of identifying improper payments and detecting ineffective controls. OCFO’s sample selection consists of approximately 30 transactions per quarter out of approximately 600,000 quarterly vendor payments. This sample is roughly 0.005 percent of the payment population. Furthermore, OCFO’s analysis does not focus on high risk, high value, or anomalous transactions. Though the Agency identified \$72 million in improper payments in FY 2015, 1 year of OCFO’s continuous monitoring of vendor payments did not detect a single improper payment.

**Controls Over Identification.** It is unclear who makes final determinations of whether sampled payments are proper or improper. Each quarter, officials in the finance centers research sample payments and answer several questions such as whether the payments were prohibited, for the correct amount, and had proper discounts applied. The finance center officials do not state whether the sampled payments are proper or improper.

The OCFO official tasked with conducting OCFO’s continuous monitoring of vendor payments stated he independently makes improper payment determinations. Another OCFO official stated the finance centers make the determination of whether sampled payments are proper or improper.

In addition to improvements in sampling, OCFO should clarify who makes final improper payment determinations and implement controls to verify the determinations. These improvements would increase the effectiveness of OCFO’s continuous monitoring processes to identify improper payments and the ineffective controls causing them.

### **Determining Root Causes of Improper Payments**

OCFO does not identify root causes of improper payments it identifies outside of its payment recapture audit and, therefore, is unable to address them to reduce future occurrences.

GSA, outside of PRGX's payment recapture audit, identified \$44 million in improper payments in FY 2015 compared to \$28 million identified by PRGX. As noted above, PRGX is required to annually provide GSA with detailed information related to root causes of overpayments it identifies. However, GSA does not do the same for the overpayments it identifies.

GSA fully complied with OMB's requirements to categorize its estimated improper payments in "Table 2, Improper Payment Root Cause Category Matrix" (see **Appendix B**). However, the categories, as prescribed by OMB, are general reasons for improper payments, which are caused by underlying conditions. For example, administrative errors are a symptom of underlying internal control deficiencies rather than root causes themselves. A root cause could be insufficient training, supervision, or automated controls to prevent or detect such errors.

OCFO stated it does not keep separate records on where the overpayments it identifies originated. OCFO cannot correct the underlying conditions until it first identifies them. Furthermore, OMB requires GSA to have a cost-effective program of internal controls to prevent, detect, and recover overpayments. GSA cannot implement such controls if it does not know which controls are lacking or failing to prevent such payments.

#### Recommendation 3:

We recommend the Chief Financial Officer:

- 3a. Ensure timely implementation of payment recapture audit recommendations to reduce improper payments;
- 3b. Use data analytics to select high risk, high value, and/or anomalous payments for continuous monitoring;
- 3c. Clarify who makes final improper payment determinations for continuous monitoring and implement controls to verify those determinations; and
- 3d. Identify the root causes of improper payments identified by GSA and implement controls to address them.

#### GSA Comments

The Chief Financial Officer concurred with our audit finding and recommendations. GSA's comments are included in their entirety as **Appendix D**.

#### **Finding 4 – OCFO did not accurately report improper payments in its FY 2015 AFR.**

By including mandatory narratives and tables, GSA's FY 2015 AFR complied with OMB's reporting requirements for improper payments. However, the AFR contains

inaccurate improper payments information. OCFO's improper payment estimates in Table 1 could be improved to provide more reliable figures. Also, OCFO inaccurately applied OMB guidance, which resulted in the understatement of improper payments recovered in Table 3. Finally, OCFO published its FY 2015 AFR with basic errors, most of which affected Table 1.

### **Reliability of Improper Payment Estimates**

OMB guidance requires agencies to produce statistically valid estimates of annual improper payments, within a prescribed confidence interval, and report the estimates in Table 1.<sup>8</sup> OMB guidance further states agencies should incorporate refinements to their improper payment methodologies based on previous results and recommendations from auditors such as an agency's Inspector General.

In FY 2015, following OMB guidance, OCFO tested a statistical sample of transactions for improper payments and extrapolated the results. OCFO estimated total improper payments of \$6.9 million for its Rental of Space program.

To test the reliability of this estimate, we compared it to actual improper payments affecting the program and found that actual improper payments far exceeded the estimate. PRGX and GSA identified FY 2015 Rental of Space improper payments of \$29.5 million, a figure more than four times greater than OCFO's \$6.9 million estimate. This figure will likely increase with future PRGX audits.

OCFO officials stated they do not compare actual improper payment amounts to estimated improper payments. To test the reliability of its estimates in Table 1, OCFO should compare the estimates to actual improper payments data. If annual estimates are consistently and significantly below actual improper payments, that may indicate an issue with OCFO's statistical sampling methodology.

Finally, if actual improper payments exceed estimated overpayments in Table 1, OCFO should consider reporting the actual improper payments as this amount would be more reliable. This approach would not contradict OMB guidance as the actual improper payment amount (if greater than the estimate) would also be statistically valid.

### **Understated Recovered Amounts**

OCFO understated its improper payment recoveries reported in Table 3 by approximately \$14 million.

OMB requires agencies to report on the results of their recapture efforts. This includes reporting the amount of improper payments recovered in the fiscal year regardless of when the improper payments were made or identified. For reporting purposes, this

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<sup>8</sup> OMB requires estimates to be within a 90 percent confidence interval with plus or minus 2.5 percent precision. This is the level of uncertainty OMB is willing to accept regarding the accuracy of improper payment estimates.

amount is divided into overpayments identified through payment recapture audit and outside of payment recapture audit.

OCFO only reported amounts recovered and identified in the same fiscal year. If an improper payment was identified prior to FY 2015 and recovered in FY 2015, it was not reported. This resulted in the understatement of amounts recovered in Table 3. The below tables show OCFO's reported amounts and our corrected amounts for FY 2015 recoveries (in millions).

| Amount Recovered Through Payment Recapture Audit |           |            | Amount Recovered Outside of Payment Recapture Audit |           |            |
|--|-----------|------------|---|-----------|------------|
| Reported   | Per Audit | Difference | Reported  | Per Audit | Difference |
| \$15.11  | \$18.92   | \$3.81     | \$34.04   | \$44.14   | \$10.10    |

### **Errors in Reporting**

OCFO published its FY 2015 AFR with errors, most of which affected Table 1. Specifically, Table 1 was published with a mathematical error in calculating its prior year and current year outlays, improper payment rates, and current year improper payment amount. The error in outlays was significant, as shown below (in millions):

| Program                  | Prior Year Outlays | Current Year Outlays |
|--------------------------|--------------------|----------------------|
| Rental of Space          | \$5,591.77         | \$5,745.95           |
| Building Ops - Utilities | \$376.86           | \$369.87             |
| Purchase Cards           | \$33.88            | \$30.22              |
| Reported Total           | \$575,133.51       | \$422,002.04         |
| Corrected Total          | \$6,002.51         | \$6,146.04           |

OCFO identified this mathematical error and subsequently sent a corrected version of Table 1 to OMB. This was not an isolated case of OCFO's controls not detecting errors in reporting. There were other, less significant errors that also affected figures in Table 1. For explanation of all reported and corrected amounts in Table 1, see **Appendix C**.

### **Recommendation 4:**

We recommend the Chief Financial Officer:

- 4a. Ensure annual improper payment estimates are reliable by comparing them to actual improper payment amounts and consider reporting the larger of the two figures; and
- 4b. Implement controls, including additional review and independent verification, to prevent and detect future misstatements in improper payment reporting.

## GSA Comments

The Chief Financial Officer concurred with our audit finding and recommendations. GSA's comments are included in their entirety as **Appendix D**.

### **Finding 5 – Regional reviewers are not aware of policies related to the claim review and validation process for recapture of improper payments.**

Without consistent guidance or policy related to claim review and validation, GSA is at risk of negatively affecting its recapture (collection) efforts. In FY 2015, we found that GSA regional reviewers: (1) were sometimes not timely in validating claims, (2) changed certified claim amounts without recertification, and (3) did not have standard operating procedures (SOPs) or knowledge of current policies for claims review and validation.

#### **Regional Claim Validation**

GSA's regional reviews of improper payment claims submitted by PRGX sometimes were not completed within the established 60-day deadline. Also, some regional reviewers did not fully understand GSA's policy related to claim validation.

In response to our April 2014 audit report, GSA issued instructional letter *Deadline for Claims Review and Validation* (instructional letter) to promote timely collection of debts owed to GSA.<sup>9</sup> According to the instructional letter, GSA has 60 days to validate a claim from the date it is received, unless an exception applies. On December 22, 2015, GSA replaced the instructional letter with GSA Order *Deadline for Potential Claims Review and Validation* (GSA order).<sup>10</sup> The GSA order maintained the 60-day deadline and added specific instructions on how to apply for an exception to the deadline.

To test for compliance with GSA policy, we examined 50 claims that PRGX submitted to GSA in FY 2015. Of the 50 claims, 4 were not reviewed within the 60-day timeframe and missed the deadline by 2 to 6 days. This is an improvement from our 2015 audit, which evaluated FY 2014 claims and found 22 out of 50 sampled claims did not comply with the 60-day deadline.

Moreover, one regional reviewer was not certain of the 60-day requirement nearly 19 months after the deadline became effective. Another regional reviewer stated he believed that 75 or more claims were required to request an exception to the 60-day deadline. However, neither the instructional letter nor the GSA order require a minimum number of claims to request an exception.

Also, reviewers in three regions incorrectly believed that PRGX authorized exceptions to the 60-day deadline. Both the instructional letter and GSA order require GSA to authorize all exceptions.

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<sup>9</sup> See *Audit of GSA's FY 2013 Improper Payments Performance* (Report Number A140021/B/9/F14002, April 15, 2014), and CFO IL-14-01 dated July 9, 2014.

<sup>10</sup> CFO 4200.4.

To ensure compliance and timely collection of debts, GSA should reiterate and enforce the policy associated with claims review and validation including the procedure for requesting an exception to the 60-day deadline.

### **Claim Recertification**

PRGX submits its identified improper payment claims to GSA on a document called the *Recovery Audit Claim Certification Form* (claim form). The claim form has signature blocks for the GSA regional reviewer's validation of the claim and for the certifications by the GSA program official and the contracting officer's technical representative.

Both the instructional letter and GSA order require that each claim be evaluated and determined to be valid, invalid, or partially valid by the responsible contracting officer or designated GSA official. Furthermore, GSA Order CFO P 4252.1B, *Accounts Payable Policy Manual* states that "claims are to be submitted to the appropriate [contracting officer] for review and concurrence."

Out of 50 claim forms, we found 3 that were validated and certified at a specific amount but were subsequently reduced without recertification. We also noted variations in regional reviewers' understanding of the procedures on claim form recertification. Three regional reviewers correctly understood that, if the validated amount changed, a revised claim form should be recertified. However, all other regional reviewers we contacted were either not aware of the recertification procedure or believed that no such procedure existed.

To ensure that the correct claim amounts are reported in the AFR, and are then accurately processed and collected by GSA, any changes to the validated amounts should be reflected on revised claim forms, which should be sent to the same GSA officials for recertification.

### **SOPs and Relevant Policies**

Currently, GSA does not have a SOP covering the entire claims process, from review and validation of the claim through processing and collection of the debt.

We asked 11 regional reviewers what guidance they received for reviewing and validating claims. We found that three regions documented their own operating procedures, while the other eight regions had no written operating procedures. Furthermore, the three regional operating procedures were considerably different in scope and level of detail.

Also, five regional reviewers stated they received a copy of the instructional letter. However, none of the regions were aware of the current GSA order, which replaced the instructional letter. One region stated it was not aware that any specific guidance existed. This is also a recurring issue. Our 2015 audit found one region was not aware

of the 60-day deadline for claim validation, 6 months after GSA issued the instructional letter containing the deadline.

#### Recommendation 5:

We recommend the Chief Financial Officer:

- 5a. Implement controls to ensure adherence to the policy for claim validation and claim recertification; and
- 5b. Develop formal standard operating procedures and promptly disseminate and train staff on all relevant policies and guidance for the claim review and validation process.

#### GSA Comments

The Chief Financial Officer concurred with our audit finding and recommendations. GSA's comments are included in their entirety as **Appendix D**.

#### **Other Observations**

During the course of our audit, we identified other issues warranting the Agency's attention:

- As with our 2015 audit, we observed that OCFO has constant turnover and may be understaffed. This likely contributed to the findings in this report. If GSA evaluates the cause of OCFO turnover, it may be able to correct it to expand and retain its current staff.
- OCFO's vendor payment continuous monitoring is a manual process that relies on selecting a sample from the prior quarter's transactions and occurs four times per year. Other agencies use continuous monitoring software that provides real-time, continuous monitoring and flagging of high risk transactions. This software, tailored to an agency's operations, analyzes patterns of activity and can provide valuable information. The automated software also uses data analytics to identify improper payments faster, more accurately, and more cost-effectively than would be possible using the current manual process. Furthermore, continuous monitoring software can use predictive analytics to prevent improper payments from being made. If GSA adopted such software, it could reduce its improper payments, collection costs, and PRGX commissions.

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## **Conclusion**

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In FY 2015, GSA complied with five of the six requirements of the Improper Payments Acts. GSA's OCFO did not comply with the requirement to test or report improper payment estimates for its Hurricane Sandy Disaster Relief Fund outlays of \$415,856. Also, though OCFO has taken constructive measures related to improper payments, its processes for evaluation, reduction, recapture, and reporting of improper payments could be improved.

### **Audit Team**

This audit was conducted by the individuals listed below:

|                      |                   |
|----------------------|-------------------|
| Franklin Moy         | Audit Manager     |
| Eugenia Ostrozhansky | Auditor-In-Charge |
| Keith Withycombe     | Auditor           |
| John Brandon         | Auditor           |
| Mikhail Kostikov     | Auditor           |

On their behalf, we thank you and your staff for your assistance during this audit.

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

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### **Scope and Methodology**

We examined OCFO's processes related to its evaluation, reduction, reporting, and recapture of improper payments in FY 2015.

To accomplish our objectives, we:

- Examined relevant criteria, including public laws, executive orders, OMB memoranda, and GSA directives, internal procedures, and policies;
- Reviewed prior audit reports related to improper payments issued by the Government Accountability Office, GSA, GSA's Office of Inspector General, and other federal agencies' Offices of Inspector General;
- Evaluated OCFO's FY 2015 improper payments risk assessment, which included examining six completed risk assessment questionnaires and conducting interviews of the assessors;
- Reviewed OCFO's FY 2012 and FY 2015 risk assessment methodology;
- Examined PRGX's 2012, 2013, and 2014 engagement reports to GSA and GSA's 2015 *Report on Results of the Payment Recapture Audit*;
- Examined four quarters of OCFO's vendor payment continuous monitoring efforts and held discussions with OCFO officials regarding same;
- Held discussions with OCFO officials regarding OCFO's procedures for compliance with applicable regulations and guidance (as specified in the report body);
- Examined supporting documentation for OCFO's reporting of improper payments in GSA's FY 2015 AFR and held discussions with OCFO officials regarding same;
- Selected and reviewed a judgmental sample of 50 claim forms for accuracy and compliance with GSA policy for claim review and validation; and
- Contacted regional reviewers from GSA's 11 regions to determine their knowledge and understanding of GSA policy for claims review and validation.

We conducted the audit between October 2015 and March 2016 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**

Our assessment of internal controls was limited to GSA's processes related to evaluation, reduction, recapture, and reporting of improper payments. Based on our examination, we made recommendations to strengthen and improve the controls discussed in the Results section of the report.

## Appendix B – GSA’s FY 2015 Agency Financial Report Improper Payments Tables

This appendix provides GSA’s prior year (PY) and current year (CY) reported improper payments (IP) information published in its FY 2015 AFR. Dollar amounts in all tables are presented in millions.

**Table 1 Improper Payment Reduction Outlook (in millions)**

| Program or Activity           | PY Outlays          | PY IP%       | PY IP \$       | CY Outlays          | CY IP%       | CY IP\$       | CY Over Payment \$ | CY Under Payment \$ | CY+1 Est. Outlays | CY+1 IP%     | CY +1 IP\$    | CY+2 Est. Outlays | CY+2 IP%     | CY+2 IP\$     | CY+3 Est. Outlays | CY+3 IP%     | CY+3 IP\$     |
|-------------------------------|---------------------|--------------|----------------|---------------------|--------------|---------------|--------------------|---------------------|-------------------|--------------|---------------|-------------------|--------------|---------------|-------------------|--------------|---------------|
| Rental of Space               | \$5,591.77          | 0.68%        | \$38.02        | \$5,745.95          | 0.12%        | \$6.90        | \$2.65             | \$4.22              | \$5,550.00        | 0.119%       | \$6.60        | \$5,725.00        | 0.118%       | \$6.76        | \$5,724.00        | 0.117%       | \$6.70        |
| Building Operations-Utilities | \$376.86            | 0.88%        | \$3.32         | \$369.87            | 0.01%        | \$0.04        | \$0.00             | \$0.02              | \$354.00          | 0.009%       | \$0.03        | \$354.00          | 0.008%       | \$0.03        | \$354.00          | 0.007%       | \$0.02        |
| Purchase Cards                | \$33.88             | 8.68%        | \$2.94         | \$30.22*            | 6.55%        | \$1.98        | \$1.98             | \$0.00              | \$27.03           | 6.50%        | \$1.76        | \$27.03           | 6.45%        | \$1.74        | \$27.03           | 6.40%        | \$1.73        |
| <b>TOTAL</b>                  | <b>\$575,133.51</b> | <b>0.01%</b> | <b>\$44.28</b> | <b>\$422,002.04</b> | <b>0.00%</b> | <b>\$8.92</b> | <b>\$4.63</b>      | <b>\$4.24</b>       | <b>\$5,931.03</b> | <b>0.14%</b> | <b>\$8.39</b> | <b>\$6,106.03</b> | <b>0.14%</b> | <b>\$8.53</b> | <b>\$6,105.03</b> | <b>0.14%</b> | <b>\$8.45</b> |

\* Purchase Cards CY Outlays are based on FY 2014 payments

\*\* Amounts for Hurricane Sandy are immaterial and therefore not reported on this table.

**Table 2 Improper Payment Root Cause Category Matrix**

| Reason for Improper Payment              | Rental of Space   |               | Building Operations- Utilities |               | Purchase Cards |               |
|--|---|---------------|--------------------------------|---------------|----------------|---------------|
|  | Overpayments  | Underpayments | Overpayments                   | Underpayments | Overpayments   | Underpayments |
| Program Design or Structural Issue       |   |               |                                |               |                |               |
| Inability to Authenticate Eligibility    |   |               |                                |               |                |               |
| Failure to Verify:                       | Death Data  |               |                                |               |                |               |
|  | Financial Data  |               |                                |               |                |               |
|  | Excluded Party Data   |               |                                |               |                |               |
|  | Prisoner Data   |               |                                |               |                |               |
|  | Other Eligibility Data (explain)  |               |                                |               |                |               |
| Administrative or Process Error Made by: | Federal Agency  | \$2.01        | \$4.22                         |               | \$0.02         | \$0.70        |
|  | State or Local Agency   |               |                                |               |                |               |
|  | Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars) |               |                                |               |                |               |
| Medical Necessity                        |   |               |                                |               |                |               |
| Insufficient Documentation to Determine  | \$0.64  | <del></del>   |                                | <del></del>   | \$1.28         | <del></del>   |
| Other Reason (a) (explain)               |   |               |                                |               |                |               |
| Other Reason (b) (explain)               |   |               |                                |               |                |               |
| <b>TOTAL</b>                             | <b>\$2.65</b>   | <b>\$4.22</b> |                                | <b>\$0.02</b> | <b>\$1.98</b>  |               |

## Appendix B – GSA’s FY 2015 Agency Financial Report Improper Payments Tables (cont.)

**Table 3 Improper Payment Recaptures with and without Audit Programs (\$ in millions)**

| Program or Activity | Overpayments Recaptured through Payment Recapture Audit |                  |                  |                             |                             |                   |                  |                  |                             |                             |                    |                  |                  |                             |                             |                    |                  |                  |                             | Overpayments Recaptured outside of Payment Recapture Audits |                |                   |                  |                |
|---------------------|---|------------------|------------------|-----------------------------|-----------------------------|-------------------|------------------|------------------|-----------------------------|-----------------------------|--------------------|------------------|------------------|-----------------------------|-----------------------------|--------------------|------------------|------------------|-----------------------------|---|----------------|-------------------|------------------|----------------|
|                     | Contracts   |                  |                  |                             |                             | Grants            |                  |                  |                             | Benefits                    |                    |                  |                  | Loans                       |                             |                    | Other            |                  |                             | Total   |                | Amount Identified | Amount Recovered |                |
|                     | Amount Identified                                       | Amount Recovered | CY Recovery Rate | CY + 1 Recovery Rate Target | CY + 2 Recovery Rate Target | Amount Identified | Amount Recovered | CY Recovery Rate | CY + 1 Recovery Rate Target | CY + 2 Recovery Rate Target | Amounts Identified | Amount Recovered | CY Recovery Rate | CY + 1 Recovery Rate Target | CY + 2 Recovery Rate Target | Amounts Identified | Amount Recovered | CY Recovery Rate | CY + 1 Recovery Rate Target | CY + 2 Recovery Rate Target                                 |                |                   |                  |                |
| Rental of Space     | \$28.28   | \$15.11          | 53.43%           | 53.44%                      | 53.45%                      | -                 | -                | -                | -                           | -                           | -                  | -                | -                | -                           | -                           | -                  | -                | -                | -                           | -   | \$28.28        | \$15.11           | \$44.03          | \$34.04        |
| <b>TOTAL</b>        | <b>\$28.28</b>  | <b>\$15.11</b>   | <b>53.43%</b>    | <b>53.44%</b>               | <b>53.45%</b>               | <b>-</b>          | <b>-</b>         | <b>-</b>         | <b>-</b>                    | <b>-</b>                    | <b>-</b>           | <b>-</b>         | <b>-</b>         | <b>-</b>                    | <b>-</b>                    | <b>-</b>           | <b>-</b>         | <b>-</b>         | <b>-</b>                    | <b>-</b>  | <b>\$28.28</b> | <b>\$15.11</b>    | <b>\$44.03</b>   | <b>\$34.04</b> |

**Table 4 Disposition of Funds Recaptured Through Payment Recapture Audits (\$ in millions)**

| Program or Activity | Amount Recovered (This amount will be identical to the "Amount Recovered" in Table 4) | Type of Payment (contract, grant, benefit, loan, or other) | Agency Expenses to Administer the Program | Payment Recapture Auditor Fees | Financial Management Improvement Activities | Original Purpose | Office of Inspector General | Returned to Treasury | Other (please explain in footnote or narrative) |
|---------------------|---|--|---|--------------------------------|---|------------------|-----------------------------|----------------------|---|
| Rental of Space     | \$15.11   | Contract   |   | \$2.11                         |   | \$13.00          |                             |                      |   |
| <b>TOTAL</b>        | <b>\$15.11</b>  |  |   | <b>\$2.11</b>                  |   | <b>\$13.00</b>   |                             |                      |   |

## Appendix B – GSA’s FY 2015 Agency Financial Report Improper Payments Tables (cont.)

Table 5 Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (\$ in millions)

| Program or Activity | Type of Payment (contract, grant, benefit, loan, or other) | Amount Outstanding (0-6 months) | Amount Outstanding (6 months to 1 year) | Amount Outstanding (over 1 year) | Amount determined to not be collectible |
|---------------------|--|---------------------------------|---|----------------------------------|---|
| Rental of Space     | Contract   | \$7.79                          | \$5.38                                  | \$1.15                           | -                                       |

Table 6 Results of the Do Not Pay Initiative in Preventing Improper Payments (\$ in millions)

| Program or Activity                         | Number of payments reviewed for possible improper payments | Dollars (\$) of payments reviewed for possible improper payments | Number (#) of payments stopped | Dollars (\$) of payments stopped | Number of potential improper payments reviewed and determined accurate | Dollars (\$) of potential improper payments reviewed and determined accurate |
|---|--|--|--------------------------------|----------------------------------|--|--|
| Reviews with the IPERIA specified databases | 3,175,074  | \$19,358.62  | 0                              | \$0.00                           | 0  | \$0.00   |
| Review with databases not listed in IPERIA  | 3,175,074  | \$19,358.62  | 0                              | \$0.00                           | 0  | \$0.00   |

## Appendix C – GSA’s FY 2015 Improper Payments Tables: Summary of Reported Inaccuracies

This appendix further details errors in GSA’s reporting of estimated improper payments in Table 1 of its FY 2015 AFR (see **Finding 4**). All dollar amounts presented below are in millions.

| Category                           | Reported<br>(a) | Audited<br>(b) | Difference<br>(a) – (b) | Notes |
|------------------------------------|-----------------|----------------|-------------------------|-------|
| Note 1                             | Note 2          | Note 3         |                         |       |
| PY Outlays (Total)                 | \$575,133.51    | \$6,002.51     | \$569,131.00            | 4     |
| PY IP% (Total)                     | 0.01%           | 0.74%          | -0.73%                  | 4     |
| CY Outlays (Total)                 | \$422,002.04    | \$6,146.04     | \$415,856.00            | 4     |
| CY IP% (Purchase Cards)            | 6.55%           | 6.52%          | 0.03%                   | 5     |
| CY IP% (Total)                     | 0.00%           | 0.14%          | -0.14%                  | 6     |
| CY IP\$ (Rental of Space)          | \$6.90          | \$6.87         | \$0.03                  | 7     |
| CY IP\$ (Utilities)                | \$0.04          | \$0.02         | \$0.02                  | 7     |
| CY IP\$ (Purchase Cards)           | \$1.98          | \$1.97         | \$0.01                  | 5     |
| CY IP\$ (Total)                    | \$8.92          | \$8.86         | \$0.06                  | 5     |
| CY Overpayment \$ (Purchase Cards) | \$1.98          | \$1.97         | \$0.01                  | 5     |
| CY Overpayment \$ (Total)          | \$4.63          | \$4.62         | \$0.01                  | 6     |

### **NOTES:**

1. This column describes the specific reported categories from Table 1 in the AFR. The categories relate to GSA’s prior year (PY) and current year (CY) reported improper payments (IP) amounts.
2. This is the amount or percentage reported in Table 1 of GSA’s AFR.
3. This represents the amount or percentage that we determined should have been reported in Table 1 of GSA’s AFR.
4. The reported amount or percentage was misstated due to a mathematical error.
5. The reported amount or percentage was misstated due to an error in purchase card payment testing.
6. The reported amount was misstated due to both mathematical error and error in purchase card testing.
7. GSA’s reported overpayments and underpayments did not add to total reported improper payments. This mathematical error in Table 1 is also reflected in Table 2, which shows the root causes of improper payments in Table 1 (broken down by overpayments and underpayments).

## Appendix D – GSA Comments



GSA Office of the Chief Financial Officer

MAY 6 2016

MEMORANDUM FOR ADAM GOOCH

REGIONAL INSPECTOR GENERAL FOR AUDITING  
Great Lakes Region Audit Office (JA-5)

FROM:

GERARD BADORREK   
CHIEF FINANCIAL OFFICER (B)

SUBJECT:

Response to Audit of the General Services Administration's  
FY 2015 Improper Payments Performance Report  
Number A160018

Thank you for the opportunity to comment on the draft report. We appreciate your efforts to evaluate the performance of the GSA improper payment program and agree with the findings and recommendations. We also appreciate the acknowledgement that in FY 2015 GSA complied with five of the six requirements of the Improper Payments Acts, and that GSA has taken constructive measures related to improper payments. GSA did not comply with the requirement for improper payment reporting for the Hurricane Sandy Disaster Relief Fund and we are taking appropriate action to meet the reporting requirements going forward.

Corrective actions are underway to:

- Improve the accuracy of reporting improper payments information in the Agency Financial Report (AFR) by researching and analyzing the reporting requirements to ensure complete and accurate reporting for all required programs.
- Provide training to members of the Office of the Chief Financial Officer (OCFO) staff to improve the understanding of improper payment reporting requirements.
- Focus on issues identified by the recovery audit report related to leasing and implement best business practices.
- Revise the process for continuous monitoring to focus on high risk/high value and or anomalous payments. As part of this new process, OCFO will clearly identify roles and responsibilities for this monitoring activity.
- Develop formal standard operating procedures and promptly disseminate and train staff on all relevant policies and guidance for the claim review and validation process.

The attachment includes responses for each recommendation.

U.S. General Services Administration  
1800 F Street, NW  
Washington, DC 20405  
[www.gsa.gov](http://www.gsa.gov)

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## ***Appendix D – GSA Comments (cont.)***

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Should you have any questions regarding this matter, please contact Paula Bohnwagner at (202) 969-4061 or [paula.bohnwagner@gsa.gov](mailto:paula.bohnwagner@gsa.gov).

Attachment

## **Appendix D – GSA Comments (cont.)**

GSA Did not fully comply with the Improper Payments Acts in FY 2015  
Report Number A160018, April 22, 2016

**Finding 1** – GSA did not fully comply with the Improper Payments Acts because OCFO did not test or report improper payment estimates for the Hurricane Sandy Disaster Relief Fund in FY 2015.

**Recommendation:**

Implement a process to ensure all required programs are tested and reported for improper payments and submit a plan for addressing noncompliance within 90 days as required by Office of Management and Budget guidance;

**GSA Comments.**

Concur. GSA did not report improper payments estimates for Hurricane Sandy because we judged them as immaterial and incorrectly excluded them from the review. Once we were notified of this oversight during the audit reporting process we took immediate corrective action. We performed 100 percent testing of the four payments made against the Sandy Disaster Relief funds in FY 2014 and the four payments made in FY 2015. We determined there were no improper payments made in FY 2014 or FY 2015 related to the Sandy Disaster Relief funds. The FY 2014 Sandy Disaster Relief fund payments were \$83,007.76 and FY 2015 Sandy Disaster Relief payments were \$415,856.04. No Sandy Disaster Relief fund payments have been made to date in FY 2016. We are reviewing improper payment reporting requirements. We will ensure Hurricane Sandy and all other required programs are included in future improper payment testing and reporting.

GSA will submit a plan for addressing noncompliance within 90 days as required by OMB guidance.

**Finding 2** – OCFO's FY 2015 risk assessment process was flawed.

**Recommendation:**

Adopt a quantitative approach or develop an improved qualitative approach to increase reliability and objectivity of future risk assessment results;

**GSA Comments**

Concur. GSA used a qualitative approach to the risk assessment process in FY 2015, which is one of two methods prescribed by OMB. GSA will review the process and assessment results and compile a lessons learned analysis to be reviewed prior to the start of the next risk assessment.

**Finding 3** – OCFO does not promptly implement payment recapture audit recommendations, employ effective continuous monitoring, or determine root causes of improper payments

**Recommendation:**

Ensure timely implementation of payment recapture audit recommendations, improve continuous monitoring processes, and identify and correct root causes of improper payments;

Use data analytics to select high risk, high value, and/or anomalous payments for continuous monitoring.

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## **Appendix D – GSA Comments (cont.)**

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Clarify who makes final payment determinations for continuous monitoring and implement controls to verify those determinations and identify the root causes of improper payments identified by GSA and implement controls to address them.

**GSA Comments**

Concur. GSA will focus on issues identified by PRGX related to leasing and implement best business practices. The Office of Leasing's new Contract Administration Division will take the lead in this role. Additionally, OCFO will revise its continuous monitoring program to focus on high risk/high value and or anomalous payments. As part of this new process, we will clearly identify roles and responsibilities for this monitoring activity.

**Finding 4** – OCFO did not accurately report improper payments in its FY 2015 AFR

**Recommendation:**

Implement controls to ensure accurate and reliable reporting of improper payments. Ensure annual improper payment estimates are reliable by comparing them to actual improper payment amounts and consider reporting the larger of the two figures, and implement controls, including review and independent verification to prevent and detect future misstatements in improper payment reporting.

**GSA Comments:**

Concur. GSA will establish controls to ensure accurate reporting of improper payments in accordance with OMB Circular A-136, and provide training to members of the OCFO staff to improve the understanding of improper payment reporting requirements.

**Finding 5** – Regional reviewers are not aware of policies related to the claim review and validation process for recapture of improper payments

**Recommendation:**

Implement controls and develop and disseminate guidance for the claims review and validation process.

Develop formal standard operating procedures and promptly disseminate and train staff on all relevant policies and guidance for the claim review and validation process.

**GSA Comments:**

Concur. GSA will take steps to implement controls and standard operating procedures that are disseminated to regional reviewers.

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## ***Appendix E – Report Distribution***

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GSA Administrator (A)

Chief Financial Officer (B)

Office of Management and Budget (OMB)

Homeland Security and Government Affairs Committee (HSGAC)

House Committee on Oversight and Government Reform

Comptroller General (GAO)

Chief Administrative Services Officer (H)

Director, GAO/IG Audit Response Branch (H1C)

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

Assistant Inspector General for Auditing (JA)

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