

IMPROPER PAYMENTS INFORMATION ACT (IPIA)

REPORTING DETAILS

I. Describe the risk assessment(s) performed subsequent to completing your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on Office of Management and Budget [OMB] guidance thresholds) identified through its risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11, *Preparation, Submission, and Execution of the budget*.

During FY 2007, the Department conducted an assessment of the effectiveness of internal control over financial reporting in compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*. This assessment included a review of internal controls over disbursement processes, which indicated that current internal controls over disbursement processes are sound.

The results of Departmental assessments revealed no risk-susceptible programs, and demonstrated that, overall, the Department has strong internal controls over disbursement processes, the amounts of improper payments by the Department are immaterial, and the risk of improper payments is low.

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

In FY 2007, the Department conducted a sampling process to draw and review random samples of disbursements from a Department-wide universe of disbursements. Each selected sample item was then subjected to a review of original invoices and supporting documentation to determine that the disbursement was accurate, made only once, and that the correct vendor was compensated. The results of the Department's review did not reveal any significant improper payments. The same results were achieved following a similar review in FY 2006.

III. Describe the Corrective Action Plans (CAP) for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

The results of Departmental assessments demonstrate that, overall, the Department has strong internal controls over disbursement processes, the amounts of improper payments by the Department are immaterial, and the risk of improper payments is low. The Department has, however, further enhanced its processes and is actively working with each of the Department's payment offices to identify and implement additional procedures to prevent and detect improper payments. In FY 2007, the Department continued with the bureaus' quarterly reporting of improper payments to the Deputy Chief Financial Officer (CFO), along with identifying the nature and magnitude of any improper payments and identifying any necessary control enhancements.

The Department has additionally reviewed all financial statement audit findings/comments, and results of other payment reviews, for indications of breaches of disbursement controls. None of these audit findings/comments or reviews have uncovered any significant problems with improper payments or the internal controls that surround disbursements.

IV. Discuss recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments; and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.

In August 2007, a recovery audit was completed for the National Oceanic and Atmospheric Administration (NOAA), the Department's largest bureau. Closed contracts/obligations created after September 30, 2002 and closed after September 30, 2004, and greater than \$100 thousand, were reviewed. Grants, travel payments, bankcards/purchase cards, all procurement vehicles with other federal agencies, government bills of lading, and gifts and bequests were excluded from review. The Department determined that, for the above categories of contracts/obligations that were excluded from review, the Department's costs for the recovery audit activities would likely exceed the benefits of a recovery audit. The sample used for the recovery audit represented 38 percent of NOAA's closed contracts/obligations subject to review. Vendor inquiries were performed for a sample of vendors to determine if NOAA had any open credits or debts with vendors. The auditors did not identify any overpayments based on work performed during the recovery audit.

(In Thousands)

Bureau	Amount Subject to Review	Actual Amount Reviewed	Amounts Identified for Recovery	Amounts Recovered
NOAA	\$ 254,653	\$ 97,001	\$ -	\$ -

V. Describe the steps (including time line) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

The Department has not identified any significant problems with improper payments; however, the Department recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to continuous improvement in disbursement management processes remains very strong. The Department's CFO has responsibility for establishing policies and procedures for assessing Departmental and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to Departmental management for oversight and other actions as deemed appropriate. The CFO has designated the Deputy CFO to oversee initiatives related to reducing improper payments within the Department, and to work closely with the bureau CFOs in this area.

In FY 2007, the Department continued its reporting procedures that required quarterly reporting to the Department, by its bureaus, on any improper payments, identifying the nature and magnitude of any improper payments along with any necessary control enhancements to prevent further occurrences of the type of improper payments identified. The Department's analysis of the data collected from the bureaus shows that Department-wide improper payments were below one-tenth of one percent in FY 2007, as was the case in FY 2006.

For FY 2008 and beyond, the Department will continue its efforts to ensure the integrity of its disbursements.

VI. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

The Department has ensured that internal controls, manual, as well as financial system, relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings/comments and results of other payment reviews for indications of breaches of disbursement controls. None of these audit findings/comments or reviews have uncovered any significant problems with improper payments or the internal controls that surround disbursements.

VII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.

The Department has not identified any barriers to date, but will notify OMB and Congress of any barriers that inhibit actions to reduce improper payments if they occur.

VIII. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified as a result of IPIA implementation.

The Department's Disbursement Best Practices. The following are some examples of the internal control procedures used by the Department's payment offices:

- ◆ Limited/controlled access to vendor files—access to basic vendor information (e.g. name, address, taxpayer identification number, business size, etc.) is available to financial system users; access to banking information, however, is strictly limited by system security to certain Office of Finance staff only.
- ◆ Controlled access to financial system accounts payable screens—authority to create, edit, approve, process, and amend payment records is limited to certain Office of Finance financial system users only. Also, authority to add or revise records in the vendor database is limited to separate Office of Finance financial system users only.
- ◆ Segregation of duties for financial system data entry and review prior to transmitting disbursement files to Treasury—data entry duties are assigned to technicians in the Office of Finance who do not have authority to review and process payments. Authority to approve and process payments is assigned to accountants in the Office of Finance. Both data entry and approval/processing of payments are separate functions from transmitting disbursement files to Treasury.
- ◆ Financial system edit reports that highlight potential items that may result in improper payments (e.g. invoice amount and accrual amount are not the same). There is a daily Invoice Workload Report that displays open amounts (not closed by a payment) on all invoices. This report is reviewed and action is taken to resolve partially open invoices. In addition, system settings prevent a payment in excess of the amount of the invoice.
- ◆ Daily pre-payment audit of invoices for accuracy, and corrective actions prior to disbursement, thereby preventing improper payments from occurring.
- ◆ Financial system edits if the vendor's name on the payment does not agree with that on the obligation, or if the payment amount is greater than the obligation or accrual amount.
- ◆ The monthly vendor statement for purchase cards is interfaced into the financial system and automatically paid after appropriate review and approval, thereby reducing data entry error.
- ◆ An accountant or supervisor reviews individual payments before releasing for payment, to help ensure that the correct banking information or payment addresses are used, and that the correct amount will be paid.
- ◆ Monthly post-payment random sample audits for detection purposes.
- ◆ Contracts include a clause requiring the contractor to notify the contracting officer if the government overpays when making an invoice payment or a contract financing payment.