

## IMPROPER PAYMENTS INFORMATION ACT (IPIA)

### REPORTING DETAILS

#### **I. Describe your agency's risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory.**

To determine the nature and extent of possible improper payments, and to assess the level of internal controls and the overall risk of erroneous payments within the Department, a comprehensive questionnaire on erroneous payment was issued to the Department's payment offices in fiscal year (FY) 2003. The Department separated the risk assessment into different categories of payment such as Grants, Purchase Orders, Contracts, Purchase Cards, and Travel Reimbursements. The payment offices' responses were analyzed and a consolidated risk assessment was completed. In performing the risk analysis, the Department also looked at the results of different audits.

#### **II. List the risk-susceptible program identified through your risk assessment. Don't omit the programs previously identified in the former Section 57 of OMB (Office of Management and Budget) Circular A-11.**

The results of Department assessments revealed no risk-susceptible program, and demonstrated that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low.

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

The Department conducted a systematic sampling process to draw a stratified sample of disbursements from a Department-wide universe of FY 2004 disbursements. It then subjected each selected sample item to a rigorous 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. Also, early in the year, Commerce's Office of Inspector General (OIG) conducted a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

#### **IV. Explain the corrective action plan(s) your agency plans to implement to reduce 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 Department assessments demonstrate that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low. However, the Department has further enhanced its current process and is actively working with each of its payment offices to identify and implement additional procedures to prevent and detect erroneous payments. Beginning

from FY 2004, the Department has implemented procedures that include quarterly reporting by its bureaus to the Department on erroneous payments, identifying the nature and magnitude of the erroneous payment along with any necessary control enhancements.

Additionally, the Department has reviewed all financial statement audit findings for indications of a breach of those controls. None of the financial statement audits have uncovered any problems with erroneous payments or the internal controls that surround disbursements. If future financial statement audits reveal problems with erroneous payments, the Department will prepare corrective actions to address them.

#### **V. A. Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.**

The results of the Department's review did not reveal any significant improper payments. Also, early in the year, Commerce's OIG conducted a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

Due to the low level of erroneous payments and assessed low risk, Commerce is still determining the feasibility of a reduction goal.

#### **VI. Discussion of your agency's recovery auditing effort, if applicable to your agency, including the amount of recoveries expected, the actions taken to recover them, and the changes to business process and internal controls instituted to prevent further occurrences.**

The Department has contracted with a private vendor to perform recovery auditing across the Department's major payment offices. The audit is still in the beginning stages; as such, the Department is unable to estimate the amount of expected debts or recoveries at this time.

#### **VII. Description of the steps (including timeline) 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 erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and the Department's commitment to the continuous improvement in the disbursement management process remains very strong. The Chief Financial Officer (CFO) has responsibility for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate. The CFO has designated the Deputy CFO and Director for Financial Management to oversee initiatives related to reducing erroneous payments within the Department, and work closely with the bureau CFOs in this area.

In FY 2004, the Department introduced new reporting procedures that required quarterly reporting to the Department by its bureaus on any erroneous payments, identifying the nature and magnitude of the erroneous payment along with any necessary control enhancements to prevent further occurrence of the type of erroneous payments identified. The Department's analysis of the data collected from the bureaus shows that Department-wide erroneous payments are below 1 percent.

Also, the Department has contracted with a private vendor to conduct a recovery audit for contracts throughout the Department, as required by Section 831 of the Defense Authorization Act for FY 2002.

For FY 2005 and beyond, the Department will continue its efforts to ensure the integrity of its programs' payments.

**VIII. A statement of whether the agency has the information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted.**

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The Department has ensured that internal controls, manual as well as system, relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings for indications of a breach of those controls. None of the financial statement audits have uncovered any problems with erroneous payments or the internal controls that surround disbursements.

**IX. A description of any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments**

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

**X. The Department's Disbursement Best Practices**

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The following are some examples of the internal control procedures used by the Department's bureaus:

- ◆ Limited/controlled access to vendor files – access to basic vendor information (e.g., name, address, tax identification number (TIN), business size, etc.) is available to Office of Finance system users only. Access to banking information is restricted by system security to only those that require access to such records.
- ◆ Controlled access to the accounts payable screens – authority to create, edit, approve, process, and amend payment records is limited to essential Office of Finance system users only. Also, authority to add records to or revise records in the vendor database is granted only to Office of Finance system users that require such authority.
- ◆ Segregation of duties for data entry and review prior to transmitting disbursement file 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 that is an entirely automated process.
- ◆ 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 properness and corrective actions prior to disbursement, which prevent erroneous payments from occurring.
- ◆ The 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 Citibank statement for Purchase Cards is interfaced into the accounting system and automatically paid, thereby reducing data entry error.
- ◆ An accountant or supervisor reviews individual payments before releasing for payment to ensure that the correct banking information or 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 under either a commercial item or a noncommercial item contract.