



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.

In FY 2005, the Department conducted a systematic sampling process to draw and review random samples of disbursements from a Department-wide universe of 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. The same results were achieved following a similar test in FY 2004.

Also, in FY 2005, the Department received the results of an Office of Inspector General's (OIG) audit involving 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



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of its payment offices to identify and implement additional procedures to prevent and detect erroneous payments. In FY 2005, the Department continued with its 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 and results of other payment reviews for indications of a breach of those controls. None of these reviews or audits has 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, in FY 2005, the Department received the results of an OIG's audit involving 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.

During FY 2005, in compliance with Section 831 of the Defense Authorization Act of 2002 (P.L. 107-107, Title VIII, Subtitle D, Sec. 831; 31 USC 3561-3567), which requires federal agencies to identify and recover overpayments to contractors due to payment errors, the Department contracted with a private vendor to perform recovery auditing. The audit included thorough reviews of sample invoices from two of the Department's largest payment offices, and an independent confirmation of open items with key vendors. Results of the audit and confirmation efforts revealed no significant improper payments or internal control deficiencies

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 2005, the Department continued its 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. Department analysis of the data collected from the bureaus shows that Department-wide erroneous payments were below one tenth of one percent in FY 2005, as was the case in FY 2004.

For FY 2006 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.

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 and results of other payment reviews for indications of a breach of those controls. None of these reviews or audits has 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.

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

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 system users; however access to banking information is strictly limited by system security to certain Office of Finance staff only.
- ◆ 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 limited to separate Office of Finance system users only.
- ◆ 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.



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- ◆ Daily pre-payment audit of invoices for accuracy and corrective actions prior to disbursement, thereby preventing 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 after appropriate review and approval, 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.