

Improper Payments Information Act of 2002 Reporting Details

The IPIA requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering amounts overpaid. An improper (or erroneous) payment includes any payment that should not have been made, or that was made in an incorrect amount under statutory, contractual, administrative, or other legally-applicable requirement. Incorrect amounts include overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for credit for applicable discounts.

To implement IPIA, OMB requires agencies to review all programs (meeting OMB's definition of *program*) to determine the risk susceptibility of making improper payments and to perform more in-depth assessments for those programs meeting OMB's criteria for "significant erroneous payments". The threshold for significant erroneous payments is erroneous payments exceeding both 2.5% of program payments and \$10 million annually. For all programs meeting the criteria, agencies are required to quantify the amount of erroneous payments using a statistically valid method with a 90% confidence level.

Summary of Risk Assessments and Payment Audits Performed During FY 2007

Based on a series of internal control review techniques, Interior determined that none of its programs is risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. These reviews were conducted in addition to audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by Interior's OIG. Different techniques were used to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs performed as part of the assessment of internal control over financial reporting; and (2) prepayment and post-payment audits and recoveries.

Risk Assessments. Appendix C to OMB Circular A-123 states that annual risk assessments are required for all agency programs where the level of risk is unknown until the risk level is determined and baseline estimates are established. It also states that for agency programs deemed not risk-susceptible, risk assessments are required every three years unless the programs experience a significant change in legislation and/or significant increases in funding level. Programs experiencing significant changes must undergo a risk assessment during the next annual cycle.

Interior has been conducting annual risk assessments of programs exceeding \$100 million in annual outlays. These risk assessments have shown that the Department is at low risk for improper payments. Therefore, the Department issued a

FIGURE 4-1

FY 2007 Recovery Auditing Report								
Agency	Amount Subject to Review for FY07 Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY	Amount Identified for Recovery PYs	Amount Recovered PYs	Cumulative Amount Identified for Recovery (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
DOI Total	\$5,533,935,951	\$5,533,935,951	\$428,332	\$421,337	\$883,837	\$745,935	\$1,312,169	\$1,167,272

Financial Administration Memorandum in April 2007 converting the annual risk assessment requirement to a 3-year risk assessment plan. No risk assessment was conducted for FY 2007. The next Departmental risk assessment will be completed in FY 2009 and one will be conducted every 3 years thereafter, unless risk profiles change.

Prepayment Audit of Government Bills of Lading. Interior has been conducting prepayment audits of freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. Efforts have continued with Interior's bureaus to ensure that all freight bills receive prepayment audits. During FY 2007, prepayment audit contractors identified \$137,088 in savings over 4,072 GBLs reviewed with an audit base of \$15.6 million; this amounts to approximately 0.8% in savings to the Government.

Recovery Audits. The Department coordinated the hiring of an independent recovery audit contractor in May 2003 to be used by all bureaus to conduct a vendor statement review, disbursement audit, and contract compliance audit to ensure compliance with IPIA. The audit base during FY 2007 for Interior was \$5.5 billion through September 30, 2007. Figure 4-1 summarizes the results of the Department's recovery audit activities.

Since the percentage of erroneous payments is less than 0.01%, the Department considers that there are adequate controls in place, including information systems and infrastructure, to minimize the occurrence of erroneous payments to vendors.

FY 2008 Planned Activities

During FY 2008, the Department will take the following actions to minimize the risk of improper payments:

- ◆ Continue using contractor assistance to perform prepayment audits of GBLs and recovery audits.
- ◆ Review bureau recovery audit reports to determine if any bureau experienced significant increases in improper payment percentages from FY 2007 and implement corrective action plans, as required.
- ◆ Review programs exceeding \$100 million in annual outlays to determine if there have been any significant changes in legislation and/or significant increases in funding levels affecting these programs. These changes would precipitate a risk assessment of those programs for improper payments.
- ◆ Schedule programs for risk assessment in FY 2009 based on the FY 2008 annual review of changes to program risk assessment posture, as part of the Department's 3 year risk assessment plan.