

VA Financial Policies and Procedures, Volume VII, Chapter 9
Financial Reporting – Erroneous and Improper Payment Reporting
under OMB Circular A-123 Appendix C

CHAPTER 9

0901 OVERVIEW	2
0902 POLICIES	3
0903 AUTHORITY AND REFERENCES	5
0904 ROLES AND RESPONSIBILITIES	5
0905 PROCEDURES	6
0906 DEFINITIONS.....	8
0907 RESCISSIONS.....	9
0908 QUESTIONS	9
APPENDIX A: HIGH-DOLLAR OVERPAYMENTS REPORTING	10

0901 OVERVIEW

To improve the integrity of the Federal Government's payments and the efficiency of its programs and activities, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (Public Law No. 107-300), dated November 26, 2002, and Section 831 of the Defense Authorization Act of Fiscal Year 2002 (Public Law No.107-107), dated December 28, 2001, also known as the Recovery Auditing Act. These acts were amended on July 22, 2010 by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law No. 111-204). This chapter establishes the Department of Veterans Affairs' (VA) policies and procedures relating to erroneous and improper payment reporting under the Office of Management and Budget's (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, dated April 14, 2011.

The IPERA contains information for agencies in the areas of improper payment identification and reporting. This legislation requires agencies to review annually all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. The IPERA requires agencies to conduct payment recapture audits. The IPERA also requires OMB to prescribe guidance for federal agencies to use in implementing the Act.

On April 14, 2011, OMB issued Circular A-123, Appendix C, Parts I and II, which supersedes OMB's previous promulgations on improper payments and requires all executive branch agencies to:

- Review all programs and activities to identify those that are susceptible to significant improper payments. OMB defines significant improper payments as those in any particular program or activity that exceed (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays). Beginning with fiscal year 2013 reporting, agencies should instead apply a 1.5 percent improper payment rate (with other aspects of the above definition unchanged).
- Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities.
- Implement corrective action plans and reduction targets for programs and activities found to have significant improper payments.
- Conduct payment recapture audits for each program and activity that expends \$1 million or more annually if conducting such audits would be cost-effective. If VA determines that it is not cost effective to conduct a payment recapture audit for certain programs and activities, it will notify OMB and VA's Inspector General (IG) of

this decision and include any analysis used to reach this decision. VA will also report this information in the annual Performance and Accountability Report (PAR).

- Report in the PAR an estimate of the annual amount of improper payments in programs and activities and discuss progress in reducing them.
- Report in the PAR on VA's payment recapture audit program, and submit a separate annual report to the VA IG, OMB and Congress by November 1 that describes any recommendations identified by the payment recapture auditor on how to mitigate conditions giving rise to overpayments, and any corrective actions VA took during the preceding fiscal year to address the auditor recommendations.

In addition to the guidance prescribed under OMB Circular A-123, Appendix C, Parts I and II, OMB has prescribed changes to the IPERA reporting format under its revised Circular A-136, *Financial Reporting Requirements*.

On November 20, 2009, the President issued Executive Order 13520, *Reducing Improper Payments*, which requires the head of each agency to submit to the agency's IG and the Council of Inspectors General on Integrity and Efficiency (CIGIE) and make available to the public, a report on any high-dollar overpayments identified by the agency every quarter. On March 22, 2010, OMB issued Circular A-123, Appendix C, Part III, to implement the executive order. The Department of the Treasury also issued Treasury Financial Manual (TFM), Volume I, Part 4, Chapter 2100 on procedures for publication of improper payments data and related information on the PaymentAccuracy.gov website.

0902 POLICIES

090201 VA will review all programs and activities the year after IPERA's enactment in 2011 to identify those programs and activities that may be susceptible to significant improper payments, and at least once every three years thereafter for programs deemed not risk susceptible. If a program or activity is affected by a significant change in legislation and/or a significant increase in funding level, VA will reassess the program's or activity's risk susceptibility during the next annual cycle, even if it is less than three years from the last risk assessment.

If VA is already measuring and reporting improper payments in a program or activity, or will measure the program and activity by an established date, or if the program or activity has already been identified through agency risk assessments as susceptible to significant improper payments, then VA does not need to conduct a risk assessment of that program or activity the year after IPERA's enactment.

090202 VA will focus its sampling and/or testing on individual components or transaction points of programs posing the highest risk of improper payments, or where VA will have the greatest return on recovery.

090203 VA will comply with the operational and reporting requirements contained within OMB Circular A-123, Appendix C, which implements the IPERA of 2010. VA will comply with Executive Order 13520 and TFM Volume I, Part 4, Chapter 2100. Its goal is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries. This executive order also focuses on identifying and eliminating the highest improper payments; accountability for reducing improper payments among executive branch agencies and officials; and coordinated Federal, State and local government action in identifying and eliminating improper payments.

According to Executive Order 13520, at least once every quarter, the head of each agency will submit to the agency's IG and the CIGIE and make available to the public, a report on any high-dollar improper payments identified by the agency, subject to Federal privacy policies and to the extent permitted by law. The report will describe any actions the agency has taken or plans to take to recover improper payments, as well as any actions the agency intends to take to prevent improper payments from occurring in the future. The report will not include any referrals the agency made or anticipates making to the Department of Justice or any information provided in connection with such referrals. Following the review of each report, the agency IG and the CIGIE will assess the level of risk associated with the applicable program, determine the extent of oversight warranted and provide the agency head with recommendations, if any, for modifying the agency's plans. Refer to Appendix A, High-Dollar Overpayments Reporting, for additional information and deliverables associated with the reporting.

According to TFM Volume I, Part 4, Chapter 2100, VA will post the Quarterly High-Dollar Overpayments Report on the Office of Finance Web site: <http://www.va.gov/finance/overpaymentsReport.asp>. OMB will review the information submitted by agencies on these reports and compile a "Top 10 High-Dollar Improper Payments" chart for the PaymentAccuracy.gov Web site.

VA will report the annual amount of improper payments and the payment recapture audit results to the President and Congress, through the PAR, no later than 45 days after the end of the fiscal year. The administrators of programs with significant improper payments reported in the PAR also have the responsibility of reviewing, identifying and reporting any high-dollar overpayments every quarter.

090204 VA will hold its responsible officers accountable for developing and implementing a plan and for assessing and reducing improper payments, as well as conducting payment recapture audits.

090205 VA will assess whether its information systems and other infrastructure are adequate to reduce improper payments to minimal cost-effective levels.

090206 VA will identify barriers, whether statutory, regulatory or operational, which may limit its corrective actions in reducing improper payments.

0903 AUTHORITY AND REFERENCES

090301 [Improper Payments Elimination and Recovery Act of 2010 \(Public Law No. 111-204\)](#), dated July 22, 2010

090302 [Executive Order 13520, Reducing Improper Payments](#), dated November 20, 2009

090303 [OMB Circular A-123, Appendix C, Part I and II, Requirements for Effective Measurement and Remediation of Improper Payments](#), dated April 14, 2011

090304 [OMB Circular A-123, Appendix C, Part III, Requirements for Implementing Executive Order 13520](#), dated March 22, 2010

090305 [Treasury Financial Manual, Volume I, Part 4, Chapter 2100, Submitting Required Improper Payments Information for Publication on the PaymentAccuracy.Gov Website](#)

090306 [OMB Circular A-136 revised, Financial Reporting Requirements, Section II.5, Other Accompanying Information – Performance and Accountability Report \(PAR\) Part IV](#) (This circular is revised regularly by OMB; the current version is available on the OMB Website: [OMB Circular A-11 | The White House](#))

0904 ROLES AND RESPONSIBILITIES

090401 The Secretary of VA reviews and approves the Quarterly High-Dollar Overpayment Report and submits the report to the IG and the CIGIE.

090402 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities, provides guidance on all aspects of financial management, and directs and manages the Department's financial operations and systems support. The CFO also reviews and concurs in the Quarterly High-Dollar Overpayments Report.

090403 All heads of VA offices have the responsibility to implement financial policies and procedures established by the CFO, including compliance with the policies and procedures set forth in this chapter. Under Secretaries, Assistant Secretaries, and other key officials must review and concur in Quarterly High-Dollar Overpayments

Reports that pertain to their program areas. All VA offices with programs susceptible to significant improper payments under the IPERA must review and identify such programs' high-dollar overpayments after each fiscal quarter has ended, and report the high-dollar overpayments to the Associate Deputy Assistant Secretary (ADAS) for Financial Policy. Applicable Under Secretaries, Assistant Secretaries, and other key officials will also be accountable for rectifying any non-compliance with IPERA requirements identified by the VA IG.

090404 The Deputy Assistant Secretary (DAS) for Finance reviews and concurs in the Quarterly High-Dollar Overpayments Report.

090405 The ADAS for Financial Policy is responsible for providing VA milestone target dates, completing all data collection and reporting requirements in order to comply with the OMB timelines for overall reporting on IPERA activity, and meeting the reporting requirements of Presidential management mandates. The ADAS prepares all formal requests to OMB to remove qualified programs from the IPERA annual review process and reporting requirement. The ADAS also reviews, consolidates and submits the Quarterly High-Dollar Overpayments Report to the Secretary through the DAS for Finance and the CFO. Within 15 days of submission to the IG, the ADAS for Financial Policy makes the report available to the public by submitting the report to the Office of Finance website.

090406 The VA IG reviews VA's improper payment reporting in the annual PAR to determine if VA is in compliance with the IPERA; evaluates the accuracy and completeness of VA's reporting; and evaluates VA's performance in reducing and recapturing improper payments. This review must be completed within 120 days of the report's publication. The VA IG and the CIGIE also review the Quarterly High-Dollar Overpayments Report, assess the level of risk associated with the applicable programs, determine the extent of oversight warranted and provide the Secretary with recommendations, if any, for modifying the agency's methodology, improper payment reduction plans, program access and participation plans, corrective action plans or internal controls.

A program or activity with two consecutive years of improper payments that are less than the reporting thresholds may be eligible for a waiver from OMB to be exempted from the IPERA reviewing and reporting process. The VA IG's concurrence is required for such a waiver.

0905 PROCEDURES¹

090501 Identifying Risk-Susceptible Programs.²

- A. Review all programs and activities, identifying those that are susceptible to significant erroneous payments. Refer to Section 0901 for definition of significant erroneous payments.
- B. Describe the risk assessments performed subsequent to completing a comprehensive program inventory.
- C. Identify the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) determined through these assessments.
- D. To remove qualified programs from the IPERA reviewing and reporting process, the head of the VA organization will submit a formal request through the Office of Management to OMB with an assertion from the VA IG that it concurs with the request.

090502 Estimating Improper Payment Rate via Statistical Sampling.

- A. Obtain or prepare a statistically valid estimate of the annual amount and rate of improper payments in programs and activities.
- B. Report the results, together with a description of the statistical sampling process used and progress made to reduce such payments, in the Other Accompanying Information, Part IV of the annual PAR to OMB, as set forth in the OMB Circular A-136, *Financial Reporting Requirements*.
- C. Initiate the proper corrective actions to reduce the errors in subsequent years, once program errors are measured and reported.

090503 Program Improper Payment Reporting and Payment Recapture Audits.

- A. For the annual IPERA report in the PAR, follow current IPERA reporting as prescribed under OMB Circular A-136, *Financial Reporting Requirements*.
- B. For the Quarterly High-Dollar Overpayments Report, reporting organizations will submit reports to the Cash and Debt Management Division. Refer to Appendix A, High-

¹ These procedures are high level in nature and are not intended to be desk procedures.

² For additional information on VA's internal control program, including OMB Circular No. A-123, Appendix A, Internal Controls over Financial Reporting, refer to Volume I, Chapter 5, *Management Accountability and Control Program*.

Dollar Overpayments Reporting, for additional information and deliverables associated with the reporting. The following format will be used:

1. Name of program.
2. Description of program findings with overpayments count and percentage.
3. Total program payments made this quarter.
4. Details of high-dollar overpayments, using the following table:

Amount of Overpayment	Entity or Individual	City/ County	State	Cause of Overpayment	Actions/Plans to Recover Overpayment	Status of Overpayment	Overall Actions/Plans to Prevent Re-occurrence
Please sort the dollar amount from large to small				We suggest limiting the causes to five or six categories	Descriptions	Please use either one of the status: "Collected in full" "Collection in Progress" or "Collection terminated"	Descriptions

C. The report will be initially reviewed and approved by the ADAS for Financial Policy. Once approval is obtained, the ADAS will create a folder in VA Intranet Quorum (VAIQ) and request the concurrence of the responsible offices. Once these concurrences are obtained, the report will be submitted to the DAS for Finance and then to the CFO, prior to submission to the Office of the Secretary.

0906 DEFINITIONS

090601 High-Dollar Overpayment. Any overpayment made to an individual or an entity in excess of 50 percent of the correct amount of the intended payment under the following circumstances:

- A. Where the total payment to an individual exceeds \$5,000 as a single payment or in cumulative payments for the quarter; or
- B. Where the payment to an entity exceeds \$25,000 as a single payment or in cumulative payments for the quarter. An entity is a non-individual which excludes an individual acting in either a personal or commercial capacity (that is, a sole proprietor) and Federal, state, and local government agencies.

090602 Improper Payment. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Incorrect amounts are overpayments and underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment is proper because of insufficient or lack of documentation, this payment must also be considered an improper payment.

090603 Payment. Any payment, including a commitment for future payment that is: (1) derived from Federal funds or other Federal sources; or (2) reimbursed ultimately from Federal funds or resources made by a Federal agency, a Federal contractor, a governmental or other organization administering a Federal program or activity. Agencies are not obligated to review intra-governmental transactions and payments to employees.

090604 Program and Activities. Activities or sets of activities recognized as programs by the public, OMB or Congress, as well as those that entail program management or policy direction. This definition includes, but is not limited to, all grants including competitive grant programs and block/formula grant programs, non-competitive grants such as single-source awards, regulatory activities, research and development activities, direct Federal programs, all types of procurements (including capital assets and service acquisition), and credit programs. It also includes the activities engaged in by the agency in support of its programs.

0907 RESCISSIONS

090701 VA OFP Volume VII Chapter 9, Financial Reporting – Erroneous and Improper Payment Reporting under OMB Circular A-123 Appendix C, January 2011

0908 QUESTIONS

Questions concerning these financial policies and procedures should be directed as follows:

VHA
VBA
All Others

VHA CFO Accounting Policy (10A3A) (Outlook)
VAVBAWAS/CO/FINREP (Outlook)
OFP Accounting Policy (Outlook)

APPENDIX A: HIGH-DOLLAR OVERPAYMENTS REPORTING

Review Process - Refer to the latest PAR for susceptible programs with significant improper payments.

A. Review sources: High-dollar overpayments should be identified by examining several sources of information available to agencies. For instance, agencies could identify high-value errors, where applicable, through:

1. Statistical samples conducted under the IPERA;
2. Agency post-payment reviews;
3. Payment Recapture/Recovery audits;
4. Agency IG reviews;
5. Self-reports; or
6. Reports from the public through Internet and telephone hotlines and other referrals.

B. Identify Overpayments: Each VA office will develop its own procedures to identify and report the high-dollar overpayments.

Deliverables.

Milestone	Deliverable
1. Fiscal Year First Quarter High-Dollar Overpayments Report (October – December)	<ul style="list-style-type: none"> • For six weeks after December 31, the VA offices responsible for authorizing the payments review and identify all high-dollar overpayments • February 15, VA offices report high-dollar overpayments to Cash and Debt Management Division (047GC1) • March 15, 047GC1 consolidates reports and forwards to the Secretary • April 30, Secretary submits report to IG and makes report available to public
2. Fiscal Year Second Quarter High-Dollar Overpayments Report (January - March)	<ul style="list-style-type: none"> • For six weeks after March 31, VA offices responsible for authorizing the payments review and identify all high-dollar overpayments • May 15, VA offices report high-dollar overpayments to 047GC1

Milestone	Deliverable
	<ul style="list-style-type: none"> • June 15, 047GC1 consolidates reports and forwards to the Secretary • July 31, Secretary submits report to IG and makes report available to public
<p>3. Fiscal Year Third Quarter High-Dollar Overpayments Report (April – June)</p>	<ul style="list-style-type: none"> • For six weeks after June 30, VA offices responsible for authorizing the payments review and identify all high-dollar overpayments • August 15, VA offices report high-dollar overpayments to 047GC1 • September 15, 047GC1 consolidates reports and forwards to the Secretary • October 30, Secretary submits report to IG and makes report available to public
<p>4. Fiscal Year Fourth Quarter High-Dollar Overpayments Report (July – September)</p>	<ul style="list-style-type: none"> • For six weeks after September 30, VA offices responsible for authorizing the payments review and identify all high-dollar overpayments • November 15, VA offices report high-dollar overpayments to 047GC1 • December 15, 047GC1 consolidates reports and forwards to the Secretary • January 31, Secretary submits report to IG and makes report available to public