



Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

Guidance for Improper Payments Elimination and Recovery Act Compliance Reviews

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Note: The following guide was developed to assist Offices of Inspector General (OIG) that are required to conduct an annual improper payment review under section 3 of the *Improper Payments Elimination and Recovery Act of 2010* (Public Law 111-204, 124 STAT. 2232-2233). This is only a guide and each OIG should use its professional judgement in determining the level of work it should perform based on its specific agency's programs. Also, OIGs should take into account any new laws enacted or any updated guidance issued by the Office of Management and Budget or CIGIE after this guide was published.

Steps/Guidance for OIG Improper Payments Elimination and Recovery Act Compliance Reviews

PLANNING STEPS

Objectives: Our objective is to review the payment integrity section of the Fiscal Year (FY) 20__ Agency Financial Report (AFR)/Performance and Accountability Report (PAR) to determine whether the <INSERT AGENCY NAME> is in compliance with the *Improper Payments Information Act of 2002* (IPIA) as amended.¹ In addition, we will evaluate the agency's (1) accuracy and completeness of reporting and (2) performance in reducing and recapturing improper payments.

Scope: We will review the payment integrity section in the FY 20__ AFR/PAR and any accompanying material to determine agency compliance with IPIA as amended.

General Methodology:

- Review the payment integrity section of the agency's FY 20__ AFR/PAR (and any accompanying material) to assess the agency's compliance with IPIA as amended.
- Review applicable Federal laws, Office of Management and Budget (OMB) guidance, and agency policy and procedures.
- Request source data from the agency to support applicable payment integrity information in the AFR/PAR.
- Analyze the source data to ensure accuracy and completeness of payment integrity information in the AFR/PAR.
- Conclude on whether the agency met the six IPERA compliance requirements.
- Since programs vary from agency to agency, each OIG needs to determine whether an issue is significant in the context of the agency under review and the OIG's objective for its review. However, generally, if something is considered significant, it should have a substantial impact on the payment integrity information in the agency's AFR/PAR. OIG's should use professional judgement to determine whether an issue is significant when assessing compliance with an IPERA requirement.
- OIG's should use professional judgement to determine the extent of testing to do to meet its objectives. Also, as a reminder, if an agency has high priority programs (as designated by OMB), then there are additional reporting requirements in Appendix C of OMB Circular A-123. OIG's should take this into consideration when planning its work.
- OIG's should leverage any prior or on-going work in deciding the level of work to be done for the annual payment integrity review. For example, consider whether any interviews conducted by the OIG as part of the financial statement audit—or any other audit, evaluation, or inspection—can be used to document your current understanding of the procedures, oversight, and internal controls in place for preparing the payment integrity information in the AFR/PAR.
- The term “compliance” for the annual OIG review means that the agency—
 - A. has published an annual AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required under OMB guidance on the agency website;
 - B. if required, has conducted a program specific risk assessment for each program or activity that conforms with section 2(a) the *Improper Payments Information Act of 2002* (31 U.S.C. 3321 note);

¹ The OIG requirements for its annual improper payment review are listed in the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), which amended IPIA. Additionally, the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) also amended IPIA. Appendix C of OMB Circular A-123 is guidance on IPIA, as amended.

- C. if required, publishes improper payments estimates for all programs and activities identified under section 2(b) of the *Improper Payments Information Act of 2002* (31 U.S.C. 3321 note) in the accompanying materials to the annual financial statement;
- D. publishes programmatic corrective action plans prepared under section 2(c) of the *Improper Payments Information Act of 2002* (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement;
- E. publishes improper payments reduction targets established under section 2(c) of the *Improper Payments Information Act of 2002* (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and
- F. has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 2(b) of the *Improper Payments Information Act of 2002* (31 U.S.C. 3321 note).

If an agency does not meet one or more of these requirements (A through F above), then it is *not* compliant under IPIA as amended.

In determining compliance, the agency Inspector General should evaluate the accuracy and completeness of agency reporting, and evaluate agency performance in reducing and recapturing improper payments. For example, when determining compliance, the agency Inspector General should evaluate whether the program improper payment rate estimates are accurate and whether the sampling and estimation plan used is appropriate given program characteristics. In addition, the agency Inspector General should assess whether the agency can show its corrective actions are actually reducing improper payments. The agency Inspector General should evaluate the root cause category classification and determine whether the agency has accurately classified the true root causes of improper payments. As part of its report, the agency Inspector General should include its evaluation of agency efforts to prevent and reduce improper payments, and any recommendations for actions to further improve: the agency's or program's performance in reducing improper payments; corrective actions; or internal controls.

Finally, as part of the annual compliance review, for agencies that have high-priority programs, the agency Inspector General should: review the assessment of the level of risk, evaluate the quality of the improper payment estimates and methodology, and review the oversight or financial controls used to identify and prevent improper payments under the program.

Nature of the Program: The payment integrity section on pages X to X of the FY 20__ AFR/PAR is a compilation of information effecting <INSERT AGENCY NAME> programs and activities. The main component/bureau/division/office responsible for compiling the payment integrity section is the

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The purpose of the payment integrity section of the AFR/PAR, as originally outlined by Public Law 107-300, IPIA, and later amended by Public Law 111-204 (IPERA 2010) and Public Law 112-248 (IPERIA 2012), is to provide for estimates and reports of improper payments by Federal agencies to prevent the loss of taxpayer dollars. Compliance with IPIA as amended indicates an agency has

1. published an AFR or PAR for the most recent FY and posted that report and any accompanying materials required by OMB on the agency's Website;
2. conducted a program-specific risk assessment for each program or activity;
3. published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;
4. published programmatic correction action plans in the AFR or PAR;

5. published, and met, annual reduction targets for each program assessed to be at risk and estimated for improper payments; and
6. reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

The main website for improper payment resources is <https://paymentaccuracy.gov/resources/>.

Internal Controls: Obtain and understanding of the controls in place for compiling, validating, and reporting the payment integrity information in the AFR/PAR. Refer to the OIG's prior reviews as appropriate. The OIG may want to obtain information from the agency related to its OMB Circular A-123 internal control testing related to improper payments.

Systems Controls: If information systems controls are determined to be significant to meet the objective of the OIG review, obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the OIG review within the context of the objectives.

If the OIG is not reviewing the systems controls or they are deemed not significant, please explain. For example, is the risk of the agency misstating the payment integrity information in the AFR/PAR low based on prior audit work.

Legal Requirements: Compliance with IPIA, as amended, indicates an agency has

- published an AFR or Performance and Accountability Report (PAR) for the most recent FY and posted that report and any accompanying materials required by OMB on the agency's Website;
- conducted a program-specific risk assessment for each program or activity;
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;
- published programmatic correction action plans in the AFR or PAR;
- published, and met, annual reduction targets for each program assessed to be at risk and estimated for improper payments; and
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

If an agency does not meet one or more of these requirements, then it is not compliant with IPIA as amended.

Criteria:

- 31 U.S.C. 3321, *Disbursing Authority in the Executive Branch*, <http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title31-section3321&num=0&edition=prelim>
- Public Law 114-109, *Federal Improper Payments Coordination Act of 2015*, <https://www.congress.gov/114/plaws/publ109/PLAW-114publ109.pdf>
- Public Law 112-248, *Improper Payments Elimination and Recovery Improvement Act of 2012*, <https://www.gpo.gov/fdsys/pkg/PLAW-112publ248/pdf/PLAW-112publ248.pdf>.
- Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010*, <https://www.gpo.gov/fdsys/pkg/PLAW-111publ204/pdf/PLAW-111publ204.pdf>.
- Public Law 107-300, the *Improper Payments Information Act of 2002*, <https://www.gpo.gov/fdsys/pkg/PLAW-107publ300/pdf/PLAW-107publ300.pdf>.

- Appendix C of OMB Circular A-123, *Requirements for Payment Integrity Improvement*, , <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-20.pdf>. (Generally, OMB updates this guidance each year.)
- OMB Circular A-136, *Financial Reporting Requirements*, <https://www.whitehouse.gov/wp-content/uploads/2019/06/OMB-Circular-A-136.pdf>. (Generally, OMB updates this guidance each year.)
- *GAO Green Book, Standards for Internal Controls in the Federal Government*, <https://www.gao.gov/assets/670/665712.pdf>: The GAO Standards for Internal Control in the Federal Government discusses the importance of appropriate documentation for transactions. It states, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination." (Page 48 of GAO-14-704G dated September 2014.)
- OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf>

Evidence: Identify potential sources of information that could be used as evidence. Determine the amount and type of information needed to obtain sufficient, appropriate evidence to address the review's objectives. If the team believes that it is likely that sufficient, appropriate evidence will not be available, evaluate whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for a finding. See evidence sections in *Government Auditing Standards* and/or *Quality Standards for Inspections and Evaluations*.

Risk of Fraud or Abuse: Assess the risk of fraud and abuse occurring that is significant within the context of the objectives or that could affect the findings and conclusions. When factors are identified which indicate that fraud or abuse has occurred or is likely to have occurred, design procedures to provide reasonable assurance of detecting such fraud/abuse. For example, if no fraud or abuse identified in prior year OIG IPERA reviews, you may want to assess the risk fraud occurring as low in the context of the OIG IPERA review's objective.

Relying on Others: If the team intends to use the work of other auditors: 1) perform procedures that provide a sufficient basis for using that work; 2) obtain evidence concerning the other auditors' qualifications and independence, and determine whether the scope, quality, and timing of the work performed by the other auditors is adequate for reliance in the context of the current objectives; and 3) if applicable, request a copy of the audit organization's latest peer review report and any letter of comment.

Prior Work: Research and review relevant prior work. For prior engagements that are significant within the context of the current objectives, evaluate whether the agency has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the objectives. Use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current objectives.

Examples of prior work from GAO that some OIG may want to include, if appropriate to its agency, include the following.

- IMPROPER PAYMENTS – Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities (GAO-18-36), November 2017
<https://www.gao.gov/assets/690/688434.pdf>
- MEDICARE ADVANTAGE PROGRAM INTEGRITY - CMS's Efforts to Ensure Proper Payments and Identify and Recover Improper Payments (GAO-17-761T), July 19, 2017
<https://www.gao.gov/assets/690/685934.pdf>

- IMPROPER PAYMENTS - Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit (GAO-17-467), July 2017 <https://www.gao.gov/assets/690/685777.pdf>
- VETERANS AFFAIRS - Improper Payment Estimates and Ongoing Efforts for Reduction (GAO-17-633T), May 24, 2017 <https://www.gao.gov/assets/690/684912.pdf>
- IMPROPER PAYMENTS - Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended (GAO-17-15), October 2016 <https://www.gao.gov/assets/690/680464.pdf>
- IMPROPER PAYMENTS - DOE's Risk Assessments Should Be Strengthened (GAO-15-36), December 2014 <https://www.gao.gov/assets/670/667737.pdf>
- IMPROPER PAYMENTS - Government-Wide Estimates and Reduction Strategies (GAO-14-73T), July 9, 2014 <https://www.gao.gov/assets/670/664692.pdf>
- DOD FINANCIAL MANAGEMENT - Significant Improvements Needed in Efforts to Address Improper Payment Requirements (GAO-13-227), May 2013 <https://www.gao.gov/assets/660/654534.pdf>

Staffing: OIG management must assign sufficient staff and specialists with adequate collective professional competence to perform the review. List the staff assigned to the project and their respective roles. If the team plans to use the work of a specialist or contract out the work, document the nature and scope of the work to be performed by the specialist/contractor. See *Government Auditing Standards* and/or *Quality Standards for Inspections and Evaluations*, as needed, for guidance.

Independence: Staff assigned to the project must be independent and must avoid situations that could lead reasonable and informed third parties to conclude that the staff are not independent and thus not capable of exercising objective and impartial judgment on all issues associated with conducting the review and reporting on the work. Documentation of independence considerations provides evidence of the staff's judgments in forming conclusions regarding compliance with independence requirements. If the engagement is performed as an audit, staff should apply the generally accepted government auditing standards (GAGAS) conceptual framework to identify threats to independence, evaluate the significance of threats identified (both individually and in the aggregate), and apply safeguards as needed to eliminate threats or reduce them to an acceptable level. Document threats to independence that require the application of safeguards, along with the safeguards applied. If the engagement is performed as an evaluation or inspection, staff should apply the guidance on independence in the *Quality Standards for Inspections and Evaluations*.

OIG Start Notice: Inform the agency of the planned review.

Entrance Conference: If necessary, schedule and hold an entrance conference with the agency.

Data Reliability: Obtain data needed to meet objective and test its reliability as appropriate for the objective.

Compliance Determine whether the OIG will perform its review in compliance with [Government Auditing Standards](#) or the [Quality Standards for Inspection and Evaluations](#).

FIELD WORK STEPS – Suggested steps.

1. Search the agency's website to determine whether the AFR/PAR with the payment integrity information is on the agency's website. Document the location of the report on the website and whether the report includes the required information, such as estimates for all programs identified as susceptible to significant improper payment, corrective action plans, etc.

2. Interview agency staff and/or officials to gain an understanding of the procedures, oversight, and internal controls in place for preparing (if applicable) the (a) required risk assessment, (b) payment integrity section of the AFR/PAR and any accompanying materials (c) estimation methodologies, (d) corrective action plans, and (e) reduction target rates. Identify any significant changes since the OIG's last review.
3. Review source data/documents from the agency to support the accuracy of payment integrity information in the AFR/PAR and any accompanying materials, as well as to gain an understanding of the relevant internal controls. Determine whether the source data supports that the improper payment information in the AFR/PAR is accurate and complete. Based on the prior year's work and applying auditor's judgment, determine (a) the type of source documents to review, such as high-level documents or more detailed documents; (b) whether you should review payments that were proper or improper and test using the procedures performed by the agency to determine whether the OIG comes to the same conclusion about the payment; and (c) whether sampling is necessary. OIG's should use professional judgement to determine the extent of testing to do to meet its objectives for the OIG compliance review. For example, based on prior work, consider whether detailed testing of transactions is needed or whether it is sufficient to do a walkthrough of the agency's current process and make a determination as to whether the process is reasonable and consistently applied.
4. Assess the agency's risk assessment(s) if applicable. See "Risk Assessment" section of Appendix C of OMB Circular A-123.
 - a) Gain an understanding of the agency's process for conducting the risk assessment. Identify any significant changes to the risk assessment process since the OIG's last review.
 - b) Determine whether all programs that were scheduled for a risk assessment had one completed (that is, no less than every 3 years).
 - c) Select and review risk assessment(s) to ascertain (i) the risk factors used, (ii) whether the agency has adequate documentation of its analysis and conclusions, and (iii) whether the risk score is reasonable based on prior work, your knowledge and understanding of the program, and your professional judgement. Based on your prior work and professional judgment, determine whether a detailed review of all risk assessments is warranted or whether a more limited review or sampling is appropriate.
 - d) For the risk assessments reviewed, determine—based on your prior work, any testing conducted for the current review, and your professional judgement—whether there are any flaws/concerns with the risk assessment that would be significant to the payment integrity information reported by the agency.
 - e) If the agency conducted a risk assessment for each program/activity as required (that is, no less than 3 years) and you conclude there are no significant issues with the agency's risk assessment process or with any of the risk assessments reviewed by the OIG, then the agency met this IPERA criteria.

If the OIG has concerns with the risk assessment process or with any of the risk assessments it reviewed, but they are not significant to the payment integrity information reported in the agency's AFR/PAR, then the OIG should conclude that the agency met this IPERA criteria, but the OIG should consider disclosing its concerns in its report and explain why they are not significant to the information included in the agency's AFR/PAR.

The IPERA criteria is whether or not the agency conducted a program-specific risk assessment for each program or activity as required. If the agency did not include *all required* programs/activities in the risk assessment every 3 years, then it did not meet this IPERA criteria.

If the risk assessment excludes or misrepresents risks that the OIG deems to be significant—that is, these issues *significantly* alter the improper payment estimates reported by the agency in its AFR/PAR—then the OIG should conclude that the agency did not meet this IPERA criteria.

If the agency did not conduct a risk assessment this year because it was not required (since risk assessments for programs should be done no less than every 3 years), then this step is not applicable.

5. Evaluate the root cause category classification and determine whether the agency has accurately classified the true root causes of improper payments (if applicable).
6. Review the agency's corrective action plans (if applicable).
 - a) If the agency published a corrective action plan for those programs and activities assessed to be at risk for significant improper payments and the OIG concludes—based on its prior work, current work, and professional judgement—that there are no significant issues with the corrective action plans, then the agency met the IPERA criteria. If the OIG has concerns with the corrective action plan, but they are not significant to the improper payment information reported in the agency's AFR/PAR, then the OIG should conclude that the agency met this IPERA criteria. The OIG should determine whether to disclose its concerns in its report and explain why they are not significant to the information included in the agency's AFR/PAR.
 - b) If the corrective action plan does not include *all* programs/activities at risk for significant improper payments as required or there are issues that the OIG considers significant, then the agency did not meet the IPERA criteria and the issues should be described in the OIG's report.
 - c) If the agency does not have a corrective action plan or does not have a corrective action for a particular root cause, ask the agency and/or obtain documentation as to why. (Note: OMB Circular A-136 (dated June 30, 2018) section II.4.5 subsection (I)(f) requires agency provide a justification for not having a corrective action for a particular root cause.)
7. Payment integrity reduction targets (if applicable).
 - a) Gain an understanding of how the agency established its reduction targets. (Note: There is an exception under Appendix C of OMB Circular A-123 Part III.A.3—For programs still working to establish a baseline estimate, OMB does not expect the program to publish a reduction target until a full baseline has been established and reported.)
 - b) Determine whether the agency set reduction targets for future improper payment levels in its AFR/PAR for all programs and activities at risk for significant improper payments as required. If all required programs/activities were not included in the reduction targets, then the agency did not meet this IPERA criteria.
 - c) Determine whether the agency is meeting its reported targets. Note: The agency reduction targets for the current year may be reported in the prior year's AFR/PAR. Therefore, OIGs may need to obtain last year's AFR/PAR reduction targets for the applicable programs and activities at risk for significant improper payments. OIGs determine compliance with reduction targets by determining the robustness and validity of the agency's sampling methodology, and examining point estimates (actual improper payment error rate), precision rates, and confidence internals.
 - i. Valid and Rigorous Sampling Methodology (statistically valid): An agency will meet the reduction target if part of its confidence interval is less than or equal to the targeted rate.
 - ii. Valid and Non-Rigorous Sampling Methodology (statistically valid): An agency will meet the reduction target if its point estimate is less than or equal to the targeted rate.
 - iii. Non-Statistically valid: An agency will meet the reduction target if its point estimate is less than or equal to the targeted rate.
8. Determine whether the agency's improper payment rate is less than 10 percent for each program/activity for which the improper payment estimate was published (if applicable). If the rate is not less than 10 percent for any required program/activity, then the agency did not meet this IPERA criteria.

9. The attached checklist can be used as a guide when conducting the work. Please note there are two tabs in the excel file.



IPERA Checklist
2018.xlsx

10. Discuss with the agency the status of prior years' recommendations.
11. Discuss any concerns/questions with the agency.

REPORTING

When reporting on whether its respective agency complied with the six IPERA criteria, OIGs should use a compliant/non-compliant approach that takes into account whether its current work, prior work, and professional judgement lead the OIG to conclude that it has concerns or whether there are inaccuracies that would *significantly* alter the improper payment estimates reported by the agency in its AFR/PAR. If an agency fails to meet one or more of the six compliance criteria, then it is not compliant under IPERA.

The report should contain a high-level summary toward the beginning of the report that (a) clearly states the agency's compliance status (i.e., compliant or non-compliant) and (b) indicates which of the six requirements the agency complied with and which requirements the agency did not comply with. A table should also be included in the beginning of the report that includes the (a) criteria assessed, (b) name of each program assessed, and (c) whether the program(s) were compliant or non-compliant for each of the criteria assessed.

If an agency has many programs, consider summarizing them—instead of listing each program—in the table. For example, if there are many programs/activities, near the beginning of the report, the OIG could list just the programs out of compliance in the form of the table with a sentence stating that there is an appendix with a table with all the programs included at the end of the report. If there are **no** non-compliant programs, the OIG could make that statement at the beginning of the report indicating that all the Agency's programs were found in compliance along with a sentence stating that there is an appendix with a table with all the programs included at the end of the report.