



OFFICE OF THE INSPECTOR GENERAL OF THE INTELLIGENCE COMMUNITY

Office of the Director of National Intelligence's Fiscal Year 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010

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EXECUTIVE SUMMARY

The objective of this review was to determine whether the Office of the Director of National Intelligence (ODNI) complied with Improper Payments Elimination and Recovery Act of 2010 (IPERA) requirements for Fiscal Year (FY) 2019.

IPERA directs agencies to perform risk assessments of programs and activities to identify those that may be susceptible to significant improper payments. When an agency identifies a program or activity that is susceptible to significant improper payments, the agency must estimate the amount of improper payments, and report the improper payment estimates, actions taken to reduce improper payments, and improper payment rates of each program or activity in the materials accompanying the agency's annual financial statement. IPERA also directs agencies to conduct recovery audits—also known as payment recapture audits—for each program and activity that expends \$1 million or more annually, if conducting such audits would be cost effective.

ODNI complied with IPERA for FY 2019. ODNI published its FY 2019 Agency Financial Report on November 15, 2019, and posted the report on its internal website. In FY 2019, the first year of ODNI's risk assessment cycle, ODNI tested controls for its payment activities and determined that its programs and activities were not susceptible to significant improper payments as defined by the Office of Management and Budget. Based on this determination, ODNI was not required to prepare or report improper payment estimates, corrective action plans, reduction targets, or improper payment rates for its programs and activities. As required by IPERA, ODNI provided support for its determination that conducting payment recapture audits would not be cost effective.

We made one observation, but did not make a recommendation, that invalid travel claims were not always identified and overpayments were not always consistently addressed.



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BACKGROUND

The Improper Payments Elimination and Recovery Act of 2010 (IPERA)¹ directs agencies to perform risk assessments of programs and activities to identify those that may be susceptible to significant improper payments.² When an agency identifies a program or activity that is susceptible to significant improper payments, the agency must estimate the amount of improper payments, and report the estimates, actions taken to reduce improper payments, and improper payment rates of each program or activity in the materials accompanying the agency's annual financial statement. IPERA also directs agencies to conduct recovery audits—also known as payment recapture audits—for each program and activity that expends \$1 million or more annually, if conducting such audits would be cost effective. In 2013, the Improper Payments Elimination and Recovery Improvement Act (IPERIA)³ amended the definition of payments to include payments to federal employees, including salary, travel expenses, and other employee payments.

IPERA defines a “payment” as a transfer of federal funds to any non-federal person or entity, or federal employee. An “improper payment” is defined as a payment that:

- should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements, including overpayments and underpayments made to an eligible recipient;
- was made to an ineligible recipient, for an ineligible good or service, or for goods or services not received; or
- was made without sufficient documentation.

Guidance for implementing IPERA is contained in Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement* (June 2018).

OMB Circular No. A-123, Appendix C, requires inspectors general to review reporting that is included in their agency's annual Agency Financial Report (AFR) to determine compliance with IPERA. The review must be completed within 180 days of the publication of the AFR. An agency is considered to be compliant with IPERA when it has:

¹ Improper Payments Elimination and Recovery Act of 2010, Pub. Law No. 111-204 (July 2010).

² Office of Management and Budget Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement*, defines “significant improper payment” as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year or (2) 100 million, regardless of the improper payment percentage of total program outlays (June 2018).

³ Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. Law No. 112-248 (January 2013).

- published an AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency 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;
- published programmatic corrective action plans in the AFR for all programs and activities that are susceptible to significant improper payments;
- published and met annual reduction targets for each program assessed to be at risk and for which improper payments have been estimated; and
- reported an 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.

The Financial Operations (FIN OPS) group within the Office of the Director of National Intelligence's (ODNI's) Chief Financial Executive (CFE) office is responsible for the ODNI Internal Control Program under the Federal Manager's Financial Integrity Act⁴ and OMB Circular No. A-123. The FIN OPS group performs the annual risk assessment of ODNI's payment activities.

⁴ Federal Managers Financial Integrity Act of 1982, Pub. Law No. 97-255 (September 1982).

REVIEW RESULTS

ODNI COMPLIED WITH IPERA FOR FY 2019

ODNI Published its AFR. ODNI complied with the requirements of IPERA for Fiscal Year (FY) 2019. ODNI published its FY 2019 AFR on November 15, 2019, and posted the report on its internal classified network for persons having the necessary security clearances and access. ODNI's AFR is a classified document and cannot be posted on ODNI's external website. The Office of Inspector General of the Intelligence Community (IC IG) verified that the AFR included the reporting required by IPERA.

ODNI Conducted Risk Assessments. OMB Circular No. A-123, Appendix C, allows agencies to perform risk assessments every three years if the agencies' programs are deemed to be of low risk for significant improper payments and if there are no significant increases in funding or changes in legislation. ODNI performs its risk assessments over a three-year period, conducting a portion of the assessment each year on an alternating cycle. During the first year of the three-year cycle, ODNI reviews five of ODNI's six payment activities: (1) employee reimbursements; (2) payroll; (3) simplified acquisition and charge card purchases; (4) travel transactions; and (5) other miscellaneous activities—also referred to as non-contract payments. During the second year, ODNI reviews the sixth payment activity: contract vendor payments. During the third year of the cycle, ODNI tests key payment controls. For FY 2019, ODNI is in its first year of the cycle. ODNI determined through its testing of payments that the risk remained low for all non-contract payment activities.

To perform the risk assessment, FIN OPS statistically selected payment transactions to test, reviewed supporting documentation, recorded the results of its tests, and made a determination about the level of risk.⁵ FIN OPS's review of three of the five payments activities revealed improper payments. However, the total dollars of improper payments were considerably less than the OMB definition of a "significant" improper payment.

We verified the accuracy of FIN OPS results by reviewing some of the statistically selected payment transactions. We concluded that ODNI appropriately performed testing of its payment activities and agreed that ODNI is operating at low risk for making improper, non-contract payments.

However, during our review, we observed several instances where invalid travel claims were not identified and overpayments were not consistently addressed. Although these instances

⁵ Statistical sampling is a limited number of observations selected from a population on a random basis, which yield generalizations about the population.

were not significant, they could be indicative of ineffective internal controls, and we have brought it to management's attention as an observation.

Observation

Four travel transactions tested by FIN OPS showed that ODNI paid for invalid claims. The Federal Travel Regulation requires that travelers reduce the meal and incidental rate when attending conferences that include the cost of meals as part of the registration fee.⁶ When the travel vouchers were processed for payment, the approving official did not identify the invalid claims and the travelers were over paid resulting in an improper payment. The processing of invalid claims may be indicative of ineffective internal controls within ODNI. IC IG audit report, *Office of the Director of National Intelligence's Government Travel Card Program* (July 2020), identified other invalid travel claims paid by ODNI. Although FIN OPS identified four invalid claims from the sample transactions reviewed that resulted in overpayments when performing ODNI's risk assessment, it did not consistently address those overpayments. For two overpayments, FIN OPS requested the travelers reimburse the government and, in both cases, the travelers submitted reimbursements. The overpayments were resolved. For the third overpayment, FIN OPS assessed the payment as improper but did not request the traveler to reimburse the government. For the fourth overpayment, FIN OPS assessed the payment as improper but did not include the amount in its reporting of improper payments or request the traveler to reimburse the government.

Controls to identify invalid claims and prevent their processing and payment are essential to reducing the occurrence of improper payments and the risk of fraud, waste, abuse, and mismanagement.

Certain OMB Requirements for IPERA Were Not Applicable. Because ODNI determined that none of its programs and activities were susceptible to significant improper payments, there was no requirement to prepare or report improper payment estimates, corrective action plans, reduction targets, or improper payment rates of its programs of activities. OMB Circular No. A-123, Appendix C, requires a statistically valid estimate of the annual amount of improper

⁶ Federal Travel Regulation, Conference Attendees, §301-74.21 (November 2019).

payments and additional requirements only for those programs and activities susceptible to significant improper payments.

ODNI Has Documented That Recapture Audits Were Not Cost Effective. ODNI determined that payment recapture audits would not be cost effective and provided its justification to OMB and the IC IG. IPERA requires agencies to conduct recapture audits on programs and activities that expend \$1 million or more annually, if conducting such audits would be cost effective. If an agency determines that payment recapture audits are not cost effective, it must notify OMB and the agency's inspector general and provide the analysis used by the agency to reach that conclusion. Based on its 2019 risk assessments, ODNI concluded, and notified OMB and the IC IG that payment recapture audits would not be cost effective.

APPENDIX: OBJECTIVE, SCOPE, AND METHODOLOGY

We reviewed ODNI's Fiscal Year (FY) 2019 improper payments reporting as required by the Improper Payments Elimination and Recovery Act of 2010 (IPERA).⁷ The objective of the review was to determine whether the Office of the Director of National Intelligence (ODNI) had complied with IPERA requirements for FY 2019.

To accomplish the review objective, we:

- identified and reviewed applicable U.S. laws, Office of Management and Budget guidance, and ODNI policies and procedures related to improper payment reporting;
- reviewed ODNI's FY 2019 Agency Financial Report to verify compliance with IPERA requirements;
- interviewed appropriate ODNI officers responsible for the ODNI's Internal Control Program and reviewed documentation regarding the implementation of IPERA requirements;
- reviewed ODNI's risk assessment methodology to assess the adequacy of its approach;
- reviewed documentation (e.g., statistical sampling determinations, test summaries, and test results) supporting ODNI's FY 2019 testing of payment activities and interviewed Financial Operations personnel to determine the adequacy of the process for assessing risk;
- verified the sufficiency of ODNI's FY 2019 testing process by re-performing samples of FIN OPS statistically selected payments, validating the ODNI's test, and assessing the adequacy of supporting documentation.

We conducted this review from February to August 2020 following the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Management was not required, nor did they provide comments to a draft of this report.

⁷ The Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement*, calls for an agency Inspector General to complete the IPERA review and submit its final report to OMB by May 15 of the following year. Because of the COVID-19 shut down orders and a paced recovery and reconstitution plan, this review was not completed and submitted to OMB until we could reasonably do so, which was after the required date.

