



Office of Audits
Office of Inspector General
U.S. General Services Administration

GSA Did Not Comply with the Improper Payments Acts in FY 2016

Report Number A160141/B/5/F17001
May 4, 2017

Executive Summary

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Why We Performed This Audit

We performed this audit as required by the Improper Payments Acts - the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012. The Improper Payments Acts aim to eliminate and recover payments improperly made by federal agencies. The Improper Payments Acts require federal agencies to review their programs and identify those that are susceptible to significant improper payments. For programs identified, agencies are required to estimate, report, and reduce improper payments through corrective action. Each agency's Office of Inspector General is tasked with examining the agency's efforts.

What We Found

In fiscal year (FY) 2016, GSA complied with five of the six requirements of the Improper Payments Acts. However, GSA did not meet its improper payment reduction target for the Rental of Space Program, causing it to be in noncompliance with the Acts.

Further, we found that GSA's Office of the Chief Financial Officer's (OCFO) reporting and evaluation of improper payments were not fully accurate or complete. Specifically, we found that:

- OCFO did not have adequate internal controls over reporting improper payments. As a result, GSA's FY 2016 Agency Financial Report was published with numerous errors related to improper payments.
- OCFO was not successful in identifying ineffective controls through its continuous monitoring of vendor payments. As a result, OCFO did not correct internal control deficiencies contributing to Rental of Space improper payments.
- OCFO did not sufficiently implement its corrective action related to its FY 2015 improper payments risk assessment.

What We Recommend

We recommend OCFO submit corrected improper payments information and, in accordance with Office of Management and Budget guidance, a plan addressing the agency's noncompliance. We also recommend several process improvements and additional controls to ensure accurate testing and reporting of improper payments. In its response, OCFO agreed with our recommendations (see ***Appendix D***).

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Introduction

We performed an audit of GSA's compliance with the Improper Payments Acts in fiscal year (FY) 2016.

Purpose

The Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012, hereinafter collectively referred to as the Improper Payments Acts, aim to eliminate and recover payments improperly made by federal agencies. The Improper Payments Acts require federal agencies to review their programs and identify those that are susceptible to significant improper payments. For programs identified, agencies are required to estimate, report, and reduce improper payments through corrective action. Each agency's Office of Inspector General is tasked with examining the agency's efforts. We performed this audit as required by the Improper Payments Acts.

Objectives

The objectives of our audit were to determine if, in FY 2016, GSA:

- Complied with the Improper Payments Acts;
- Accurately and completely reported improper payment estimates and figures in its Agency Financial Report (AFR); and
- Took efforts to reduce and recapture improper payments.

See **Appendix A** – Scope and Methodology for additional details.

Background

In FY 2015, the federal government reported a total of \$136.7 billion in estimated improper payments. Improper payments — payments that under statutory, contractual, administrative, or other legally applicable requirements should not have been made or were made in an incorrect amount — are a long-standing, widespread, and significant problem in the federal government. The goal of the Improper Payments Acts is for agencies to reduce, and eventually eliminate, improper payments in their programs.

Guidance and Regulations

The Improper Payments Acts define improper payments as both overpayments and underpayments, payments to ineligible recipients, payments for ineligible goods or services, duplicate payments, payments for goods or services not received, and payments that do not account for applicable discounts. The Office of Management and Budget (OMB) has also instructed agencies to report as improper any payment whose correctness cannot be determined due to lacking or insufficient documentation. The

definition of improper payments was later amended to include payments to federal employees (including salary, locality pay, and travel pay), in addition to payments made to non-federal persons or entities.

The Improper Payments Acts require federal agencies to review their programs and identify those that are susceptible to significant improper payments. For programs identified, agencies are required to estimate, report, and reduce improper payments through corrective action.

These requirements were expanded by Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, which, among other things, required federal agencies to decrease improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the federal government.

OMB Memorandum 15-02, issued on October 20, 2014, and OMB Circular A-136, revised on October 7, 2016, (collectively referred to as OMB guidance) provide the most updated requirements for the implementation of the Improper Payments Acts.¹

OMB guidance states that, for an agency to eliminate improper payments, it must first conduct a risk assessment to identify the programs most susceptible to significant improper payments. Improper payments are considered “significant” if, in a given year: (1) they exceed both 1.5 percent of program payments and \$10 million, or (2) the payments exceed \$100 million regardless of the percentage of program payments. An agency is required to assess each program’s risk at least every 3 years.

OMB guidance also references the Disaster Relief Appropriations Act of 2013, which states that all federal programs receiving funds under the Act are automatically considered susceptible to significant improper payments and are required to be included in the agency’s calculation and reporting of its improper payment estimate.

If a program is susceptible to significant improper payments, the agency is required to estimate and report improper payments for that program annually, in addition to implementing corrective actions to reduce its improper payments. The estimation of improper payments must be statistically valid, using an OMB-approved methodology. The estimates are then included in the accompanying materials to the AFR. Agencies must also provide these estimates to OMB for inclusion in governmentwide improper payment estimates.

Once a program is identified as susceptible to significant improper payments, the annual reporting requirement applies, regardless of determinations in subsequent risk assessments. However, if the program’s estimated and reported improper payments

¹ OMB Memorandum 15-02 modified “Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*” and provides comprehensive information regarding Improper Payments Acts processes and requirements. OMB Circular A-136 provides detailed instructions for the reporting of improper payments.

are below the statutory thresholds for a minimum of 2 consecutive years, the agency may request relief from the annual reporting requirements for that program. This request must be submitted to and approved by the agency's Office of Inspector General and OMB. If OMB approves the request, it issues a waiver and the program is no longer subject to reporting requirements.

Since the aim of the Improper Payments Acts is to eliminate improper payments, agencies must implement a plan to reduce future improper payments. Agencies must identify root causes of improper payments and implement corrective action to mitigate them. Agencies are also required to publish and meet annual reduction targets for programs susceptible to significant improper payments.² Finally, agencies must ensure designated program officials are held accountable for reducing improper payments.

Another fundamental requirement of the Improper Payments Acts is for agencies to recover any federal funding that was improperly expended. Specifically, any program that expends at least \$1 million should implement payment recapture audits, if cost-effective to the agency, in order to recover improper payments.

Agencies provide their annual improper payments estimates and results of payment recapture efforts in two main tables in the AFR:

- “Table 1, Improper Payment Reduction Outlook” (Table 1, see **Appendix B**), shows the agency's annual improper payment estimates and reduction targets for programs deemed susceptible to significant improper payments (high risk). For high risk programs, agencies are required to select statistically valid samples of transactions for review. For those transactions, agencies evaluate supporting documentation and determine if improper payments were made. The improper payments are then extrapolated and shown as the current year improper payment estimates in Table 1. This table also shows the prior year estimates and future reduction targets established by the agency. The information contained in this table serves as the basis for several compliance measures.
- “Table 4, Overpayment Recaptures with and without Recapture Audit Programs” (Table 4, see **Appendix B**) shows the results of the agency's payment recapture efforts. Table 4 is separated into overpayments recaptured through payment recapture audit and outside of payment recapture audit. For each, the table lists the current year's overpayments identified and recovered. It also lists the current recovery rate and targets for future recovery. Table 4 is based on actual results, not estimates.

² OMB Memorandum 15-02 requires agencies to set reduction targets for future improper payment levels and a timeline within which the targets will be reached. Reduction targets must be approved by OMB. Agencies are considered to have met their reduction targets if they are within 0.1 percentage points of the reduction targets set in the previous year's AFR.

GSA's Assessment and Reporting of Improper Payments

GSA's Office of the Chief Financial Officer (OCFO) is responsible for GSA's compliance with the Improper Payments Acts. In FY 2015, OCFO reported on three programs/subprograms susceptible to significant improper payments: (1) Rental of Space, (2) Purchase Cards, and (3) Building Operations – Utilities. Among the three areas, OCFO estimated total FY 2015 improper payments of \$9 million. OCFO did not report improper payment estimates for the Hurricane Sandy Disaster Relief Fund, because it considered the amounts immaterial. Due to this oversight, we determined that GSA did not comply with the Improper Payments Acts in FY 2015.³

In FY 2016, OCFO reported on four programs/subprograms susceptible to significant improper payments: (1) Rental of Space, (2) Purchase Cards, (3) Hurricane Sandy Disaster Relief Fund, and (4) Building Operations – Utilities. In FY 2016, GSA requested and received an OMB waiver to exclude Building Operations – Utilities from reporting requirements. Accordingly, GSA only reported prior year figures for this program, not current year improper payment estimates or future reduction targets. For the three programs GSA tested for improper payments in FY 2016, OCFO estimated \$4.81 million in improper payments. OCFO reported that GSA was in compliance with the Improper Payments Acts in FY 2016.

The Agency's FY 2016 AFR tables are provided under **Appendix B**.

The Office of Inspector General's Role

The Improper Payments Acts require the Office of Inspector General to test for compliance by determining if an agency:

- Published an AFR for the most recent fiscal year and posted it 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;
- Published programmatic corrective action plans;
- Published and met annual reduction targets for each program assessed to be at risk and measured 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 is obtained and published in the AFR.

³ All programs receiving disaster relief funding are automatically considered susceptible to significant improper payments and are required to be evaluated and reported for improper payments. For additional information, see our audit report *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

OMB also allows the Office of Inspector General to evaluate the accuracy and completeness of agency reporting and agency performance in reducing and recapturing improper payments.

OCFO has taken constructive measures in response to our audit report on GSA's FY 2015 compliance.⁴ These measures included hiring additional staff, updating its continuous monitoring process to focus on high value transactions, and enhancing communication between its payment recapture contractor and GSA's Real Estate Administration Division. Furthermore, GSA's Real Estate Administration Division is developing a software enhancement to reduce improper payments related to real estate credits for leases.

⁴ *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

Results

In FY 2016, GSA complied with five of the six requirements of the Improper Payments Acts. However, GSA did not meet its improper payment reduction target for the Rental of Space Program, causing it to be in noncompliance with the Acts.

Figure 1 – Summary of GSA’s FY 2016 Compliance with the Improper Payments Acts

FY 2016 Overall Evaluation	Publish an AFR	Conduct Risk Assessment	Publish Improper Payment Estimates	Publish Corrective Action Plan	Publish/Meet Reduction Goals	Achieve an Improper Payment Rate of less than 10%
Non-Compliant	Yes	Yes	Yes	Yes	No	Yes

Further, we found that OCFO’s reporting and evaluation of improper payments were not fully accurate or complete. Specifically:

- OCFO did not have adequate internal controls over reporting improper payments. As a result, GSA’s FY 2016 AFR was published with numerous errors related to improper payments.
- OCFO was not successful in identifying ineffective controls through its continuous monitoring of vendor payments. As a result, OCFO did not correct internal control deficiencies contributing to Rental of Space improper payments.
- OCFO did not sufficiently implement its corrective action related to its FY 2015 improper payments risk assessment.

Finding 1 – GSA did not comply with the Improper Payments Acts because it did not meet its FY 2016 reduction target for the Rental of Space Program.

Although GSA reported that it had met its FY 2016 reduction target for the Rental of Space Program, the reporting was based on inaccurate test results. OCFO tested lease payments for improper payments and determined that the Rental of Space Program had \$3.24 million in improper payments, that GSA had met its reduction targets, and that the Agency was in compliance with the Improper Payments Acts. However, we tested a judgmental sample of payments and found OCFO had reached the incorrect determinations on several payments. Based on our testing results, OCFO should have reported estimated improper payments of \$37.2 million for the Rental of Space Program. This amount exceeds GSA’s reduction target and as a result, the Agency is not in compliance with the Improper Payments Acts.

Testing of the Rental of Space Program

The Improper Payments Acts require that an agency meet annual reduction targets for each program assessed as high risk for improper payments. In GSA’s FY 2012 risk assessment, the Agency identified the Rental of Space Program to be susceptible to significant improper payments and as such, the Program is subject to annual testing,

reporting, and reduction requirements.⁵ For FY 2016, GSA established a reduction target of \$6.6 million (or 0.119 percent of program outlays).

Based on its testing for FY 2016, GSA reported in Table 1 of the AFR that the Rental of Space Program had \$3.24 million in improper payments (0.06 percent of program outlays), greatly exceeding its reduction target. However, this reporting was incorrect because the results of the testing of the Rental of Space Program for improper payments were inaccurate.

In FY 2016, OCFO tested a sample of 303 transactions for improper payments. Originally, OCFO identified 12 improper payments for the Rental of Space Program, causing the agency to be in noncompliance. OCFO management then retested the payments found to be improper. As a result, OCFO changed 3 of the 12 payments from improper to proper. The three payments included two payments to a single lessor and one payment to another lessor. These changes resulted in GSA meeting its reduction targets and are reflected in the figures presented in Table 1 of GSA's FY 2016 AFR.

We tested the three payments changed and found one of the payments was correctly changed from improper to proper. The two payments to the single lessor were improper, as originally identified. The two payments were for \$4,490,524 and \$1,114,877. When OCFO originally tested the payments, it found the payments were improper because they were duplicate payments. Later, after re-examining the payments, OCFO determined that the payments were not improper because it thought the payments had not been disbursed. However, we reviewed an email chain between the PBS budget analyst overseeing the lease and the lessor that shows the payments were deposited into the lessor's account. It also showed that GSA requested that the lessor return the payments because they were made in error, further supporting the payments were indeed disbursed. For this reason, the payments were improper and should be reflected as such.

In addition to the three reclassified payments, we also tested a judgmental sample of 12 of the 303 payments originally tested by OCFO. We found OCFO reached incorrect determinations on 4 of the 12 payments tested, as discussed below:

- The first was a lease payment in the amount of \$847,645.03. The payment included a credit to correct a prior overpayment made by GSA and was mistakenly applied twice. Therefore, GSA underpaid by \$36,527.81. OCFO found the payment to be proper even though it had an email from the finance center stating the credit was taken twice in error.
- The second was a \$4,623,280.55 payment for a portfolio lease. For a lease payment to be considered proper, the payee must be verified in the System for

⁵ The Rental of Space Program was not identified as susceptible to significant improper payments in GSA's FY 2015 risk assessment; however, the program is still subject to annual reporting requirements until OCFO receives an OMB waiver.

Award Management.⁶ However, OCFO was unable to locate the payee in GSA's System for Award Management. As a result, the payment should have been identified as improper.

- The other two payments were lease payments in the amounts of \$719,717 and \$1,888,936 respectively. OCFO found that both were underpayments. We found that both payments properly applied deductions and therefore were proper payments.

Based on our evaluation of Rental of Space payments tested by OCFO, OCFO should have reported estimated improper payments of \$37.2 million (0.66 percent of program outlays) for the Rental of Space Program, which is more than 10 times greater than the figure reported. This amount does not meet GSA's FY 2016 reduction target of \$6.6 million (0.119 percent of program outlays) and results in GSA's noncompliance with the Improper Payments Acts in FY 2016.

Consequently, in accordance with OMB requirements, GSA must submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, within 90 days of the determination of noncompliance, describing the actions that GSA will take to become compliant with the Improper Payments Acts. These actions must include: (1) the establishment of measurable milestones to be accomplished in order to achieve compliance for each program area, (2) the designation of a senior agency official who shall be accountable for GSA's progress towards compliance, and (3) the establishment of an accountability mechanism with appropriate incentives and consequences tied to the success of the designated senior agency official in leading GSA's efforts to achieve compliance for each program area.

Also, OCFO did not implement our recommendation to compare Rental of Space estimates in Table 1 to actual improper payment information, even though actual improper payments information was readily available.⁷ In Table 1, OCFO reported estimated improper payments of \$3.24 million for the Rental of Space Program. During the same time period, GSA identified \$29.6 million in actual improper payments for the Rental of Space Program. A simple comparison of the two amounts indicates that the estimate appears to be understated. In the future, we again suggest OCFO perform this comparison to test the reliability of its Rental of Space estimates.

Finally, OCFO's FY 2016 reduction target for the Rental of Space Program was based on the assumption that improper payments would be reduced by 57 percent. Though we believe OCFO should do more to improve internal controls contributing to improper payments (see *Finding 3*), even with improvements, this target may be too challenging.

⁶ The System for Award Management is a database of contractors authorized to do business with the federal government that is maintained by GSA.

⁷ For additional information, see our audit report *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

OCFO should re-evaluate this figure to find a realistic reduction rate. OCFO should follow OMB guidance to have the updated reduction rate approved by OMB.

Recommendation 1

We recommend the Chief Financial Officer:

- 1a. Submit a plan for addressing noncompliance within 90 days, as required by OMB guidance.
- 1b. Submit corrected improper payments information to OMB, including a corrected Rental of Space improper payment estimate and updated reduction targets for future years.
- 1c. Improve Rental of Space improper payments testing processes to ensure OCFO reaches correct improper payments determinations.
- 1d. Ensure annual improper payment estimates are reliable by comparing them to actual improper payment amounts.
- 1e. Re-evaluate the Rental of Space reduction target to find a realistic reduction rate, with OMB's approval.

GSA Comments

The Chief Financial Officer agreed with our audit finding and recommendation. GSA's comments are included in their entirety in **Appendix D**.

Finding 2 – OCFO published its FY 2016 Agency Financial Report with numerous errors related to improper payments.

By including mandatory narratives and tables, GSA's FY 2016 AFR complied with OMB's reporting requirements for improper payments. However, the AFR contains inaccurate improper payments information which affects virtually all of the improper payments tables presented. As with prior years, OCFO did not have effective controls to prevent or detect misstatements in improper payments reporting. The volume and extent of misstatements renders the improper payments section of the AFR unreliable. Also, the improper payments narratives do not provide specific or useful information.

Summary findings by Table are presented below and details are provided in **Appendix C**.

Table 1 – Improper Payment Reduction Outlook. This table reports estimated improper payments and future reduction targets for programs susceptible to significant improper payments. The figures presented for future outlays and reduction targets are unreliable for both the Rental of Space and Purchase Card Programs. For example, GSA reported the "CY+1" estimate for the Rental of Space Program as \$5,611.16 million, but a more accurate estimate is \$5,579 million, a difference of \$32.16 million. See page **C-1** for more details.

Table 2 – Improper Payment Root Cause Category Matrix. This table reports the estimated improper payments by program from Table 1 and identifies the root causes of the improper payments. The inaccurate Rental of Space improper payment estimate of \$3.24 million from Table 1 is carried over into Table 2.

Table 4 – Overpayment Recaptures with and without Recapture Audit Programs. This table presents the results of GSA's current year recapture efforts. OCFO significantly understated GSA's overpayments outside of payment recapture audits and did not have controls to ensure that all overpayments were reported in Table 4. In the table, GSA reported \$43.92 million, although \$61.56 million was identified by GSA's finance centers. See page **C-2** for more details.

Table 5 – Disposition of Funds Recaptured Through Payment Recapture Audits. This table reports the amount recovered through payment recapture audits and shows how the recaptured funds were re-allocated. In GSA's case, the funds were used to pay the payment recapture contractor with remaining funds credited back to their original purpose. OCFO understated the payment recapture auditor fees by reporting the fees as \$2.29 million rather than the actual \$2.56 million, thereby overstating the amount returned to the original purpose. See page **C-3** for more details.

Table 6 – Aging of Outstanding Overpayments Identified in the Payment Recapture Audits. This table shows how long overpayments identified by the payment recapture contractor have been outstanding and lists the amount determined to not be collectible. OCFO did not report all outstanding claims identified through payment recapture. OCFO also incorrectly applied aging cutoff days, causing errors with all amounts reflected in Table 6. For example, GSA reported the amount outstanding for 0 to 6 months as \$2.84 million; however, we identified \$8.16 million for this timeframe. See page **C-3** for more details.

Table 7 – Results of the Do Not Pay Initiative in Preventing Improper Payments. Table 7 reports the results of GSA's use of the Do Not Pay Portal. These results were not accurately reported by OCFO. Specifically, the table shows there were no potential improper payments reviewed when actually 55 payments were reviewed, totaling \$1,556,366. Also, OCFO did not report in its narrative that one improper payment was identified.

Given the volume and extent of misstatements, it is apparent that OCFO needs training on how to properly complete the AFR tables.

Finally, in addition to the errors in the AFR tables, we observed that OCFO's narratives provide generic information which is not useful to the reader. We reviewed AFRs of other agencies to benchmark improper payments reporting. We noted that other agencies provided more detailed responses, including information specific to the nature of payments made in their unique agency operations. Agencies frequently added non-mandatory narratives and changed title headings to convey information useful to readers.

Recommendation 2

We recommend the Chief Financial Officer:

- 2a. Provide detailed training on how to complete the AFR tables.
- 2b. Implement controls, including additional review and independent verification, to prevent and detect future misstatements in improper payment reporting.
- 2c. Customize reporting to convey meaningful information tailored to GSA operations.

GSA Comments

The Chief Financial Officer agreed with our audit finding and recommendation. GSA's comments are included in their entirety in **Appendix D**.

Finding 3 – OCFO's continuous monitoring did not correct internal control deficiencies contributing to improper payments.

In FY 2016, OCFO did not correct internal control deficiencies contributing to Rental of Space improper payments, primarily because OCFO was unable to identify any internal control deficiencies through its continuous monitoring process.

OCFO's continuous monitoring processes were ineffective in identifying controls that failed to prevent or detect improper payments. According to OMB guidance, "continuous monitoring and testing should help to identify poorly designed or ineffective controls and should be reported upon periodically. Management is then responsible for redesigning or improving upon those controls."

OCFO performs quarterly continuous monitoring of Rental of Space vendor payments. In doing so, OCFO selects a sample of 30 payments per quarter for testing to determine if they are proper or improper. For each payment, OCFO manually pulls and reads through supporting lease payment documentation. In determining whether a payment was improper, OCFO often obtains assistance from finance center employees to obtain an understanding of the payments.

In our prior year's audit, we reported that OCFO's continuous monitoring of vendor payments could benefit from an improved sampling methodology and stronger controls. Accordingly, OCFO changed its sampling methodology to emphasize high value transactions and defined the roles of staff making improper payment determinations. Despite these changes, OCFO's continuous monitoring process is still flawed. For example, instead of testing FY 2016 payments, OCFO re-tested FY 2015 payments.

Further, OCFO's analysis of payments under its continuous monitoring process is also flawed. During its FY 2016 continuous monitoring, OCFO's review of FY 2015 vendor payments only identified two underpayments and no overpayments. Also, its continuous monitoring sample included the two lessor payments discussed in *Finding 1* that were reclassified incorrectly. These payments were also incorrectly considered

proper when analyzed for continuous monitoring. Given this, we do not believe OCFO's manual continuous monitoring process properly identifies improper payments.

We suggest OCFO improve its continuous monitoring processes by leveraging the improper payments information already available. OCFO should select a sample of improper payments identified by the finance centers to identify ineffective controls. In doing so, OCFO would also be complying with our prior year's recommendation to determine root causes of improper payments identified outside of recapture audit.

We recommended that OCFO identify the root causes of improper payments identified by GSA and implement controls to address them. OCFO responded stating it "will work towards identifying the root causes of improper payments." OCFO stated it would provide "documentation of the methodology and results of the review process, and the new approach to identifying root causes of improper payments." However, OCFO did not provide documentation and did not determine root causes for overpayments identified outside of recapture audits. In FY 2016, this figure totaled \$61.56 million. Instead of looking at this figure, OCFO attempted to identify causes for the nine improper payments identified in Table 1 testing, several of which were underpayments.⁸ For the nine payments, OCFO marked that the majority were due to timing issues, with a couple attributable to missing documentation or other root causes. We did not receive any documentation showing OCFO used this information to identify process improvements or internal control weaknesses.

OCFO should use its continuous monitoring processes to identify the internal control deficiencies allowing improper payments as well as their root causes. Once identified, OCFO should work to improve the controls to prevent future improper payments.

Recommendation 3

We recommend the Chief Financial Officer:

- 3a. Use improper payment information from the finance centers, payment recapture contractor, and financial management system to test or identify transactions for continuous monitoring.
- 3b. Implement controls to verify continuous monitoring processes and results.
- 3c. Use results of continuous monitoring to identify and improve ineffective controls.

GSA Comments

The Chief Financial Officer agreed with our audit finding and recommendation. GSA's comments are included in their entirety in **Appendix D**.

⁸ It is less important for OCFO to identify underpayments because the payee will generally notice an underpayment and notify GSA to seek the amount due. Thus, there are controls to identify and mitigate underpayments. On the other hand, for overpayments, GSA funds may be lost and unrecoverable.

Finding 4 – OCFO did not sufficiently implement corrective action regarding its improper payment risk assessment.

OCFO did not sufficiently complete its corrective action related to its improper payments risk assessment. OCFO last performed its improper payments risk assessment in FY 2015, which we examined as part of last year’s audit. Our examination concluded that OCFO’s risk assessment results were unreliable and recommended corrective action.⁹

OMB requires agencies to conduct risk assessments for all programs using a qualitative or quantitative approach every 3 years. OMB further requires agencies to consider specific risk factors that likely contribute to improper payments such as the age and complexity of the programs, volume of payments, training of staff, and prior audit findings.

OCFO’s FY 2015 risk assessment used a mostly qualitative approach, employing risk assessment questionnaires to determine program risk. We found several issues with this approach and recommended that OCFO adopt a quantitative approach or improved qualitative approach for future risk assessments.

To address our recommendation, OCFO stated it would “review the improper payment risk analysis process used in FY 2015 to identify opportunities for improvement and inclusion of quantitative methods.” OCFO indicated that it would provide “documentation of the methodology and results of the review process with recommendations for inclusion in the FY 2018 improper payment risk assessment process” as evidence of the corrective action. OCFO provided a document stating:

For the next risk assessment GSA will include the following steps in the preparation and analysis:

1. Qualitative analysis may require contract support for the Internal Controls Division. GSA will include analysis of resource needs in the planning for the next risk assessment.
2. Include analysis of recent external and internal reports related to execution of improper payment reporting, improper payment reporting results reported in the Agency Financial Report for fiscal years 2016 and 2017.
3. Review current reporting requirements and issues related to reducing improper payments across the federal government.
4. Revise the approach to using questionnaires, if utilized in the next risk assessment for improper payments. GSA will investigate the opportunities to develop an automated questionnaire with standardized responses, and a detailed explanation (directions) for the purpose of the questionnaire and how to complete the questionnaire.
5. Document the review of the risk assessment methodology with the Director, Office of Financial Management. Complete recommended changes to the approach, and receive final approval for the revised methodology.
6. Prepare a summary of the risk assessment process.

⁹ For additional information, see our audit report *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

We do not find these steps to be sufficient. The above list does not address the specific concerns raised in our prior audit report, nor does it provide information regarding process improvements. Although we understand that OCFO will not be required to evaluate all programs until FY 2018, its risk assessment methodology should be developed and documented prior to its use. Therefore, we once more recommend that OCFO conduct a comprehensive review and create a detailed methodology. The methodology should address the issues from our prior audit report and have a detailed plan for obtaining reliable, objective results.

Furthermore, in this year's audit, we identified an additional flaw in OCFO's FY 2015 risk assessment process. Although the Improper Payments Acts require an analysis of risk at the program level, OCFO instead analyzed risk at the subprogram level. For a program to be considered high risk, OMB established a threshold of improper payments more than (a) \$10 million and (b) 1.5 percent of program outlays. In FY 2015, OCFO evaluated risk for 32 subprograms, eliminating from its evaluation 60 subprograms that would not meet the threshold. However, the threshold was not intended to be applied to subprograms. To meet OMB requirements, OCFO should evaluate improper payment risk at the program level.

In both the FY 2015 and FY 2012 risk assessments, OCFO stated GSA had 12 overarching programs. However, in FY 2013, GSA was required to submit a Federal Program Inventory to provide general program information to the public.¹⁰ GSA's FY 2013 Federal Program Inventory listed 22 programs. Furthermore, starting May 8, 2017, GSA must provide program level information for the Digital Accountability and Transparency Act of 2014 (DATA Act).¹¹ In response to this requirement, GSA stated that it now has 34 unique programs.

It is evident that GSA's organizational structure changes over time, due to the agency acquiring new programs or reorganizing existing ones. For example, in FY 2016, GSA launched a new service called the Technology Transformation Service. We asked OCFO several times for a list of programs under this new service. OCFO was unable to provide a complete list or advise which programs were new versus existing ones.

OCFO is responsible for ensuring all GSA programs are evaluated for risk of improper payments. OCFO cannot comply with this requirement if it is not aware of all programs and changes in them.

¹⁰ The GPRA Modernization Act of 2010 required federal agencies to submit a Federal Program Inventory so centralized program information could be made available to the public. In 2013, OMB created a system for this information to be aggregated and published. At that time, GSA designed its program inventory considering funding source, program activity lines in the President's Budget, and the GSA organizational structure. The requirement for a Federal Program Inventory was later replaced with the requirements of the Digital Accountability and Transparency Act of 2014.

¹¹ The DATA Act was created to standardize reporting of federal funds to the public in an effort to achieve more transparency in government. The DATA Act requires reporting at a program level and provides detailed instructions for defining a program in a manner consistent with the agency's Presidential budget.

OCFO should work closely with its annual DATA Act reporting division so that it is aware of all GSA programs to evaluate for improper payments as required by OMB guidance. Also, when OCFO performs its risk assessment every 3 years, it should ensure the inclusion and evaluation of all programs, taking into consideration those reported by GSA for the DATA Act. This should be reflected in OCFO's updated methodology for future risk assessments.

Recommendation 4

We recommend the Chief Financial Officer:

4. Develop a detailed methodology for conducting improper payment risk assessments that includes an evaluation of all GSA programs, taking into consideration those reported by GSA for the DATA Act.

GSA Comments

The Chief Financial Officer agreed with our audit finding and recommendation. GSA's comments are included in their entirety in ***Appendix D***.

Conclusion

In FY 2016, GSA complied with five of the six requirements of the Improper Payments Acts. However, GSA did not meet its improper payment reduction target for the Rental of Space Program, causing it to be in noncompliance with the Acts.

Further, we found that OCFO's reporting and evaluation of improper payments were not fully accurate or complete. Specifically:

- OCFO did not have adequate internal controls over reporting improper payments. As a result, GSA's FY 2016 AFR was published with numerous errors related to improper payments.
- OCFO was not successful in identifying ineffective controls through its continuous monitoring of vendor payments. As a result, OCFO did not correct internal control deficiencies contributing to Rental of Space improper payments.
- OCFO did not sufficiently implement corrective action related to its FY 2015 improper payments risk assessment.

Recommendations

We recommend the Chief Financial Officer:

- 1a. Submit a plan for addressing noncompliance within 90 days, as required by OMB guidance.
- 1b. Submit corrected improper payments information to OMB, including a corrected Rental of Space improper payment estimate and updated reduction targets for future years.
- 1c. Improve Rental of Space improper payments testing processes to ensure OCFO reaches correct improper payments determinations.
- 1d. Ensure annual improper payment estimates are reliable by comparing them to actual improper payment amounts.
- 1e. Re-evaluate the Rental of Space reduction target to find a realistic reduction rate, with OMB's approval.
- 2a. Provide detailed training on how to complete the AFR tables.
- 2b. Implement controls, including additional review and independent verification, to prevent and detect future misstatements in improper payment reporting.
- 2c. Customize reporting to convey meaningful information tailored to GSA operations.
- 3a. Use improper payment information from the finance centers, payment recapture contractor, and financial management system to test or identify transactions for continuous monitoring.
- 3b. Implement controls to verify continuous monitoring processes and results.
- 3c. Use results of continuous monitoring to identify and improve ineffective controls.

- 4 Develop a detailed methodology for conducting improper payment risk assessments that includes an evaluation of all GSA programs, taking into consideration those reported by GSA for the DATA Act.

GSA Comments

The Chief Financial Officer agreed with our audit findings and recommendations. GSA's comments are included in their entirety in **Appendix D**.

Audit Team

This audit was managed out of the Great Lakes Region Audit Office and conducted by the following individuals:

Adam Gooch	Regional Inspector General for Auditing
Franklin Moy	Audit Manager
Eugenia Ostrozhansky	Auditor-In-Charge
Mikhail Kostikov	Auditor
Kellianne Mayer	Auditor

Appendix A – Scope and Methodology

We examined OCFO's processes related to its evaluation, reduction, reporting, and recapture of improper payments in FY 2016.

To accomplish our objectives, we:

- Examined relevant criteria, including public laws, executive orders, OMB memoranda, and GSA directives;
- Evaluated OCFO's actions to address recommendations in last year's audit report;
- Evaluated OCFO's processes to identify and reduce improper payments;
- Selected and tested a judgmental sample of 15 Rental of Space payments, a judgmental sample of 8 and random sample of 8 Purchase Card payments, and a judgmental sample of 3 Hurricane Sandy Disaster Relief Fund payments to determine if OCFO reached correct determinations;
- Accessed GSA systems to pull lease agreements and other supporting documents to verify lease payments;
- Corresponded with lease contracting officers, budget analysts, and finance center employees to verify lease payments;
- Examined supporting documentation for OCFO's reporting of improper payments in GSA's FY 2016 AFR and recomputed figures for AFR tables;
- Held discussions with OCFO officials regarding improper payment identification, reporting, and recapture;
- Held discussions with GSA's payment recapture contractor regarding its processes to identify improper payments and causes of payments identified;
- Held discussions with the firm that provided Rental of Space statistical sampling and extrapolation to understand its methodology and requested updated extrapolations based on testing results; and
- Discussed improper payment reporting requirements with OMB officials.

We conducted the audit between November 2016 and March 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objectives of the audit. Identified internal control issues are discussed in the Results section of this report.

Appendix B – GSA’s FY 2016 Agency Financial Report Improper Payments Tables

This appendix provides GSA's prior year (PY) and current year (CY) reported improper payments (IP) information published in its FY 2016 AFR. Dollar amounts in all tables are presented in millions.

Table 1 Improper Payment Reduction Outlook (\$ in millions)

Program or Activity	PY Outlays	PY IP%	PY IP \$	CY Outlays	CY IP%	CY IP\$	CY Over Payment \$	CY Under Payment \$	CY+1 Est. Outlays	CY+1 IP%	CY +1 IP\$	CY+2 Est. Outlays	CY+2 IP%	CY+2 IP\$	CY+3 Est. Outlays	CY+3 IP%	CY+3 IP\$
Rental of Space	\$5,745.95	0.12%	\$6.90	\$5,596.30	0.06%	\$3.24	\$2.57	\$0.67	\$5,611.16	0.025%	\$1.40	\$5,626.06	0.01%	\$0.61	\$5,641.00	0.005%	\$0.26
Purchase Cards	\$30.22	6.55%	\$1.98	\$27.05	5.80%	\$1.57	\$1.57	-	\$26.94	5.33%	\$1.44	\$24.08	4.89%	\$1.18	\$21.51	4.49%	\$0.97
Hurricane Sandy	\$0.57	-	-	\$0.42	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Operations-Utilities	\$369.87	0.01%	\$0.04	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$6,146.61		\$8.92	\$5,623.77	0.09%	\$4.81	\$4.14	\$0.67	\$5,638.10	0.05%	\$2.84	\$5,650.14	0.03%	\$1.79	\$5,662.51	0.02%	\$1.23

* GSA tested FY 2015 for improper payments.
 ** GSA received relief from reporting of utilities in FY 2016.
 *** Estimates are based on historic trends

**** FY 2015 AFR table contained erroneous numbers. This year's PY numbers reflect corrections.

Table 2 Improper Payment Root Cause Category Matrix (\$ in millions)

Reason for Improper Payment	Rental of Space		Purchase Cards	
	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue	-	-	-	-
Inability to Authenticate Eligibility	-	-	-	-
Failure to Verify:	Death Data	-	-	-
	Financial Data	-	-	-
	Excluded Party Data	-	-	-
	Prisoner Data	-	-	-
	Other Eligibility Data (explain)	-	-	-
Administrative or Process Error Made by:	Federal Agency	-	-	-
	State or Local Agency	-	-	-
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	-	-	-
Medical Necessity	-	-	-	-
Insufficient Documentation to Determine	-	 	\$0.78	
Other Reason*	\$2.57	\$0.67	\$0.79	-
TOTAL	\$2.57	\$0.67	\$1.57	-

* Refer to 'Improper Payments Elimination and Recovery Act, Section 5: Improper Payment Root Cause Categories' for Other Reasons.

Appendix B – GSA’s FY 2016 Agency Financial Report Improper Payments Tables (cont.)

Table 3 Example of the Status of Internal Controls

GSA has no programs or activities with improper payments exceeding the statutory thresholds and determined to be susceptible to significant improper payment. Table 3 is not applicable.

Table 4 Overpayment Recaptures with and without Recapture Audit Programs (\$ in millions)

Program or Activity	Overpayments Recaptured through Payment Recapture Audit																Overpayments Re-captured outside of Payment Recapture Audits							
	Contracts				Grants				Benefits				Loans				Other				Total		Amount Identified	Amount Recovered
	Amount Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amount Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amounts Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amounts Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amount Identified	Amount Recovered		
Rental of Space	\$13.29	\$14.13	106.32%	100%	100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$13.29	\$1413	\$43.92	\$32.33
TOTAL	\$13.29	\$14.13	106.32%	100%	100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$13.29	\$1413	\$43.92	\$32.33

GSA included all recoveries in FY 2016 including those identified in prior fiscal years. This resulted in a recovery percentage of over 100%.

Appendix B – GSA’s FY 2016 Agency Financial Report Improper Payments Tables (cont.)

Table 5 Disposition of Funds Recaptured Through Payment Recapture Audits (\$ in millions)

	Amount Recov-ered (This amount will be identi-cal to the "Amount Recovered" in Table 4)	Type of Payment (contract, grant, ben-efit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Manage-ment Im-provement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other (please explain in footnote or narrative)
Rental of Space	\$14.13	Contract	-	\$2.29	-	\$11.84	-	-	-
TOTAL	\$14.13		-	\$2.29	-	\$11.84	-	-	-

Table 6 Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (\$ in millions)

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Amount Outstanding (0-6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectible
Rental of Space	Contract	\$2.84	\$4.60	\$4.45	-
TOTAL		\$2.84	\$4.60	\$4.45	-

Table 7 Results of the Do Not Pay Initiative in Preventing Improper Payments (\$ in millions)

	Number (#) of payments reviewed for possible improper pay-ments	Dollars (\$) of payments reviewed for possible improper pay-ments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars (\$) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	3,025,482	\$19,611.02	-	-	-	-
Review with databases not listed in IPE-RIA as Do Not Pay databases	3,025,482	\$19,611.02	-	-	-	-

Appendix C – Detail of Reporting Inaccuracies

In addition to the summary level information contained in **Finding 3**, we have provided additional detail regarding AFR inaccuracies in this appendix.

Table 1 – Improper Payment Reduction Outlook

As discussed in **Finding 1**, OCFO reported an inaccurate current year improper payment estimate for the Rental of Space Program. This resulted in all information based on this figure to also be incorrect. Therefore, the current year improper payments percentage and all future reduction targets were also inaccurate.

OCFO reported future outlays for the Rental of Space Program based on historical trends when it acknowledged it had more accurate projections available. In GSA’s justification for its Rental of Space budget, GSA stated that “GSA recognizes that historical trends alone are not good indicators of projected lease costs.” For that reason, GSA’s FY 2017 Rental of Space budget request used the improved rent estimation process instituted in FY 2016. This included a detailed programmatic requirements review focused on isolating fixed costs, expiring leases, and new inventory to ensure regional program requirements are in line with national strategies to reduce space. The Rental of Space figures in GSA’s congressional budget are consistent with the President’s Budget. OMB guidance states that “Future year outlay estimates should be derived from the most recent available source... future year outlay estimates should match the outlay estimates for those years as reported in the most recent President’s Budget when the CY activity timeframe matches the FY covered by the PAR/AFR.” OMB guidance further states if the estimates do not match the President’s most recent budget then agencies should clearly indicate (such as a note) its source and methodology for determining future year outlay estimates. The reported future outlays are not consistent with OMB guidance, nor do they present the most accurate information available.

Figure 2 shows reported and per audit figures for the Rental of Space Program (all dollar figures presented in millions).

Figure 2 – Table 1, Rental of Space Program¹²

	CY Outlays	CY IP%	CY IP\$	CY Over-pmt	CY Under-pmt	CY+1 Est Outlays	CY+1 IP%	CY+1 IP\$	CY+2 Est Outlays	CY+2 IP%	CY+2 IP\$	CY+3 Est Outlays	CY+3 IP%	CY+3 IP\$
Reported	\$5,596.30	0.06%	\$3.24	\$2.57	\$0.67	\$5,611.16	0.025%	\$1.40	\$5,626.06	0.01%	\$0.61	\$5,641.00	0.005%	\$0.26
Per Audit	\$5,596.30	0.66%	\$37.20	\$36.20	\$1.00	\$5,579.00	0.287%	\$16.00	\$5,656.00	0.12%	\$7.00	\$5,711.00	0.053%	\$3.05
Difference	\$0.00	0.60%	\$33.96	\$33.63	\$0.33	\$32.16	0.262%	\$14.60	\$29.94	0.11%	\$6.39	\$70.00	0.048%	\$2.79

OCFO also reported inaccurate future outlays and improper payment estimates for the Purchase Card Program. OCFO emailed OMB asking if it could exclude FY 2013 outlays in calculating future reduction targets. Although OCFO did not receive a response from OMB,

¹² We provided our Rental of Space testing results to the firm that performed GSA’s statistical sampling and extrapolations for the Rental of Space Program. The firm provided updated extrapolations rounded to one decimal point, which are presented as current year improper payment figures in Figure 2.

Appendix C – Detail of Reporting Inaccuracies (cont.)

it proceeded to exclude FY 2013 outlays in its calculation. However, OCFO did not correctly exclude FY 2013 data.

OCFO's emails refer to FY 2013 outlays as an outlier. We do not find FY 2013 data to be an outlier as it is a valid data set. Therefore, OCFO should not have excluded it from its calculations. OCFO stated that "an outlier was considered any historical data of a program that would drastically affect the program's projection, making it unrealistic/unobtainable." In this case, correctly excluding FY 2013 data would actually make OCFO's reduction targets more challenging and less attainable.

In addition, OCFO's formula for the calculation of "CY+1" outlays was incorrect. This error also affected all future outlays. *Figure 3* shows reported and per audit figures for the Purchase Card Program (all dollar figures presented in millions).

Figure 3 – Table 1, Purchase Card Program

	CY+1 Est Outlays	CY+1 IP%	CY+1 IP\$	CY+2 Est Outlays	CY+2 IP%	CY+2 IP\$	CY+3 Est Outlays	CY+3 IP%	CY+3 IP\$
Reported	\$26.94	5.33%	\$1.44	\$24.08	4.89%	\$1.18	\$21.51	4.49%	\$0.97
Per Audit	\$21.68	5.33%	\$1.16	\$17.37	4.89%	\$0.85	\$13.92	4.49%	\$0.63
Difference	\$5.26	0.00%	\$0.28	\$6.71	0.00%	\$0.33	\$7.59	0.00%	\$0.34

The above figure corrects OCFO's mathematical errors; however, as discussed for Rental of Space outlays, it would be preferable for OCFO to use outlay figures from the President's Budget, if available.

Furthermore, OCFO's Table 1 contains additional mistakes. One of the column totals is not calculated (left blank), fields that should contain zeros have dashes, and it is unclear which information the footnotes reference.

Table 4 – Overpayment Recaptures with and without Recapture Audit Programs

OCFO significantly understated GSA's overpayments identified outside of payment recapture audits.

According to OMB guidance, overpayments outside of recapture audit should include any overpayments identified by the agency in the fiscal year. OCFO reported FY 2016 overpayments identified outside of payment recapture audits of \$43.92 million. OCFO should have reported at least \$61.56 million, as this was the total overpayments identified by GSA in FY 2016.

Also, GSA did not have controls in place to ensure improper payments identified through improper payments testing (for Table 1) were reported in Table 4. Table 4 should show the results of all overpayments identified in the current year; therefore, payments identified through testing should be included in the "Overpayments Recaptured outside of Payment

Appendix C – Detail of Reporting Inaccuracies (cont.)

Recapture Audits” section (unless those overpayments were already identified in prior periods). OCFO’s FY 2016 Rental of Space testing identified five overpayments totaling \$2.39 million. These overpayments were not reported in Table 4.

Table 5 – Disposition of Funds Recaptured Through Payment Recapture Audits

OCFO understated the payment recapture auditor fees. OCFO reported that \$2.29 million of the \$14.13 million recovered through payment recapture audit went to payment recapture auditor fees; however, this amount does not include all payment recapture auditor fees. OCFO did not recognize all costs in the year it incurred them, which is the accounting method used in its financial statements. We calculated the per audit amount by adding the totals of the payment recapture auditor’s invoices for payment, which are submitted after GSA collects claim amounts. *Figure 4* shows reported and per audit figures for Table 5 (with all figures presented in millions).

Figure 4 – Disposition of Funds

	Amount Recovered	Payment Recapture Fees	Original Purpose
Reported	\$14.13	\$2.29	\$11.84
Per Audit	\$14.13	\$2.56	\$11.57
Difference	\$0.00	\$0.27	\$0.27

Table 6 – Aging of Outstanding Overpayments Identified in the Payment Recapture Audits

OCFO did not report all outstanding claims identified through the payment recapture audit. OCFO also incorrectly applied aging cutoff days causing all amounts reflected in Table 6 to be incorrect. *Figure 5* shows reported and per audit figures for Table 6 (all figures presented in millions).

Figure 5 – Aging of Outstanding Overpayments

	Amount Outstanding (0 to 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)
Reported	\$2.84	\$4.60	\$4.45
Per Audit	\$8.16	\$0.69	\$3.85
Difference	\$5.32	\$3.91	\$0.60

Appendix C – Detail of Reporting Inaccuracies (cont.)

Table 7 – Results of the Do Not Pay Initiative in Preventing Improper Payments.

OCFO did not accurately represent the results of the Do Not Pay Initiative. The Do Not Pay Initiative requires agencies to verify payment eligibility information before the release of any federal funds. The U.S. Department of the Treasury set up the Do Not Pay Portal as an online tool for agencies to do this. OMB guidance requires agencies to report their results related to the Do Not Pay Initiative in Table 7.

OCFO reported incorrect information regarding the results of the Do Not Pay Initiative. The table shows there were no potential improper payments reviewed from the use of the Do Not Pay Portal when actually 55 potentially improper payments were reviewed, totaling \$1,556,366. Though these payments were determined to be accurate, they should be reflected in Table 7.

In addition, OCFO's use of the post-payment functions of the Do Not Pay Portal identified one improper payment, totaling \$680. This payment was reviewed and confirmed to be improper. Though this payment was not stopped, as the payment was already made when submitted to the Do Not Pay Portal, its identification as improper represents useful results and should be reflected in the narrative.

OCFO was provided a table generated from the Do Not Pay website, which summarized the results of GSA's FY 2016 Do Not Pay activities. Although the table from the Do Not Pay Portal was not available until early November, the information for each month is available 1 month after the last day of the month. Therefore, OCFO could have generated a report for the first 11 months of the fiscal year for inclusion in the AFR, as this information was available in early October. In the future, OCFO should ensure reporting of Do Not Pay Initiative information complies with OMB guidelines and accurately reflects results.


Appendix D – GSA Comments



GSA Office of the Chief Financial Officer

APR 25 2017

MEMORANDUM FOR ADAM GOOCH
REGIONAL INSPECTOR GENERAL FOR AUDITING
Great Lakes Regional Audit Office (JA-5)

FROM GERARD BADORREK 
CHIEF FINANCIAL OFFICER (B)

SUBJECT General Services Administration's response to
FY 2016 Improper Payments Performance Report
Number A160141

Thank you for the opportunity to comment on the OIG improper payments audit report. We agree that GSA did not achieve the targeted levels of improvement. This report was very helpful in identifying process improvements that GSA can make and we appreciate your diligence in highlighting these.

As you acknowledged in your report, GSA complied with five of the required six components of the Improper Payment Act and has taken constructive measures to improve our processes. GSA had set very aggressive improvement targets for this category, with reductions in the target from 1.02 % in 2014, to .60% in 2015 and then .119% in 2016. The planned 80% reduction in the target from FY 15 to FY 16 was not accomplished, and as a result GSA is not compliant. GSA will strive to set targets that are reasonable in future years within the program guidance.

The recommendations for improvements in processes and controls that were identified by the OIG will be implemented as feasible. Corrective action is underway to:

- Conduct an evaluation of our improper payments reporting in the Agency Financial Report (AFR) to ensure the quality and value of the information provided.
- Implement controls, including additional review and verification to prevent and detect future misstatements in improper payment reporting.
- Evaluate skillsets, expertise and resources assigned to testing rental of space payments and make appropriate adjustments to ensure reliable testing
- Utilize improper payment reports to identify opportunities to address root causes and reduce improper payments
- Ensure future years' target goals are reasonable and achievable.

The attachment includes responses for each recommendation.

Should you have any questions regarding this matter, please contact Paula Bohnwagner at paula.bohnwagner@gsa.gov.

Attachment

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405
www.gsa.gov

Appendix D – GSA Comments (cont.)

GSA did not comply with the Improper Payments Act in FY 2016
Report Number A160041 dated April 10, 2017

Finding 1 GSA did not comply with the Improper Payment Acts because it did not meet its FY 2016 reduction target for the Rental of Space Program.

Recommendation:

- Submit a plan for addressing noncompliance within 90 days, as required by OMB guidance.
- Submit corrected improper payments information to OMB, including a corrected Rental of Space improper payment estimate and updated reduction targets for future years.
- Improve Rental of Space improper payments testing processes to ensure OCFO reaches correct improper payments determinations.
- Ensure annual improper payment estimates are reliable by comparing them to actual improper payment amounts.
- Re-evaluate the Rental of Space reduction target to find a realistic reduction rate, with OMB's approval.

GSA Comments:

Concur.

As noted in the report, GSA met five of the six components of the Improper Payments Act. GSA had set very aggressive improvement targets for this category, with reductions in the target from 1.02 % in 2014, to .60% in 2015 and then .119% in 2016. The planned 80% reduction in the target from FY 15 to FY 16 was not accomplished. GSA will strive to set targets that are reasonable in future years within the program guidance.

The actual FY 2016 improper payment rate was .66% as compared to .12% in FY 2015. In addition to actual underpayments and overpayments to vendors included in the .66%, some of the improper payments included lease payments to vendors who were not registered in the System for Award Management (SAM). Although the payments to vendors not registered in SAM were in agreement with the leases, and agreed with the amount owed for the month, they were considered improper because they were being paid to vendors not registered in SAM. Due to the IG finding, GSA has reviewed all leases that are not registered in SAM for FY 2017 and is reaching out to our rental of space customers to get an appropriate Dun & Bradstreet Data Universal Numbering System (DUNS) for future payments. GSA is working with our Shared Service Provider to ensure that a DUNS number is available prior to the disbursement of future lease payments.

Finding 2 OCFO published its FY 2016 Agency Financial Report with numerous errors related to improper payments.

Recommendation:

- Provide detailed training on how to complete the AFR tables.
- Implement controls, including additional review and independent verification, to

Appendix D – GSA Comments (cont.)

- prevent and detect future misstatements in improper payment reporting.
- Customize reporting to convey meaningful information tailored to GSA operations.

GSA Comments:

Concur.

Finding 3 OCFO's continuous monitoring did not correct internal control deficiencies contributing to improper payments.

Recommendation:

- Use improper payment information from the finance centers, payment recapture contractor, and financial management system to test or identify transactions for continuous monitoring.
- Implement controls to verify continuous monitoring processes and results.
- Use results of continuous monitoring to identify and improve ineffective controls.

GSA Comments:

Concur.

GSA's National Office of Leasing (NOL) performed a business case study beginning in 2015 for the establishment of a Lease Contract Administration Center within the NOL in response to various audit findings in preceding years. The Center was stood up in the fall of 2016. Its purpose is to provide written policy, guidance, training, monitoring and oversight for proper and consistent procedures for administration of lease contracts, including rental of space payments. The Leasing Financial Scorecard program, began in late 2015, is a joint effort between NOL, the OCFO Budget group and their regional counterparts. The Scorecard program is now an integral part of the Center. The program's purposes include ensuring accurate and timely initiation of rent payments and rent payment adjustments. The program has already achieved significant improvement in these areas, including an improvement in accuracy and timeliness of annual CPI adjustments to rent payments from approximately 50% to 99%+ in less than one year. The Center has succeeded in reorganizing and streamlining contract administration in several regions already. The Center continues progress toward nationwide consistency, accuracy and timeliness in all aspects of lease contract administration, particularly rental of space payments.

Finding 4 – OCFO did not sufficiently implement corrective action regarding its improper payment risk assessment.

Recommendation: Develop a detailed methodology for conducting improper payment risk assessments that includes an evaluation of all GSA programs, taking into consideration those reported by GSA for the DATA Act.

GSA Comments:

Concur

Appendix D – GSA Comments (cont.)

In FY 2016, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, business and financial management systems. This effort increased focus on risk management and risk analysis of all its programs. GSA completed an initial fraud risk assessment, and established an enterprise risk management working group.

OCFO is required in FY 2017 to complete a risk assessment for Employee Payments-Including Travel. OCFO will be using a combination of qualitative and quantitative analysis to complete this risk assessment. At the conclusion of this process, OCFO will ascertain the effectiveness of this approach and determine if the same approach will be used for the FY 2018 risk assessment.

As OCFO develops the strategy for the FY 2018 risk assessment, it will review the requirements of OMB's M-15-02 (A-123, Appendix C) guidance which allows agencies to look at "programs and activities" and the improper payments statutes also refer to "programs and activities." Specifically, M-15-02 states: "The term 'program' includes 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." OMB guidance further notes that the definition of "program activity" in the Federal Funding Accountability and Transparency Act, as amended by the DATA Act, does not necessarily align with the meaning of "programs" as described in M-15-02.

GSA will develop a detailed methodology for conducting improper payment risk assessments that includes an evaluation of all GSA programs, consistent with the OMB requirements, in the fiscal year for that reporting requirement.

Appendix E – Report Distribution

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