



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

# GSA Did Not Comply with the Improper Payments Acts in Fiscal Year 2017

Report Number A170104/B/3/F18004  
May 11, 2018

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## ***Executive Summary***

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### **GSA Did Not Comply with the Improper Payments Acts in Fiscal Year 2017**

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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 2017, GSA complied with five of the six requirements of the Improper Payments Acts. However, for the second consecutive year, GSA did not meet its improper payment reduction target for the Rental of Space Program. As a result, GSA did not comply with the Improper Payments Acts. Additionally, GSA did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its Fiscal Year 2017 Agency Financial Report tables.

### **What We Recommend**

We recommend that GSA's Chief Financial Officer:

1. Submit a plan addressing its noncompliance within 90 days, as required by Office of Management and Budget guidance.
2. Improve controls over the payment process for the Rental of Space Program to ensure that only vendors properly registered in the System for Award Management are paid.
3. Strengthen controls to increase the accuracy of improper payment testing under the Purchase Card Program.
4. Work with the Office of Administrative Services to strengthen controls to ensure that all transactional Purchase Card Program supporting documentation is uploaded in Pegasys in accordance with GSA policy.

In its response, the OCFO agreed with our audit findings and recommendations (see **Appendix D**).

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## ***Table of Contents***

---

|                           |          |
|---------------------------|----------|
| <b>Introduction .....</b> | <b>1</b> |
|---------------------------|----------|

### **Results**

|                                                                                                                                                                 |          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| <i>Finding 1 – GSA did not comply with the Improper Payments Acts because it did not meet its FY 2017 reduction target for the Rental of Space Program.....</i> | <i>6</i> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

|                                                                                                                                                                                 |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| <i>Finding 2 – GSA did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its FY 2017 AFR tables.....</i> | <i>7</i> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

|                        |           |
|------------------------|-----------|
| <b>Conclusion.....</b> | <b>10</b> |
|------------------------|-----------|

|                              |           |
|------------------------------|-----------|
| <i>Recommendations .....</i> | <i>10</i> |
|------------------------------|-----------|

|                          |           |
|--------------------------|-----------|
| <i>GSA Comments.....</i> | <i>10</i> |
|--------------------------|-----------|

### **Appendixes**

|                                                |            |
|------------------------------------------------|------------|
| <b>Appendix A – Scope and Methodology.....</b> | <b>A-1</b> |
|------------------------------------------------|------------|

|                                                                                         |            |
|-----------------------------------------------------------------------------------------|------------|
| <b>Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables.....</b> | <b>B-1</b> |
|-----------------------------------------------------------------------------------------|------------|

|                                                                                   |            |
|-----------------------------------------------------------------------------------|------------|
| <b>Appendix C – Detail of Agency Financial Report Reporting Inaccuracies.....</b> | <b>C-1</b> |
|-----------------------------------------------------------------------------------|------------|

|                                       |            |
|---------------------------------------|------------|
| <b>Appendix D – GSA Comments.....</b> | <b>D-1</b> |
|---------------------------------------|------------|

|                                              |            |
|----------------------------------------------|------------|
| <b>Appendix E – Report Distribution.....</b> | <b>E-1</b> |
|----------------------------------------------|------------|

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## Introduction

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We performed an audit of GSA's compliance with the Improper Payments Acts in Fiscal Year (FY) 2017.

### 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, 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 2017, 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 2016, the federal government reported a total of \$144.4 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*, 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 August 15, 2017, (collectively referred to as OMB guidance) provide the most updated requirements for the implementation of the Improper Payments Acts.<sup>1</sup>

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 three years.

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 government-wide 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 are below the statutory thresholds for a minimum of two consecutive years, the agency may request relief from the annual reporting requirements for that program. This request must be submitted in writing to OMB, and must include an assertion from the agency’s Office of Inspector General that it concurs with the agency’s request for relief. If OMB approves the request, it issues a waiver for

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<sup>1</sup> 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.

reporting requirements, and the agency shall incorporate that program or activity into its risk assessment cycle.

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.<sup>2</sup> 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 may 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” (see **Appendix B, Table 1**), 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 5, Overpayment Payment Recaptures with and without Recapture Audit Programs” (see **Appendix B, Table 5**), shows the results of the agency’s payment recapture efforts. Table 5 is separated into overpayments recaptured through payment recapture audits and outside of payment recapture audits. 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 5 is based on actual results, not estimates.

### **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 2016, the OCFO reported on four programs/subprograms

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<sup>2</sup> 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.

susceptible to significant improper payments: (1) Rental of Space, (2) Purchase Cards, (3) Hurricane Sandy, and (4) Building Operations – Utilities. In FY 2016, GSA requested and received an OMB waiver to exclude Building Operations – Utilities from reporting requirements. For the three programs GSA tested for improper payments in FY 2016, the OCFO estimated \$4.81 million in improper payments. The OCFO reported that GSA complied with the Improper Payments Acts in FY 2016. However, our testing of the Rental of Space Program found that GSA did not comply with the Improper Payments Acts in FY 2016, because it did not meet its reduction target for the Rental of Space Program.<sup>3</sup>

In FY 2017, OCFO reported on three programs/subprograms susceptible to significant improper payments: (1) Rental of Space, (2) Purchase Cards, and (3) Hurricane Sandy Disaster Relief Funds. In FY 2017, GSA requested and received an OMB waiver to exclude Hurricane Sandy Disaster Relief 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 two programs the OCFO tested for improper payments in FY 2017, the OCFO estimated \$109.08 million in improper payments. The OCFO reported that GSA did not comply with the Improper Payments Acts in FY 2017, because it missed its reduction target for the Rental of Space Program.

GSA's FY 2017 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.

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.

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<sup>3</sup> GSA Did Not Comply with the Improper Payments Acts in FY 2016 (Report Number A160141/B/5/F17001, May 4, 2017).

The OCFO has taken constructive measures in response to our audit report on GSA's FY 2016 compliance. These measures included improving its continuous monitoring process by implementing a working group with enhanced oversight and controls, updating its standard operating procedures to include clear measures for evaluating improper payments, and increasing training related to evaluating lease payments and AFR reporting. Furthermore, the OCFO has directly addressed recommendations in the recapture auditor's report to improve its controls over payments related to the Rental of Space Program.

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## Results

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In FY 2017, GSA complied with five of the six requirements of the Improper Payments Acts. However, for the second consecutive year, GSA did not meet its improper payment reduction target for the Rental of Space Program. As a result, GSA is not compliant with the Improper Payments Acts, see *Figure 1*.

**Figure 1 – Summary of GSA’s FY 2017 Compliance with the Improper Payments Acts**

| FY 2017 Overall Evaluation | Publish an AFR | Conduct Risk Assessment | Publish Improper Payment Estimates | Publish Corrective Action Plan | Publish/Meet Reduction Targets | Achieve Improper Payment Rate less than 10% |
|----------------------------|----------------|-------------------------|------------------------------------|--------------------------------|--------------------------------|---------------------------------------------|
| Non-compliant              | Yes            | Yes                     | Yes                                | Yes                            | No                             | Yes                                         |

Further, we found that the OCFO’s reporting and evaluation of improper payments were not fully accurate or complete. Specifically, the OCFO did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its FY 2017 AFR tables.

**Finding 1 – GSA did not comply with the Improper Payments Acts because it did not meet its FY 2017 reduction target for the Rental of Space Program.**

GSA disclosed in its AFR that it did not meet its FY 2017 improper payments reduction target for the Rental of Space Program by 1.935 percent. This was primarily caused by payments made to GSA lessors that were not registered in the System for Award Management (SAM) at the time of payment. SAM registration is a requirement for all vendors choosing to do business with the government for payment purposes. Payments to contractors not registered in SAM, including lessors, constitute an improper payment.<sup>4</sup>

Another factor contributing to GSA’s noncompliance within this program is the aggressive reduction target of 0.025 percent established for FY 2017. This rate was previously approved by OMB and could not be changed for FY 2017. GSA has since worked with OMB and has set a new target of 1.80 percent for FY 2018.

### 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 its FY 2012 risk assessment, GSA

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<sup>4</sup> See the criteria at Federal Acquisition Regulation (FAR) 4.11 – System for Award Management; FAR 52.204-7 System for Award Management; FAR 52.232-33 Payment by Electronic Funds Transfer-System for Award Management; and GSAM 570 – Acquiring Leasehold Interests in Real Property.

identified the Rental of Space Program to be susceptible to significant improper payments. As such, the program is subject to annual testing, reporting, and reduction requirements.<sup>5</sup> In FY 2017, the Rental of Space Program is considered high risk because the improper payments reported are greater than \$100 million. For FY 2017, GSA established a reduction target of \$1.4 million (or 0.025 percent of program outlays).<sup>6</sup>

Based on its testing for FY 2017, GSA reported in Table 1 of the AFR that the Rental of Space Program had \$107.8 million in improper payments (1.96 percent of program outlays), greatly exceeding its reduction target, primarily related to vendors that were not registered in SAM at the time of payment. The results estimated that of the \$107.8 million of improper payments found, \$39.43 million resulted in a monetary loss to the government (see **Appendix B, Table 4**). To reduce the amount of improper payments under the Rental of Space Program, the OCFO should improve controls over the payment process to ensure that only vendors properly registered in SAM are paid.

The OCFO tested a sample of 293 transactions for improper payments. Our testing of a judgmental sample of 70 transactions, representing 76 percent of the total dollar value of the OCFO's sample, confirmed the OCFO's results for Rental of Space improper payments.

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.

## **Finding 2 – GSA did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its FY 2017 AFR tables.**

Based on its testing for FY 2017, GSA reported in Table 1 of the AFR that the Purchase Card Program had \$1.28 million in improper payments (4.47 percent of program outlays), which is lower than its reduction target. However, this reporting was incorrect because the results of the testing of the Purchase Card Program payments were inaccurate.

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<sup>5</sup> 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 the OCFO receives an OMB waiver. For FY 2017, the program is considered high risk due to payments exceeding \$10 million and an improper payment rate greater than 1.5 percent.

<sup>6</sup> GSA's 2016 Agency Financial Report, November 15, 2016.

In FY 2017, the OCFO tested a sample of 596 Purchase Card Program transactions for improper payments. We tested a judgmental sample of 117 of those payments, representing 71 percent of the total dollar value of the OCFO's sample, to determine if the OCFO had reached correct determinations on whether or not payments were proper. As a result of our testing, we found that the OCFO reached incorrect "proper payment" determinations on three payments within our sample. The OCFO incorrectly classified these payments as proper although: (1) one payment was made to a vendor that was not registered in SAM at the time of the payment, (2) one payment incorrectly included state sales tax, and (3) on one payment, GSA overpaid the vendor.

In addition, the OCFO stated that after a reevaluation of the purchase card sample, one payment that was deemed improper due to lack of SAM registration should have been identified as a proper payment. Under the requirements of FAR 4.11 System for Award Management, there is an exemption from registration in SAM for contract actions under \$30,000 and where work is performed outside of the United States. During its reevaluation, the OCFO identified, and we verified, that: (1) the subject payment was under \$30,000, and (2) both the contractor and place of performance were outside of the United States. As a result, this payment should have been considered proper.

Lastly, we had difficulty verifying the OCFO's proper payment determination for 15 of our sampled payments because the supporting documentation was not uploaded to GSA's core accounting system, Pegasys, as required by GSA policy.<sup>7</sup> The OCFO made determinations on these payments during its testing by contacting the purchase cardholders directly for the supporting documentation. However, the OCFO neither uploaded the supporting documentation it received from the cardholders in Pegasys, nor requested that the cardholders upload the information in Pegasys. The OCFO should work with the Office of Administrative Services to ensure that all transactional Purchase Card Program supporting documentation is uploaded in Pegasys in accordance with GSA policy.<sup>8</sup>

Based on our evaluation of the OCFO's testing of the Purchase Card Program payments, we found that its reported estimated improper payments of \$1.28 million should have been \$1.29 million. Although our testing results showed errors in the OCFO's reporting, the \$1.29 million (4.53 percent of program outlays) is still under the reduction target of \$1.44 million (5.33 percent of program outlays) and therefore compliant with the Improper Payments Acts.

However, because the OCFO did not accurately test Purchase Card Program payments, its published FY 2017 AFR Tables included several errors as follows:

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<sup>7</sup> Pegasys is the core accounting system for all GSA transactions and part of the GSA Financial Management System Framework. GSA policy OAS 4200.1B mandates that supporting documentation must be uploaded in Pegasys to support purchases made on the purchase card.

<sup>8</sup> Our office has previously reported that GSA is not uploading required supporting documentation in Pegasys. See for example, *GSA's Purchase Card Program is Vulnerable to Illegal, Improper, or Erroneous Purchases* (Report Number A160022/O/R/F16004, September 30, 2016).

Table 1 – Improper Payment Reduction Outlook

- The OCFO reported an incorrect figure of Purchase Card Program estimated improper payments. Therefore, the current year reduction target is also inaccurate.

Table 2 – Current Year Estimate Statistical Information

- The inaccurate Purchase Card Program improper payment estimate is based on the extrapolation performed by the firm that performed GSA's statistical sampling. The published variance level is inaccurate.

Table 3 – Improper Payment Root Cause Category Matrix

- The inaccurate Purchase Card Program improper payment estimate from Table 1 is carried over into Table 3.

Table 4 – Improper Payment Classification

- The inaccurate estimated figures for monetary loss to the government for Purchase Card Program extrapolated from Table 1 are carried over into Table 4.

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## Conclusion

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In FY 2017, GSA complied with five of the six requirements of the Improper Payments Acts. However, for the second consecutive year GSA did not meet its improper payment reduction target for the Rental of Space Program. As result, GSA is not compliant with the Improper Payments Acts and must submit a plan addressing its noncompliance to OMB. In addition, the OCFO should take steps to ensure that payments are only made to vendors registered in SAM.

Further, the OCFO did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its FY 2017 AFR tables. The OCFO should improve its accuracy in testing payments in the Purchase Card Program and work with the Office of Administrative Services to ensure transactional supporting documentation is uploaded in Pegasys in accordance with GSA policy.

## Recommendations

We recommend that GSA's Chief Financial Officer:

1. Submit a plan addressing its noncompliance within 90 days, as required by Office of Management and Budget guidance.
2. Improve controls over the payment process for the Rental of Space Program to ensure that only vendors properly registered in SAM are paid.
3. Strengthen controls to increase the accuracy of improper payment testing under the Purchase Card Program.
4. Work with the Office of Administrative Services to strengthen controls to ensure that all transactional Purchase Card Program supporting documentation is uploaded in Pegasys in accordance with GSA policy.

## 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 Mid-Atlantic Region Audit Office and conducted by the individuals listed below:

|                     |                                         |
|---------------------|-----------------------------------------|
| Thomas P. Tripple   | Regional Inspector General for Auditing |
| Michael M. Sinclair | Audit Manager                           |
| Kellianne Mayer     | Auditor-In-Charge                       |
| Mikhail V. Kostikov | Auditor                                 |

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## ***Appendix A – Scope and Methodology***

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We examined the OCFO's processes related to its evaluation, reduction, reporting, and recapture of improper payments in FY 2017.

To accomplish our objectives, we:

- Examined relevant criteria, including public laws, executive orders, OMB memoranda, and GSA directives;
- Evaluated the OCFO's actions to address recommendations in last year's audit report;
- Evaluated the OCFO's processes to identify and reduce improper payments;
- Selected and tested a judgmental sample of 70 Rental of Space payments, representing 76 percent of the total dollar value of the GSA sample, to determine if the OCFO reached correct determinations;
- Selected and tested a judgmental sample of eight and a random sample of eight Purchase Card Program payments representing 24 percent of the total dollar value of the GSA sample; plus an additional judgmental sample of 101 Purchase Card Program payments over the micro-purchase threshold to verify SAM registrations, representing 47 percent of the total dollar value of the GSA sample, to determine if the OCFO reached correct determinations;
- Accessed GSA systems to pull lease agreements and other supporting documents to verify lease payments;
- Accessed GSA systems to verify supporting documentation for Purchase Card Program payments;
- Examined supporting documentation for the OCFO's reporting of improper payments in GSA's FY 2017 Agency Financial Report;
- Held discussions with OCFO officials regarding improper payment identification, risk assessment, reporting, and recapture; and
- Evaluated criteria related to agency guidance, FAR, GSAM, and GSA lease contract requirements.

We conducted the audit between August 2017 and February 2018 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.

## Appendix B – GSA’s FY 2017 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 2017 AFR. Dollar amounts in all tables are presented in millions.

**Table 1 Improper Payment Reduction Outlook (\$ in millions)**  
12 month Sampling Timeframe for FY 2017 data

| Program Name                                       | FY2016 Outlays (\$M) | FY2016 IP Amount (\$M) <sup>1</sup> | FY 2016 IP Rate <sup>1</sup> | FY 2017 Outlays (\$M) | FY 2017 IP Amount (\$M) <sup>2</sup> | FY 2017 IP Rate <sup>4</sup> | FY 2017 Over-payment \$ | FY 2017 Under-payment \$ | FY 2018 Est. Outlays <sup>3</sup> | FY 2018 Est. IP % <sup>5</sup> | FY 2018 Est. IP \$ | Start Date for data | End date for data |
|----------------------------------------------------|----------------------|-------------------------------------|------------------------------|-----------------------|--------------------------------------|------------------------------|-------------------------|--------------------------|-----------------------------------|--------------------------------|--------------------|---------------------|-------------------|
| Rental of Space                                    | \$ 5,596.30          | \$ 3720                             | 0.66%                        | \$ 5,486.41           | \$107.80                             | 1.96%                        | \$107.40                | \$0.40                   | \$ 5,680.90                       | 1.80%                          | \$102.26           | 10/1/2015           | 9/30/2016         |
| Purchase Cards                                     | \$ 27.05             | \$ 1.57                             | 5.80%                        | \$ 28.56              | \$ 1.28                              | 4.47%                        | \$ 1.28                 | \$0.00                   | \$ 27.06                          | 4.47%                          | \$ 1.21            | 10/1/2015           | 9/30/2016         |
| Hurricane Sandy Disaster Relief Funds <sup>3</sup> | \$ 0.42              | \$0.00                              | 0.00%                        | N/A                   | N/A                                  | N/A                          | N/A                     | N/A                      | N/A                               | N/A                            | N/A                | N/A                 | N/A               |
| <b>TOTAL</b>                                       | <b>\$5,623.77</b>    | <b>\$ 38.77</b>                     | <b>0.69%</b>                 | <b>\$5,514.97</b>     | <b>\$109.08</b>                      | <b>1.98%</b>                 | <b>\$108.68</b>         | <b>\$0.40</b>            | <b>\$5,707.96</b>                 | <b>1.81%</b>                   | <b>\$103.47</b>    | <b>10/1/2015</b>    | <b>9/30/2016</b>  |

<sup>1</sup> The Rental of Space improper payment percentages reflect corrections to the FY 2016 AFR identified in the FY17 OIG Audit Report (Report Number A160141/B/5/F17001).

<sup>2</sup> To determine improper payments for Rental of Space, GSA compares Lease Digest Actions (GSA Form R620) to actual payments in Pegasys, GSA’s financial accounting system, for discrepancies. To determine improper payments for purchase cards, GSA ensures that the purchase card is used properly and for legitimate government needs and that purchases are properly approved, have all required supporting documentation, and are properly recorded in Pegasys.

<sup>3</sup> GSA requested and received relief from reporting of Hurricane Sandy Disaster Relief Funds in FY 2017.

<sup>4</sup> The rental of space improper payment rate assumes that payments made to lease vendors with expired SAM registration are improper, although payments are still required. The improper payment rate excluding these payments is .72% (\$39.43M) for Rental of Space.

<sup>5</sup> For Rental of Space and Purchase Cards the outlays are based on 2017 outlays since our testing is based on data one year behind the FY reporting period. For Rental of Space, per the Director - Budget Control, Oversight, and Formulation Division, outlays are based on the unadjusted outlays from the Federal Building Fund. For Purchase Cards this information is not reported in the President’s Budget; it is derived from the three year historical average.

<sup>6</sup> GSA believes these target rates are aggressive and realistic. For Rental of Space, based on this year’s improper payment rate of 1.96% and upper bound of 3.91%, establishing a target rate of 1.80% for FY 2018 would reduce the improper payment rate by 8%, showing GSA’s commitment to reducing improper payments, while acknowledging there is a risk that improper payments may occur at the upper bound. Regarding Purchase Cards, the target rate for FY 2017 was 5.33%. GSA achieved a 4.47% rate with an upper bound of 6.24%. Establishing a target rate of 4.47% shows commitment to keeping improper payments at a low level, while acknowledging the risk that improper payments may occur at the upper bound.

**Table 2 CY Estimate Statistical Information**

| Program or Activity      | CY Estimate Variance   | CY Confidence Level | CY Precision Level |
|--------------------------|------------------------|---------------------|--------------------|
| Purchase Cards           | \$256,770.87           | 95%                 | 1.77%              |
| Rental of Space          | \$54,255,984.20        | 95%                 | 1.95%              |
| <b>TOTAL<sup>1</sup></b> | <b>\$54,256,591.79</b> | <b>95%</b>          | <b>1.94%</b>       |

<sup>1</sup> This total is a statistical projection for GSA and not a total of the individual Rental of Space and Purchase Cards cells.

## Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables (cont.)

**Table 3 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) <sup>1</sup>                                                                           | \$106.89        |               | \$0.06         |               |
| Administrative or Process Error Made by: | Federal Agency                                                                                                          | \$0.51          | \$0.40        |                |               |
|                                          | 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  |                                                                                                                         |                 |               | \$1.16         |               |
| Other Reason <sup>2</sup>                |                                                                                                                         |                 |               | \$0.06         |               |
| <b>TOTAL</b>                             |                                                                                                                         | <b>\$107.40</b> | <b>\$0.40</b> | <b>\$1.28</b>  | <b>\$0.00</b> |

<sup>1</sup> Amounts are attributed to payments made to vendors with expired SAM registration. Leases are not covered by the Federal Acquisition Regulation (FAR) for rental of space payments. For purchase cards the vendor was not registered.

<sup>2</sup> The Other Reason root cause category for purchase cards encompasses improper payments that occurred for the following reasons: Sales Taxes Paid and Erroneous Charges by Vendor.

## Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables (cont.)

**Table 4 Improper Payment Classification (\$ in millions)**

| Program or Activity          | Actual Monetary loss to the Government identified in Sample | Estimated Total Monetary loss to the Government |
|------------------------------|-------------------------------------------------------------|-------------------------------------------------|
| Rental of Space <sup>1</sup> | \$39.43                                                     | \$39.43                                         |
| Purchase Cards <sup>2</sup>  | \$0.02                                                      | \$0.06                                          |
| <b>TOTAL</b>                 | <b>\$39.45</b>                                              | <b>\$39.49</b>                                  |

<sup>1</sup> Amount represents actual, validated recoverable overpayments from the sample plus overpayments identified from other sources. This amount is used since the government loss amount from our actual error reports is higher than that from our sampling estimate. Since this amount is not based on sampling the actual and the estimate are reported as the same number.

<sup>2</sup> Estimated amount for Purchase Cards based on same extrapolated procedures done in Table 1 except that underpayments and overpayments not involving claims were excluded from extrapolation model.

## Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables (cont.)

**Table 5 Overpayment Payment Recaptures with and without Recapture Audit Programs (\$ in millions)**

| Does this include funds recaptured from a High-Priority Program (Y/N) | Program or Activity | Overpayments Recaptured through Payment Recapture Audits |                                          |                                        |                                            | Overpayments Recaptured outside of Payment Recapture Audits <sup>3</sup> |                             |
|-----------------------------------------------------------------------|---------------------|----------------------------------------------------------|------------------------------------------|----------------------------------------|--------------------------------------------|--------------------------------------------------------------------------|-----------------------------|
|                                                                       |                     | Amount Identified in FY 2017                             | Amount Recovered in FY 2017 <sup>1</sup> | Recapture Rate in FY 2017 <sup>2</sup> | FY 2018 Recapture Rate Target <sup>2</sup> | Amount Identified in FY 2017                                             | Amount Recovered in FY 2017 |
| N                                                                     | Rental of Space     | \$15.55                                                  | \$11.54                                  | 74%                                    | 79%                                        | \$21.42                                                                  | \$23.50                     |
| N                                                                     | Other <sup>4</sup>  |                                                          |                                          |                                        |                                            | \$3.55                                                                   | \$3.66                      |
|                                                                       | <b>TOTAL</b>        | <b>\$15.55</b>                                           | <b>\$11.54</b>                           | <b>74%</b>                             |                                            | <b>\$24.97</b>                                                           | <b>\$27.16</b>              |

<sup>1</sup> Includes both recaptures of overpayments during FY 2017 and overpayments that were reported prior to FY 2017.

<sup>2</sup> The collections amount relates more to the amount identified over previous time period than to the quality in the collections process. A claim typically takes between 4 and 6 months to fully process after it is submitted. There was a smaller collections percentage (74%) in FY 2017 than in FY 2016 (106%) primarily because the amount identified in 2016 (\$13.29M) was lower than that identified in FY 2015 (\$28.28M). GSA is setting a realistic target rate of 79% for FY 2018.

<sup>3</sup> The amount identified and recovered in 2017 reflects overpayments involving claims and not payments involving documentation issues. GSA has over \$19M in payments to vendors without active Data Universal Numbering System (DUNS) registrations in SAM that have been classified as improper, but are not included hereon.

<sup>4</sup> Other includes several programs activities. Over 95% of the \$3.55 amount of the listed programs under Other relates to the following five program activities: building operations, R&A non-recurring reimbursements, all other costs, general activity for revenue/cost of sales.

## Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables (cont.)

**Table 6 Disposition of Funds Recaptured Through Payment Recapture Audit Programs (\$ in millions)**

| Program or Activity          | Amount Recaptured | Agency Expenses to Administer the Program | Payment Recapture Auditor Fees <sup>1</sup> | Financial Management Improvement Activities | Original Purpose | Office of Inspector General | Returned to Treasury | Other (please explain in footnote) |
|------------------------------|-------------------|-------------------------------------------|---------------------------------------------|---------------------------------------------|------------------|-----------------------------|----------------------|------------------------------------|
| Rental of Space <sup>2</sup> | \$11.54           | NA                                        | \$2.23                                      | NA                                          | \$9.32           | NA                          | NA                   | NA                                 |
| <b>TOTAL</b>                 | <b>\$11.54</b>    | <b>NA</b>                                 | <b>\$2.23</b>                               | <b>NA</b>                                   | <b>\$9.32</b>    | <b>NA</b>                   | <b>NA</b>            | <b>NA</b>                          |

<sup>1</sup> Fees based on costs incurred in 2017 determined from the total of submitted invoices from the Payment Recapture Audit in FY 2017.

<sup>2</sup> The Amount Recaptured does not equal the sum of the individual payment Recapture Auditors Fees and Original Purpose amounts due to rounding.

**Table 7 Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs<sup>1</sup> (\$ in millions)**

| Program or Activity          | Amount Outstanding (0 – 6 months) | Amount Outstanding (6 months to 1 year) | Amount Outstanding (over 1 year) | Amount determined to not be collectable <sup>2</sup> |
|------------------------------|-----------------------------------|-----------------------------------------|----------------------------------|------------------------------------------------------|
| Rental of Space <sup>3</sup> | \$5.81                            | \$0.45                                  | \$2.78                           | \$0.44                                               |
| <b>TOTAL</b>                 | <b>\$5.81</b>                     | <b>\$0.45</b>                           | <b>\$2.78</b>                    | <b>\$0.44</b>                                        |

<sup>1</sup> The aging of an overpayment begins at the time the overpayment is detected, which is the date that the Payment Recapture Audit GSA Contracting Officer Representative (COR) executes final approval on the claim form. Thus, GSA is reporting aging of outstanding overpayments based on the final approval date on claim forms, rather than the date that the accounts receivable record related to a claim is established in the accounting system.

If GSA reported aging of outstanding overpayments based on the date a receivable claim is established in the accounting system, the aging amounts would be as follows:

|                                          |        |
|------------------------------------------|--------|
| Amount Outstanding (0-6 months):         | \$4.72 |
| Amount Outstanding (6 months to 1 year): | \$0.27 |
| Amount Outstanding (over 1 year):        | \$2.78 |
| Amount Determined not to be Collectable: | \$0.44 |

<sup>2</sup> Uncollectable accounts are written off based on the Accounts Receivable Policy Handbook, CFO P 4253.1, Chapter 4, Servicing Non-Federal Accounts Receivable. GSA writes off claims with a remaining principal balance under \$100 at 120 days old; claims above \$100 are written off after they have been referred to Treasury for collection for 60 days.

<sup>3</sup> The percent these amounts represent of the total overpayments (\$9.48M) identified through payment recapture audits that have not been recaptured is as follows:

|                                          |                          |
|------------------------------------------|--------------------------|
| Amount Outstanding (0-6 months):         | 61.32% (\$5.81M/\$9.48M) |
| Amount Outstanding (6 months to 1 year): | 4.78% (\$0.45M/\$9.48M)  |
| Amount Outstanding (over 1 year):        | 29.30% (\$2.78M/\$9.48M) |
| Amount Determined not to be Collectable: | 4.59% (\$0.44M/\$9.48M)  |

Note: The amount outstanding percentages are based on full numbers and not the rounded outstanding dollar amounts listed hereon.

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## Appendix B – GSA’s FY 2017 Agency Financial Report Improper Payments Tables (cont.)

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**Table 8 Confirmed Fraud<sup>1</sup>(\$ in millions)**

| Program or Activity      | Confirmed Fraud |
|--------------------------|-----------------|
| Criminal Results         | \$26.31         |
| Civil Results            | \$74.43         |
| Non-Judicial Recoveries  | \$20.74         |
| <b>TOTAL<sup>2</sup></b> | <b>\$121.47</b> |

<sup>1</sup> Numbers derived from the statistical summary of OIG investigations section from the combined 2017 OIG semi-annual reports.

<sup>2</sup> The Total does not equal the sum of the individual components due to rounding.

**Table 9 Programs Susceptible to Significant Improper Payments During FY 2017 Risk Assessment**

| Program or Activity                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In FY 2017, GSA performed a risk assessment on employee payments including travel. This risk assessment identified no additional programs or activities susceptible to significant improper payments. |

## **Appendix C – Detail of Agency Financial Report Reporting Inaccuracies**

In addition to the summary level information contained in **Finding 2**, we have provided additional detail regarding AFR inaccuracies in this appendix.

### **Table 1 – Improper Payment Reduction Outlook**

As discussed in **Finding 2**, the OCFO reported an inaccurate current year improper payment estimate for the Purchase Card Program. Therefore, the current year improper payments reduction target is also inaccurate.

Figure 2 shows reported and per audit figures for the Purchase Card Program (all dollar figures presented in millions).

**Figure 2 – Table 1, Purchase Card Program<sup>9</sup>**

|                   | FY 2017 Outlays (\$M) | FY 2017 IP Amount (\$M) | FY 2017 IP Rate | FY 2017 Over-payments \$ | FY 2017 Under-payment \$ | FY 2018 Est. Outlays | FY 2018 Est. IP % | FY 2018 Est. IP \$ |
|-------------------|-----------------------|-------------------------|-----------------|--------------------------|--------------------------|----------------------|-------------------|--------------------|
| <b>Reported</b>   | \$28.56               | \$1.28                  | 4.47%           | \$1.28                   | \$0.00                   | \$27.06              | 4.47%             | \$1.21             |
| <b>Per Audit</b>  | \$28.56               | \$1.29                  | 4.53%           | \$1.29                   | \$0.00                   | \$27.06              | 4.47%             | \$1.21             |
| <b>Difference</b> | \$0.00                | <b>\$0.01</b>           | <b>0.06%</b>    | <b>\$0.01</b>            | \$0.00                   | \$0.00               | \$0.00            | \$0.00             |

The per audit figures represent amounts extrapolated based on the errors found in the OCFO's testing of Purchase Card Program payments but are still under the reduction targets for FY 2017 and do not make GSA noncompliant in this area.

### **Table 2 – CY Estimate Statistical Information**

Table 2 presents the estimated variance, confidence level, and precision level for each program current year estimate. Due to the errors in testing for Purchase Card Program payments that resulted in a new extrapolated estimate, that recalculation affects the estimated variance in Table 2. *Figure 3* shows the reported and per audit figures for Purchase Card Program variances.

<sup>9</sup> We provided our Purchase Card Program testing results to the firm that performed GSA's statistical sampling and extrapolations for the Purchase Card Program. The firm provided updated extrapolations rounded to two decimal points, which are presented as current year improper payment figures in *Figure 2*.

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## ***Appendix C – Detail of Agency Financial Report Reporting Inaccuracies (cont.)***

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**Figure 3 – Table 2, Purchase Card Program CY Estimate Statistical Information**

|                   | <b>CY Estimate<br/>Variance</b> | <b>CY<br/>Confidence<br/>Level</b> | <b>CY<br/>Precision<br/>Level</b> |
|-------------------|---------------------------------|------------------------------------|-----------------------------------|
| <b>Reported</b>   | \$256,770.87                    | 95%                                | 1.77%                             |
| <b>Per Audit</b>  | \$257,612.74                    | 95%                                | 1.77%                             |
| <b>Difference</b> | <b>\$841.87</b>                 | 0%                                 | 0.00%                             |

**Table 3 – Improper Payment Root Cause Category Matrix**

Table 3 identifies the root cause for improper payments for the Rental of Space and Purchase Card Programs. Because this table is based on extrapolated information from Table 1, the reported amounts for the Purchase Card Program are incorrect in the AFR based on the testing errors found.

**Table 4 – Improper Payment Classification**

Table 4 estimates the total improper payments monetary loss to the government for the Rental of Space and Purchase Card Programs. Estimated amounts for the Purchase Card Program are based on the same extrapolated procedures done in Table 1.

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## Appendix D – GSA Comments

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Office of the Chief Financial Officer

May 3, 2018

MEMORANDUM FOR THOMAS P. TRIPPLE

REGIONAL INSPECTOR GENERAL FOR AUDITING  
Mid Atlantic Audit Office (JA-3)

FROM: GERARD BADORREK *GB*  
CHIEF FINANCIAL OFFICER (B)

SUBJECT: Response to Office of Inspector General Draft Report *GSA Did Not Comply with the Improper Payment Acts in Fiscal Year 2017* (A170104)

Thank you for the opportunity to comment on the Office of Inspector General (OIG) draft report *GSA Did Not Comply with the Improper Payment Acts in Fiscal Year 2017*.

As you acknowledged in your report, the General Services Administration (GSA) complied with five of the required six components of the Improper Payment Act, and has taken constructive measures to improve GSA's processes. We appreciate your recommendations and diligence in identifying further improvement opportunities.

However, GSA did not comply with the requirement to meet an improper payment target for rental of space that represented a significant reduction from the prior year. GSA established an aggressive improvement goal for this category, with reductions in the target from 1.02% in fiscal year (FY) 2014, to .60% in FY 2015 to .119% in FY 2016, and .025% in FY 2017. The OIG had previously acknowledged that the target was challenging and that the GSA Office of the Chief Financial Officer (OCFO) should re-evaluate the goal and work with the Office of Management and Budget (OMB) to establish a different target. GSA was not able to reset the target for FY 2017, but has set a revised target in FY 2018.

The recommendations for improvements in processes and controls that were identified by the OIG will be implemented. Corrective actions are underway to:

- Improve controls over the payment process for the Rental of Space program to ensure vendors are registered in the System for Award Management (SAM).
- Strengthen controls to ensure the accuracy of improper payment testing under the Purchase Card Program.
- Work with the GSA Office of Administrative Services to strengthen controls to ensure that all transactional Purchase Card Program supporting documentation is uploaded in Pegasys in accordance with GSA policy.

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Washington, DC 20405-0002

[www.gsa.gov](http://www.gsa.gov)

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## ***Appendix D – GSA Comments (cont.)***

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**2**

The attachment includes responses for each recommendation. Should you have any questions regarding this matter, please contact Paula Bohnwagner at [paula.bohnwagner@gsa.gov](mailto:paula.bohnwagner@gsa.gov).

Attachment

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## Appendix D – GSA Comments (cont.)

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**GSA Did Not Comply with the Improper Payments Act in Fiscal Year 2017**  
**Report Number A170104, dated April 19, 2018**

**Finding 1** – GSA did not comply with the Improper Payments Act because it did not meet its fiscal year (FY) 2017 reduction target for the Rental of Space Program.

GSA disclosed in its Annual Financial Report (AFR) that it did not meet its FY 2017 improper payments reduction target for the Rental of Space Program by 1.935 percent.

**Recommendation:**

- Submit a plan for addressing noncompliance within 90 days, as required by OMB guidance.
- Improve controls over the payment process for the Rental of Space Program to ensure that only vendors properly registered in SAM are paid.

**GSA Comments:**

Concur.

As noted in the report, GSA met five of the six components of the Improper Payments Act. GSA had set aggressive improvement targets for this category, with reductions in the target from 1.02 % in FY 2014, to .60% in FY 2015, to .119% in FY 2016, and .025% in FY 2017. GSA coordinated with OMB to set a revised target for FY 2018, and will continue to set targets that are within the program guidance in future years.

**Finding 2** – GSA did not accurately test its Purchase Card Program payments, resulting in several errors in reported estimates and figures in its FY 2017 AFR tables.

**Recommendation:**

- Strengthen controls to increase the accuracy of improper payment testing under the Purchase Card Program.
- Work with the Office of Administrative Services to strengthen controls to ensure that all transactional Purchase Card Program supporting documentation is uploaded in Pegasys in accordance with GSA policy.

**GSA Comments:**

Concur.

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## ***Appendix E – Report Distribution***

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Chief Financial Officer (B)

GSA Administrator (A)

Office of Management and Budget (OMB)

Homeland Security and Government Affairs Committee (HSGAC)

House Committee on Oversight and Government Reform

Comptroller General (GAO)

Chief Administrative Services Officer (H)

Audit Management Division (H1EB)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)