



February 2015

DISASTER RELIEF

Agencies Need to Improve Policies and Procedures for Estimating Improper Payments

Accessible Version

GAO Highlights

Highlights of [GAO-15-209](#), a report to the Committee on Appropriations, House of Representatives

Why GAO Did This Study

DRAA provided approximately \$50 billion in supplemental appropriations, before sequestration, to 19 federal agencies for expenses related to Hurricane Sandy and other purposes. DRAA deemed all programs and activities receiving appropriations under the act as susceptible to significant improper payments, making such appropriations subject to improper payment estimation requirements established in law and through OMB guidance.

GAO was asked to review agencies' efforts to estimate improper payments for expenses related to Hurricane Sandy. For DRAA funds, this report (1) describes how selected agencies estimated and reported improper payments and (2) determines the extent to which selected agencies developed policies and procedures for estimating improper payments. GAO reviewed the Departments of Homeland Security, Housing and Urban Development, and Transportation; the U.S. Army Corps of Engineers; and the Small Business Administration, which collectively received most of the DRAA funds. GAO reviewed sampling plans, evaluated agencies' policies and procedures, and conducted interviews with officials at these agencies and OMB.

What GAO Recommends

GAO is making recommendations to four of the five agencies to either develop or revise their policies and procedures for estimating improper payments for DRAA funds. These four agencies generally agreed with GAO's recommendations and cited plans for implementing them.

View [GAO-15-209](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

February 2015

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Agencies Need to Improve Policies and Procedures for Estimating Improper Payments

What GAO Found

The five agencies GAO reviewed used a variety of approaches to estimate and report improper payments related to Disaster Relief Appropriations Act, 2013 (DRAA) funding, in accordance with Office of Management and Budget (OMB) guidance. Specifically, these agencies, which received approximately 94 percent of the \$50 billion provided by DRAA, used various approaches regarding the following:

- **Estimate presentation.** Some agencies reported separate estimates for DRAA funding, while others developed one combined improper payment estimate that also included non-DRAA funding.
- **Estimate methodology.** Agencies used statistical sampling methodologies, used alternative (nonstatistical) sampling methodologies, or tested 100 percent of DRAA-funded payments to estimate improper payments for DRAA funding.
- **Time period of estimate.** Agencies used different time periods (or sampling windows) of the underlying transactions that were tested to develop improper payment estimates, such as October 2012 through September 2013 or April 2013 through March 2014.

The five agencies GAO reviewed had developed policies and procedures to guide their processes for estimating improper payments for 21 of 22 programs. However, GAO found that the agencies' policies and procedures did not address all key requirements from relevant laws, guidance, and *Standards for Internal Control in the Federal Government*. For example, GAO found the following:

- Ten of the 22 programs did not have policies and procedures that included key quality assurance procedures, such as reconciliations, to validate that the populations of transactions were complete and accurate before selecting the samples used to estimate improper payments. *Standards for Internal Control in the Federal Government* states that control activities, such as reconciliations, are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.
- Fourteen of the 22 programs did not have policies and procedures that included a requirement to maintain sufficient documentation to support their improper payment estimates as required by OMB guidance. *Standards for Internal Control in the Federal Government* also states that internal controls and all transactions and other significant events need to be clearly documented, and that the documentation should be readily available for examination and properly managed and maintained.

During the audit, one of the five agencies addressed the deficiencies that GAO identified. If key requirements for estimating improper payments are not documented in policies and procedures, agencies face an increased risk that their estimation processes as designed will not comply with the provisions of relevant laws and regulations or consistently produce reliable estimates that can help agencies improve stewardship of taxpayer dollars.

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Abbreviations

AFR	agency financial report
CBP	Customs and Border Protection
CDBG-DR	Community Disaster Block Grants – Disaster Recovery
DHS	Department of Homeland Security
DOD	Department of Defense
DOT	Department of Transportation
DRAA	Disaster Relief Appropriations Act, 2013
FAA	Federal Aviation Administration
FEMA	Federal Emergency Management Agency
FHWA	Federal Highway Administration
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
HUD	Department of Housing and Urban Development
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
NPPD	National Protection and Programs Directorate
OED	Office of Entrepreneurial Development
OMB	Office of Management and Budget
SBA	Small Business Administration
SOP	standard operating procedure
USACE	U.S. Army Corps of Engineers
USCG	U.S. Coast Guard

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Letter

February 27, 2015

The Honorable Harold Rogers
Chairman
The Honorable Nita M. Lowey
Ranking Member
Committee on Appropriations
House of Representatives

In late October 2012, Hurricane Sandy devastated portions of the mid-Atlantic and northeastern United States, leaving victims of the storm and their communities in need of immediate disaster relief aid. On January 29, 2013, the President signed the Disaster Relief Appropriations Act, 2013 (DRAA),¹ which included approximately \$50 billion in supplemental appropriations to 19 federal agencies for expenses related to the consequences of Hurricane Sandy and other purposes.² DRAA states that all funds received under the act are deemed “susceptible to significant improper payments” for purposes of the Improper Payments Information Act of 2002 (IPIA), as amended,³ which requires agencies to estimate improper payments for these funds.

You asked us to review agencies’ efforts to estimate improper payments for expenses related to Hurricane Sandy for fiscal year 2014 and beyond. Our objectives were to (1) describe how selected agencies estimated and

¹Pub. L. No. 113-2, div. A, 127 Stat. 4 (Jan. 29, 2013).

²Some agencies received funding for disaster-related programs that could be used for expenses related to other disasters in addition to Hurricane Sandy.

³IPIA, Pub. L. No. 107-300 (Nov. 26, 2002), *as amended by* the Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204 (July 22, 2010), and the Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248 (Jan. 10, 2013) (IPIA, as amended), *and codified as amended at* 31 U.S.C. § 3321 note. An improper payment is defined by statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

reported improper payments related to DRAA funding in their fiscal year 2014 annual reporting and (2) determine the extent to which selected agencies developed policies and procedures that addressed key requirements for estimating improper payments.

The five agencies we selected for our review included (1) the four agencies that received the most DRAA funding—the Departments of Housing and Urban Development (HUD), Transportation (DOT), and Homeland Security (DHS); and the U.S. Army Corps of Engineers (USACE)⁴—and (2) the Small Business Administration (SBA) because of the amount of DRAA funds it received and the high improper payment error rate it reported for its Disaster Assistance Loans program.⁵ Collectively, these five agencies received approximately 94 percent of the total DRAA funding and planned to estimate improper payments related to these funds for 22 programs.

To address our objectives, we reviewed the agencies' sampling plans; evaluated the agencies' improper payment policies and procedures for disaster relief appropriations to determine whether they addressed key requirements for estimating improper payments; and interviewed officials at the selected agencies and the Office of Management and Budget (OMB), which provides guidance to executive agencies on the estimation and reporting of improper payments.⁶ Our review assessed the design of the

⁴USACE is a component of the Department of the Army. For purposes of this report, we treat USACE as an agency.

⁵SBA reported an error rate of 18.4 percent for the Disaster Assistance Loans program in fiscal year 2013, the latest year available when we began our review. For fiscal year 2014, SBA reported an error rate of 12.0 percent.

⁶We identified relevant key requirements for estimating improper payments by reviewing IPFA, as amended, and Appendix C to OMB Circular No. A-123, *Requirements for Effective Measurement and Remediation of Improper Payments*. See Office of Management and Budget, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, OMB Memorandum M-11-16 (Washington, D.C.: Apr. 14, 2011) (M-11-16). M-11-16 has been superseded by Office of Management and Budget, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, OMB Memorandum M-15-02 (Washington, D.C.: Oct. 20, 2014) (M-15-02) but was the applicable guidance during the period examined in our audit. Hereinafter, all references to Appendix C pertain to M-11-16 unless specifically indicated otherwise. In addition, we reviewed GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999) ([GAO/AIMD-00-21.3.1](#)) to identify key controls necessary to help provide reasonable assurance that the reported improper payment information is reliable.

policies and procedures developed to guide the preparation of these estimates. We did not test the implementation of the agency policies and procedures and therefore cannot report whether the improper payment estimates reported in agencies' fiscal year 2014 agency financial reports (AFR) are reliable.⁷ Appendix I provides further details on our scope and methodology.

We conducted this performance audit from April 2014 to February 2015 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.

Background

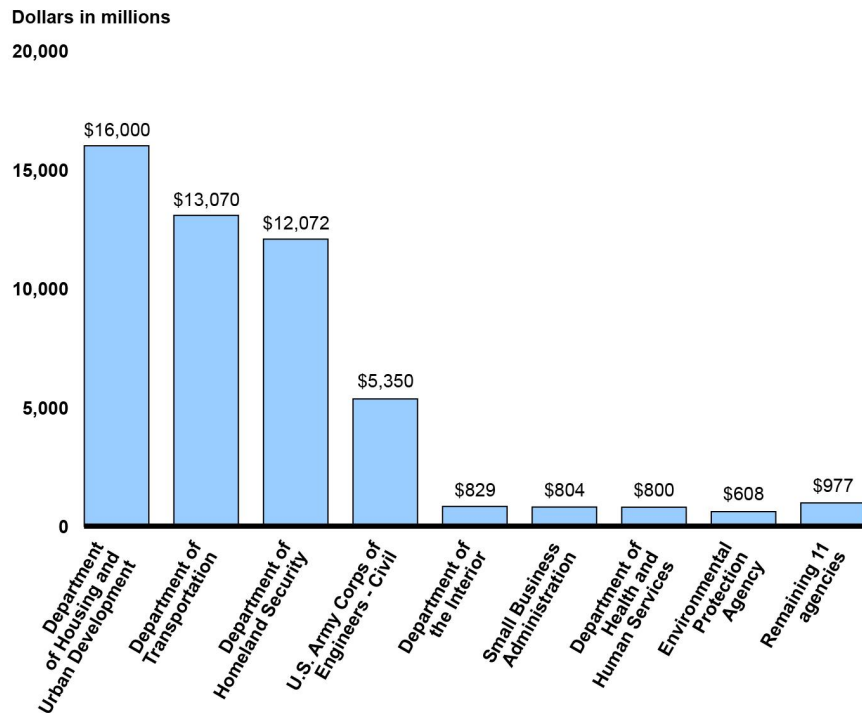
Disaster Relief Appropriations Act, 2013

DRAA included approximately \$50 billion, prior to sequestration,⁸ in supplemental appropriations to 19 agencies for expenses related to the consequences of Hurricane Sandy and other purposes. Figure 1 shows the total distribution of disaster relief funding by agency, prior to sequestration.

⁷An AFR is a report on an agency's end of fiscal year financial position and financial activity for the year that includes, but is not limited to, financial statements, notes on the financial statements, and an independent auditor's report.

⁸Sequestration is the cancellation of budgetary resources provided by discretionary appropriations or direct spending laws. Under the authority granted by section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, OMB determined that DRAA appropriations were to be included in the fiscal year 2013 base subject to sequestration. See 2 U.S.C. § 901a; Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* (Washington, D.C.: Mar. 1, 2013); and GAO, *March 1 Joint Committee Sequestration for Fiscal Year 2013*, B-324723 (Washington, D.C.: July 31, 2013).

Figure 1: Distribution of Appropriations Provided by the Disaster Relief Appropriations Act, 2013



Source: GAO analysis of the Disaster Relief Appropriations Act, 2013. | GAO-15-209

According to Recovery.gov, agencies had paid out approximately \$11.5 billion in DRAA funds as of September 30, 2014.⁹

DRAA included improper payment reporting requirements with respect to programs and activities receiving funds under the act. Specifically, DRAA states that all funds received under the act are deemed “susceptible to significant improper payments” for purposes of IPIA, which requires agencies to estimate improper payments for all funds that are determined to be susceptible. OMB also issued OMB Memorandum No. M-13-07 (M-

⁹Recovery.gov displays information reported by agencies about federal funds distributed under the American Recovery and Reinvestment Act of 2009 and DRAA. Of the \$11.5 billion, the five agencies we reviewed had paid out approximately \$11.0 billion. See app. II for information on the improper payment estimates reported by these five agencies in their fiscal year 2014 reporting.

13-07), *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, in March 2013 to provide an overview of the requirements for all programs funded under DRAA, including the improper payment protocol agencies were to follow.¹⁰ M-13-07 states that agencies have several options when conducting their improper payment testing for DRAA-funded programs in order to implement improper payment measurements in a cost-effective manner. For example, M-13-07 provides that after consultation with OMB, agencies may group DRAA-funded programs and activities together in a reasonable and appropriate manner to decrease the number of required improper payment measurements reported. In addition, M-13-07 states that agencies can leverage existing resources and processes already devoted to improper payment-related activities.

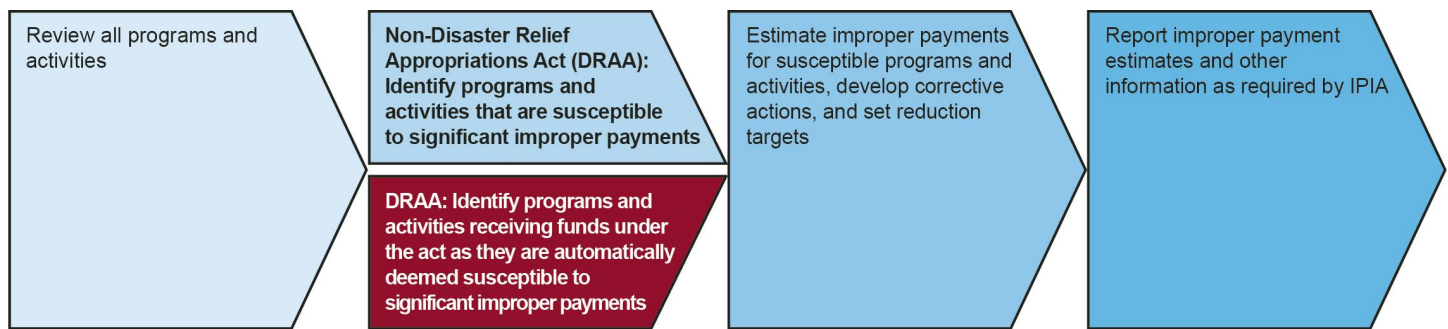
Improper Payment Estimation Process and Legislative Requirements

IPIA—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires federal executive branch agencies to (1) review all programs and activities and identify those that may be susceptible to significant improper payments,¹¹ (2) estimate the annual amount of improper payments for susceptible programs and activities, (3) implement actions to reduce improper payments and set reduction targets, and (4) report on the results of addressing the foregoing requirements. Improper payment estimates can be a critical program management tool for understanding and addressing financial vulnerabilities. Effective in January 2013, IPERIA amended the definition of “payment” in IPIA to explicitly include payments to federal employees, such as salary pay, locality pay, travel pay, and purchase card use.¹² Figure 2 shows the improper payment estimation and reporting process.

¹⁰Office of Management and Budget, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, OMB Memorandum No. M-13-07 (Washington, D.C.: Mar. 12, 2013). In November 2013, we reported that several weaknesses limited the effectiveness of OMB’s guidance in providing a comprehensive oversight mechanism for DRAA funds. See GAO, *Hurricane Sandy Relief: Improved Guidance on Designing Internal Control Plans Could Enhance Oversight of Disaster Funding*, [GAO-14-58](#) (Washington, D.C.: Nov. 26, 2013).

¹¹For fiscal year 2014 and beyond, “significant improper payments” is defined as gross annual improper payments in the program that may have exceeded (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million (regardless of the percentage of outlays).

¹²IPERIA, Pub. L. No. 112-248, 126 STAT. 2390, 2391 (Jan. 10, 2013); 31 U.S.C. § 3321 note.

Figure 2: Improper Payment Estimation and Reporting Process

Source: GAO analysis of the Improper Payments Information Act of 2002, as amended, and DRAA. | GAO-15-209

Guidance for Implementing Improper Payment Requirements

To carry out the improper payment estimation process, OMB's government-wide improper payment guidance and *Standards for Internal Control in the Federal Government* provide government agencies with additional criteria they should follow to help ensure that the reported improper payment information is reliable.

OMB's Improper Payment Guidance

On April 14, 2011, OMB issued government-wide guidance, OMB Memorandum M-11-16 (M-11-16), *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, that agencies were required to follow in implementing the improper payment requirements in IPIA, as amended by IPERA.¹³ Among other things, OMB's improper payment guidance clarified the definition of improper payments and required agencies to

- consult with a statistician to ensure the validity of sample design, sample size, and measurement methodology;
- meet certain precision requirements for programs using statistical sampling methodologies;¹⁴

¹³See M-11-16. In October 2014, OMB issued a revision to its improper payment guidance (M-15-02), as required by IPERIA. Because M-15-02 was issued after fiscal year 2014, we used M-11-16 to evaluate agencies' policies and procedures. However, the items we identify from M-11-16 remain in effect in M-15-02.

¹⁴Appendix C to OMB Circular No. A-123 requires the sample methodologies for the testing of improper payments to have a precision of (1) a 90 percent confidence interval of plus or minus 2.5 percentage points or (2) a 95 percent confidence interval of plus or minus 3 percentage points around the estimate of the percentage of improper payments.

-
- obtain OMB approval prior to the implementation of alternative (nonstatistical) sampling methodologies; and
 - maintain sufficient documentation to support improper payment estimates.

OMB's guidance also provided direction on other improper payment requirements, including conducting risk assessments, determining the root causes of improper payments, setting improper payment reduction targets, developing corrective action plans, and reporting on improper payments in the agency's AFR.

*Standards for Internal Control
in the Federal Government*

Standards for Internal Control in the Federal Government provides the overall framework for establishing and maintaining internal control across the federal government and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.¹⁵ *Standards for Internal Control in the Federal Government* states that internal controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives. To achieve this, management is responsible for developing the detailed policies, procedures, and practices to fit the agency's operations and to ensure that they are built into and are an integral part of operations.

Standards for Internal Control in the Federal Government states that

- a good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility;
- control activities, such as quality assurance processes and appropriate documentation of transactions and internal control, are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources, and achieving effective results;
- control activities help ensure that all transactions are completely and accurately recorded, and that only valid transactions and other events are initiated or entered into, in accordance with management's decisions and directives; and

¹⁵[GAO/AIMD-00-21.3.1.](#)

-
- internal controls need to be clearly documented, and the documentation should be readily available for examination and properly managed and maintained.

In this context, because DRAA funds were deemed to be susceptible to significant improper payments and the related procedures for testing and estimating improper payments are key steps to achieve desired results through effective stewardship of public resources, agencies should

- clearly identify roles and responsibilities of those involved in preparing and reviewing improper payment estimates;
- perform key quality assurance processes, such as reconciliations, to ensure that populations of transactions are accurate and complete prior to testing for improper payments;
- provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment; and
- have procedures in place to collect and maintain key supporting documentation needed to substantiate the improper payment estimates.

For improper payment estimates, policies and procedures help ensure that program officials align their annual estimation processes with applicable laws and requirements, as noted above, and that the improper payment information and error rates that are reported are reliable.

Agencies Used a Variety of Approaches for Estimating and Reporting Improper Payments for Disaster Relief Funding

The five agencies we reviewed used a variety of approaches for estimating and reporting on improper payments related to DRAA funds in their fiscal year 2014 AFRs. M-13-07 allowed agencies several options for estimating and reporting improper payments for DRAA funding. Consequently, as demonstrated in figure 3, agencies used a variety of approaches across the 22 programs we reviewed with respect to the following attributes:

- **Estimate presentation.** The agencies we reviewed used two approaches for testing and reporting improper payments: (1) testing and reporting improper payments for DRAA funding as separate estimates or (2) grouping DRAA funding with other funding sources and developing one combined improper payment estimate.
- **Estimate methodology.** The agencies we reviewed used three different types of sampling methodologies to estimate DRAA improper

payments: (1) statistical sampling methodologies, (2) alternative (nonstatistical) sampling methodologies approved by OMB, or (3) testing 100 percent of DRAA-funded payments.

- **Time period of estimate.** The agencies we reviewed used different time periods (or sampling windows) of the underlying transactions tested to develop improper payment estimates, such as October 2012 through September 2013 or April 2013 through March 2014.

Figure 3: Agencies' Approaches for Estimating Improper Payments Related to Disaster Relief Appropriations Act, 2013, Funds in Their Fiscal Year 2014 Agency Financial Reports

Agency and program	Estimate presentation method		Estimate methodology type			Time period of estimate			
	Separate	Combined	100% tested	Statistical	Alternative	2012	2013	2014	
Department of Housing and Urban Development (HUD)									
Community Development Block Grants - Disaster Recovery ^a	✓				✓		10/12-9/13		10/13-9/14
Department of Transportation									
Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	✓			✓			2/13-3/14		
Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	✓			✓			2/13-3/14		
FHWA - Federal - Aid Grants		✓		✓			4/13-3/14		
Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	✓			✓			2/13-3/14		
Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	✓			✓			2/13-3/14		
Department of Homeland Security (DHS)									
Customs and Border Protection - Hurricane Sandy	✓		✓				10/12-9/13		
Federal Emergency Management Agency (FEMA) - Disaster Case Management	✓		✓				10/12-9/13		
FEMA - Disaster Relief Fund Travel Payments	✓			✓			10/12-9/13		
FEMA - Government Charge Card ^b		✓			✓			9/13-8/14	
FEMA - Hazard Mitigation Grants	✓		✓				10/12-9/13		
FEMA - Hurricane Sandy Payroll	✓			✓			10/12-9/13		
FEMA - Individuals and Households - Hurricane Sandy	✓			✓			1/13-9/13		
FEMA - Public Assistance		✓			✓		10/12-9/13		
FEMA - Urban Search and Rescue	✓		✓				10/12-9/13		
FEMA - Vendor Payments		✓		✓			10/12-9/13		
National Protection and Programs Directorate - Hurricane Sandy	✓			✓			10/12-9/13		
U.S. Coast Guard - Hurricane Sandy	✓			✓			10/12-9/13		
U.S. Army Corps of Engineers									
Commercial Pay		✓		✓			9/13-8/14		
Travel Pay		✓		✓			9/13-8/14		
Small Business Administration									
Disaster Assistance Loans		✓		✓			7/13-6/14		
Office of Entrepreneurial Development Grants	✓			✓			4/13-3/14		

^aHUD reported two improper payment estimates for the Community Development Block Grants – Disaster Recovery program, one for fiscal year 2013 and one for fiscal year 2014.

^bDHS tested government charge card payments made from 9/12/13 through 8/12/14 to develop its error rate. However, DHS then applied the error rate to fiscal year 2013 government charge card payments to estimate improper payments.

Source: GAO analysis of agencies' plans for estimating improper payments and fiscal year 2014 agency financial reports. | GAO-15-209

Agencies' Policies and Procedures Did Not Address All Key Requirements for Estimating Improper Payments for Disaster Relief Funding

Although agencies had several options for conducting improper payment testing for funding under DRAA, they were responsible for developing policies and procedures to guide the process they chose to use. We reviewed the criteria in IPIA, as amended; Appendix C to OMB Circular No. A-123; and *Standards for Internal Control in the Federal Government* and identified 10 key requirements, as shown in table 1, that could affect the quality and reliability of improper payment estimates.¹⁶

Table 1: Ten Key Requirements for Estimating Improper Payments

Key requirement	Source of key requirement
The agency should develop policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013.	Federal internal control standards
Those policies and procedures should include the following:	
Clearly identified roles and responsibilities for estimating improper payments.	Federal internal control standards
A definition of improper payments consistent with the Improper Payments Information Act of 2002 (IPIA), as amended, and Office of Management and Budget (OMB) Circular No. A-123, Appendix C (Appendix C).	IPIA, as amended, and Appendix C
A requirement for payments to federal employees to be included in populations for testing as required by IPIA, as amended.	IPIA, as amended
Steps to assess the completeness of the population of transactions used for selecting the samples to be tested.	Federal internal control standards
Sufficient procedures for determining an error and what documentation is necessary to substantiate payment.	Federal internal control standards
A requirement for the agency to maintain sufficient documentation to support improper payment estimates.	Appendix C and federal internal control standards
If the agency is using a statistical methodology, a requirement that the sampling methodologies meet the precision requirements outlined in Appendix C.	Appendix C
If the agency is using a statistical methodology, a requirement for a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology.	Appendix C
If the agency is using an alternative methodology, a requirement for the agency to obtain OMB approval prior to the implementation of its alternative sampling methodology.	Appendix C

Source: GAO analysis of IPIA, as amended; Appendix C to OMB Circular No. A-123; and federal internal control standards. | GAO-15-209

¹⁶This report uses “key requirements” to convey the criteria that we selected for evaluating the design of policies and procedures. For further details on our methodology, see app. I.

The agencies we reviewed had developed policies and procedures to guide their processes for estimating improper payments for most programs. However, we found that these policies and procedures did not address all of the key requirements.

**Deficiencies Were
Found across the
Policies and Procedures
at All Five Agencies**

The five agencies we reviewed had documented policies and procedures for estimating disaster relief improper payments for 21 of 22 programs. One program did not have policies and procedures for estimating improper payments for disaster relief funding, which is discussed later in this report. As shown in figure 4, an interactive graphic, none of these agencies had policies and procedures that sufficiently addressed all of the key requirements for estimating improper payments. See appendix III for the full text of figure 4.

Figure 4: Summary of the Selected Agencies' Policies and Procedures for Estimating Disaster Relief Improper Payments

Interactive graphic in PDF. For static versions and accompanying data, see appendix III.

The most common deficiencies we identified in the selected agencies' policies and procedures for estimating improper payments included a lack of requirements for the programs to (1) validate the populations of transactions before selecting the samples used to estimate improper payments and (2) maintain supporting documentation. For example, we found that 10 of the 22 programs we reviewed did not have policies and procedures that included key quality assurance procedures, such as reconciliations, to validate that the populations of transactions were complete and accurate before selecting the samples used to estimate improper payments. In addition, 14 of the selected 22 programs did not have policies and procedures that included a requirement to maintain sufficient documentation to support the improper payment estimates as required by OMB guidance. If key requirements for estimating improper payments are not documented in policies and procedures, agencies face an increased risk that their estimation processes as designed will not comply with the provisions of relevant laws and regulations or consistently produce reliable estimates that can help agencies improve stewardship of taxpayer dollars. The following sections provide further details on our findings at each of the five agencies.

HUD's Policies and Procedures Addressed Most, but Not All, Key Requirements for Estimating Improper Payments for Disaster Relief Funds

HUD documented its policies and procedures to estimate improper payments for the DRAA funds it received for its Community Development Block Grants – Disaster Recovery program (CDBG-DR), the only program it administered that received DRAA funds.¹⁷ However, as shown in table 2, we found that HUD's policies and procedures did not cover all key requirements.

¹⁷HUD reported two improper payment estimates for its CDBG-DR, one for fiscal year 2013 and one for fiscal year 2014, that involved different levels of review. HUD plans to use the fiscal year 2014 methodology for estimating CDBG-DR improper payments in future years. Because of this, we evaluated only the policies and procedures related to HUD's fiscal year 2014 improper payment estimate for CDBG-DR.

Table 2: Summary of Department of Housing and Urban Development Policies and Procedures for Estimating Improper Payments for Disaster Relief Funds

	Community Development Block Grants – Disaster Recovery
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y
Did the policies and procedures:	
Clearly identify roles and responsibilities for estimating improper payments?	Y
Define improper payments consistently with IPIA, as amended, and Appendix C?	Y
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	N
Include steps to assess the completeness of the population used for selecting the samples to be tested?	N
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Y
Require the agency to maintain sufficient documentation to support improper payment estimates?	Y
If the agency is using a statistical methodology, did the policies and procedures:	
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	N/A ^a
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	N/A ^a
If the agency is using an alternative methodology, did the policies and procedures:	
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	Y

Legend: HUD = Department of Housing and Urban Development; IPIA = Improper Payments Information Act of 2002; N = No; N/A = Not applicable; Y = Yes.

Source: GAO analysis of HUD policies and procedures. | GAO-15-209

^aN/A because HUD is not using a statistical methodology to estimate improper payments for this program.

HUD's policies and procedures for estimating improper payments consist of its improper payment protocol for DRAA funds and its grantee monitoring exhibits, which are tools used in conducting grantee monitoring. These policies and procedures address most of the key requirements for estimating improper payments. For example, the grantee monitoring exhibits provide detailed guidance to the officials responsible for performing the grantee reviews regarding the required testing steps. Further, HUD's policies and procedures define roles and responsibilities for the officials responsible for performing grantee reviews; documenting, reviewing, and approving test results; and concurring with judgments and conclusions made by grantee reviewers. In addition, HUD's protocol provides guidance on the procedures for identifying errors and lists examples of documentation required to substantiate payments.

However, we identified areas where HUD's improper payment policies and procedures could be improved. For example, HUD's policies and procedures did not include key quality assurance procedures to assess the completeness of the population used for selecting transactions to be tested. In addition, HUD's policies and procedures did not require the inclusion of payments to federal employees, such as travel pay, in the population of transactions subject to testing for the purpose of estimating improper payments. HUD officials acknowledged that the policies and procedures did not address payments to federal employees and stated that they considered their quality assurance procedures to be sufficient. By not including key quality assurance procedures, such as reconciliations to validate that the population of transactions is complete and accurate before selecting transactions to test, HUD is at an increased risk of excluding DRAA-funded transactions from its improper payment testing and estimation processes. Additionally, by not having requirements in its policies and procedures to test payments to federal employees, HUD risks being noncompliant with IPIA, as amended, and HUD's estimate of DRAA improper payments may be understated.

DOT's Policies and Procedures Did Not Address All Key Requirements for Estimating Improper Payments for Disaster Relief Funds

DOT documented its policies and procedures to estimate improper payments for each of the five programs that received DRAA funds. However, as shown in table 3, we found that these policies and procedures did not cover many key requirements for estimating improper payments.

Table 3: Summary of Department of Transportation Policies and Procedures for Estimating Improper Payments for Disaster Relief Funds by Program

	FAA – Facilities and Equipment Program – Disaster Relief Act	FHWA – Emergency Relief Program – Hurricane Sandy	FHWA – Federal – Aid Grant Program	FTA – Public Transit Emergency Relief Program – Disaster Relief Act	FRA – Grants to the National Railroad Passenger Corporation Program – Disaster Relief Act
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y	Y	Y	Y	Y
Did the policies and procedures:					
Clearly identify roles and responsibilities for estimating improper payments?	Partially ^a	Partially ^b	Partially ^b	N	N
Define improper payments consistently with IPIA, as amended and Appendix C?	Partially ^c	Partially ^d	Partially ^d	N	N
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	N	N	N	N	N
Include steps to assess the completeness of the population used for selecting the samples to be tested?	N	N	N	N	N
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Y	Y	Y	Y	Y
Require the agency to maintain sufficient documentation to support improper payment estimates?	N	Y	Y	N	N
If the agency is using a statistical methodology, did the policies and procedures:					
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	N	N	N	N	N
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	N	N	N	N	N

	FAA – Facilities and Equipment Program – Disaster Relief Act	FHWA – Emergency Relief Program – Hurricane Sandy	FHWA – Federal – Aid Grant Program	FTA – Public Transit Emergency Relief Program – Disaster Relief Act	FRA – Grants to the National Railroad Passenger Corporation Program – Disaster Relief Act
If the agency is using an alternative methodology, did the policies and procedures:					
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	N/A ^e	N/A ^e	N/A ^e	N/A ^e	N/A ^e

Legend: DOT = Department of Transportation; FAA = Federal Aviation Administration; FHWA = Federal Highway Administration; FRA = Federal Railroad Administration; FTA = Federal Transit Administration; IPIA = Improper Payments Information Act of 2002; N = No; N/A = Not applicable; Y = Yes.

Source: GAO analysis of DOT policies and procedures. | GAO-15-209

^aFAA policies and procedures indicated that FAA will test for improper payments under DOT guidance. FAA policies and procedures did not clearly identify roles and responsibilities for all involved, including who is to perform payment review or supervisory review procedures.

^bFHWA policies and procedures indicated that DOT uses a consultant to conduct improper payment testing and noted the consultant's responsibilities. However, the policies and procedures did not identify the roles and responsibilities of FHWA or DOT officials.

^cFAA policies and procedures did not include underpayments or payments that lack sufficient supporting documentation in the definition of "improper payments."

^dFHWA policies and procedures did not include underpayments in the definition of "improper payments."

^eN/A because DOT is not using an alternative (nonstatistical) methodology to estimate improper payments for this program.

DOT developed a testing results workbook for each of the 5 programs that received DRAA funding. These workbooks provide information about improper payment testing objectives, program requirements, the process for determining an error, and guidance on calculating improper payment amounts. Further, the Federal Aviation Administration maintained a financial manual that described its internal control activities and programs. The Federal Highway Administration (FHWA) established a risk-based financial management oversight program that includes improper payment testing. FHWA developed guidance for implementing this oversight program, which included identifying roles and responsibilities for estimating improper payments, and FHWA officials stated that they used the guidance to estimate improper payments for its two programs that received DRAA funds (Emergency Relief and Federal-Aid). However, we found that the policies and procedures contained in the workbooks and guidance did not cover all of the key requirements for estimating improper payments. For example, these policies and

procedures did not require the inclusion of payments to federal employees in the populations of transactions that are subject to the improper payment testing, require a consultation with a statistician to ensure the validity of the sample and measurement methodologies, address the statistical precision requirements outlined in OMB Circular No. A-123, or include key quality assurance procedures to assess the completeness of the populations used for selecting transactions to be tested.

DOT officials stated that the department uses a contractor to develop the improper payment estimates for the five programs that received DRAA funding. The contract outlines the responsibilities of the contractor and does not provide direction to DOT officials regarding their roles and responsibilities and the procedures needed at the agency level for its end-to-end improper payment estimation process. Although the organization may rely on an outsourced service provider to carry out processes, policies, and procedures on behalf of the entity, management retains ultimate responsibility for designing and maintaining effective internal control and ensuring that the contractor's work meets legal and other requirements. Internal policies are therefore necessary to capture the agency's end-to-end process for estimating improper payments and provide detailed directions to all parties involved in the improper payment estimation process, including the contracting officer's technical representative responsible for reviewing, validating, and approving the work performed by the contractor.

DOT officials provided additional documents as further evidence of its policies and procedures. However, these were also insufficient, as discussed below.

- DOT officials provided a copy of slides used in training on estimating improper payments. However, training is used as a tool to educate and refresh staff on formal policies and procedures that have been previously developed and documented and is not a substitute for the policies themselves. Documented policies and procedures are necessary to ensure that the agency's requirements are communicated to all staff and enforceable by management in achieving the agency's objectives on an ongoing basis.
- Federal Railroad Administration officials provided us with a copy of its *Grants Management Manual*, which provided guidance for the processing and management of grants, including high-level responsibilities for the grant monitoring process and the recovery of improper payments. However, this document did not provide

information on the process the administration follows for estimating its improper payment rates.

- Federal Transit Administration officials provided us with a copy of its *Grants Making and Grants Management Tool Kit*. This document provided guidance regarding the management of the DRAA grants and the recipient requirements; however, it did not provide information about the administration's improper payment estimation process.

DHS's Policies and Procedures Addressed Most, but Not All, Key Requirements for Estimating Improper Payments for Disaster Relief Funds

DHS documented policies and procedures for estimating improper payments for its programs, including 12 that received DRAA funding. However, as shown in table 4, we found that DHS's policies and procedures did not cover all key requirements for estimating improper payments.

Table 4: Summary of Department of Homeland Security Policies and Procedures for Estimating Improper Payments for Disaster Relief Funds by Program

	FEMA – Disaster Case Management	FEMA – Disaster Relief Fund Travel Payments	FEMA – Hazard Mitigation Grants	FEMA – Public Assistance	FEMA – Urban Search and Rescue	FEMA – Vendor Payments
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y	Y	Y	Y	Y	Y
Did the policies and procedures:						
Clearly identify roles and responsibilities for estimating improper payments?	Y	Y	Y	Y	Y	Y
Define improper payments consistently with IPIA, as amended, and Appendix C?	Y	Y	Y	Y	Y	Y
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	Y	Y	Y	Y	Y	Y
Include steps to assess the completeness of the population used for selecting the samples to be tested?	Y	Y	Y	Y	Y	Y
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Y	Y	Y	Y	Y	Y
Require the agency to maintain sufficient documentation to support improper payment estimates?	N	N	N	N	N	N
If the agency is using a statistical methodology, did the policies and procedures:						
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	N/A ^a	Y	N/A ^a	N/A ^a	N/A ^a	Y
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	N/A ^a	Partially ^b	N/A ^a	N/A ^a	N/A ^a	Partially ^b
If the agency is using an alternative methodology, did the policies and procedures:						
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	N/A ^c	N/A ^c	N/A ^c	Y	N/A ^c	N/A ^c

	FEMA – Individuals and Households Program – Hurricane Sandy	FEMA – Hurricane Sandy Payroll	FEMA – Government Charge Card	CBP – Hurricane Sandy	NPPD – Hurricane Sandy	USCG – Hurricane Sandy
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y	Y	Y	Y	Y	Y
Did the policies and procedures:						
Clearly identify roles and responsibilities for estimating improper payments?	Y	Y	Y	Y	Y	Y
Define improper payments consistently with IPIA, as amended, and Appendix C?	Y	Y	Y	Y	Y	Y
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	Y	Y	Y	Y	Y	Y
Include steps to assess the completeness of the population used for selecting the samples to be tested?	Y	Y	Y	Y	Y	Y
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Y	Y	Y	Y	Y	Y
Require the agency to maintain sufficient documentation to support improper payment estimates?	N	Y	N	N	Y	Y
If the agency is using a statistical methodology, did policies and procedures:						
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	Y	Y	N/A ^a	N/A ^a	Y	Y
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	Partially ^b	Partially ^b	N/A ^a	N/A ^a	Partially ^b	Partially ^b
If the agency is using an alternative methodology, did the policies and procedures:						
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	N/A ^c	N/A ^c	Y	N/A ^c	N/A ^c	N/A ^c

Legend: CBP = Customs and Border Protection; DHS = Department of Homeland Security; FEMA = Federal Emergency Management Agency; IPIA = Improper Payments Information Act of 2002; N = No; N/A = Not applicable; NPPD = National Protection and Programs Directorate; USCG = U.S. Coast Guard; Y = Yes.

Source: GAO analysis of DHS policies and procedures. | GAO-15-209

^aN/A because DHS is not using a statistical methodology to estimate improper payments for this program.

^bDHS policies and procedures stated that DHS's Office of the Chief Financial Officer will work with a statistician to perform a statistical analysis of DHS component test results, not to ensure the validity of sample design, size, or methodology.

^cN/A because DHS is not using an alternative (nonstatistical) approach to estimate improper payments for this program.

DHS developed the *Improper Payment Reduction Guidebook*, which provides agency-wide policies and procedures for estimating and reporting on improper payments. This guidebook includes a section specific to Hurricane Sandy requirements. In addition, DHS's guidebook requires programs to develop test plans for estimating improper payments. These policies and procedures address most of the key requirements for estimating improper payments. For example, DHS's policies and procedures define improper payments consistently with IPERIA and OMB guidance, clearly identify roles and responsibilities for estimating improper payments, and require a reconciliation of the populations of transactions to ensure that they are complete. However, neither DHS's agency-wide policies and procedures nor 9 of the 12 program-level test plans we reviewed included a requirement for DHS officials to maintain sufficient documentation to support DHS's improper payment estimates. In addition, DHS policies and procedures stated that statistical support will be provided to the programs; however, they did not require that the statistician validate the programs' sample design, size, and methodology. DHS officials stated that these requirements were not explicitly stated in the *Improper Payment Reduction Guidebook*, but they considered them to be addressed either implicitly or by records retention guidance. However, after we discussed these issues with DHS officials, DHS subsequently revised the guidebook accordingly to include these requirements. DHS officials stated that they plan to implement the revised guidebook in fiscal year 2015.

USACE's Policies and Procedures Did Not Address All Key Requirements for Estimating Improper Payments for Disaster Relief Funds

USACE documented policies and procedures for estimating improper payments related to two programs: Commercial Pay and Travel Pay. The Department of Defense's (DOD) *Financial Management Regulation* provides the department-wide policy for estimating improper payments.¹⁸ In addition, USACE developed a standard operating procedure (SOP) and commercial pay program review procedures for improper payments. However, as shown in table 5, we found that these USACE policies and procedures did not cover all key requirements for estimating improper payments.

¹⁸Department of Defense, "Improper Payments," ch. 14 in *Financial Management Regulation*, 7000.14-R (FMR), vol. 4 (October 2012), 1-17.

Table 5: Summary of U.S. Army Corps of Engineers Policies and Procedures for Estimating Improper Payments for Disaster Relief Funds by Program

	Commercial Pay	Travel Pay
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y	Y
Did the policies and procedures:		
Clearly identify roles and responsibilities for estimating improper payments?	Y	Y
Define improper payments consistently with IPIA, as amended, and Appendix C?	Partially ^a	Partially ^a
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	N	N
Include steps to assess the completeness of the population used for selecting the samples to be tested?	N	N
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Y	N
Require the agency to maintain sufficient documentation to support improper payment estimates?	Y	Partially ^b
If the agency is using a statistical methodology, did the policies and procedures:		
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	Y	Y
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	Y	Y
If the agency is using an alternative methodology, did the policies and procedures:		
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	N/A ^c	N/A ^c

Legend: DOD = Department of Defense; IPIA = Improper Payments Information Act of 2002; N = No; N/A = Not applicable; USACE = U.S. Army Corps of Engineers Y = Yes.

Source: GAO analysis of USACE and DOD policies and procedures. | GAO-15-209

^aThe DOD *Financial Management Regulation* did not fully define "improper payment" but clarified that the terms "improper" and "erroneous" are not interchangeable. USACE policies and procedures defined "improper payment" consistently with IPIA, as amended, and Appendix C to Office of Management and Budget Circular No. A-123, but were not consistent with the Financial Management Regulation. USACE policies and procedures referred to "erroneous payments" throughout the document.

^bDOD policies and procedures required the Improper Payment Project Officer to retain supporting documentation for the agency financial report and other reports. USACE policies and procedures required the agency to record the results of testing in a database but did not require USACE to maintain support for the results.

^cN/A because USACE is not using an alternative (nonstatistical) methodology to estimate improper payments for this program.

USACE's policies and procedures clearly identified roles and responsibilities for estimating improper payments; required a consultation with a statistician to validate the sample design, sample size, and methodology; and provided sufficient procedures for determining an error for its Commercial Pay program. USACE officials stated that they considered the policies and procedures to be sufficient in addressing the key requirements. However, we found that the policies and procedures

did not include certain key quality assurance procedures, such as reconciliations, to validate that the populations were complete and accurate before selecting the samples used to estimate improper payments. USACE officials indicated that they reconcile the populations of commercial and travel pay transactions to a general ledger trial balance to ensure that the populations are complete. They acknowledged that their policies and procedures did not require this reconciliation to be performed. In addition, USACE's policies did not provide sufficient procedures for identifying errors in its Travel Pay program. USACE's improper payments SOP states that 100 percent of travel vouchers greater than \$2,500 are to be audited, and travel vouchers less than \$2,500 are randomly sampled for audit. However, USACE's SOP did not include detailed procedures for testing these travel payments, such as procedures for identifying errors or the documentation necessary to substantiate payments. Further, USACE's policies and procedures did not require including payments to federal employees in the population of transactions that are subject to the improper payment testing. Because its policies and procedures did not address all key requirements for estimating improper payments, USACE faces an increased risk that its estimation processes as designed will not comply with the provisions of relevant laws and regulations or consistently produce reliable estimates that can help improve stewardship of taxpayer dollars.

SBA Policies and Procedures Did Not Address All Key Requirements for Estimating Improper Payments for Disaster Relief Funds

SBA only provided documented policies and procedures for estimating improper payments for the Disaster Assistance Loans program, one of its two programs that received DRAA funding. SBA officials explained that they did not have policies and procedures for estimating improper payments for the Office of Entrepreneurial Development (OED) Grants program, which also received DRAA funding, because it was the first time that this program was estimating improper payments, and thus SBA had not yet documented policies and procedures for this process. However, as shown in table 6, we found that SBA's policies and procedures for its Disaster Assistance Loans program also did not cover many of the key requirements for estimating improper payments.

Table 6: Summary of Small Business Administration Policies and Procedures for Estimating Improper Payments for Disaster Relief Funds by Program

	Disaster Assistance Loans	Office of Entrepreneurial Development Grants
Had the agency developed policies and procedures for estimating improper payments related to the Disaster Relief Appropriations Act, 2013?	Y	N
Did the policies and procedures:		
Clearly identify roles and responsibilities for estimating improper payments?	Y	N
Define improper payments consistently with IPIA, as amended, and Appendix C?	N	N
Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?	N	N
Include steps to assess the completeness of the population used for selecting the samples to be tested?	N	N
Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?	Partially ^a	N
Require the agency to maintain sufficient documentation to support improper payment estimates?	N	N
If the agency is using a statistical methodology, did the policies and procedures:		
Require that the sampling methodologies meet the precision requirements outlined in Appendix C?	N	N
Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?	Y	N
If the agency is using an alternative methodology, did the policies and procedures:		
Require the agency to obtain Office of Management and Budget approval prior to the implementation of its alternative sampling methodology?	N/A ^b	N/A ^b

Legend: IPIA = Improper Payments Information Act of 2002; N = No; N/A = Not applicable; SBA = Small Business Administration; Y = Yes.

Source: GAO analysis of SBA policies and procedures. | GAO-15-209

^aSBA policies and procedures covered only one type of improper payment: disaster assistance loans that do not meet underwriting or eligibility requirements.

^bN/A because SBA is not using an alternative (nonstatistical) methodology to estimate improper payments for this program.

For its Disaster Assistance Loans program, SBA developed the *IPERA Testing and Estimating Procedures*, which outlines roles and responsibilities for estimating improper payments. SBA has also issued an internal memorandum that provides a brief summary of procedures followed by SBA's quality control reviewers for its loan program to resolve exceptions found by the quality control department. This memorandum refers to the eligibility requirements contained in SBA's SOP 50-30-7. The SOP provides direction to staff for the management of SBA's Disaster Assistance Loans program.

SBA's *IPERA Testing and Estimating Procedures* requires consultation with a statistician to validate the sampling design and methodology. In

addition, SOP 50-30-7 provides direction to reviewers for determining whether loan payments are being made to eligible recipients. This SOP did not provide instructions for the quality control reviewers to follow in testing, evaluating, and quantifying other types of improper payments such as underpayments, overpayments, and duplicative payments to loan recipients. Further, these SBA policies and procedures did not cover many of the key requirements for estimating improper payments. For example, they did not define improper payments consistent with Appendix C to OMB Circular No. A-123. SBA's internal memorandum defines an improper payment as a loan approval that does not meet the eligibility requirements in the SOP. However, eligibility is only one aspect of determining whether a payment was proper. Specifically, Appendix C to OMB Circular No. A-123 clarifies that improper payments can include certain payments to eligible recipients, such as payments that are for the incorrect amount and duplicate payments. Such types of improper payments were not captured or addressed in SBA's policies and procedures. Further, these policies and procedures (1) did not require the inclusion of payments to federal employees in the population of transactions that are subject to the improper payment testing; (2) did not include quality assurance procedures, such as reconciliations, to validate that the populations of transactions were complete and accurate; and (3) did not require SBA officials to maintain documentation to support SBA's improper payment estimate.

SBA officials also indicated that its sampling plans reflect SBA procedures for estimating improper payments. The information in SBA's fiscal year 2014 sampling plans is limited to the methodology used by SBA for that year to select the samples and did not reflect guidance to the responsible officials about the agency's official process for estimating improper payments that needs to be followed on an ongoing basis. Thus, these documents neither ensure consistency in the agency's improper payment estimating processes nor provide the necessary guidance to the responsible officials for how to carry out their responsibilities. Overall, SBA officials indicated that they did not consider it necessary to develop a separate policy for estimating improper payments because they considered the policies and procedures and sampling plans to be sufficient. However, as discussed above, the policies and procedures did not address several key requirements for estimating improper payments. Further, SOP 50-30-7 did not apply to the SBA's OED Grants program, which as previously noted, did not have policies and procedures for estimating improper payments. Because SBA had not developed policies and procedures for the OED Grants program and its policies and procedures for the Disaster Assistance Loans program did not address all

key requirements for estimating improper payments, SBA faces an increased risk that its estimation processes as designed will not comply with the provisions of relevant laws and regulations or consistently produce reliable estimates that can help improve stewardship of taxpayer dollars.

Conclusions

DRAA included approximately \$50 billion in supplemental appropriations for expenses related to the consequences of Hurricane Sandy and other purposes and required agencies to estimate improper payments for these funds. The five agencies we selected for review planned to estimate improper payments related to a total of 22 programs that received disaster relief appropriations for fiscal year 2014. These agencies used a variety of approaches to estimate improper payments for the DRAA funding. Improper payment estimates can be a critical program management tool for understanding and addressing financial vulnerabilities. While the five selected agencies have developed policies and procedures for estimating improper payments for all but one program that received DRAA funding, they did not address numerous key requirements for these estimates. If key requirements for estimating improper payments are not appropriately documented in policies and procedures, agencies face an increased risk that their estimation processes as designed will not comply with the provisions of relevant laws and regulations or consistently produce reliable estimates that can help agencies improve stewardship of taxpayer dollars.

Recommendations for Executive Action

To help reduce the risk that improper payment estimates related to DRAA funding developed and reported by selected agencies may not be accurate or reliable, we are making the following recommendations to four of the five agencies we reviewed.

To help ensure that HUD produces reliable estimates of its DRAA improper payments, the Secretary of Housing and Urban Development should direct appropriate officials to take the following two actions to revise its policies and procedures for estimating improper payments:

- require payments to federal employees to be included in populations for testing as required by IPIA, as amended, and
- include steps to assess the completeness of the population of transactions used for selecting the samples to be tested.

To help ensure that DOT produces reliable estimates of its DRAA improper payments, the Secretary of Transportation should direct the Administrators of the Federal Aviation Administration, Federal Highway Administration, Federal Railroad Administration, and Federal Transit Administration to take the following seven actions, as applicable to each administration, to revise their policies and procedures for estimating improper payments:

- clearly identify roles and responsibilities for estimating improper payments;
- define improper payments consistently with IPIA, as amended, and OMB Circular No. A-123, Appendix C;
- require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
- include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
- require the agency to maintain sufficient documentation to support improper payment estimates;
- require that the sampling methodologies meet the precision requirements outlined in OMB Circular No. A-123, Appendix C; and
- require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology.

To help ensure that USACE produces reliable estimates of its DRAA improper payments, the Secretary of the Army should direct the Chief of Engineers and Commanding General of USACE to take the following five actions to revise policies and procedures for estimating improper payments:

- define improper payments consistently with IPIA, as amended, and OMB Circular No. A-123, Appendix C;
- require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
- include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
- provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment; and
- require the agency to maintain sufficient documentation to support improper payment estimates.

To help ensure that SBA produces reliable estimates of its DRAA improper payments, the Administrator of SBA should direct the appropriate officials to take the following eight actions to develop policies and procedures for the OED Grants program to estimate improper payments:

- clearly identify roles and responsibilities for estimating improper payments;
- define improper payments consistently with IPIA, as amended, and OMB Circular No. A-123, Appendix C;
- require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
- include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
- provide sufficient procedures for determining an error and what documentation is necessary to substantiate a payment;
- require the agency to maintain sufficient documentation to support improper payment estimates;
- require that the sampling methodologies meet the precision requirements outlined in OMB Circular No. A-123, Appendix C; and
- require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology.

To help ensure that SBA produces reliable estimates of its DRAA improper payments, the Administrator of SBA should direct the appropriate officials to take the following six actions to revise its Disaster Assistance Loans program policies and procedures for estimating improper payments:

- define improper payments consistently with IPIA, as amended, and OMB Circular No. A-123, Appendix C;
- require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
- include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
- provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment;

-
- require the agency to maintain sufficient documentation to support improper payment estimates; and
 - require that the sampling methodologies meet the precision requirements outlined in OMB Circular No. A-123, Appendix C.

Agency Comments and Our Evaluation

We provided a draft of this report to HUD, DOT, DHS, USACE, SBA, and OMB for comment. HUD, DOT, DHS, USACE, and SBA provided written comments, which are reprinted in appendixes IV through VIII, respectively. DOT also provided technical comments, which we incorporated as appropriate. OMB's audit liaison provided an e-mailed response.

In their written comments, HUD and USACE concurred with our recommendations and noted actions either planned or already under way to address our recommendations. Although there were no recommendations made to DHS, the agency cited action it is taking to further reduce improper payments.

In its written comments, SBA stated that our findings may be misleading because we did not review SBA's implementation of improper payment requirements but instead limited our review to a high-level assessment of the policies and procedures developed by agencies as guidance for preparation of their improper payment estimates. The scope and methodology section of our report clearly states that we only assessed the design of the policies and procedures and did not test agencies' implementation of them. SBA did not explicitly concur with our recommendations but stated that it would address them by including a chapter on improper payments as it updates its standard operating procedures for internal controls.

In its written comments, DOT stated that it had provided GAO with materials that, in its opinion, addressed all the key requirements for estimating improper payments. We discuss in our report why these materials did not constitute adequate policies and procedures. Nevertheless, DOT agreed with GAO's recommendations and said it will consolidate its improper payment policies and procedures into a department-wide framework.

On February 3, 2015, OMB's audit liaison stated in an e-mail that OMB generally agreed with our report and will work with agencies to improve

documentation in their policies and procedures in estimating their improper payments.

We are sending copies of this report to interested congressional committees, the Secretary of Housing and Urban Development, the Secretary of Transportation, the Secretary of Homeland Security, the Secretary of Defense, the Administrator of the Small Business Administration, and the Director of the Office of Management and Budget. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made significant contributions to this report are listed in appendix IX.



Beryl H. Davis
Director
Financial Management and Assurance

Appendix I: Scope and Methodology

To address our objectives, we selected five agencies for review based on the amount of Disaster Relief Appropriations Act, 2013 (DRAA) funding received by each agency and any existing improper payment issues for programs receiving funding. Specifically, we selected for review the Departments of Housing and Urban Development (HUD), Transportation, and Homeland Security; and the Army Corps of Engineers (USACE)¹ because of the amount of funding received, and we selected the Small Business Administration (SBA) because of the amount of DRAA funds it received and the high error rate currently reported for its Disaster Assistance Loans program.² Collectively, these five agencies received approximately 94 percent of the funding provided in DRAA and planned to estimate improper payments related to these funds for 22 programs. To determine how the selected agencies estimated improper payments for DRAA in their fiscal year 2014 annual reporting, we obtained and reviewed the agencies' improper payment sampling plans, conducted interviews with agency officials, and reviewed agencies' fiscal year 2014 agency financial reports.

To determine the extent to which selected agencies had developed policies and procedures for estimating improper payments for DRAA, we identified relevant key requirements governing the process agencies are required to follow to estimate improper payments. We selected these requirements by reviewing the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).³ We also reviewed Appendix C to Office of Management and Budget (OMB) Circular No. A-123, *Requirements for Effective Measurement and Remediation of Improper Payments*.⁴ Appendix C provides government-wide guidance for complying

¹USACE is a component of the Department of the Army. For purposes of this report, we treat USACE as an agency.

²In fiscal year 2013, SBA reported an error rate of 18.4 percent for the Disaster Assistance Loans program. For fiscal year 2014, SBA reported an error rate of 12.0 percent.

³IPIA, Pub. L. No. 107-300 (Nov. 26, 2002), *as amended by* IPERA, Pub. L. No. 111-204 (July 22, 2010), and IPERIA, Pub. L. No. 112-248 (Jan. 10, 2013) (IPIA, *as amended*), *and codified as amended at* 31 U.S.C. § 3321 note.

⁴Office of Management and Budget, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, OMB Memorandum No. M-11-16 (Washington, D.C.: Apr. 14, 2011) (M-11-16). M-11-16 has been superseded by Office of Management and Budget, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, OMB Memorandum No. M-15-02 (Washington, D.C.: Oct. 20, 2014) but was the applicable guidance during the period examined in our performance audit.

with IPIA, as amended by IPERA, which requires agencies, among other things, to estimate improper payments based on a statistically valid sample or an alternative methodology with the approval of OMB. In addition, we reviewed *Standards for Internal Control in the Federal Government* to identify key controls necessary to help ensure that the reported improper payment information is reliable.⁵ Based on our review of these sources, we identified 10 key requirements that could affect the quality and reliability of improper payment estimates, including the definition of an improper payment, consistency in testing for improper payments, statistical precision, and quality assurance procedures. We interviewed OMB officials to confirm our understanding of the relevant sources from which we identified these key requirements. We then reviewed the selected agencies' policies and procedures for estimating improper payments for DRAA funds to determine whether they addressed the key requirements.

We did not review DRAA funds provided to the inspectors general offices (IG) at any of the five agencies we selected for review. We also did not inquire whether the IGs planned to report estimates of any improper payments associated with these funds. The DRAA funds provided to the IGs are to be used for the oversight of the agencies' use of the DRAA funding; in relation to the total amount of supplemental appropriations provided to agencies, these amounts were not significant. Therefore, we decided to exclude the IG programs and activities and any related improper payment estimates from the scope of our engagement. Further, HUD reported two improper payment estimates for its Community Development Block Grant – Disaster Recovery (CDBG-DR) program, one for fiscal year 2013 and one for fiscal year 2014, that involved different levels of review. HUD plans to use the fiscal year 2014 methodology for estimating CDBG-DR improper payments in future years. Because of this, we evaluated only the policies and procedures related to HUD's fiscal year 2014 improper payment estimate for CDBG-DR. We did not test the implementation of the agency policies and procedures and therefore cannot attest to whether the estimates reported in the agencies' fiscal year 2014 agency financial reports were reliable. Our review only assessed the design of the policies and procedures developed to guide the preparation of these estimates.

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

We conducted this performance audit from April 2014 to February 2015 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.

Appendix II: Selected Agencies' Fiscal Year 2014 Improper Payment Estimates for Disaster Relief Funds

Table 7 provides a summary of selected agencies' fiscal year 2014 improper payment estimates for disaster relief funds.

Table 7: Selected Agencies' Fiscal Year 2014 Improper Payment Estimates for Disaster Relief Funds (dollars in millions)

Agency	Program	Improper payment estimate	Improper payment error rate	Program outlays
Department of Housing and Urban Development ^a	Community Development Block Grants – Disaster Recovery	\$19	1.1%	\$1,642
	Federal Highway Administration (FHWA) Federal-Aid Grants ^b	43	0.1%	\$42,933
Department of Transportation	Federal Railroad Administration – Grants to the National Railroad Passenger Corporation – Disaster Relief Act	1	0.4%	134
	Federal Transit Administration – Public Transit Emergency Relief – Disaster Relief Act	0	0.0%	544
	FHWA – Emergency Relief – Hurricane Sandy	0	0.0%	154
	Federal Aviation Administration – Facilities and Equipment – Disaster Relief Act	0	0.0%	10
	Federal Emergency Management Agency (FEMA) – Public Assistance ^b	64	1.3%	4,915
Department of Homeland Security	FEMA – Individuals and Households – Hurricane Sandy	57	3.7%	1,559
	FEMA – Disaster Relief Fund Vendor Payments ^b	33	6.6%	503
	FEMA – Hurricane Sandy Payroll	2	0.6%	249
	U.S. Coast Guard – Hurricane Sandy	1	4.1%	19
	FEMA – Disaster Relief Fund Travel Payments	0	0.2%	179
	FEMA – Government Charge Card ^b	0	8.0%	3
	FEMA – Urban Search and Rescue	0	0.0%	9
	National Protection and Programs Directorate – Hurricane Sandy	0	0.3%	8
	FEMA – Disaster Case Management	0	0.0%	4
	Customs and Border Protection – Hurricane Sandy	0	0.0%	0
	FEMA – Hazard Mitigation Grants	0	0.0%	0
U.S. Army Corps of Engineers	Travel Pay ^b	1	0.4%	150
	Commercial Pay ^b	0	0.0%	18,700
Small Business Administration	Disaster Assistance Loans ^b	70	12.0%	586
	Office of Entrepreneurial Development Grants	0	3.0%	6

Source: GAO analysis of agencies' fiscal year 2014 improper payment reporting. | GAO-15-209

Note: For consistency, dollar amounts and percentages were rounded to the nearest million and hundredth, respectively.

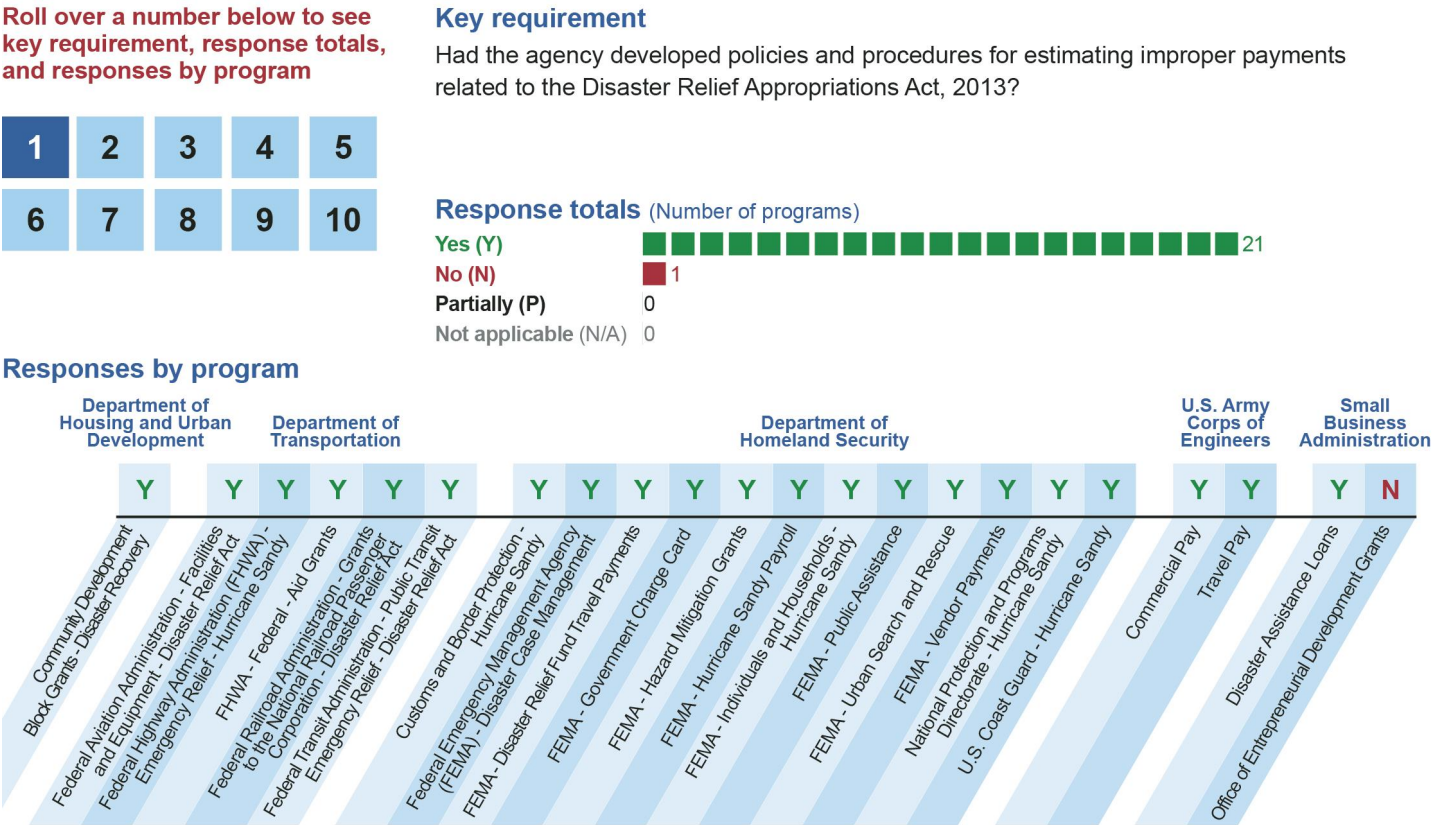
^aThe Department of Housing and Urban Development received an extension on the issuance of its agency financial report to March 1, 2015. However, this extension did not apply to the improper payment section of the report.

**Appendix II: Selected Agencies' Fiscal Year
2014 Improper Payment Estimates for Disaster
Relief Funds**

^bThe outlays and improper payment estimates for these programs include funding from the Disaster Relief Appropriations Act, 2013, and other sources.

Appendix III: Full Text for Figure 4

Figure 5: Full Text for Figure 4 – Key Requirement 1



Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 5: Full Text for Figure 4 – Key Requirement 1

Response totals (number of programs):

Yes – 21

No – 1

Partially – 0

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	Y
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	Y
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	Y
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	Y
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	Y
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	Y
DOT - FHWA Federal-Aid Grants Program	Y
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

Figure 6: Full Text for Figure 4 – Key Requirement 2

Roll over a number below to see key requirement, response totals, and responses by program




1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Clearly identify roles and responsibilities for estimating improper payments?

Response totals (Number of programs)

Yes (Y)  16
 No (N)  3
 Partially (P)  3
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration	
Y		P ^a	P ^b	P ^b	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Community Development Block Grants - Disaster Recovery																				
Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act																				
Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy																				
FHWA - Federal - Aid Grants																				
Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act																				
Federal Transit Administration - Disaster Relief Act																				
Customs and Border Protection - Hurricane Sandy																				
Federal Emergency Management Agency (FEMA) - Disaster Case Management																				
FEMA - Disaster Relief Fund Travel Payments																				
FEMA - Government Charge Card																				
FEMA - Hazard Mitigation Grants																				
FEMA - Hurricane Sandy Payroll																				
FEMA - Individuals and Households - Hurricane Sandy																				
FEMA - Public Assistance																				
FEMA - Urban Search and Rescue																				
FEMA - Vendor Payments																				
National Protection and Programs Directorate - Hurricane Sandy																				
U.S. Coast Guard - Hurricane Sandy																				
Commercial Pay																				
Travel Pay																				
Disaster Assistance Loans																				
Office of Entrepreneurial Development Grants																				

^aFAA policies and procedures indicated that FAA will test for improper payments under DOT guidance. FAA policies and procedures did not clearly identify roles and responsibilities for all involved, including who is to perform payment review or supervisory review procedures.

^bFHWA policies and procedures indicated that DOT uses a consultant to conduct improper payment testing and noted the consultant's responsibilities. However, the policies and procedures did not identify the roles and responsibilities of FHWA or DOT officials.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 6: Full Text for Figure 4 – Key Requirement 2

Response totals (number of programs):

Yes – 16

No – 3

Partially – 3

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	Y
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	Y
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	Partially ^a
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	Partially ^b
DOT - FHWA Federal-Aid Grants Program	Partially ^b
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

^aFAA policies and procedures indicated that FAA will test for improper payments under DOT guidance. FAA policies and procedures did not clearly identify roles and responsibilities for all involved, including who is to perform payment review or supervisory review procedures.

^bFHWA policies and procedures indicated that DOT uses a consultant to conduct improper payment testing and noted the consultant's responsibilities. However, the policies and procedures did not identify the roles and responsibilities of FHWA or DOT officials.

Figure 7: Full Text for Figure 4 – Key Requirement 3

Roll over a number below to see key requirement, response totals, and responses by program




1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Define improper payments consistently with IPIA, as amended, and Office of Management and Budget Circular No. A-123, Appendix C?

Response totals (Number of programs)

Yes (Y)  13
 No (N)  4
 Partially (P)  5
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation		Department of Homeland Security												U.S. Army Corps of Engineers		Small Business Administration	
Y	P ^c	P ^d	P ^d	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	P ^e	P ^e	N	N
Community Development Block Grants - Disaster Recovery																			
Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act																			
Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy																			
FHWA - Federal - Aid Grants																			
Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act																			
Federal Transit Administration - Disaster Relief Act																			
Customs and Border Protection - Hurricane Sandy																			
Federal Emergency Management Agency (FEMA) - Disaster Case Management																			
FEMA - Disaster Relief Fund Travel Payments																			
FEMA - Government Charge Card																			
FEMA - Hazard Mitigation Grants																			
FEMA - Hurricane Sandy Payroll																			
FEMA - Individuals and Households - Hurricane Sandy																			
FEMA - Public Assistance																			
FEMA - Urban Search and Rescue																			
FEMA - Vendor Payments																			
National Protection and Programs Directorate - Hurricane Sandy																			
U.S. Coast Guard - Hurricane Sandy																			
Commercial Pay																			
Travel Pay																			
Disaster Assistance Loans																			
Office of Entrepreneurial Development Grants																			

^cFAA policies and procedures did not include underpayments or payments that lack sufficient supporting documentation in the definition of "improper payments."

^dFHWA policies and procedures did not include underpayments in the definition of "improper payments."

^eThe DOD *Financial Management Regulation* did not fully define "improper payment" but clarified that the terms "improper" and "erroneous" are not interchangeable. USACE policies and procedures defined "improper payment" consistently with IPIA, as amended, and Appendix C to Office of Management and Budget Circular No. A-123, but were not consistent with the *Financial Management Regulation*. USACE policies and procedures referred to "erroneous payments" throughout the document.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 7: Full Text for Figure 4 – Key Requirement 3

Response totals (number of programs):

Yes – 13

No – 4

Partially – 5

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	Partially ^e
USACE Travel Pay	Partially ^e
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	Partially ^c
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	Partially ^d
DOT - FHWA Federal-Aid Grants Program	Partially ^d
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

^cFAA policies and procedures did not include underpayments or payments that lack sufficient supporting documentation in the definition of "improper payments."

^dFHWA policies and procedures did not include underpayments in the definition of "improper payments."

^eThe DOD *Financial Management Regulation* did not fully define "improper payment" but clarified that the terms "improper" and "erroneous" are not interchangeable. USACE policies and procedures defined "improper payment" consistent with IPIA, as amended, and Appendix C to OMB Circular No. A-123, but were not consistent with the *Financial Management Regulation*. USACE policies and procedures referred to "erroneous payments" throughout the document.

Figure 8: Full Text for Figure 4 – Key Requirement 4

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Require payments to federal employees to be included in populations for testing as required by IPIA, as amended?

Response totals (Number of programs)

Yes (Y) 12
 No (N) 10
 Partially (P) 0
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration		
N		N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Community Development Block Grants - Disaster Recovery		Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 8: Full Text for Figure 4 – Key Requirement 4

Response totals (number of programs):

Yes – 12

No – 10

Partially – 0

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	N
U.S. Army Corps of Engineers (USACE) Commercial Pay	N
USACE Travel Pay	N
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	N
DOT - FHWA Federal-Aid Grants Program	N
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

Figure 9: Full Text for Figure 4 – Key Requirement 5

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Include steps to assess the completeness of the population used for selecting the samples to be tested?

Response totals (Number of programs)

Yes (Y) 12
 No (N) 10
 Partially (P) 0
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation						Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration		
N		N	N	N	N	N		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Community Development Block Grants - Disaster Recovery		Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	FEMA - Vendor Payments	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 9: Full Text for Figure 4 – Key Requirement 5

Response totals (number of programs):

Yes – 12

No – 10

Partially – 0

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	N
U.S. Army Corps of Engineers (USACE) Commercial Pay	N
USACE Travel Pay	N
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	N
DOT - FHWA Federal-Aid Grants Program	N
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

Figure 10: Full Text for Figure 4 – Key Requirement 6

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment?

Response totals (Number of programs)

Yes (Y)  19
 No (N)  2
 Partially (P)  1
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration			
Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	P ^f	N	
Community Development Block Grants - Disaster Recovery		Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	FEMA - Vendor Payments	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

^f SBA policies and procedures covered only one type of improper payment: disaster assistance loans that do not meet underwriting or eligibility requirements.

Data Table for Figure 10: Full Text for Figure 4 – Key Requirement 6

Response totals (number of programs):

Yes – 19

No – 2

Partially – 1

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	Partially ^f
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	N
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	Y
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	Y
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	Y
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	Y
DOT - FHWA Federal-Aid Grants Program	Y
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	Y
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	Y
DHS - FEMA Disaster Case Management Program	Y
DHS - FEMA Hazard Mitigation Grant Program	Y
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	Y

^fSBA policies and procedures covered only one type of improper payment: disaster assistance loans that do not meet underwriting or eligibility requirements.

Figure 11: Full Text for Figure 4 – Key Requirement 7

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

Did the policies and procedures:

Require the agency to maintain sufficient documentation to support improper payment estimates?

Response totals (Number of programs)

Yes (Y)  7
 No (N)  14
 Partially (P)  1
 Not applicable (N/A) 0

Responses by program

Department of Housing and Urban Development		Department of Transportation				Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration				
Y	N	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	N	Y	Y	Y	P ^g	N	N	
Community Development Block Grants - Disaster Recovery		Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	FEMA - Vendor Payments	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

^gDOD policies and procedures required the Improper Payment Project Officer to retain supporting documentation for the agency financial report and other reports. USACE policies and procedures required the agency to record the results of testing in a database but did not require USACE to maintain support for the results.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 11: Full Text for Figure 4 – Key Requirement 7

Response totals (number of programs):

Yes – 7

No – 14

Partially – 1

N/A - 0

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	Partially ⁹
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	Y
DOT - FHWA Federal-Aid Grants Program	Y
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	N
DHS – FEMA Disaster Relief Fund Travel Payments	N
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	N
DHS - Customs and Border Protection - Hurricane Sandy	N
DHS - FEMA Public Assistance	N
DHS - FEMA Urban Search and Rescue	N
DHS - FEMA Disaster Case Management Program	N
DHS - FEMA Hazard Mitigation Grant Program	N
DHS - FEMA Government Charge Card	N
DHS - FEMA Sandy Payroll	Y

⁹DOD policies and procedures required the Improper Payment Project Officer to retain supporting documentation for the agency financial report and other reports. USACE policies and procedures required the agency to record the results of testing in a database but did not require USACE to maintain support for the results.

Figure 12: Full Text for Figure 4 – Key Requirement 8

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

If the agency is using a statistical methodology, did the policies and procedures: Require that the sampling methodologies meet the precision requirements outlined in Appendix C?

Response totals (Number of programs)

Yes (Y)  8

No (N)  7

Partially (P) 0

Not applicable (N/A)  7

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration		
N/A ^h	N	N	N	N	N	N/A ^h	N/A ^h	Y	N/A ^h	N/A ^h	Y	Y	N/A ^h	N/A ^h	Y	Y	Y	Y	Y	N	N
Community Development Block Grants - Disaster Recovery	Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	FEMA - Vendor Payments	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

^h N/A because the agency is not using a statistical methodology to estimate improper payments for this program.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 12: Full Text for Figure 4 – Key Requirement 8

Response totals (number of programs):

Yes – 8

No – 7

Partially – 0

N/A - 7

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	N/A ^h
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	Y
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	N
DOT - FHWA Federal-Aid Grants Program	N
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Y
DHS – FEMA Disaster Relief Fund Travel Payments	Y
DHS - U.S. Coast Guard – Hurricane Sandy	Y
DHS - National Protection and Programs Directorate - Hurricane Sandy	Y
DHS - FEMA Individuals and Households - Hurricane Sandy	Y
DHS - Customs and Border Protection - Hurricane Sandy	N/A ^h
DHS - FEMA Public Assistance	N/A ^h
DHS - FEMA Urban Search and Rescue	N/A ^h
DHS - FEMA Disaster Case Management Program	N/A ^h
DHS - FEMA Hazard Mitigation Grant Program	N/A ^h
DHS - FEMA Government Charge Card	N/A ^h
DHS - FEMA Sandy Payroll	Y

^hN/A because the agency is not using a statistical methodology to estimate improper payments for this program.

Figure 13: Full Text for Figure 4 – Key Requirement 9



Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

If the agency is using a statistical methodology, did the policies and procedures: Require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement methodology?

Response totals (Number of programs)

Yes (Y)  3
 No (N)  6
 Partially (P)  6
 Not applicable (N/A)  7

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration		
N/A ^h	N	N	N	N	N	N/A ^h	N/A ^h	P ⁱ	N/A ^h	N/A ^h	P ⁱ	P ⁱ	N/A ^h	N/A ^h	P ⁱ	P ⁱ	P ⁱ	Y	Y	Y	N
Community Development Block Grants - Disaster Recovery	Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act	Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy	FHWA - Federal - Aid Grants	Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Federal Transit Administration - Public Transit Emergency Relief - Disaster Relief Act	Customs and Border Protection - Hurricane Sandy	Federal Emergency Management Agency (FEMA) - Disaster Case Management	FEMA - Disaster Relief Fund Travel Payments	FEMA - Government Charge Card	FEMA - Hazard Mitigation Grants	FEMA - Hurricane Sandy Payroll	FEMA - Individuals and Households - Hurricane Sandy	FEMA - Public Assistance	FEMA - Urban Search and Rescue	FEMA - Vendor Payments	National Protection and Programs Directorate - Hurricane Sandy	U.S. Coast Guard - Hurricane Sandy	Commercial Pay	Travel Pay	Disaster Assistance Loans	Office of Entrepreneurial Development Grants

^h N/A because the agency is not using a statistical methodology to estimate improper payments for this program.

ⁱ DHS policies and procedures state that DHS's Office of the Chief Financial Officer will work with a statistician to perform a statistical analysis of DHS component test results, not to ensure the validity of sample design, size, or methodology.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 13: Full Text for Figure 4 – Key Requirement 9

Response totals (number of programs):

Yes – 3

No – 6

Partially – 6

N/A - 7

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	Y
SBA Office of Entrepreneurial Development Grants	N
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	N/A ^h
U.S. Army Corps of Engineers (USACE) Commercial Pay	Y
USACE Travel Pay	Y
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	N
DOT - FHWA Federal-Aid Grants Program	N
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	Partially ⁱ
DHS – FEMA Disaster Relief Fund Travel Payments	Partially ⁱ
DHS - U.S. Coast Guard – Hurricane Sandy	Partially ⁱ
DHS - National Protection and Programs Directorate - Hurricane Sandy	Partially ⁱ
DHS - FEMA Individuals and Households - Hurricane Sandy	Partially ⁱ
DHS - Customs and Border Protection - Hurricane Sandy	N/A ^h
DHS - FEMA Public Assistance	N/A ^h
DHS - FEMA Urban Search and Rescue	N/A ^h
DHS - FEMA Disaster Case Management Program	N/A ^h
DHS - FEMA Hazard Mitigation Grant Program	N/A ^h
DHS - FEMA Government Charge Card	N/A ^h
DHS - FEMA Sandy Payroll	Partially ⁱ

^hN/A because the agency is not using a statistical methodology to estimate improper payments for this program.

ⁱDHS policies and procedures state that DHS's Office of the Chief Financial Officer will work with a statistician to perform a statistical analysis of DHS component test results, not to ensure the validity of sample design, size, or methodology.

Figure 14: Full Text for Figure 4 – Key Requirement 10

Roll over a number below to see key requirement, response totals, and responses by program

1	2	3	4	5
6	7	8	9	10

Key requirement

If the agency is using an alternative methodology, did the policies and procedures: Require the agency to obtain OMB approval prior to the implementation of its alternative sampling methodology?

Response totals (Number of programs)

Yes (Y) ■ ■ ■ 3
 No (N) 0
 Partially (P) 0
 Not applicable (N/A) ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ ■ 19

Responses by program

Department of Housing and Urban Development		Department of Transportation					Department of Homeland Security										U.S. Army Corps of Engineers		Small Business Administration	
Y	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j	Y	N/A ^j	N/A ^j	N/A ^j	N/A ^j	Y	N/A ^j	N/A ^j	N/A ^j	N/A ^j	N/A ^j
Community Development Block Grants - Disaster Recovery																				
Federal Aviation Administration - Facilities and Equipment - Disaster Relief Act																				
Federal Highway Administration (FHWA) - Emergency Relief - Hurricane Sandy																				
FHWA - Federal - Aid Grants																				
Federal Railroad Administration - Grants to the National Railroad Passenger Corporation - Disaster Relief Act																				
Federal Transit Administration - Disaster Relief Act																				
Customs and Border Protection - Hurricane Sandy																				
Federal Emergency Management Agency (FEMA) - Disaster Case Management																				
FEMA - Disaster Relief Fund Travel Payments																				
FEMA - Government Charge Card																				
FEMA - Hazard Mitigation Grants																				
FEMA - Hurricane Sandy Grants																				
FEMA - Individuals and Households - Hurricane Sandy																				
FEMA - Public Assistance																				
FEMA - Urban Search and Rescue																				
FEMA - Vendor Payments																				
National Protection and Programs Directorate - Hurricane Sandy																				
U.S. Coast Guard - Hurricane Sandy																				
Commercial Pay																				
Travel Pay																				
Disaster Assistance Loans																				
Office of Entrepreneurial Development Grants																				

^j N/A because the agency is not using an alternative (nonstatistical) approach to estimate improper payments for this program.

Source: GAO analysis of agencies' policies and procedures. | GAO-15-209

Data Table for Figure 14: Full Text for Figure 4 – Key Requirement 10

Response totals (number of programs):

Yes – 3

No – 0

Partially – 0

N/A - 19

Agency	Program
Small Business Administration (SBA) Disaster Assistance Loans Program	N/A ^j
SBA Office of Entrepreneurial Development Grants	N/A ^j
Department of Housing and Urban Development Community Development Block Grants Program - Disaster Recovery	Y
U.S. Army Corps of Engineers (USACE) Commercial Pay	N/A ^j
USACE Travel Pay	N/A ^j
Department of Transportation (DOT) – Federal Aviation Administration Facilities and Equipment Program - Disaster Relief Act	N/A ^j
DOT – Federal Railroad Administration Grants to the National Passenger Railroad Corporation Program - Disaster Relief Act	N/A ^j
DOT – Federal Transit Administration Public Transit Emergency Relief Program - Disaster Relief Act	N/A ^j
DOT – Federal Highway Administration (FHWA) Emergency Relief Program - Hurricane Sandy	N/A ^j
DOT - FHWA Federal-Aid Grants Program	N/A ^j
Department of Homeland Security (DHS) – Federal Emergency Management Agency (FEMA) Vendor Payments	N/A ^j
DHS – FEMA Disaster Relief Fund Travel Payments	N/A ^j
DHS - U.S. Coast Guard – Hurricane Sandy	N/A ^j
DHS - National Protection and Programs Directorate - Hurricane Sandy	N/A ^j
DHS - FEMA Individuals and Households - Hurricane Sandy	N/A ^j
DHS - Customs and Border Protection - Hurricane Sandy	N/A ^j
DHS - FEMA Public Assistance	Y
DHS - FEMA Urban Search and Rescue	N/A ^j
DHS - FEMA Disaster Case Management Program	N/A ^j
DHS - FEMA Hazard Mitigation Grant Program	N/A ^j
DHS - FEMA Government Charge Card	Y
DHS - FEMA Sandy Payroll	N/A ^j

^jN/A because the agency is not using an alternative (nonstatistical) methodology to estimate improper payments for this program.

Appendix IV: Comments from the Department of Housing and Urban Development



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

FEB 09 2015

Ms. Beryl H. Davis
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Davis:

On behalf of Secretary Julián Castro, thank you for the opportunity to provide comments in response to the Government Accountability Office's (GAO) draft report entitled "Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments (February 2015) (GAO-15-209)". The Department concurs with the GAO recommendations that HUD's policies and procedures for the estimation of improper payments under the Disaster Relief Appropriations Act, 2013 (the Act) be revised to explicitly account for two elements identified by GAO as key requirements. Specifically, GAO recommends that the Department's policies and procedures for its estimate of improper payments under the Act account for payments to federal employees as well as include key quality assurance procedures to assess the completeness of the population used to select samples for calculating the estimate.

Following enactment of the Act, the Department moved aggressively to implement provisions that require the reporting of improper payment estimates for Community Development Block Grant disaster recovery (CDBG-DR) funds provided to States and local governments under the Act. The Department's fiscal year 2014 improper payments estimate, using the alternative methodology approved by OMB, was 1.15 percent. In addition to implementation of the Act's improper payment requirements, the Department has allocated the full \$15.18 billion made available under the Act, to assist State and local governments in their recovery from Hurricane Sandy and other presidentially declared disasters occurring in 2011, 2012, and 2013. As part of its internal control plan for management of these funds, the Department has also implemented an unprecedented monitoring and technical assistance strategy. Under this strategy, the Department conducts on-site, biannual monitoring reviews of the largest recipients of funds under the Act, while also providing on-site, biannual technical assistance to these grantees to ensure on-going compliance with applicable Federal requirements.

www.hud.gov

espanol.hud.gov

Below are responses to the recommendation that GAO has made to the Department:

1. To help ensure the HUD produces reliable estimates of its DRAA improper payments, the Secretary of HUD should direct appropriate officials to take the following two actions to revise its policies and procedures for estimating improper payments:
 - require payments to federal employees to be included in populations for testing as required by IPIA, as amended, and
 - include steps to assess the completeness of the population of transactions used for selecting samples to be tested.

HUD Response:

With regard to the inclusion of payments to federal employees in populations to be tested, CPD will work with HUD's Office of the Chief Financial Officer to update the Department's policies and procedures for the estimation of its improper payments under the Act, in order to account for the testing of payments to federal employees. As part of its consideration of these transactions, the Department will assess existing, compensating controls on these payments.

To ensure the completeness of the population of transactions used for selecting samples, CPD will revise the monitoring exhibits that are used to identify improper payments to direct HUD reviewers so that the full universe of transactions by a grantee since the last monitoring review are made available to the reviewer for purposes of sampling transactions.

The Department appreciates the opportunity to respond to this draft report. If you have any questions regarding CPD's response, please contact Mr. Stanley Gimont, Office of Block Grant Assistance, at (202) 708-3587.

Sincerely,



Marion Mollegen McFadden
Deputy Assistant Secretary
for Grant Programs

Appendix V: Comments from the Department of Transportation



U.S. Department
of Transportation
Office of the Secretary
of Transportation

Assistant Secretary
for Administration

1200 New Jersey Avenue, SE
Washington, DC 20590

FEB 11 2015

Beryl H. Davis
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

The *Standards for Internal Control in the Federal Government* (Standards) define internal controls as the set of plans, methods, and procedures and that management is responsible for developing controls to fit their agency operations. The Standards further state that internal control is not a single event, but the outcome of a process: a series of actions that occur throughout an operation and on an ongoing basis.

To demonstrate efforts in implementing the Standards, DOT:

- Provided GAO with plans, methods, and procedures that, in our opinion, address all key requirements for estimating improper payments;
- Established and continue to refine its plans, methods, and procedures comprising of internal controls related to improper payments following the enactment of the Improper Payments Information Act (IPIA) of 2002;
- Ensured that Disaster Relief Appropriations Act funds met IPIA requirements; and,
- Plans to consolidate its improper payments policies and procedures into a department-wide framework.

Upon preliminary review, the Department agrees with the GAO recommendations. We will provide a detailed response to the recommendations within 60 days of the GAO report issuance.

We appreciate the opportunity to offer additional perspective on GAO's draft report. Please contact Patrick Nemons, Deputy Director of Audit Relations, at (202) 366-4986 with any questions or if GAO would like to obtain additional details about these comments.

Sincerely,

Keith Washington
Acting Assistant Secretary for Administration

Appendix VI: Comments from the Department of Homeland Security



February 2, 2015

Beryl (Berri) H. Davis
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Re: Draft Report GAO-15-209, "DISASTER RELIEF: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments"

Dear Ms. Davis:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO) work in planning and conducting its review and issuing this report.

DHS is pleased with GAO's recognition that "DHS policies and procedures define improper payments consistently with IPERIA [Improper Payment Elimination and Recover Improvement Act] and OMB [Office of Management and Budget] guidance, clearly identify roles and responsibilities for estimating improper payments, and require a reconciliation of the populations of transactions to ensure that they are complete." It is also important to note:

- During Fiscal Year (FY) 2014, DHS conducted risk assessments on nearly \$63 billion of FY 2013 disbursements and subsequent statistical testing resulting in a less than 1 percent estimated error rate for all DHS programs, including those related to Hurricane Sandy. This compares to the FY 2013 government wide error rate of 3.58%.
- For five years in a row, KPMG LLP, the Department's independent auditor, has not found any instances of noncompliance with IPERIA and its predecessor law the Improper Payments Information Act of 2002.¹

¹ See also GAO, "Improper Payments: Inspector General Reporting of Agency Compliance under the Improper Payments Elimination and Recovery Act," GAO-15-87R (Washington, D.C.: December 9, 2014).

We also noted that none of the 28 recommendations in this report were directed to DHS. The Department is committed to reducing payment errors further and reclaiming funds associated with improper payments as a critical component of its stewardship and protection of taxpayer dollars. For example, the Department's Chief Financial Officer and other senior staff have incorporated improper payment reduction targets in their annual performance plans.

In addition, a Payment Management Working Group was established, in part, to allow internal control, procurement, and payment management experts to jointly address improper payment issues. This includes working closely with OMB and representatives from the DHS Office of the Inspector General, as appropriate. Simply stated, waste, fraud, and abuse by entities receiving DHS payments will not be tolerated.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.

Sincerely,



Jim H. Crumpacker, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

Appendix VII: Comments from the U.S. Army Corps of Engineers



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET, NW
WASHINGTON, D.C. 20314-1000

January 28, 2015

Ms. Beryl H. Davis
Director, Director, Financial Management
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Ms. Davis:

The U.S. Army Corps of Engineers has reviewed GAO Draft Report GAO-15-209, 'DISASTER RELIEF: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments,' dated January 9, 2015 (GAO Code 197243).

Accordingly, the U.S. Army Corps of Engineers official written comments responding to the draft report are enclosed for inclusion in the final report. Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended to the Corps by your staff in the conduct of this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Robin A. Baldwin".

Robin A. Baldwin
Chief of Staff,
Directorate of Contracting

Enclosure

GAO DRAFT REPORT DATED JANUARY 9, 2015
GAO-15-209 (GAO CODE 197243)

“DISASTER RELIEF: AGENCIES NEED TO IMPROVE POLICIES
AND PROCEDURES FOR ESTIMATING IMPROPER PAYMENTS”

U.S. ARMY CORPS OF ENGINEERS (USACE) COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Secretary of the Army direct the Chief of Engineers and Commanding General of the U.S. Army Corps of Engineers to take the following five actions to revise policies and procedures for estimating improper payments:

- Define improper payments consistently with IPIA, as amended, and OMB Circular A-123, Appendix C;
- Require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
- Include steps to assess the completeness of the population of the transactions used for selecting the samples to be tested;
- Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment; and
- Require the agency to maintain sufficient documentation to support improper payment estimates.

USACE RESPONSE:

- Define improper payments consistently with IPIA, as amended, and OMB Circular A-123, Appendix C. **Concur.** The Department of Defense (DoD) Financial Management Regulation (FMR) Volume 4, Chapter 14, “Improper Payments,” is currently being updated to include the definition of “improper payments”. Once the DOD FMR update is published, U.S. Army Corps of Engineers (USACE) guidance/procedures will be updated within 60.
- Require payments to federal employees to be included in populations for testing as required by IPIA, as amended. **Concur.** Payments made to Federal employees made by the USACE Finance Center (travel only) are included in the population for testing as required by IPIA as amended.
- Include steps to assess the completeness of the population of the transactions used for selecting the samples to be tested. **Concur.** USACE processes will be updated by 30 June 2015 to include r to comply with this recommendation.
- Provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment. **Concur.** USACE documentation will be updated by 30 June 2015 to comply with the recommendation.

2

- Require the agency to maintain sufficient documentation to support improper payment estimates. **Concur.** USACE documentation requirements will be updated by 30 June 2015 to comply with this recommendation.

Appendix VIII: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

January 29, 2015

Ms. Beryl H. Davis
Director
Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Subject: GAO-15-209, Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments

Dear Ms. Davis:

We appreciate the opportunity to provide comments to the Government Accountability Office's (GAO) draft report GAO-15-209, entitled *Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments*. GAO was asked to review agencies' efforts to estimate improper payments for expenses related to Hurricane Sandy for Fiscal Year 2014 and beyond. GAO selected the Small Business Administration and four other agencies to review, including the Departments of Housing and Urban Development (HUD), Transportation (DOT), and Homeland Security (DHS), and the Army Corps of Engineers (USACE).

The GAO's draft report states that SBA's policies and procedures for its Disaster Assistance Loan Program do not cover key requirements for estimating improper payments. Although SBA does not have written policies or procedures that repeat the requirements of the Improper Payments Information Act, as amended (IPIA), and the guidance contained in Appendix C to OMB Circular No. A-123, SBA follows those requirements for estimating improper payments. In addition, sampling plans and methodologies for the Disaster Assistance Loan Program and the Entrepreneurial Development Disaster Assistance grants program have been reviewed by OMB's Office of Federal Financial Management, an OMB program examiner, and an OMB statistician. Based on those reviews, OMB approved SBA's methodology for the Disaster Assistance Loan program beginning with Fiscal Year 2012 reporting and the methodology for the Entrepreneurial Development Grants program beginning with Fiscal Year 2014 reporting.

The GAO's audit was limited to a high level assessment of the policies and procedures developed by agencies as guidance for preparation of their improper payment estimates for Fiscal Year 2014, and therefore did not address SBA's actual improper payment practices or estimates. Because of the audit's focus on policies rather than practice, SBA believes that Table 6, "Summary of SBA Policies and Procedures for Estimating Improper Payments for Disaster

Ms. Beryl H. Davis
Page 2

Relief Funds by Program,” may be misleading. Since most categories are marked “No,” it may appear to a reader that SBA did not follow the requirements for estimating improper payments, which is not the case. Most of the items described in the table were included in the sampling plans and methodologies which were reviewed and approved by OMB; however, these plans were not considered by GAO since the audit was limited to a high level assessment of agency written policies. SBA requests that GAO add a footnote to Table 6 clearly indicating that GAO did not test the implementation of SBA’s improper payment plans and methodologies.

SBA has made it a top priority to reduce improper payments, specifically within its Disaster Assistance Loan Program, and efforts over recent years have had a positive impact. We have reduced the improper payment error rate for that program from a high of 34.2 percent in Fiscal Year 2010, down to 12 percent in Fiscal Year 2014.

Recommendations

The GAO report recommends that SBA take the following six actions to revise its Disaster Assistance Loan program policies and procedures for estimating improper payments:

1. define improper payments consistently with IPIA, as amended, and OMB Circular A-123, Appendix C;
2. require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
3. include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
4. provide sufficient procedures for determining an error and what documentation is necessary to substantiate payment;
5. require the agency to maintain sufficient documentation to support improper payment estimates; and
6. require that the sampling methodologies meet the precision requirements outlined in OMB Circular A-123, Appendix C.

The GAO report also recommends that SBA take the following eight actions to develop policies and procedures for the Office of Entrepreneurial Development Grants program to estimate improper payments:

1. clearly identify roles and responsibilities for estimating improper payments;
2. define improper payments consistently with IPIA, as amended, and OMB Circular A-123 Appendix C;
3. require payments to federal employees to be included in populations for testing as required by IPIA, as amended;
4. include steps to assess the completeness of the population of transactions used for selecting the samples to be tested;
5. provide sufficient procedures for determining an error and what documentation is necessary to substantiate a payment;

Ms. Beryl H. Davis
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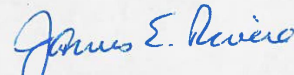
6. require the agency to maintain sufficient documentation to support improper payment estimates;
7. require that the sampling methodologies meet the precision requirements outlined in OMB Circular A-123, Appendix C; and
8. require a consultation with a statistician to ensure the validity of sample design, sample size, and measurement.

SBA Response to Recommendations

SBA is in the process of updating our Standard Operating Procedures for Internal Controls and we will be including a chapter on Improper Payments, which will address GAO's recommendations.



Tami Perriello
Associate Administrator for Performance
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James E. Rivera
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Office of Disaster Assistance

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

Beryl H. Davis, (202) 512-2623 or davisbh@gao.gov

Staff Acknowledgments

In addition to the contact named above, Phillip McIntyre (Assistant Director), Omar V. Torres (Auditor-in-Charge), Sarah Florino, Maxine Hattery, James Healy, Jason Kelly, Diana Lee, Ricky A. Perry, Jr., and Cynthia Saunders made significant contributions to this report.

Appendix X: Accessible Data

Data Table for Figure 1: Distribution of Appropriations Provided by the Disaster Relief Appropriations Act, 2013

Agency	Amount Appropriated (in millions of dollars)
Department of Housing and Urban Development	\$16,000
Department of Transportation	\$13,070
Department of Homeland Security	\$12,072
U.S. Army Corps of Engineers - Civil	\$5350
Department of the Interior	\$829
Small Business Administration	\$804
Department of Health and Human Services	\$800
Environmental Protection Agency	\$608
Remaining 11 agencies	\$977

Data Table for Figure 3: Agencies' Approaches for Estimating Improper Payments Related to Disaster Relief Appropriations Act, 2013, Funds in Their Fiscal Year 2014 Agency Financial Reports

DCI Question Agency and Program	Reported Method of Presentation for Disaster Relief Funding Improper Payment Estimate	Reported Estimation Methodology Type	Reported Estimation Sampling Window
SBA Disaster Assistance Loans	Group and report within existing program estimate	Statistical	07/01/13 - 06/30/14
SBA Office of Entrepreneurial Development Grants	Separate	Statistical	04/01/13 - 03/31/14
HUD Community Development Block Grants - Disaster Recovery	Separate	Alternative	10/01/13 - 09/30/14
USACE Commercial Pay	Group and report within existing program estimate	Statistical	09/01/13 - 08/31/14
USACE Travel Pay	Group and report within existing program estimate	Statistical	09/01/13 - 08/31/14
DOT - FAA Facilities and Equipment - Disaster Relief Act	Separate	Statistical	02/01/13 - 03/31/14
DOT - FRA Grants to the National Railroad Passenger Corporation - Disaster Relief Act	Separate	Statistical	02/01/13 - 03/31/14

DCI Question Agency and Program	Reported Method of Presentation for Disaster Relief Funding Improper Payment Estimate	Reported Estimation Methodology Type	Reported Estimation Sampling Window
DOT - FTA Public Transit Emergency Relief - Disaster Relief Act	Separate	Statistical	02/01/13 - 03/31/14
DOT - FHWA Emergency Relief - Hurricane Sandy	Separate	Statistical	02/01/13 - 03/31/14
DOT - FHWA Federal-Aid Grants	Group and report within existing program estimate	Statistical	04/01/13 - 03/31/14
DHS - FEMA Vendor Payments	Group and report within existing program estimate	Statistical	10/01/12 - 09/30/13
DHS - FEMA Disaster Relief Fund Travel Payments	Separate	Statistical	10/01/12 - 09/30/13
DHS - U.S. Coast Guard - Sandy	Separate	Statistical	10/01/12 - 09/30/13
DHS - National Protection and Programs Directorate - Hurricane Sandy	Separate	Statistical	10/01/12 - 09/30/13
DHS - FEMA Individuals and Households - Hurricane Sandy	Separate	Statistical	01/01/13 - 09/30/13
DHS - Customs and Border Protection - Hurricane Sandy	Separate	100 percent tested	10/01/12 - 09/30/13
DHS - FEMA Public Assistance	Group and report within existing program estimate	Alternative	10/01/12 - 09/30/13
DHS - FEMA Urban Search and Rescue	Separate	100 percent tested	10/01/12 - 09/30/13
DHS - FEMA Disaster Case Management	Separate	100 percent tested	10/01/12 - 09/30/13
DHS - FEMA - Government Charge Card	Group and report within existing program estimate	Alternative	09/12/13 - 08/12/14
DHS - FEMA - Hurricane Sandy Payroll	Separate	Statistical	10/01/12 - 09/30/13
DHS - FEMA Hazard Mitigation Grants	Separate	100 percent tested	10/01/12 - 09/30/13

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