

VOLUME 4, CHAPTER 14: “PAYMENT INTEGRITY”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [May 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0	Replaced the list of Department of Defense (DoD) Payment Integrity programs with a new section on DoD Program Payment Integrity Activities by Phases.	Addition
3.0	Updated the Compliance with Payment Integrity Information Act (PIIA) requirements section; and added Table 14.1 “DoD Program Compliance Requirements by Payment Integrity Phase Classification.”	Revision
4.2.5	Added baseline and reduction target responsibilities.	Addition
5.2.3.1	Added the current threshold determination for High-Priority Programs and moved the definition to subparagraph 5.2.3.1.	Revision
6.0.1.1	Added Confirmed Fraud Reporting.	Addition
7.0	Added Office of Management and Budget Circular A-136 Payment Integrity reporting requirements.	Addition
8.1	Added the definition of Baseline.	Addition
8.4	Added the definition of a Recovery Audit.	Addition
8.7	Added the definition of the Tolerable Improper Payment and Unknown Payment Rate.	Addition
8.8	Added the definition of an Unknown Payment.	Addition

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CHAPTER 14

PAYMENT INTEGRITY

1.0 GENERAL

1.1 Overview

This chapter establishes policy for the Department of Defense's (DoD) Payment Integrity portfolio. The portfolio comprises separate Payment Integrity programs that report improper payment and unknown payment risk assessments or statistical estimates. These programs include disbursements related to pay and benefits, commercial goods and services, health care, military retirement, and travel, which collectively encompass the majority of payments made by DoD annually in accordance with the Payment Integrity Information Act of 2019 (PIIA). Refer to the Federal Government [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) website for a complete listing of DoD Payment Integrity programs. PIIA repealed the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. The requirements for compliance with PIIA are described in the Office of Management and Budget (OMB) Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," and OMB Circular A-136, "Financial Reporting Requirements," or their successor publications.

1.2 Purpose

The purpose of this policy is to provide guidance to the DoD Components (i.e., Military Services, Defense Agencies, DoD Field Activities, and Combatant Commands) to implement the requirements from the authorities identified in paragraph 1.3. This policy applies to all DoD Components who make "payments" (as defined in the PIIA).

1.3 Authoritative Guidance

1.3.1 [Public Law, 116-117, PIIA](#)1.3.2. [Title 31, United States Code, Section 3351 et. seq](#)1.3.3. [OMB Circular No. A-123, Appendix C](#), "Requirements for Payment Integrity Improvement"1.3.4. [OMB Circular No. A-136](#), "Financial Reporting Requirements"***2.0 DoD PROGRAM PAYMENT INTEGRITY ACTIVITIES BY PHASE**

Programs with annual outlays greater than \$10,000,000 will be classified into one of two possible categories: Phase 1 or Phase 2. Programs that are not likely to have an annual amount of improper payments (IP) plus an annual unknown payments (UP) above the statutory threshold (which is either (1) both 1.5 percent of program outlays and \$10,000,000 of all program payments made during the fiscal year (FY) or (2) \$100,000,000, regardless of the IP percentage of total

program outlays) are referred to as being in Phase 1. If a program in Phase 1 determines that it is likely to annually make IPs plus UPs above the statutory threshold, then the program will move into Phase 2 the following year. Once in Phase 2, a program will have additional compliance requirements such as reporting an annual IP and UP estimate.

2.0.1. Phase 1 Payment Integrity Activities Performed by the DoD Components. PIIA requires that federal agencies assess all programs with annual outlays greater than \$10,000,000 for IP risk at least once every three years. The purpose of an IP risk assessment is to adequately conclude whether the program is likely to make total annual IPs plus UPs above or below the statutory threshold, and thus, may be susceptible to significant improper payments for the given year.

2.0.1.1. If the IP risk assessment demonstrates that the program is not likely to make IPs plus UPs above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another IP risk assessment in three years.

2.0.1.2. An IP risk assessment is a tool that can help a program understand the points within the payment process that may be vulnerable to IPs and UPs. The results of the IP risk assessment help identify weaknesses in internal controls that, if strengthened, could prevent future IPs and UPs from occurring. Establishing and maintaining effective internal controls, including an internal control system that prevents IPs and UPs from being made and promptly detects and recovers any IPs that are determined to be recoverable, should be a priority.

2.0.1.3. Programs must perform an adequate reconciliation of any population used in the creation of the IP risk assessment to conclude on the likelihood of the program being susceptible to significant improper payments. The reconciliation process should be documented in the IP risk assessment. See the *DoD Payment Integrity Risk Appetite Statement* for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered “complete.”

2.0.2. Phase 2 Payment Integrity Activities Performed by the DoD Components. If the results of a program’s IP risk assessment determine that the total annual IPs plus UPs for the program are likely to be above the statutory threshold, the program will report a statistically valid IP estimate and UP estimate in the subsequent FY in which the determination was made. Programs that report IP and UP estimates are referred to as being in ‘Phase 2’. The main purpose of an IP estimate is to reflect the annual estimated known IPs and UPs made by the program.

2.0.2.1. Sampling and Estimation Methodology Plan (S&EMP). Programs reporting IPs for the first time must produce a S&EMP. A program’s S&EMP should have a mechanism for identifying, accounting for, and estimating the annual IPs and the annual UPs separately. The program will be responsible for designing and documenting a S&EMP that produces an IP and UP estimate that is accurate and appropriate given program characteristics, and it will be the DoD Office of Inspector General’s (OIG) responsibility to evaluate whether the explanation provided by the program and the S&EMP without point estimates and confidence intervals around those estimates warrants compliance during the annual DoD OIG compliance

review. S&EMPs will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Components must work with a statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a S&EMP that produces a point estimate and confidence interval around the estimate, then it must include in their S&EMP a detailed explanation as to why it is not possible. Once a program has submitted a S&EMP to OMB, the program does not need to resubmit a S&EMP unless an update to the plan is warranted (i.e., if the program is impacted by any significant legislative, funding, structural, or guidance changes).

2.0.2.2. Programs must perform an adequate reconciliation of any population such as the disbursement systems used in the creation of the S&EMP. The reconciliation process should be documented in the S&EMP. See the [DoD Payment Integrity Risk Appetite Statement](#) for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered “complete.”

2.0.2.3. If a program is in Phase 2, has established a baseline, and reports an IP and UP estimate that is below the statutory threshold, it will automatically move back into Phase 1 the following FY unless the DoD OIG issued a noncompliance finding for the program in the previous year and the finding demonstrated that the program IP and UPs estimate was inaccurate and inappropriate given the program characteristics.

2.0.3. DoD Components will sample, conduct post payment reviews, estimate the amount of improper payments and unknown payments using statistically valid sampling methodologies, and report improper payments and unknown payments to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for reporting in the consolidated DoD Agency Financial Report (AFR) and the annual OMB Payment Integrity data call.

*3.0 COMPLIANCE WITH PIIA REQUIREMENTS

3.0.1. The DoD OIG, on an annual basis, will evaluate the Department’s compliance with the requirements under PIIA. The Department is not considered compliant under PIIA if one or more of its programs are found non-compliant with one or more PIIA requirements. Refer to Table 14.1 for applicable compliance requirements by program phase classification type (Phase 1 or Phase 2). The six PIIA requirements are:

3.0.1.1. Published a Payment Integrity section in the Other Information section of the consolidated DoD [AFR](#) for the most recent fiscal year and posted the consolidated AFR and any accompanying materials required by OMB. The payment integrity information that is published on [PaymentAccuracy.gov](#) is the most common accompanying materials to the annual DoD AFR and the primary location for the comprehensive detailed Department payment integrity program information. OUSD(C) Financial Management Policy and Reporting (FMPR) achieves the OMB and PIIA statutory requirements by reporting the Department’s payment integrity information through OMB’s Annual Data Call, which OMB subsequently publishes on [PaymentAccuracy.gov](#).

3.0.1.1.1. DoD Components are not required to include payment integrity information in their individual AFRs.

3.0.1.1.2. DoD Components must include the following statement under the Payment Integrity section in their individual AFRs: “DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) and to the Other Information section of the consolidated DoD AFR.”

3.0.1.2. Conducted a program-specific risk assessment for each DoD program or activity and adequately concluded whether the program is likely to make improper payments plus unknown payments above or below the statutory threshold.

3.0.1.3. Published improper payment and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the consolidated DoD AFR.

3.0.1.4. Published corrective action plans (CAPs) for each program susceptible to significant improper and unknown payments for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

3.0.1.5. Published a reduction target for each DoD program that has reported improper payment and unknown payment estimates above the statutory threshold, demonstrated improvements to payment integrity or reached a tolerable improper payment or unknown payment rate, and developed a plan to meet the established reduction target.

3.0.1.6. Reported an improper payment and unknown payment estimate of less than 10 percent for each DoD program and activity for which an improper payment and unknown payment estimate was published in the accompanying materials to the annual financial statement.

3.0.2. To be fully compliant with the PIIA, the DoD Components must meet each of the applicable requirements based on the program’s phase classification described in subparagraph 2.1.

Table 14.1 DoD Program Compliance Requirements by Payment Integrity Phase Classification

Program Phase	AFR Published In Accordance with OMB Guidance	Conducted Risk Assessment	Published Adequate Estimate	Published CAP	Published Reduction Targets	Reported Rate Under 10 Percent
Phase 1	✓	✓	N/A	N/A	N/A	N/A
Phase 2	✓	N/A	✓	✓	✓	✓

3.0.3. If the DoD OIG determines that a program is non-compliant for any requirement, then the final OIG report must provide concrete recommendations to the program or DoD Component with specific actions the program must take to achieve compliance with the requirement.

4.0 OUSD(C) ROLES/RESPONSIBILITIES

4.1 Financial Management Policy and Reporting Directorate Role

The Deputy Chief Financial Officer designated the FMPR Directorate as the Executive Agent (EA) for the DoD Payment Integrity [portfolio](#). As the EA for the DoD Payment Integrity [portfolio](#), the FMPR Directorate provides oversight to the DoD Components to ensure compliance with the authoritative guidance listed in paragraph 1.3. [Additionally, OUSD\(C\), FMPR must be notified by the audit agency of any stand-alone audits regarding Payment Integrity.](#)

4.2 FMPR Directorate Responsibilities

4.2.1. Interpret and provide [proactive](#) Payment Integrity related guidance [and strategy](#) to the DoD Components to ensure compliance with the authoritative guidance listed in section 3.0.

4.2.2. [Review, collaborate and coordinate Senior Executive approval \(as appropriate\) for the DoD Components' performance and execution of their program-specific risk assessments in determining the susceptibility to significant improper and unknown payments.](#)

4.2.3. [Review, collaborate and coordinate Senior Executive approval \(as appropriate\) for the DoD Components' statistical sampling plans and if required, submit them to OMB.](#)

4.2.4. [Coordinate progress in reducing monetary loss, and compile and submit quarterly High-Priority Program Quarterly Payment Integrity Scorecard reports to OMB on DoD programs and activities reporting more than \\$100 million projected in improper payments that resulted in monetary losses that are designated as "high-priority" by OMB.](#)

* [4.2.5. Establish and report baselines and subsequently collaborate with DoD Components to establish reduction targets and develop a plan to meet the reduction targets for applicable program\(s\).](#)

4.2.6. Review, [adjudicate](#), and consolidate the DoD Components' payment integrity data and report the consolidated results in the Payment Integrity section of the consolidated DoD AFR and to OMB [through their Annual Data Call](#).

4.2.7. Review the DoD Components' CAPs to ensure they are complete and link planned actions and improper payments [and unknown payments](#) to their root causes.

4.2.8. Review the DoD Components' CAP milestones to track and monitor progress.

4.2.9. Prepare and submit all DoD-wide reports regarding Payment Integrity.

4.2.10. Serve as the primary liaison for annual DoD [OIG performance audits](#) and Government Accountability Office (GAO) audits to ensure that all requested information is transmitted to the auditor in a timely manner and that the auditor recommendations are implemented.

4.2.11. Provide administrative and technical support to the DoD [PIIA Senior Accountable Officials \(SAOs\) Steering Committee](#). This committee comprises SAOs from the Military Services and several Defense Agencies responsible for proactive oversight of the DoD Payment Integrity program. [The SAO Steering Committee](#) implements best practices, monitors performance, and drives actions for achieving compliance with PIIA. [The OUSD\(C\) FMPR](#) schedules [the committee](#) meetings; prepares agendas and [briefing](#) materials; prepares [meeting](#) minutes; tracks action items to completion; and communicates necessary information to Committee members and stakeholders.

4.2.12. Ensure that the policy contained within the DoD Financial Management Regulation regarding Payment Integrity is current.

4.2.13. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

5.0 DoD COMPONENT ROLES/RESPONSIBILITIES

5.1 DoD Components' Role

The DoD Components ensure that their payments are valid, accurate, and complete. Additionally, the DoD Components ensure that their payments are subjected to post-payment reviews [that align with the Department's Payment Integrity lines of effort](#).

5.2 DoD Components' Responsibilities

5.2.1. [For each DoD program under Phase 1](#), conduct a program-specific risk assessment to determine if the DoD program or activity is susceptible to significant improper payments.

5.2.2. [For each DoD program under Phase 2 that has been](#) determined to be susceptible to significant improper payments, develop a statistically valid [S&EMP](#). In addition, implement the [S&EMP](#) to produce statistically valid improper payment [and unknown payment](#) estimates for all DoD programs and activities determined to be susceptible to significant improper payments.

5.2.2.1. [For the payment integrity programs in phase 2](#), the Defense Finance and Accounting Service (DFAS) Enterprise Solutions and Standards, Enterprise Accounting and Audit Support Office (EAAS) performs most of the annual post-payment reviews, with coordinated support and concurrence from the DoD Components and executive oversight from the OUSD(C), FMPR Payment Integrity team.

5.2.2.1.1. [The Army performs annual post-payment reviews of its travel payments and vendor payments that are outside the continental United States.](#)

5.2.2.1.2. The Department of the Air Force performs annual post-payment reviews of its travel payments that are made from the Reserve Travel System.

5.2.2.2. Ensure all payments are subject to improper and unknown payment testing either internally or through the sampling methodologies and post-payment review processes performed by the DFAS, Enterprise Solutions and Standards, EAAS Office. The PIIA does not require agencies to test payments made by a Federal agency to another Federal agency. Therefore, DoD Components are not required to test for intergovernmental and intragovernmental payments transactions and these payments may be excluded from all testing populations.

5.2.2.3. Report annual results of improper payments and unknown payments to OUSD(C), FMPR, for adjudication, consolidation, and reporting in the Payment Integrity section of the consolidated DoD AFR and to OMB through their Annual Data Call. DoD Intelligence Agencies must follow the Office of the Director of National Intelligence, National Intelligence Program, PIIA guidelines and reporting requirements. Classified payments are excluded from public reporting.

5.2.3. For programs or activities determined to be susceptible to significant improper payments and unknown payments above the statutory threshold designated by OMB, identify the root causes of improper payments and unknown payments and develop cost-effective CAPs that eliminate the root causes of improper payments and unknown payments and prevent and reduce improper payments and unknown payments.

* 5.2.3.1. Submit results on a quarterly basis to OUSD(C), FMPR, for consolidation and reporting in accordance with OMB for high-priority programs. This designation is for programs with improper payments resulting in monetary losses that exceed \$100 million annually. High-priority programs must provide quarterly Payment Integrity Scorecard reporting on PaymentAccuracy.gov.

5.2.3.2. Measure the effectiveness and progress of each CAP by assessing the results of actions taken to eliminate the root causes of improper payments and unknown payments.

5.2.4. Implement a cost-effective payment recovery program to recover improper overpayments that resulted in monetary losses.

5.2.5. Support the annual DoD OIG performance audit and relevant GAO audits in a timely manner by furnishing all required provided-by-client documentation, providing responses to auditor's inquiries, and implementing auditor recommendations.

5.2.5.1. Provide support for all ad-hoc requests from external oversight bodies (i.e., OMB, GAO, and Congress).

5.2.5.2. Notify OUSD(C), FMPR of any stand-alone audits regarding Payment Integrity that directly impact their Component.

5.2.6. Use the DNP Initiative resources to review payment or award eligibility for purposes of identifying and preventing improper payments.

5.2.7. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

6.0 OMB Circular No. A-123, Appendix C

DoD Components must implement the requirements in OMB Circular No. A-123, Appendix C, or its successor publication. The following paragraphs of this section provide a cursory overview of the key Appendix C requirements.

6.0.1. Programs or Activities Not Susceptible to Significant Improper Payments. PIIA requires that all DoD programs or activities not currently reporting an annual improper payment estimate assess their risk for improper payments. If a DoD component determines that a program or activity is not susceptible to significant improper payments, the DoD component must reassess that program's improper payment risk at least once every three years.

6.0.2. Programs or Activities Susceptible to Significant Improper Payments. If a DoD component determines a program to be susceptible to significant improper payments, the DoD component must estimate and report improper payments for that program annually.

6.0.3. Annual Improper Payment Estimates. In accordance with PIIA, DoD programs that are determined to be susceptible to significant improper payments must produce a statistically valid estimate of the improper payments and [unknown payments](#) made.

6.0.4. Annual Reporting. Most [payment integrity](#) reporting requirements are met through annual data requests from OMB and by reporting data in the consolidated DoD AFR. For more details on annual payment integrity reporting, [see paragraph 7.0 for a summary of OMB Circular A-136 reporting requirements](#).

6.0.5. High-Priority Programs. PIIA requires OMB to designate the programs with the most egregious cases of improper payments [and unknown payments](#) as high-priority; and requires those programs to submit semi-annual or quarterly actions [to track the progress towards reducing improper payments and unknown payments](#). [Refer to subparagraph 7.0.2 for more information on the reporting requirements for high-priority programs](#).

6.0.6. Preventing Improper Payments. If a DoD Component determines that a program or activity is susceptible to significant improper payments, the DoD component must identify the root causes of the improper payments [and unknown payments](#) and implement appropriate corrective actions to prevent and reduce [these types of payments](#).

6.0.7. Internal Control Over Payments. As DoD Components implement Appendix C, they should approach improper payments [and unknown payments](#) with an Enterprise Risk Management framework in mind and link agency efforts in establishing internal controls and

preventing improper payments and unknown payments. For more information see [OMB Circular No. A-123, Appendix A](#), “Management of Reporting and Data Integrity Risk.”

6.0.8. Payment Recovery Audits. One fundamental requirement that DoD Components must meet is to recover any Federal dollars that are a monetary loss to the Government unless legislation specifically prevents such recovery. Monetary loss to DoD represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. PIIA requires any DoD program or activity that expends at least \$1 million during the year to implement payment recovery audits, if cost effective to the agency, in order to recover improper payments. Volume 10, Chapter 22, provides additional detail on payment recovery audits. The requirement to conduct payment recovery audits is independent of whether a program is susceptible to significant improper payments.

6.0.9. Annual Inspector General Compliance Review. The PIIA contains an important component of accountability to the entire spectrum of improper payment efforts. Every year, the DoD OIG reviews DoD Components’ improper payment reporting in the consolidated DoD AFR and any accompanying material (such as the information provided on PaymentAccuracy.gov) to determine if the agency complies with PIIA and OMB guidance.

6.0.10. The Do Not Pay (DNP) Initiative. The [DNP Initiative](#) encompasses multiple resources that are designed to help DoD Components review payment eligibility for purposes of identifying and preventing improper payments.

* 6.0.1.1. Confirmed Fraud Reporting. As part of the annual OMB Payment Integrity reporting requirements, OUSD(C) FMPR collaborates with the DoD Components to report FY confirmed fraud results. It is important to note the classification of confirmed fraud is determined to be fraudulent through the adjudication process. Confirmed fraud does not include transactions determined by management to be anomalous or indicative of potential fraud that were referred to the DoD OIG or the Department of Justice, unless the appropriate judicial or adjudicative process has made the determination.

*7.0 OMB Circular No. A-136

The Department must implement the requirements in OMB Circular No. A-136, or its successor publication. The following paragraphs of this section provide a cursory overview of the key PIIA reporting requirements.

7.0.1. The Department must complete the Annual Data Call issued by OMB and provide a link to PaymentAccuracy.gov in the annual consolidated AFR. The Department is responsible for: (1) contacting OMB (PaymentIntegrity@omb.eop.gov) by September 1st of the reporting year to gain access to the Annual Data Call and (2) reviewing the Annual Data Call guidance to determine which requirements are applicable. If the Department performs recovery audits and the recovery audit contractor recommends actions that can be taken to prevent overpayments, the Department should report on the actions taken in the consolidated AFR.

7.0.2. Beginning in FY 2023, high-priority programs will be required to provide in the annual consolidated AFR a summary of their payment integrity activities and results. The summary must include:

7.0.2.1. A description of improper payments made by the agency; an estimate of the improper payment amount and rate; an explanation of the causes of improper payments; and any major actions taken or planned to mitigate those causes;

7.0.2.2. An explanation for changes in payment integrity methodologies, activities, or results that occurred during the reporting period; and

7.0.2.3. A hyperlink for [PaymentAccuracy.gov](https://www.PaymentAccuracy.gov). The summary must not conflict with data that is available on [PaymentAccuracy.gov](https://www.PaymentAccuracy.gov), which is intended to be the complete source for all qualitative, quantitative, and contextual payment integrity information.

8.0 DEFINITIONS

*8.1 Baseline

A baseline is a starting point or benchmark against which future progress can be assessed or compared. If a program had a 24-month reporting cycle where no significant changes occur in the S&EMP, the program will most likely be considered to have established a baseline.

8.2 Improper Payment

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service (as defined in the PIIA), or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

8.3 Payment

The term payment in this chapter means any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies, to any non-Federal person, non-Federal entity, or Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

*8.4 Recovery Audit

A recovery audit is the review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments.

8.5 Root Cause

Root causes may be due to anomalies, random events, or due to process vulnerabilities and other systemic factors (e.g., failure to obtain documentation or failure to update recipient eligibility). A root cause is the origin of a problem or condition that led to the failure in a program or activity that resulted in an improper payment. Root cause analysis must identify the internal control deficiency or underlying problems and events that directly contributed to the improper payment.

8.6 Significant Improper Payments

Significant improper payments are defined as gross annual improper payments **and unknown payments** (i.e., the total amount of **monetary loss of improper payments, non-monetary loss improper payments, and unknown payments**) in the program exceeding: (1) both 1.5 percent of program outlays and \$10 million of all reported program or activity payments made during the fiscal year reported, or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

*8.7 Tolerable Improper Payment and Unknown Payment Rate

The Tolerable Improper Payment and Unknown Payment Rate is the improper payment and unknown payment estimate achieved with a balance of payment integrity risk and controls. The tolerable improper payment and unknown payment rate for a program is determined by agency senior management and often includes improper and unknown payments, which are unavoidable, cost prohibitive, and sometimes mission prohibitive for the agency to prevent. If a program's tolerable Improper Payment and Unknown Payment Rate is above the statutory threshold, then the Improper Payment and Unknown Payment reduction target will eventually be set to equal that tolerable IP and UP rate.

*8.8 Unknown Payment

An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper because of insufficient or lack of documentation.