

VOLUME 10, CHAPTER 22: “PAYMENT RECAPTURE AUDITS”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by a * 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 November 2009 is archived.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Chapter Title and Chapter Terminology	Updated chapter title from “Recovery Auditing” to “Payment Recapture Audits” and updated all instances of respective terminology in accordance with Public Law 111-204 (IPERA), and OMB Circular A-123, Appendix C (revised April 2011).	Update
2201	Added new statutory and regulatory requirements.	Update
220201	Added definition of Cost-Effective Payment Recapture Audit (PRA) program.	Add
220302	Added requirement for establishing PRA program targets.	Add
220402	Updated PRA reporting requirements in accordance new statutory and regulatory requirements.	Update
2209	Updated requirements for private sector recapture auditors and their responsibilities while on DoD sites.	Update
2211	Added language for overpayments deemed not collectable or improper, and for programs and payments that have separate statutory authority and requirements.	Add
2212	Added language for disposition of recaptured funds prior to IPERA enactment.	Add

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CHAPTER 22

PAYMENT RECAPTURE AUDITS

2201 OVERVIEW

220101. Purpose

This chapter establishes the Department of Defense (DoD) program to implement the requirements of The Improper Payments Elimination and Recovery Act of 2010 (IPERA) for use of Payment Recapture Audits (PRA). This chapter also encompasses the associated regulatory guidance found in *Office of Management and Budget (OMB) Circular A-123, Appendix C.*

220102. Applicability

All programs or activities with annual payments that exceed \$1 million must determine if instituting a payment recapture audit is cost-effective. Please note that this is a significant change from the previous recovery auditing threshold for two reasons: 1) the previous threshold was \$500 million in annual payments, and 2) it was confined to commercial payments only. IPERA and PRA apply to all types of payments.

A. If a Component concludes that implementing this type of review for a program or activity is not cost-effective, then it must submit a quantitative justification to the Office of Under Secretary of Defense (Comptroller) (OUSD(C)), Office of the Deputy Chief Financial Officer (ODCFO), Accounting & Finance Policy (AFP) Directorate, for approval.

OUSD(C)/ODCFO/AFP
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B. When determining the cost-effectiveness of the use of payment recapture audit contingency contracts, any Defense Finance and Accounting Service (DFAS) resources used to assist the payment recapture auditing contractor must be taken into consideration. This includes the cost of providing government records, researching claims, and recovering amounts due the government.

C. These payment recapture audits will be implemented in a manner designed to ensure the greatest financial benefit to the Component, and will give priority to the most recent overpayments in programs susceptible to significant improper payments.

D. Components will report the results of their payment recapture auditing program to OUSD(C)/ODCFO/AFP (see subparagraph 220102.A.) and in accordance with *OMB Circular A-136, "Financial Reporting Requirements."* For more detailed reporting requirements, see section 2204 of this chapter.

2202 DEFINITIONS

220201. Cost-Effective Payment Recapture Audit Program

A cost-effective recapture audit program is one in which the benefits (i.e., recaptured amounts) exceed the costs (e.g., staff, time and resources, or payments for the payment recapture audit contractor) associated with implementing and overseeing the program.

220202. Payment Recapture Audit

A Payment Recapture Audit is a review and analysis of a Component's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments. It is not an audit in the traditional sense. Rather, it is a detective and corrective control activity designed to identify and recapture overpayments, and, as such, is a management function and responsibility.

220203. Payment Recapture Audit Contingency Contract

This type of contract is for payment recapture audit services in which the contractor is paid for its services as a percentage of overpayments actually collected. Clear evidence of overpayments must be provided by the contractor to the appropriate Component official.

220204. Payment Recapture Audit Program

This is a Component's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. The Component head will determine the manner and/or combination of payment recapture activities to be used that are expected to yield the most cost-effective results. (See paragraph 220201.) These activities should include a management improve improvement program, if appropriate. A copy of this program shall be provided to the Component's Inspector General (IG) annually.

220205. Post-Award Audit

A **post-award** audit refers to a post-award examination of the **accounting and** records of a payment **recipient** that is performed by a **Component official**, or an authorized representative of a **Component** official, pursuant to the audit and records clauses incorporated into the contract **or award**. An audit is normally performed by an internal or external auditor that services in an advisory capacity to the Component official.

A. A post-award audit, as distinguished from a **payment recapture** audit, is normally performed for the purpose of determining if amounts claimed by **the recipient** are in compliance with the terms of the **award** or contract, and with applicable laws and regulations. Such reviews involve the recipient's accounting records, including the internal control systems.

B. A post-award audit may include a review of the other pertinent records (e.g., reviews to determine if a proposal was complete, accurate, and current); and reviews of

recipients; systems established for identifying and return any improper payments received under its federal awards.

2203 DoD PAYMENT RECAPTURE AUDIT PROGRAM

220301. Annual Plan Submission

All Components that **expend \$1 million or more annually for each program and activity, must annually submit a payment recapture** audit plan for use during the upcoming fiscal year to OUSD(C)/ODCFO/AFP (see subparagraph 220102.A.) not later than August 31 each year. At a minimum, this plan must include:

- A. the estimated total dollar amount of payments **by program or activity** for the current fiscal year;
- B. any additional **collection/recovery** audits **and/or risk mitigation activities** **the Component** plans to use **in addition to** its current DoD PRA Program;
- C. the dollar amount of payments the Component plans to review using these additional activities or audits;
- D. what entity will perform the **payment recapture** audit (internal, external, or contractor resources);
- E. the proposed methodology; and,
- F. the period of review.

In addition, if the Component head should determine that performing **payment recapture** audit activities are not cost-effective for certain categories of **disbursements**, as further described in **paragraph 220303**, the **quantitative** justification must be included in this plan.

220302. Establish Targets for Payment Recapture Audit Programs

For each PRA program established, annual recovery targets must be set. Targets will be based on the rate of recovery (i.e., amount of improper contract overpayments recovered divided by the amount of improper contract overpayments identified). Each Component will set their recapture targets for review and approval by OUSD(C)/ODCFO/AFP (see subparagraph 220102.A.) striving to achieve a minimum 85 percent recapture rate by the third reporting year. Lower targets will require supportive analysis and approval from OMB.

2204 REQUIRED REPORTING

220401. Annual Reporting

Components must report annually on their payment recapture audit programs. Components must consult with the DFAS Directorate for Enterprise Solutions & Standards, (ESS) Post Pay Review and Analysis Office (JJO) 8899 East 56th, Street, Indianapolis, IN 46249 to ensure proper coverage of improper payments and payment recapture actions and to prevent duplicate reporting. Components must inform OUSD(C)/ODCFO/AFP, and also report in their Agency Financial Report (AFR) submission if suspension or limitation occurs in the Component monitoring/oversight activities. In order to meet the AFR reporting schedule, fiscal year-end reporting for payment recapture audit programs is due not later than the 10th business day in September, the same reporting requirement as specified in Volume 4, Chapter 14, Improper Payments,” of this Regulation.

220402. OMB Circular A-136 Required Reporting

Components must report in accordance with the annual update to OMB Circular A-136, Financial Reporting Requirements. The following is normally required:

- A. A general description, evaluation of the steps taken, and the methodology applied to carry out their cost-effective recapture audit program;
- B. The total cost of the Component’s recapture activities and audits;
- C. The total amount of payments subject to review will include a description and justification of the classes of payments excluded from the payment recapture audit contractors, with an explanation of why recapture audits were not performed on all programs and activities, i.e., if not cost-effective;
- D. The actual dollar amount of payments reviewed;
- E. The amounts actually recaptured during the current fiscal year. The amounts identified for payment recaptured audits must be separated between current year and prior years. Please note that voluntary or unsolicited refund dollar amounts must be separated from amounts identified through payment recapture activities. In addition, recoveries must also be separated between internal and external PRA activities;
- F. To the extent possible, any underpayments identified through the payment recapture audit process should be corrected by the Component. Components may include provisions that authorize payments to payment recapture auditors for underpayments identified;
- G. A summary of the disposition of recaptured funds in accordance with OMB Circular A-123, Appendix C and OMB Circular A-136.

H. The amounts outstanding and determined to not be collectible, including the percent each category represents of the total overpayments identified for recapture to include:

1. An aging schedule of the amounts not currently recovered or not under a repayment agreement and,

2. Justification for any amounts that have been determined to be uncollectible;

I. A corrective action plan that addresses and links directly to the root causes of error identified;

J. A general description and evaluation of any management improvement program carried out pursuant to this guidance; and

K. Instances of potential fraud discovered through payment recapture audits and recovery activities must be reported in accordance with Volume 5, Chapter 6, paragraph 060203.

2205 SCOPE OF DoD PAYMENT RECAPTURE AUDITS AND ACTIVITIES

220501. Dollar Threshold

All programs and activities that expend \$1 million or more annually, including grant, benefit, loan and contract programs, shall be considered for payment recapture audits. Subject to the exceptions in paragraph 220502, all classes of contracts and contract payments, as well as all other types of payments should be considered for payment recapture audit activities. Components that disburse payments must review the different types of payment categories, and identify those categories that have a higher potential for recoverable payment errors which will ensure the greatest financial benefit to the government. Once this assessment is performed, the Component must then determine the overall cost-effectiveness of performing payment recapture audits as explained in paragraph 220201.

220502. Possible Exclusions

Components may exclude classes of contracts and contract payments from their payment recapture audit activities if the Component Head determines that payment recapture activities and audits are not a cost-effective method for identifying and recovering improper payments. If the Component Head elects to exclude a class of contract or certain contract payments from payment recapture activities or audits, then the justification for this exclusion must be included in their annual plan and annual report with justification as mentioned in sections 2203 and 2204. These possible exclusions are also described in [OMB Circular A-123, Appendix C](#).

A. Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the government in accordance with the terms and conditions of the contract;

B. Cost-type contracts that have been completed and subjected to a final contract audit; and, prior to final payment of the contractor's final voucher, if all prior interim payments made under the contract were accounted for and reconciled;

C. Other contracts that provide for contract financing payments or other payments which are interim, provisional, or otherwise subject to further adjustment by the government in accordance with the terms and conditions of the contract;

D. Recent payments (made less than 180 days prior to the review) may be excluded in order to allow the Component's normal post-payment processes to identify and correct any overpayments; and

E. Other types of payments may be excluded from further review based on cost-effectiveness. For example, if the use of a pre-payment tool demonstrates that it is preventing most, if not all, duplicate payments, then these payments may be excluded from the Component's [payment recapture](#) auditing effort.

220503. [Non-replication of Existing Audits](#)

Components must take steps to ensure that the implementation of their [payment recapture audit](#) activities and audits do not result in duplicate audits of [payee](#) records. In this regard, actions to follow up with [payees](#) on potential overpayments identified through [payment recapture](#) audits of Component records do not constitute audits of contractor records. However, [payment recapture](#) audit activities should not duplicate other audits, to include other post-payment reviews or [Defense Contract Audit Agency](#) audits, of the same [payee](#) records that specifically employ [payment recapture](#) audit techniques to identify and recover payment errors.

2206 ROLE AND RESPONSIBILITIES OF THE PRA PROJECT OFFICER

220601. Role

To facilitate compliance with [OMB Circular A-123, Appendix C](#), the OUSD(C)/ODCFO established reporting responsibility for this function in the AFP Directorate. This reporting function is part of the OUSD(C) oversight responsibility for DoD's annual [Payment Recapture Audit](#) reporting in the AFR.

220602. Responsibilities

The [Payment Recapture](#) Audit Project Officer is responsible for:

A. Reviewing the Components' annual [payment recapture](#) auditing plan submissions as described in section 2203 to ensure completeness.

B. Reviewing the annual submission of [Payment Recapture](#) Audit reports described in section 2204 of this chapter to ensure the reporting requirements are met.

C. Preparation and submission of Department-wide **payment recapture** auditing results and mandatory reports as described in OMB guidance, and any related information for submission to OMB, publication in the AFR, and other required reporting.

2207 ROLE AND AUTHORITY OF THE OFFICE OF THE IG

220701. No Impairment of Inspectors General Authority

Nothing in this guidance should be construed to impair the authority of an IG under the Inspector General Act of 1978, **as amended**, or any other law. However, because the **payment recapture** audit program required by this guidance is an integral part of Component's internal control over contract payments, and therefore a management function, independence considerations would normally preclude the IG, and other Component external auditors from carrying out management's **payment recapture** audit program.

220702. Effectiveness Assessment

The IG, as well as other authorized auditors, are encouraged to assess the effectiveness of Components' **payment recapture** audit programs as part of their internal control work on existing audits (e.g., the annual financial statement audit, or as a separate audit).

2208 SOURCES TO PERFORM PAYMENT RECAPTURE AUDITS

Payment recapture audits may be performed by employees of the Components, by any other Component, department or agency of the United States Government acting on behalf of the Component, or by private sector contractors performing **payment recapture** audit services under contracts awarded by the Component, **or any combination of these options**.

2209 PRA SERVICES PERFORMED BY CONTRACTORS

220901. Use of External Contractors

When Components have determined that using external post-payment **recapture** audit contractors (i.e. **recapture** audit contingency contract) is the most cost-effective plan, these private sector firms may, with the consent of the employing Component, communicate with the Component's contractors for the purpose of verifying the validity of potential payment errors they have identified. In addition, to avoid confusion with established accounts receivable/debt management processes, Components must work with the DFAS **ESS** Accounting Mission Area, Accounts Receivable Office (JJA) at 8899 E. 56th. Street, Indianapolis, IN 46249 in the decision-making process as to allowing direct communication with the Component's contractors.

220902. Required Root Cause Analysis

In addition to identifying and documenting specific overpayments resulting from payment errors, **payment recapture** audit contractors **must** also analyze the reasons why payment errors

occurred and, where appropriate, recommend cost-effective controls to prevent such overpayments in the future. **These results must be presented to management on a regular basis.** The results of such analysis and related recommendations should be considered by the Component as part of its management improvement program. These submissions must be timely and cover a period not to exceed 12 months. The Component should provide such information to DFAS, the DoDIG, and where applicable, the IG of the Military Service, hereafter referred to as their respective OIG.

220903. Contingency Fee Requirement

Contracts entered into by Components to obtain **payment recapture** audit services from the private sector are limited to contingency contracts that pay the contractor an amount equal to a negotiated percentage of the total amount collected by the United States for valid claims of overpayment. **Components may allow contracted payment recapture auditors to establish a presence on, or visit, the property, premises, or offices of any subject of payment recapture audits. Such physical presence is not prohibited, and may in fact allow the payment recapture auditor to perform a more thorough review of the subject's payments, and related documentation and payment files.**

220904. External Contractor Prohibitions

In addition to provisions that describe the scope of **payment recapture** audits (and any other provisions required by law, regulation, or Component policy), any contract with a private-sector firm for **payment recapture** audit services will include contract provisions that prohibit the **payment recapture** audit contractor from:

- A. Requiring production of any additional records or information from the Component's contractors. Only duly authorized employees of the Component can compel the production of information or records from the Component's contractors, in accordance with applicable contract terms and DoD regulations;
- B. Acting as an agent for the Federal Government in the recovery of funds improperly paid to contractors;
- C. Using or sharing sensitive financial information with any individual or organization, whether associated with the Federal Government or not, that has not been **officially** released for use by the general public, except for the purpose of fulfilling the **payment recapture** audit contract; or
- D. Disclosing any information that identifies an individual, or reasonably can be used to identify an individual, for any purpose other than performing the **payment recapture** audit **responsibilities**.

220905. Safeguarding Confidentiality

Components will require the [payment recapture](#) audit contractor to take steps to safeguard the confidentiality of sensitive financial information that has not been released for use by the general public and any information that could be used to identify a person.

220906. [Actions of External Contractors](#)

The [payment recapture](#) audit contractor may, with the consent of the contracting Component, notify vendors of potential overpayments made to these contractors, respond to questions concerning potential overpayments, and take other administrative actions with respect to overpayment of claims made or to be made by the Component. However, the [payment recapture](#) audit contractor will not have the authority to make final determinations relating to whether any overpayment occurred and whether to compromise, settle, or terminate overpayment claims.

220907. [Minimum Contract Requirements](#)

At a minimum, each contract for [payment recapture](#) audit services will require the contractor to:

A. [At least quarterly, provide reports to the DoD disbursing Component on the root cause conditions causing the overpayments identified and recommendations on how to mitigate such conditions.](#)

B. [Notify the DoD disbursing Component of any overpayments identified by the contractor pertaining to any Component that is beyond the scope of the contracts.](#)

C. [Report potential instances of fraud to the DoD disbursing Component and the Component's IG immediately. Contractor personnel must be trained to recognize evidence of fraud and vulnerability to fraud.](#)

2210 [PAYMENT RECAPTURE AUDIT COLLECTIONS ACTIVITY](#)

Actual collection activity [shall](#) be carried out by federal employees, or nonfederal entities expending federal awards, as appropriate. However, Components or nonfederal entities may use another private sector entity, such as a private collection agency, to perform this function, if this practice is permitted by applicable laws and regulations governing collection of amounts owed to the Federal Government.

2211 [DISPOSITION OF RECAPTURED AMOUNTS AFTER IPERA](#)221101. [Amounts Collected](#)

Title 31, USC, Sec. 3562 provides that amounts collected under a payment recapture audit program are available to reimburse the actual expenses incurred by a Component in administering the program, and to pay contractors in accordance with applicable guidance.

221102. Uses of Amounts Collected

Except as provided in paragraph 221103 of this chapter, section 2(h)(3) of the IPIA, as amended by the IPERA of 2010 (31 USC 3321 note), requires that any expired discretionary amounts collected (recaptured) through recovery audits that were appropriated after the enactment of IPERA, and that are not used to reimburse expenses of the Component or pay payment recapture audit contractors under paragraph 221101, will be used in the following manner:

A. Up to 25 percent of the recaptured funds may be used to supplement (but not supplant) any other amounts available to support the Component's financial management improvement program, and shall remain available until expended. Such funds can be passed to nonfederal entities such as state and local governments if the agency determines that is the best disposition of the funds to support its financial management improvement program.

B. Up to 25 percent of the recaptured funds may be used for the original purpose of the fund. The funding will be credited to the appropriation or fund, if any, available for obligation at the time of collection for the same general purposes as the same appropriation or fund for which the overpayment was made, and shall remain available for the same period of availability and purposes as the appropriation or fund to which credited.

C. Up to 5 percent of the recaptured funds shall be available to the Component's IG. The IG may use this funding to carry out the law's requirements, and perform other activities relating to investigating improper payments or auditing internal controls associated with payments. This funding will remain available for the same period of availability and purposes as the appropriation or fund to which it is credited.

D. The remainder of the recaptured, cancelled discretionary funds that were appropriated after the enactment of IPERA and that are not used for the purposes described in subparagraphs 221102.A, 221102.B, 221102.C, and 221102.D, or used under otherwise available authorities, must be deposited in the Treasury as miscellaneous receipts.

221103. Return of Collections to Original Appropriation

After reimbursement of expenses or payment to recapture audit contractors under paragraph 221101, any overpayments from discretionary funds that are recaptured from unexpired appropriations enacted after IPERA was enacted are to be returned to the appropriation from which made, not for any other purpose as described in paragraph 221102. Recovered overpayments from revolving funds, working capital funds, non-appropriated funds, and appropriations with indefinite periods of availability must be refunded to such accounts.

221104. Collections to Mandatory, Trust Fund, or Special Fund Accounts

Any overpayments from mandatory fund accounts, trust fund accounts, or special fund accounts, i.e., revolving funds, shall revert back to those accounts.

221105. Other Uses of Collections

When required or authorized by other provisions of law, any funds remaining after reimbursing the actual expenses for the administration of the program and paying [payment recapture](#) audit contractors, [may](#) be credited to the non-appropriated fund instrumentality, revolving fund, working capital fund, trust fund, or other fund or account from which the improper payments were made. For example, a [payment recapture](#) audit contractor may identify an improper payment during its review of a Defense Agency's working capital fund. Upon recovery of the payment, the Component could use the proceeds recovered to reimburse the Department's administration expenses and pay the [payment recapture](#) audit contractor's contingency fee. The remaining balance, if any, could then be credited back to the Component's working capital fund.

221106. Contingency

Contingency fee contracts will preclude any payment to the contractor performing [payment recapture](#) audit services until the recoveries are actually collected by the Component.

221107. Accounting for and Reporting Collections

All funds collected and all direct expenses incurred as part of the [payment recapture](#) audit program will be accounted for specifically. The identity of all funds recovered must be maintained as necessary to facilitate the crediting of recovered funds to the correct appropriations, to identify applicable time limitations associated with the appropriated funds recovered, and to allow for required reporting in compliance with OMB Circular A-136.

221108. Unconfirmed Overpayments

Overpayments that are identified by the [payment recapture](#) auditor, but that are subsequently determined not to be collectable or not to be improper, will not be considered "collected" for disposition purposes outlined in this section.

221109. Separate Statutory Authorities

[Programs and payments that have separate statutory authority and requirements to conduct payment recapture audits are not required to follow the disposition of recovered funds outlined in section 2212. As an example, the General Services Administration audits transportation payments for improper payments. See Chapter 13 of this volume.](#)

2212 DISPOSITION OF RECAPTURED AMOUNTS BEFORE IPERA

221201. Collections from Payments Made Prior to IPERA Enactment

Components may review payments from appropriations that were enacted before IPERA was signed into law (July 22, 2010), and have the same authorities to credit collections as existed before

IPERA was enacted. [OMB Circular A-123, Appendix C](#), provides detailed guidance for the disposition of recovered amounts prior to IPERA enactment.

A. For recoveries of funds appropriated prior to IPERA's enactment, Components may use the recovered funds for reimbursement of Component expenses and to pay the payment recapture audit contractor.

B. For those funds appropriated prior to IPERA's enactment but which have been cancelled, any remainder of the recovered funds must be returned to the Treasury as miscellaneous receipts, after reimbursing the component's costs and paying the contractor.

C. For those funds that were appropriated prior to IPERA's enactment but which have not been cancelled, the remainder of the recovered funds should be returned to the program account as an appropriation refund, after reimbursing the component's costs and paying the contractor.

2213 GRANT PROGRAMS

Components whose grant programs fund significant contract activity by grant recipients may consider including contracts at the grant recipient level in their [payment recapture](#) audit program. Components can engage contractors on a contingency basis to the extent otherwise authorized by law.