

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

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an \* 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 [October 2012](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
2201	Restructured the “General” section to comply with the new Financial Management Regulation standard operating procedures.	Revision
220101	Clarified that intra-governmental transactions are excluded from Payment Recapture Audit (PRA) requirements per Office of Management and Budget (OMB) Circular A-123, Appendix C.	Revision
220103	Added reference to the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (Public Law 112-248) as a basis for the policy in this chapter.	Revision
220202	Added a definition for Improper Payments and reference to Volume 4, Chapter 14.	Addition
220302	Updated the Office of the Under Secretary of Defense, Comptroller (OUSDC) address for PRA correspondence.	Revision
220303	Removed reference to the 85% recapture target from the previous version (October 2012) as this is no longer contained in the updated OMB Circular A-123, Appendix C.	Revision
2206	Revised the title of the responsible organization for PRA reporting to the OUSDC Accounting and Finance Policy Directorate based on the Deputy Chief Financial Officer policy memorandum dated August 15, 2013.	Revision
221101	Clarified that recaptured amounts that can be utilized to pay expenses of the program and to pay recapture audit contractors are limited to collections involving expired discretionary fund accounts.	Revision

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
221102	Revised the language regarding the disposition of recaptured funds from “will be used in the following manner” to “may be used in the following manner”; to reflect the policy in OMB Circular A-123, Appendix C.	Revision
221102.D	Revised the word “canceled” to “expired” to reflect the policy in the OMB Circular A-123, Appendix C, and addressed overpayment amounts from trust fund and special fund accounts.	Revision
221103	Clarified that recaptured amounts pertaining to unexpired accounts cannot be used for reimbursement of PRA program expenses and must be returned to the original appropriation.	Revision
2212	Consolidated and condensed sections within 221201 of the previous version (October 2012), and clarified policy language to match that contained in OMB Circular A-123, Appendix C.	Revision

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## CHAPTER 22

PAYMENT RECAPTURE AUDITS

## \*2201 GENERAL

## \*220101. Overview

All programs or activities, as defined by Office of Management and Budget (OMB) Circular A-123, Appendix C, with annual payments that exceed \$1 million must utilize cost-effective payment recapture audits (PRA) to recover improper payments. PRA requirements apply to all types of payments, except for intra-governmental transactions.

## 220102. Purpose

This chapter establishes the Department of Defense (DoD) policy for implementation of PRAs in accordance with the laws and regulations cited herein.

## \*220103. Authoritative Guidance

This chapter establishes policies and requirements based on the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (31 U.S.C. 3321, note) and the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (31 U.S.C. 3301, note). This chapter also incorporates associated implementing guidance found in OMB Circular A-123, Appendix C.

## 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 PRA contractor) associated with implementing and overseeing the program.

## \*220202. 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. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). See Volume 4, Chapter 14 for additional details on improper payments and reporting requirements.

**220203. Payment Recapture Audit**

A payment recapture audit (PRA) 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 detection and correction control activity designed to identify and recapture overpayments. As such, it is a management function and responsibility.

**220204. Payment Recapture Audit Contingency Contract**

This type of contract is for PRA 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.

**220205. Payment Recapture Audit Program**

This is a Component's overall plan for risk analysis and the performance of PRAs and recovery activities. These activities should include a management improvement program, if appropriate. A copy of this program shall be provided to the Component's Inspector General (IG) annually.

**220206. 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 post-award audit, as distinguished from a PRA, 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.

**2203 DoD PAYMENT RECAPTURE AUDIT PROGRAM****220301. Applicability**

A. As prescribed by OMB Circular A-123, Appendix C, the Component head will determine the manner and/or combination of payment recapture activities to use within the agencies payment recapture audit program that are expected to yield the most cost-effective results.

B. 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 (A&FP) Directorate, for approval.

C. When determining the cost-effectiveness of the use of PRA 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.

D. PRAs will be implemented in a manner designed to ensure the greatest financial benefit to the Component.

E. Components will report the results of their payment recapture auditing program to OUSD(C)/ODCFO/A&FP (see subparagraph 220102.A.) and in accordance with OMB [Circular A-136, Financial Reporting Requirements](#). See section 2204 for requirements.

\*220302. Annual Plan Submission

All Components that expend \$1 million or more annually for each program and activity, must annually submit a PRA plan, not later than August 31 each year, for use during the upcoming fiscal year to:

OUSD(C)/ODCFO/A&FP  
1100 Defense Pentagon – Suite 3D150  
Washington, DC 20301-1100

At a minimum, this plan must include:

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

In addition, if the Component head should determine that performing PRA activities are not cost-effective for certain categories of disbursements, as further described in paragraph [220502](#), the quantitative justification must be included in this plan.

\*220303. Establish Targets for Payment Recapture Audit Programs

For each PRA program established, annual **recapture** targets must be set. **Agencies are required to establish annual targets for their PRA programs that will drive their annual performance.** 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) and are **expected to be set to show an increase in recoveries over time.** Each Component will **provide their annual recapture targets for review and approval by OUSD(C)/ODCFO/A&FP (see section 220302).** **The OUSD(C)/ODCFO/A&FP in turn will submit targets to OMB for review as part of the annual approval process of draft Annual Financial Reports (AFR) and Performance and Accountability Reports.**

2204 REQUIRED REPORTING

220401. Annual Reporting

Components must report annually on their **PRA** programs. Components must consult with the DFAS Directorate for Enterprise Solutions & Standards, (ESS) Post Pay Review and Analysis Office (JJO), 8899 East 56<sup>th</sup> 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/A&FP, and also report in their 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 **PRA** programs is due not later than the 10<sup>th</sup> business day in September, the same reporting requirement as specified in Volume 4, Chapter 14, Improper Payments.

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, **including** a description and justification of the classes of payments excluded from the **PRA** 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 **recaptured** 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 PRA 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 amount 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, as required by paragraph 220902;

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 PRA and recovery activities must be reported in accordance with Volume 5, Chapter 6, section 0605.

## 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 PRAs. 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 PRAs as explained in paragraph 220201.

## 220502. Possible Exclusions

Components may exclude [certain payment classes](#) from their PRA 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 payments or contracts](#) from payment recapture activities or audits, then the justification for this exclusion must be included in their annual plan and annual report (see sections 2203 and 2204). [The following](#) 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. [Agencies shall conduct a PRA program in a manner that will ensure the greatest financial benefit for the government.](#)

## 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 [PRAs](#) of Component records do not constitute audits of contractor records. However, [PRA](#) 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 COMPTROLLER'S OFFICE OF PRIMARY RESPONSIBILITY

220601. Role

To facilitate compliance with OMB Circular A-123, Appendix C, the DoD Deputy Chief Financial Officer (DCFO) assigned reporting responsibility for this function to the OUSD(C) Accounting and Finance Policy (A&FP) Directorate. This reporting function is part of the OUSD(C) oversight responsibility for DoD's annual PRA reporting in the Agency Financial Report (AFR).

220602. Responsibilities

The Comptroller's A&FP Directorate is responsible for:

A. Reviewing the Components' annual payment recapture auditing plan submissions as described in section 220302 to ensure completeness.

B. Reviewing the annual submission of PRA reports described in section 2204 to ensure the reporting requirements are met.

C. Preparation and submission of Department-wide PRA 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 INSPECTOR GENERAL (IG)

220701. No Impairment of Inspectors General Authority

Nothing in this policy 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 PRA program required by this policy is an integral part of Component's internal control over payments, and therefore a management function, independence considerations would normally preclude the IG, and other Component external auditors from carrying out management's PRA program.

220702. Effectiveness Assessment

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

## 2208 SOURCES TO PERFORM PAYMENT RECAPTURE AUDITS

**PRAs** 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 **PRA** 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 **coordinate** with the DFAS ESS Accounting Mission Area, Accounts Receivable Office (JJA) at 8899 E. 56th. Street, Indianapolis, IN 46249 **to determine whether** direct communication with the Component's contractors **is authorized**.

## 220902. Required Root Cause Analysis

In addition to identifying and documenting specific overpayments resulting from payment errors, **any entity performing PRAs** 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 DoD IG, and where applicable, the IG of the Military Service.

## 220903. Contingency Fee Requirement

Contracts entered into by Components to obtain **PRA** 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 **PRA** auditors to establish a presence on, or visit, the property, premises, or offices of any subject of **PRAs**. Such physical presence is not prohibited, and may in fact allow the **PRA** 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 PRAs (and any other provisions required by law, regulation, or Component policy), any contract with a private-sector firm for PRA services will include contract provisions that prohibit the PRA 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 PRA 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 PRA responsibilities.

## 220905. Safeguarding Confidentiality

Components will require the PRA 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 PRA 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 PRA 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 PRA 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 **immediately** to the DoD disbursing Component **for which it is performing the contract**. **The Component will further review and refer to its IG, if appropriate**. Contractors **and all personnel performing PRAs** 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

**IPERA** provides that amounts collected under a **PRA** program **from expired discretionary fund accounts** are available to reimburse the actual expenses incurred by a Component in administering the program, and to pay contractors in accordance with applicable **law and regulation, if appropriate**.

### \*221102. Uses of Amounts Collected

Except as provided in paragraph 221103, section 2(h)(3) of the IPIA, as amended by the IPERA, requires that any expired discretionary amounts collected (recaptured) through **PRAs**, that were appropriated after **the date of IPERA's enactment (July 22, 2010)**, and that are not used to reimburse expenses of the Component or pay **PRA** contractors under paragraph 221101, **may** 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, **expired** 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, and 221102.C, or used under otherwise available authorities, **including recaptured overpayment amounts from trust fund and special fund accounts, shall be credited to the expired account from which the overpayment was made.**

\*221103. Return of Collections to Original Appropriation

As prescribed by OMB Circular A-123, Appendix C, and section 2(h)(3) of IPERA, **recaptured overpayments from unexpired discretionary fund accounts (still available for obligation) that were appropriated after enactment of IPERA (July 22, 2010) shall be credited to the account from which the overpayments were made without using it for any purposes outlined paragraphs 211101 or 211102.** 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 and Trust Fund Accounts

Any overpayments from mandatory fund accounts and trust fund accounts shall **be credited** 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 **PRA** 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 **PRA** 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 **PRA** 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 **PRA** 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 PRA 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 PRAs 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. Reference Chapter 13 for additional details.

**\*2212 DISPOSITION OF RECAPTURED AMOUNTS BEFORE IPERA**

Components may review payments made 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. 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 PRA contractor. For those funds appropriated prior to IPERA’s enactment which have expired, and after reimbursement of Component expenses and payment to the PRA contractor, any remainder of the recovered funds must be returned to the expired account(s). If the appropriation is canceled, the funds shall be credited to Treasury Miscellaneous Receipts.

**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 PRA program. Components can engage contractors on a contingency basis to the extent otherwise authorized by law.