

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 [November 2015](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks and formatting to comply with current guidance.	Revision

Table of Contents

2201	GENERAL	4
220101.	Overview	4
220102.	Purpose	4
220103.	Authoritative Guidance	4
2202	DEFINITIONS	4
220201.	Cost-Effective PRA Program.....	4
220202.	Improper Payment.....	4
220203.	PRA.....	5
220204.	PRA Contingency Contract.....	5
220205.	PRA Program	5
220206.	Post-Award Audit	5
2203	DoD PRA PROGRAM	5
220301.	Applicability	5
220302.	Annual Plan Submission.....	6
220303.	Establishing Targets for PRA Programs	7
2204	REQUIRED REPORTING	7
220401.	Annual Reporting.....	7
220402.	OMB Circular A-136 Required Reporting	7
2205	SCOPE OF DoD PRAs AND ACTIVITIES	8
220501.	Dollar Threshold	8
220502.	Possible Exclusions.....	9
220503.	Non-replication of Existing Audits.....	9
2206	ROLE AND RESPONSIBILITIES OF THE COMPTROLLER’S OFFICE OF PRIMARY RESPONSIBILITY	10
220601.	Role	10
220602.	Responsibilities	10
2207	ROLE AND AUTHORITY OF THE OFFICE OF THE INSPECTOR GENERAL (IG).....	10
220701.	No Impairment of Inspectors General Authority.....	10
220702.	Effectiveness Assessment	10
2208	SOURCES TO PERFORM PRAs.....	10
2209	PRA SERVICES PERFORMED BY CONTRACTORS	11

Table of Contents (Continued)

220901.	Use of External Contractors.....	11
220902.	Required Root Cause Analysis	11
220903.	Contingency Fee Requirement.....	11
220904.	External Contractor Prohibitions	11
220905.	Safeguarding Confidentiality	12
220906.	Actions of External Contractors.....	12
220907.	Minimum Contract Requirements.....	12
2210	PRA COLLECTION ACTIVITY	13
2211	DISPOSITION OF RECAPTURED AMOUNTS AFTER IPERA.....	13
221101.	Amounts Collected.....	13
221102.	Uses of Amounts Collected	13
221103.	Return of Collections to Original Appropriation	14
221104.	Collections to Mandatory and Trust Fund Accounts	14
221105.	Other Uses of Collections	14
221106.	Contingency	14
221107.	Accounting for and Reporting Collections	14
221108.	Unconfirmed Overpayments	15
221109.	Separate Statutory Authorities	15
2212	DISPOSITION OF RECAPTURED AMOUNTS BEFORE IPERA	15
2213	GRANT PROGRAMS	15

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 ([Title 31, United States Code \(U.S.C.\) 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 PRA Program

A cost-effective PRA program is one in which the benefits (i.e., recaptured amounts) exceed the costs (e.g. staff, time, 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, for an ineligible good or service, or 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. PRA

A 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. PRA 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. PRA 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 **must** 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 **serves** 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 PRA 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 agency's PRA 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. See the OMB Circular A-123, Appendix C, for additional information concerning specific criteria agencies are to consider in determining the cost effectiveness of a PRA.

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 PRA program to OUSD(C)/ODCFO/A&FP in accordance with OMB Circular [A-136](#), Financial Reporting Requirements. See section 2204 for requirements.

220302. Annual Plan Submission

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

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

B. At a minimum, this plan must include:

1. A cost-effectiveness analysis;
2. The estimated total dollar amount of payments by program or activity for the current fiscal year;
3. Any additional collection/recovery audits and/or risk mitigation activities the Component plans to use in addition to its current DoD PRA Program;
4. The dollar amount of payments the Component plans to review using these additional activities or audits;
5. What entity will perform the PRA (internal, external, or contractor resources);
6. The proposed methodology; and
7. The period of review.

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

220303. Establishing Targets for PRA 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., the 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 paragraph 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 Agency 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 (JJI), 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/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 10th business day in September.

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. Voluntary or unsolicited refund 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 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 errors 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 PRAs AND ACTIVITIES

220501. Dollar Threshold

All programs and activities that expend \$1 million or more annually, including grant, benefit, loan, and contract programs, **must** 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 (**excluding intra-governmental transactions**) **must** be considered for PRA 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 **that** 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, 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 **if**, prior to payment of the contractor's final voucher, all prior interim payments made under the contract **have been** 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) in order to allow the Component's normal post-payment processes to identify and correct any overpayments; and

E. Other types of payments 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 PRA effort. Agencies **must** 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 PRA activities **does** 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 PRA 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 ODCFO assigned reporting responsibility for this function to the OUSD(C), A&FP Directorate. This reporting function is part of the OUSD(C) oversight responsibility for DoD's annual PRA reporting in the AFR.

220602. Responsibilities

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

A. Reviewing the Components' annual PRA plan submissions as described in paragraph 220302 to ensure completeness;

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

C. Preparing and submitting 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 Components' 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 PRAs

PRAs may be performed by employees of the Components, by any other Component, department, or agency of the U.S. 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 East 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 allow the PRA auditor to perform a more thorough review of the subject's payments and related documentation.

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 **could** reasonably 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 **the vendors**, respond to questions concerning potential overpayments, and take other administrative actions with respect to overpayment claims made, or to be made, by the Component. However, the PRA contractor will not have the authority to make final determinations **related** 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; **and**

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 PRA COLLECTION ACTIVITY

Actual collection activity **must** 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. **As prescribed by OMB Circular A-123, Appendix C, any recaptured overpayments that pertain to canceled appropriations must be credited to Treasury Miscellaneous Receipts.**

221102. Uses of Amounts Collected

Except as provided in paragraph 221103, section 2(h)(3) of 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 **will** 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 **will** 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 **may be made** 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 purpose as the appropriation or fund to which it is credited; **or**

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, **must** 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) **must** be credited to the account from which the overpayments were made without using it for any purposes outlined in 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 **must** 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 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 2211 or 2212 (in accordance with OMB Circular A-123, Appendix C). 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 **must** 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.