

## Improper /Erroneous Payments

### **I. Background**

In years past, the Office of Management and Budget's (OMB) focus on improper payments was in the areas of entitlement and financial assistance payments only. (DOI was excluded from the original requirements (Re: Exhibit 57 OMB A-11). However, the recent passage of the "Improper Payments Information Act of 2002" (PL 107-300), extended the erroneous payment reporting requirements to all "programs and activities" of the government.

### **II. What Is an Erroneous Payment?**

An erroneous 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 requirement.
- Incorrect amounts are overpayments and under payments (including inappropriate denials of payment or service).
- An erroneous payment includes any payment that was made to an ineligible recipient or for an ineligible service. Erroneous payments are also duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts.

### **III. What are Agencies Required to Do?**

Agencies are required to review annually all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. This includes payments from Federal awards made by recipients and subrecipients subject to the Single Audit Act Amendments of 1996 as well as Federal grants and subgrants expended by for-profit and non-U.S. based entities not subject to that Act. For all programs and activities where the risk of erroneous payments is significant, agencies shall:

- (1) estimate the annual amount of erroneous payments, and
- (2) report the estimates to the President and Congress (in the PAR) with a progress report on actions to reduce erroneous payments.

#### **IV. Required Steps**

##### **1. Conduct Systematic Review of Programs and Activities**

Agencies are required to systematically review **all programs** and to identify those it believes are susceptible to significant erroneous payments.

##### **2. Identify Programs Involving Significant Erroneous Payments**

OMB Guidance defines “ significant erroneous payments” as those erroneous payments **exceeding both**

2.5 % of program payments, **and**  
\$10 million annually..

The Department believes that only two DOI programs would meet the above criteria: BIA’s 638 Program, and the FWS Federal Aid Program.

##### **3. Determine Amount of Significant Erroneous Payments**

For all programs meeting the above criteria, agencies are required to quantify the amount of erroneous payments, using statistically valid methods (with a 90% confidence level).

##### **4. Implement a Program to Reduce Erroneous Payments**

For all programs and activities meeting the criteria in #2 above, agencies are required to identify the precise reasons its programs and activities are at risk of erroneous payments, and to put in place a plan to reduce them.

**V. Status Report on Erroneous Payments in the 2004 PAR (and beyond)**

Agencies are required to report to the President and Congress (in the PAR), an estimate of the annual amount of erroneous payments for all programs and activities meeting the criteria in Step #2 above. The Report must include:

- The estimate of the annual amount of erroneous payments (gross over and under payments) made in the program and the methodology used to arrive at that estimate.
- A discussion of the causes of the erroneous payments identified, actions taken to correct those causes, and results of the actions taken to address those causes.
- A discussion of the amount of actual erroneous payments the agency expects to recover and how it will go about recovering them.
- A statement as to whether the agency has the information systems and other infrastructure it needs in order to reduce erroneous payments to the levels the agency has targeted.
- If the agency does not have such systems and infrastructure, a description of the resources the agency has requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.
- A description of the steps (including time line) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering erroneous payments.
- A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing erroneous payments.
- A target for the program's future erroneous payment rate that is lower than the agency's most recent estimated error rate (provided that the baseline rate is fully documented).