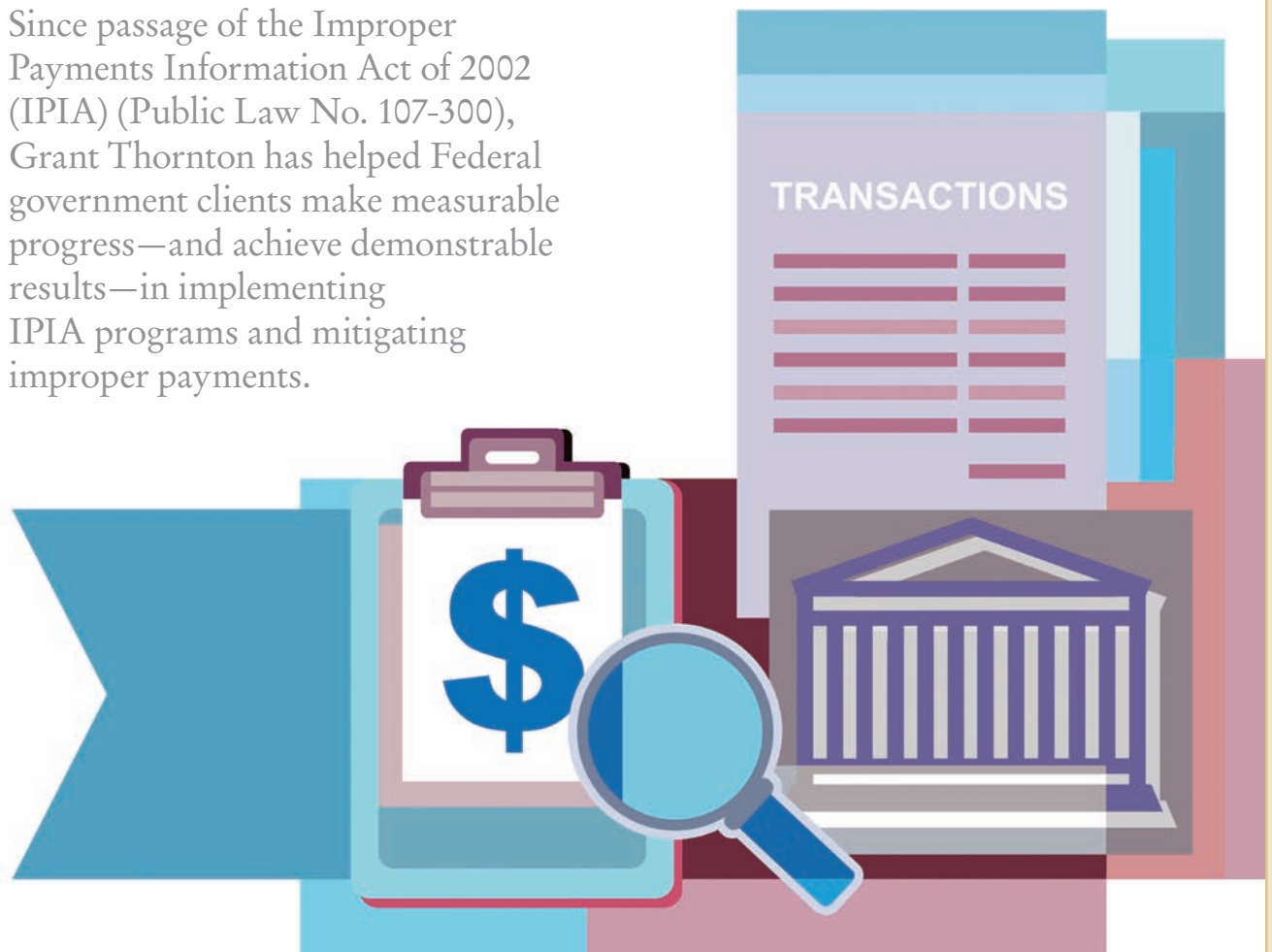




Internal Controls are Key to Tracking and Reducing Improper Payments

by Wendy Morton-Huddleston, PMP, CGFM

Since passage of the Improper Payments Information Act of 2002 (IPIA) (Public Law No. 107-300), Grant Thornton has helped Federal government clients make measurable progress—and achieve demonstrable results—in implementing IPIA programs and mitigating improper payments.



The IPIA, as implemented through Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments*, has created a constructive framework for assessing Federal programs for improper payment risk, measuring the accuracy of high risk payments annually, and initiating program improvements to ensure that payment errors and improprieties are reduced and ultimately eliminated.

With the issuance of the November 23, 2009 Executive Order *Reducing Improper Payments* and the significant increase in funding outlays necessitated by the American Recovery and Reinvestment Act (ARRA), Federal, state, and local government programs and operations are increasingly vulnerable to the fraud, waste, abuse and mismanagement that lead to improper payments.

Meeting the mandates of the new Executive Order (E.O.) on Improper Payments will be challenging and resource-intensive. The right approach can leverage A-123 efforts, technology solutions and process improvements to not only comply with the E.O. but to improve programs.

Grant Thornton practitioners have the technical and functional acumen to support improper payment reporting and remediation activities, such as:

- Assessing, measuring and reporting payment activities
- Conducting internal control due diligence to prevent waste, fraud and abuse
- Verifying and validating payment transaction records
- Solving complex governance, accounting and financial reporting problems
- Making business information visible and useful to decision makers

- Leveraging compliance to enhance business operations
- Quickly implementing effective processes and procedures

We have a proven methodology and approach based on our experience having conducted IPIA reviews for at least six Federal agencies with varying levels of complexity and payment transaction volumes. We have conducted risk assessments, selected transaction samples using OMB guidance, obtained supporting documentation for each sampled item, performed detailed tests of transactions, developed test plans, projected the error rate and error dollar amounts, and provided the results of our tests for Performance and Accountability Report (PAR) input.

What does the IPIA Executive Order mean for your Agency? Increased Transparency and Accountability.

Under the Executive Order, Federal agencies will be required to:

- Designate a Senate-confirmed appointee to be accountable to the President for meeting and establishing error reduction targets and measurement for high priority programs.
- Employ new and effective techniques to better detect and mitigate improper payments.
- Increase data-sharing among federal agencies and programs and, where applicable, state and local governments and other stakeholders to improve eligibility verification and pre-payment scrutiny.
- Mandate quarterly reporting on any high-dollar errors identified

by the agency and actions the agency will take to recover the improper payment and to prevent future improper payments.

- Pursue administrative actions to provide state, local and other organizations with incentives for reducing improper payments.

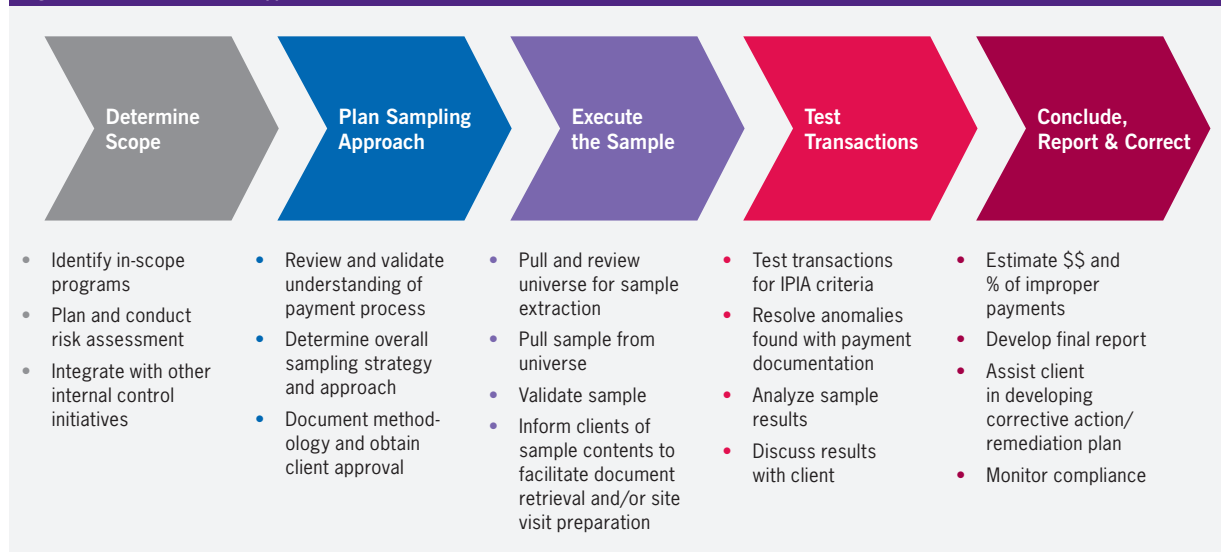


Our IPIA approach, outlined in Figure 1, includes obtaining an inventory of programs that may be susceptible to improper payments,

assessing the risk for these programs, documenting internal controls over the payment process for these programs, developing

a sampling methodology, performing testing and estimating improper payments and error rates for these programs.

Figure 1: Grant Thornton IPIA Approach



An effective IPIA compliance program will:

- Assess Payment Processes.** Review internal policies and procedures, cycle memorandums, and process flow descriptions to evaluate existing payment processes, including procurement and contract payments, travel expense reimbursement, and government purchase cards.
 - Deliver Improper Payment Training.** Promote the transfer of knowledge of the IPIA requirements to mission support and programmatic stakeholders. Conduct training sessions to communicate the importance of maintaining adequate payment controls to help prevent improper payments.
 - Prepare a Synopsis of Pertinent Information.** Document relevant IPIA findings, and provide a description of policies, procedures, and process flows for each payment activity.
 - Provide Reporting Details and Improvement Recommendations.** Provide narrative descriptions of IPIA compliance for the Performance and Accountability Report (PAR). Provide recommendations for improvement to prevent and eliminate future errors related to automated and manual internal controls.
 - Document Lessons Learned and Best Practices.** Develop best practices and lessons learned from the risk assessment, IPIA sampling, testing, interviews and questionnaires, data-collection process, and reporting activities.
- A sound internal controls program is the key not only to meeting the mandates of IPIA, but to the broader goals of transparency and accountability.



Grant Thornton's Global Public Sector Services

Internal control

- testing and yearly strategy and statement preparation
- information assurance
- risk assessment
- program development
- reviews and assessments

Accounting

- accounting support/staff augmentation
- new or revised policies and procedures
- summarizing transactions

Assurance

- agreed upon procedures
- financial statement compilations
- information controls audits and reviews
- strategy and preparation for financial reporting

Budgeting

- budget formulation and execution
- budgetary control reviews

Financial systems

- policies and standards for systems
- assessing and improving systems
- financial planning
- data conversion and testing
- improving reporting and analysis
- IV&V
- software selection and implementation
- program management office support
- requirements analysis

Forensic accounting

- fraud examinations
- records reconstruction
- transaction analysis

CFO analytics and operations

- cost, budget, performance integration support
- financial and cost analysis
- financial statement preparation and reporting
- financial management process improvements

Program management office support

- planning, communications networks, status reports
- technical assistance (management and subject matter experts)
- staff augmentation

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