

CFO-PCIE Improper and Erroneous Payments Work Group
Sub-Work Group on Indicators
Final Report on Indicators
9/17/02

The Indicators sub-work group has surveyed agencies concerning existing use of indicators and benchmarks, analyzed the survey responses, discussed various obstacles to the use of indicators, assembled lists of indicators sorted in various ways, and as a byproduct, listed some of the techniques agencies currently use to discover erroneous payments.

We have based our discussions on the following working definition: **an indicator is an event or condition that either demonstrates that an erroneous payment has been made or suggests that erroneous payments are likely to occur.**

The following three sections, Techniques, Indicators, and Limitations, summarize this sub-work group's conclusions.

Techniques

In responding to our survey, agencies described several methods they used to identify erroneous payments.

- 1) **Audits.** This includes routine internal and external audits, single audits, closeout audits, recovery audits and random samples of transactions or cases selected for detailed review.
- 2) **Reviews.** This includes quality assurance review, reviews by the OIG, analytical reviews, financial statement reviews, program reviews, stewardship reviews, internal control reviews, payment accuracy reviews, file reviews, vendor table reviews, supervisory reviews.
- 3) **Edits.** This includes edits built into automated systems, under-edits such as prepayment edits and claims processing edits, edit reports designed to display questionable transactions or accounts according to predefined or ad hoc indicators, and automated comparisons of separate databases designed to seek out meaningful discrepancies.
- 4) **Operating procedures.** This includes routine internal controls, regular monitoring, problem resolution and follow-up.
- 5) **Systems.** This includes the use of accounts receivable and collection subsystems and fraud tracking systems.
- 6) **External Resources.** This includes computer matching with outside agency databases, third party reports, regional reports and partnerships with law enforcement.

- 7) **Other.** This includes such additional tools as data mining, trend analyses, risk assessments and performance measures.

Indicators

We have compiled and attached a list of possible indicators of erroneous payments. The indicators have been grouped into four categories: Internal Controls, Documentation, Potential Fraud, and Programmatic. Users should not consider the list to be all-inclusive.

Limitations

We identified the following obstacles to federal agencies' use of indicators to identify and prevent erroneous payments.

- 1) **Limited federal control.** Many federal programs are administered by states, local governments, and other third parties whose operations are not controlled by the federal agencies that fund them. The Unemployment Insurance Program for example, combines federal direction and administrative funding with eligibility requirements defined by the states.
- 2) **Limitations on data sharing.** Data collected by one federal agency could often be used to independently verify data for another federal agency but is not accessible, often because of congressionally mandated prohibitions. For example, HUD's subsidized housing programs could reduce improper payments by having access to National Directory of New Hires data, but HUD is not among the entities specifically permitted access to this database.
- 3) **Limited data collection.** Much useful data is not currently collected at all during the course of normal program administration, or is not stored in a way that it can be retrieved, isolated or sorted.
- 4) **Inherent conflict between promptness and accuracy.** Programs that require very quick payment processing, such as emergency benefit programs, will invariably sacrifice some preventive application review procedures.
- 5) **Inherent conflict between privacy and data collection needs.** Some data that would be useful in preventing or detecting erroneous payments (Social Security Numbers, for example) will not be collected or used because of individual privacy or business proprietary concerns.

Potential Improper and Erroneous Payment Indicators

INTERNAL CONTROL

Cannot reconcile control accounts to detailed records
Cannot reconcile cash (shortages and overages)
Cannot reconcile fund receipts with disbursements
Cannot reconcile federal entity records with grantee/contractor records
Credit card limits exceeded
Duplicate payments
Excessive voids, credit memos or refunds
Excessive late charges
Excessive payroll corrections
Excessive processing time for payments
Excessive requests for overpayment forgiveness
Excessive use of duplicate payment override (duplicate payments, payment exceeds obligation, etc.)
Inadequate authorization and review of payments
Inadequate controls over cash or credit cards
Inadequate controls over vendor payment addresses
Inadequate control over User ID/Password access for drawdowns
Inadequate control over receivables
Invoices not cancelled or marked Paid
Invoices paid first, then logged in and paid again
Invoices logged into and paid from two different systems
Lack of budget approval
Lack of monitoring/oversight
Lack of segregation of duties over payment process
Lack of segregation of duties between purchasing and receiving
Large number of adjustments
Manual entries or re-transmissions of files
Negative transactions
No edit checks for disbursements
No follow-up processes
Pay operations manual error tracking report
Payment vouchers rejected
Payments made without prior obligation/contract/ purchase order
Payroll fluctuations in number or amount of disbursements
Payroll disbursements sent to individuals more than once per pay period
Poor accounting records
Poor management control environment
Poor physical controls over computer assets
System deficiencies
Taxes paid inappropriately

Unqualified staff assigned to monitor contract performance
DOCUMENTATION

Clerical errors
Coding errors
Discrepancies/conflicting information between two sources
 Invoice to amount paid
 Purchase order to amount paid
 Invoice dates to date paid
 Discounts available to discounts paid
 Business applicant's Tax ID to IRS list of valid Tax ID's
Documentation errors
Duplicate invoices/different numbers for same invoice
Forgotten discounts by vendors
Forgotten rebates
Improperly applied prepayments
Incorrect certification of misreported household income
Incorrect interest rates
Incorrect refunds
Incorrect Tax ID Number
Miscalculations, e.g. freight, loss payment forms
Missing or inadequate supporting documentation
Pricing errors
Photocopied original records
Questionable purchases
Unsupported claims

POTENTIAL FRAUD

Bankrupt entity sells off assets just prior to filing for bankruptcy
Bribes
Claims made while imprisoned
Close social relationship with contactors
Collection agency continues to collect on loans after its contract is terminated
Collusive bidding by contractors
Complaints of non-payment, then submittal of second voucher while first
 voucher is being processed
Contracts awarded to other than lowest acceptable bidder
Contracts awarded to select groups without seeking broader competition
Difficulty contacting recipient/contractor/vendor
Disparities between data sources
Duplicate employee names, numbers and addresses
Duplicate vendor names, numbers and addresses
Emergency contracts awarded without competition
Employee fraud
 Misuse of travel and credit cards

Time and attendance fraud
Forged names of current and former employees/contract employees on vouchers
False claims
False or duplicate SSNs
False residence/ business address
Fictitious identity/ non-existing business
Fraud case tracking report output
Ghost employees
Higher/false/unallowable billing costs
Illegal political contributions
Improper endorsements
Kickbacks
Landlord billing amount exceeds number of units available
Landlord billing for vacant or unassisted units
Landlord billing as if 100% occupancy (cumulative)
Landlord billing for tenant not on rent-roll
Large payments made to individuals
Large payments made to employees
Loan applicant with criminal history
Loan applicant with prior loan default
Multiple family member claims for same disaster loss
Number of returned checks compared to checks issued
Offers of gifts, money or other gratuities to government officials, customers or suppliers
Payments in "9" amounts (i.e. \$9,999)
Payments made after death
Payments made on terminated/inactive contracts
Payments made to former employees
Payments made to other than "Remit To" address
Payments made to same vendor/contract/purchase order more than once on the same day
Payments made to vendors from restricted industry segments (i.e. liquor)
Payments returned by Treasury
Payments sent to mail boxes
Program payments made to employee addresses/bank accounts
Price fixing
Purchasing employees maintaining a standard of living obviously exceeding their income
Recurring purchases of high value items
Related party transactions
Retroactive personnel, travel or contractual authorizations
Similar invoices from different vendors (company has different names)
Slow payment or non-payment to suppliers
Split purchasing
 Purchasing identical items in different quantities
 Purchasing amounts just under approval level
Undeclared or understated income
Undue pressure from senior officials to pay invoice

PROGRAMMATIC

Beneficiary/applicant/tenant failure to estimate income correctly
Beneficiary failure to report status changes
Complex programs
Cost-reimbursable contracts
Decrease in charges to contracts near overrun or near ceiling
Downward adjustment in material costs as labor/overhead costs increase
Expenditures consistently at or near budgeted amounts
Excessive year-end spending
Failure by third parties to correct discrepancies generated by transfer of information between automated systems
Failure to explain discrepancies between tenant information form and electronic vouchers submission
Failure to use appropriate rent for bedroom size
Failure to use rent determination
High-risk programs
Increase in rejected claims
Ineligible recipients
False representation on grant application
Material ordered and charged in excess of contract requirements
Non-compliance reported in A-133 audits and other audits (questioned costs, unallowable costs, disallowed costs)
Non-related or unnecessary services provided
Numerous complaints from customers, program offices, recipients
Over and under awards
Payments expedited unnecessarily
Payments on loans that match defaulted loan database or loan discharge records
Payments to recipients of multiple entitlement programs
Payments to retirees that match Social Security Death database
Progress payments not justified by actual work progress
Questionable purchases
Researcher bills against contracts with two agencies for same research project
Supplemental payments
Transfers via any type of holding or suspense accounts
Unauthorized increases in rent subsidy or utility allowance
Unrendered services
Unusual activity/patterns/trends
Vendor billing software not in compliance with Regulations or contains errors
Volume of transactions