Payment Integrity Information Act:

What Agency Financial Leaders Should Know

The Payment Integrity Information Act of 2019 (PIIA) was signed into law in March 2020 to decrease the amount of improper payments made by the United States (US) Government. For fiscal year 2019, federal entities made approximately $175 billion in improper payments.[1]

The PIIA changed the government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. It adopted and modified certain requirements from the laws that it repealed or replaced and added new requirements.

One of the primary changes made by the PIIA relates to four new risk factors that are to be embedded into federal entities' improper payment risk assessments. These factors are:

- Similarities to other programs that have reported improper and unknown payment estimates or have been deemed susceptible to significant improper payments.
- Accuracy and reliability of improper and unknown payment estimates previously reported for the program or other indicators of potential susceptibility to improper payments.
- Whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs.
- Risk of fraud as assessed by the federal entities under the Standards for Internal Control in the Federal Government issued by the Government Accountability Office, also referred to as the Green Book.

Furthermore, the Office of Management and Budget (OMB) Circular A-123 (A-123), Appendix C, has been revised to mirror the updates set forth in the PIIA. The revised OMB A-123, Appendix C focuses on developing a more comprehensive and meaningful set of requirements that reduces low-value activities, allows federal entities to spend more time performing root cause analyses of improper and unknown payments, balances risks and controls, and improves the ability to prevent future improper and unknown payments.

[1] "In fiscal year 2019, agencies across government made an estimated $175 billion in improper payments", (GAO-20-344) report. Retrieved from https://www.gao.gov/products/gao-20-344

What should federal entities consider when implementing the PIIA and the related OMB requirements?

Federal entities should:

- Thoroughly analyze the additional risk factors that have been identified and required to be included in their improper payment risk assessments.
- Closely evaluate new programs or programs that had significant spending changes from prior years that may have been caused by various events, such as the COVID-19 pandemic.

The damaging impact of the COVID-19 pandemic on the US economy and healthcare system led Congress to pass multiple economic relief bills. With these multitrillion-dollar plans, federal entities aim to provide expedited economic relief to federal, state, and local healthcare resources and to American families and businesses.

The OMB issued the M-21-20 memorandum, titled “Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources” on March 19, 2021. This memorandum provides guidance on the effective execution and stewardship of American Rescue Plan resources and funds, and further expands on the requirements set forth in the PIIA and OMB A-123 Appendix C. More specifically, OMB M-21-20 stipulates that several additional risk factors must be considered as they relate to a program’s payment integrity. These factors include:

- New legal provisions.
- Changes to existing program eligibility rules.
- Increased volume of program applications.
- Limitations in resources relative to volume of applications or funding.

In addition, OMB M-21-20 urges federal entities not only to continue performing assessments over existing internal controls, designing payment integrity risk mitigation controls for new programs, and considering controls that identify new eligibility requirements, but to also leverage existing resources across federal databases and entities to support effective testing of improper payments. OMB recommends that federal entities continue to explore strategies that may be implemented in the short term to mitigate payment integrity risks. These strategies include, but are not limited to, process and policy updates, predictive analytics, and automation.

As new programs are established and others have large changes in funding, many federal programs have become highly susceptible to improper payments, and the need to ensure the integrity of payments made by federal entities is greater than ever before. Entities and their federal financial managers need to make certain that strong internal controls are in place to maximize efficiencies and reduce financial waste. To support this effort, the PIIA stipulates that federal entities’ first priority should be to address deficiencies that directly contribute to the federal entities’ improper payments. The federal entities should look to other programs and/or operations within their authority to reduce payment errors and waste.

Guidehouse

How has Guidehouse helped federal entities improve their improper payments testing?

Guidehouse has decades of experience helping federal clients continue to fulfill their fiduciary responsibilities while adapting to new realities imposed by momentous events. Guidehouse works with leaders to adopt business process changes that increase efficiencies while maintaining accountability, transparency, and compliance. Additionally, as federal legislation and guidance changes, we conduct thorough analyses over the mandated revisions and their impacts to current practices in order to quickly and effectively adapt our approach to meet the requirements.

Demonstrated below are some key considerations for the improper payment evaluation process, based on our continuously evolving experience of working with and developing leading practices and lessons learned. The items in bold in the table below are best practices and provide additional value leading to the development and strengthening of internal controls to reduce improper payments.

PIIA Phase	Key Considerations to Increase Value
Risk Assessment	– Reassess program risks as legislation and funding changes occur. – **As new legislation is passed or new guidance is published, update the comprehensive set of risk factors that are required to be assessed for each program.** – Analyze program risks systematically at least every three years, particularly if the program has annual outlays of more than $10M. – **Confirm risk assessment responses through interviews with program stakeholders and supporting documentation related to the payment process.** – **Utilize a standardized template while conducting risk assessments and ensure the template is tailored and adapted as necessary to the intricacies of each program.** – **Upon completion of risk assessments, assess the costs and benefits of developing an automation solution, such as using the R programming language, or any other appropriate technology, for testing.**
Statistical Sampling	– In order to optimize efficiencies, conduct testing over the complete population of payments if the total number of payments for a program in the assessed fiscal year is small, as determined by the federal entity. – Develop a sampling methodology that is adhered to and tailored for related programs, as needed. – **Leverage historical results of improper payments when determining the appropriate sampling method to utilize and adjust the sample size, as necessary.**
Test Script Development	– **Design test scripts in coordination with the related program office to ensure it is in line with the program policies and procedures.** – Work with the related program office to obtain supporting documentation that may be used to evaluate the sample payments to ensure that the test script accurately validates whether a payment was made properly.
Testing	– **Prior to the commencement of testing, develop a consistent format for annotating supporting documentation for each sample payment that is tested.** – Develop a strategy to determine what factors may cause a payment to be classified as a non-monetary loss improper payment, a monetary loss improper payment, or an unknown payment. – **Create a document that summarizes the methodologies used throughout the testing process that may not align with the initial procedures to maintain an audit trail.** – **Explore automation options to support the testing process and, as applicable, build out the technology based on the payment requirements of the specific programs.**
Extrapolation	– Develop an extrapolation methodology that is adhered to, updated in accordance with evolving best practices, and tailored to the related program, as needed. – **Use available data, such as most recent improper and unknown payment rates, to extrapolate improper and unknown payment rates for the current year if testing is not being performed.**
Reporting	– **Develop reports that document pertinent assessment information, including the statistical sampling methodology, improper payment assessment methodology, improper and unknown payment amounts, improper and unknown payment rates, and potential causes for the improper and unknown payments.**
Remediation	– Determine root causes associated with identified improper and unknown payments and related internal controls and provide recommendations on how the program office may address them through potential remediation efforts and other necessary next steps. – **Prioritize remediation and internal control efforts by evaluating program-specific factors, including total amount of annual disbursements, inherent fraud risk, and amount and percentage of identified improper payments.**

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