PUBLIC LAW 111–204—JULY 22, 2010

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010
Public Law 111–204
111th Congress

An Act

[70x70]To amend the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) in order to prevent the loss of billions in taxpayer dollars.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Improper Payments Elimination and Recovery Act of 2010”.

SEC. 2. IMPROPER PAYMENTS ELIMINATION AND RECOVERY.

(a) SUSCEPTIBLE PROGRAMS AND ACTIVITIES.—Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended by striking subsection (a) and inserting the following:

“(a) IDENTIFICATION OF SUSCEPTIBLE PROGRAMS AND ACTIVITIES.—

“(1) IN GENERAL.—The head of each agency shall, in accordance with guidance prescribed by the Director of the Office of Management and Budget, periodically review all programs and activities that the relevant agency head administers and identify all programs and activities that may be susceptible to significant improper payments.

“(2) FREQUENCY.—Reviews under paragraph (1) shall be performed for each program and activity that the relevant agency head administers during the year after which the Improper Payments Elimination and Recovery Act of 2010 is enacted and at least once every 3 fiscal years thereafter. For those agencies already performing a risk assessment every 3 years, agencies may apply to the Director of the Office of Management and Budget for a waiver from the requirement of the preceding sentence and continue their 3-year risk assessment cycle.

“(3) RISK ASSESSMENTS.—

“(A) DEFINITION.—In this subsection the term ‘significant’ means—

“(i) except as provided under clause (ii), that improper payments in the program or activity in the preceding fiscal year may have exceeded—

“(I) $10,000,000 of all program or activity payments made during that fiscal year reported and 2.5 percent of program outlays; or

“(II) $100,000,000; and

“(ii) with respect to fiscal years following September 30th of a fiscal year beginning before fiscal year 2013 as determined by the Office of Management and Budget.
and Budget, that improper payments in the program or activity in the preceding fiscal year may have exceeded—

"(I) $10,000,000 of all program or activity payments made during that fiscal year reported and 1.5 percent of program outlays; or

"(II) $100,000,000.

"(B) Scope.—In conducting the reviews under paragraph (1), the head of each agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments, such as—

"(i) whether the program or activity reviewed is new to the agency;

"(ii) the complexity of the program or activity reviewed;

"(iii) the volume of payments made through the program or activity reviewed;

"(iv) whether payments or payment eligibility decisions are made outside of the agency, such as by a State or local government;

"(v) recent major changes in program funding, authorities, practices, or procedures;

"(vi) the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and

"(vii) significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification."

(b) Estimation of Improper Payments.—Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended by striking subsection (b) and inserting the following:

"(b) Estimation of Improper Payments.—With respect to each program and activity identified under subsection (a), the head of the relevant agency shall—

"(1) produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made by each program and activity; and

"(2) include those estimates in the accompanying materials to the annual financial statement of the agency required under section 3515 of title 31, United States Code, or similar provision of law and applicable guidance of the Office of Management and Budget."

(c) Reports on Actions to Reduce Improper Payments.—Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended by striking subsection (c) and inserting the following:

"(c) Reports on Actions to Reduce Improper Payments.—With respect to any program or activity of an agency with estimated improper payments under subsection (b), the head of the agency shall provide with the estimate under subsection (b) a report on what actions the agency is taking to reduce improper payments, including—

"(1) a description of the causes of the improper payments, actions planned or taken to correct those causes, and the
planned or actual completion date of the actions taken to address those causes;

“(2) in order to reduce improper payments to a level below which further expenditures to reduce improper payments would cost more than the amount such expenditures would save in prevented or recovered improper payments, a statement of whether the agency has what is needed with respect to—

“(A) internal controls;
“(B) human capital; and
“(C) information systems and other infrastructure;

“(3) if the agency does not have sufficient resources to establish and maintain effective internal controls under paragraph (2)(A), a description of the resources the agency has requested in its budget submission to establish and maintain such internal controls;

“(4) program-specific and activity-specific improper payments reduction targets that have been approved by the Director of the Office of Management and Budget; and

“(5) a description of the steps the agency has taken to ensure that agency managers, programs, and, where appropriate, States and localities are held accountable through annual performance appraisal criteria for—

“(A) meeting applicable improper payments reduction targets; and

“(B) establishing and maintaining sufficient internal controls, including an appropriate control environment, that effectively—

“(i) prevent improper payments from being made; and

“(ii) promptly detect and recover improper payments that are made.”.

(d) **REPORTS ON ACTIONS TO RECOVER IMPROPER PAYMENTS.**—

Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended—

(1) by striking subsection (e);

(2) by redesignating subsections (d) and (f) as subsections (f) and (g), respectively; and

(3) by inserting after subsection (c) the following:

“(d) REPORTS ON ACTIONS TO RECOVER IMPROPER PAYMENTS.—With respect to any improper payments identified in recovery audits conducted under section 2(h) of the Improper Payments Elimination and Recovery Act of 2010 (31 U.S.C. 3321 note), the head of the agency shall provide with the estimate under subsection (b) a report on all actions the agency is taking to recover improper payments, including—

“(1) a discussion of the methods used by the agency to recover overpayments;

“(2) the amounts recovered, outstanding, and determined to not be collectable, including the percent such amounts represent of the total overpayments of the agency;

“(3) if a determination has been made that certain overpayments are not collectable, a justification of that determination;

“(4) an aging schedule of the amounts outstanding;

“(5) a summary of how recovered amounts have been disposed of;

“(6) a discussion of any conditions giving rise to improper payments and how those conditions are being resolved; and

“(7) a summary of the actions the agency has taken to ensure that agency managers, programs, and, where appropriate, States and localities are held accountable through annual performance appraisal criteria for—

“(A) meeting applicable improper payments reduction targets; and

“(B) establishing and maintaining sufficient internal controls, including an appropriate control environment, that effectively—

“(i) prevent improper payments from being made; and

“(ii) promptly detect and recover improper payments that are made.”. 
“(7) if the agency has determined under section 2(h) of the Improper Payments Elimination and Recovery Act of 2010 (31 U.S.C. 3321 note) that performing recovery audits for any applicable program or activity is not cost-effective, a justification for that determination.

“(e) GOVERNMENTWIDE REPORTING OF IMPROPER PAYMENTS AND ACTIONS TO RECOVER IMPROPER PAYMENTS.—

“(1) REPORT.—Each fiscal year the Director of the Office of Management and Budget shall submit a report with respect to the preceding fiscal year on actions agencies have taken to report information regarding improper payments and actions to recover improper overpayments to—

“A the Committee on Homeland Security and Governmental Affairs of the Senate; and

“B the Committee on Oversight and Government Reform of the House of Representatives.

“(2) CONTENTS.—Each report under this subsection shall include—

“A a summary of the reports of each agency on improper payments and recovery actions submitted under this section;

“B an identification of the compliance status of each agency to which this Act applies;

“C governmentwide improper payment reduction targets; and

“D a discussion of progress made towards meeting governmentwide improper payment reduction targets.”

“(f) DEFINITIONS.—Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended by striking subsections (f) (as redesignated by this section) and inserting the following:

“A (1) AGENCY.—The term ‘agency’ means an executive agency, as that term is defined in section 102 of title 31, United States Code.

“(2) IMPROPER PAYMENT.—The term ‘improper payment’—

“A means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and

“B includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.

“(3) PAYMENT.—The term ‘payment’ means any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any non-Federal person or entity, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

“(4) PAYMENT FOR AN INELIGIBLE GOOD OR SERVICE.—The term ‘payment for an ineligible good or service’ shall include a payment for any good or service that is rejected under any
provision of any contract, grant, lease, cooperative agreement, or any other funding mechanism.”.

(g) GUIDANCE BY THE OFFICE OF MANAGEMENT AND BUDGET.—Section 2 of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) is amended by striking subsection (g) (as redesignated by this section) and inserting the following:

“(g) GUIDANCE BY THE OFFICE OF MANAGEMENT AND BUDGET.—

“(1) IN GENERAL.—Not later than 6 months after the date of enactment of the Improper Payments Elimination and Recovery Act of 2010, the Director of the Office of Management and Budget shall prescribe guidance for agencies to implement the requirements of this section. The guidance shall not include any exemptions to such requirements not specifically authorized by this section.

“(2) CONTENTS.—The guidance under paragraph (1) shall prescribe—

“(A) the form of the reports on actions to reduce improper payments, recovery actions, and governmentwide reporting; and

“(B) strategies for addressing risks and establishing appropriate prepayment and postpayment internal controls.”.

(h) DETERMINATIONS OF AGENCY READINESS FOR OPINION ON INTERNAL CONTROL.—Not later than 1 year after the date of enactment of this Act, the Director of the Office of Management and Budget shall develop—

(1) specific criteria as to when an agency should initially be required to obtain an opinion on internal control over improper payments; and

(2) criteria for an agency that has demonstrated a stabilized, effective system of internal control over improper payments, whereby the agency would qualify for a multiyear cycle for obtaining an audit opinion on internal control over improper payments, rather than an annual cycle.

(i) RECOVERY AUDITS.—

(1) DEFINITION.—In this subsection, the term “agency” has the meaning given under section 2(f) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) as redesignated by this Act.

(2) IN GENERAL.—

(A) CONDUCT OF AUDITS.—Except as provided under paragraph (4) and if not prohibited under any other provision of law, the head of each agency shall conduct recovery audits with respect to each program and activity of the agency that expends $1,000,000 or more annually if conducting such audits would be cost-effective.

(B) PROCEDURES.—In conducting recovery audits under this subsection, the head of an agency—

(i) shall give priority to the most recent payments and to payments made in any program or programs identified as susceptible to significant improper payments under section 2(a) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note);

(ii) shall implement this subsection in a manner designed to ensure the greatest financial benefit to the Government; and
(iii) may conduct recovery audits directly, by using other departments and agencies of the United States, or by procuring performance of recovery audits by private sector sources by contract (subject to the availability of appropriations), or by any combination thereof.

(C) Recovery Audit Contracts.—With respect to recovery audits procured by an agency by contract—

(i) subject to subparagraph (B)(iii), and except to the extent such actions are outside the agency’s authority, as defined by section 605(a) of the Contract Disputes Act of 1978 (41 U.S.C. 605(a)), the head of the agency may authorize the contractor to notify entities (including persons) of potential overpayments made to such entities, respond to questions concerning potential overpayments, and take other administrative actions with respect to overpayment claims made or to be made by the agency; and

(ii) such contractor shall have no authority to make final determinations relating to whether any overpayment occurred and whether to compromise, settle, or terminate overpayment claims.

(D) Contract Terms and Conditions.—

(i) In General.—The agency shall include in each contract for procurement of performance of a recovery audit a requirement that the contractor shall—

(I) provide to the agency periodic reports on conditions giving rise to overpayments identified by the contractor and any recommendations on how to mitigate such conditions;

(II) notify the agency of any overpayments identified by the contractor pertaining to the agency or to any other agency or agencies that are beyond the scope of the contract; and

(III) report to the agency credible evidence of fraud or vulnerabilities to fraud, and conduct appropriate training of personnel of the contractor on identification of fraud.

(ii) Reports on Actions Taken.—Not later than November 1 of each year, each agency shall submit a report on actions taken by the agency during the preceding fiscal year to address the recommendations described under clause (i)(I) to—

(I) the Office of Management and Budget; and

(II) Congress.

(E) Agency Action Following Notification.—An agency shall take prompt and appropriate action in response to a report or notification by a contractor under subparagraph (D)(i)(I) or (II), to collect overpayments and shall forward to other agencies any information that applies to such agencies.

(3) Disposition of Amounts Recovered.—

(A) In General.—Amounts collected by agencies each fiscal year through recovery audits conducted under this subsection shall be treated in accordance with this paragraph. The agency head shall determine the distribution of collected amounts, less amounts needed to fulfill the
purposes of section 3562(a) of title 31, United States Code, in accordance with subparagraphs (B), (C), and (D).

(B) USE FOR FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM.—Not more than 25 percent of the amounts collected by an agency through recovery audits—

(i) shall be available to the head of the agency to carry out the financial management improvement program of the agency under paragraph (4);

(ii) may be credited, if applicable, for that purpose by the head of an agency to any agency appropriations and funds that are available for obligation at the time of collection; and

(iii) shall be used to supplement and not supplant any other amounts available for that purpose and shall remain available until expended.

(C) USE FOR ORIGINAL PURPOSE.—Not more than 25 percent of the amounts collected by an agency—

(i) shall be credited to the appropriation or fund, if any, available for obligation at the time of collection for the same general purposes as the appropriation or fund from which the overpayment was made;

(ii) shall remain available for the same period and purposes as the appropriation or fund to which credited; and

(iii) if the appropriation from which the overpayment was made has expired, shall be newly available for the same time period as the funds were originally available for obligation, except that any amounts that are recovered more than five fiscal years from the last fiscal year in which the funds were available for obligation shall be deposited in the Treasury as miscellaneous receipts, except that in the case of recoveries of overpayments that are made from trust or special fund accounts, such amounts shall revert to those accounts.

(D) USE FOR INSPECTOR GENERAL ACTIVITIES.—Not more than 5 percent of the amounts collected by an agency shall be available to the Inspector General of that agency—

(i) for—

(I) the Inspector General to carry out this Act; or

(II) any other activities of the Inspector General relating to investigating improper payments or auditing internal controls associated with payments; and

(ii) shall remain available for the same period and purposes as the appropriation or fund to which credited.

(E) REMAINDER.—Amounts collected that are not applied in accordance with subparagraph (A), (B), (C), or (D) shall be deposited in the Treasury as miscellaneous receipts, except that in the case of recoveries of overpayments that are made from trust or special fund accounts, such amounts shall revert to those accounts.

(F) DISCRETIONARY AMOUNTS.—This paragraph shall apply only to recoveries of overpayments that are made from discretionary appropriations (as that term is defined
by paragraph 7 of section 250 of the Balanced Budget and Emergency Deficit Control Act of 1985) and shall not apply to recoveries of overpayments that are made from discretionary amounts that were appropriated prior to enactment of this Act.

(G) APPLICATION.—This paragraph shall not apply to recoveries of overpayments if the appropriation from which the overpayment was made has not expired.

(4) FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM.—

(A) REQUIREMENT.—The head of each agency shall conduct a financial management improvement program, consistent with rules prescribed by the Director of the Office of Management and Budget.

(B) PROGRAM FEATURES.—In conducting the program, the head of the agency—

(i) shall, as the first priority of the program, address problems that contribute directly to agency improper payments; and

(ii) may seek to reduce errors and waste in other agency programs and operations.

(5) PRIVACY PROTECTIONS.—Any nongovernmental entity that, in the course of recovery auditing or recovery activity under this subsection, obtains information that identifies an individual or with respect to which there is a reasonable basis to believe that the information can be used to identify an individual, may not disclose the information for any purpose other than such recovery auditing or recovery activity and governmental oversight of such activity, unless disclosure for that other purpose is authorized by the individual to the executive agency that contracted for the performance of the recovery auditing or recovery activity.

(6) OTHER RECOVERY AUDIT REQUIREMENTS.—

(A) IN GENERAL.—(i) Except as provided in clause (ii), section 3562(a) of title 31, United States Code, is repealed.

(ii) Section 3562(a) of title 31, United States Code, shall continue in effect, except that references in such section 3562(a) to programs carried out under section 3561 of such title, shall be interpreted to mean programs carried out under section 2(h) of this Act.

(B) TECHNICAL AND CONFORMING AMENDMENTS.—

(i) TABLE OF SECTIONS.—The table of sections for chapter 35 of title 31, United States Code, is amended by striking the matter relating to subchapter VI.

(ii) DEFINITION.—Section 3501 of title 31, United States Code, is amended by striking “and subchapter VI of this title”.


(7) RULE OF CONSTRUCTION.—Except as provided under paragraph (5), nothing in this section shall be construed as
terminating or in any way limiting authorities that are otherwise available to agencies under existing provisions of law to recover improper payments and use recovered amounts.

(i) REPORT ON RECOVERY AUDITING.—Not later than 2 years after the date of the enactment of this Act, the Chief Financial Officers Council established under section 302 of the Chief Financial Officers Act of 1990 (31 U.S.C. 901 note), in consultation with the Council of Inspectors General on Integrity and Efficiency established under section 7 of the Inspector General Reform Act of 2009 (Public Law 110–409) and recovery audit experts, shall conduct a study of—

(1) the implementation of subsection (h);
(2) the costs and benefits of agency recovery audit activities, including—
(A) those activities under subsection (h); and
(B) the effectiveness of using the services of—
(i) private contractors;
(ii) agency employees;
(iii) cross-servicing from other agencies; or
(iv) any combination of the provision of services described under clauses (i) through (iii); and
(3) submit a report on the results of the study to—
(A) the Committee on Homeland Security and Governmental Affairs of the Senate;
(B) the Committee on Oversight and Government Reform of the House of Representatives; and
(C) the Comptroller General.

SEC. 3. COMPLIANCE.

(a) DEFINITIONS.—In this section:

(1) AGENCY.—The term “agency” has the meaning given under section 2(f) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) as redesignated by this Act.

(2) ANNUAL FINANCIAL STATEMENT.—The term “annual financial statement” means the annual financial statement required under section 3515 of title 31, United States Code, or similar provision of law.

(3) COMPLIANCE.—The term “compliance” means that the agency—

(A) has published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under guidance of the Office of Management and Budget on the agency website;

(B) if required, has conducted a program specific risk assessment for each program or activity that conforms with section 2(a) the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note); and

(C) if required, publishes improper payments estimates for all programs and activities identified under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) in the accompanying materials to the annual financial statement;

(D) publishes programmatic corrective action plans prepared under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the
agency may have in the accompanying materials to the annual financial statement;

(E) publishes improper payments reduction targets established under section 2(c) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and

(F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 2(b) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note).

(b) ANNUAL COMPLIANCE REPORT BY INSPECTORS GENERAL OF AGENCIES.—Each fiscal year, the Inspector General of each agency shall determine whether the agency is in compliance and submit a report on that determination to—

(1) the head of the agency;

(2) the Committee on Homeland Security and Governmental Affairs of the Senate;

(3) the Committee on Oversight and Governmental Reform of the House of Representatives; and

(4) the Comptroller General.

(c) REMEDIATION.—

(1) NONCOMPLIANCE.—

(A) IN GENERAL.—If an agency is determined by the Inspector General of that agency not to be in compliance under subsection (b) in a fiscal year, the head of the agency shall submit a plan to Congress describing the actions that the agency will take to come into compliance.

(B) PLAN.—The plan described under subparagraph (A) shall include—

(i) measurable milestones to be accomplished in order to achieve compliance for each program or activity;

(ii) the designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and

(iii) the establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated under clause (ii) in leading the efforts of the agency to come into compliance for each program and activity.

(2) NONCOMPLIANCE FOR 2 FISCAL YEARS.—

(A) IN GENERAL.—If an agency is determined by the Inspector General of that agency not to be in compliance under subsection (b) for 2 consecutive fiscal years for the same program or activity, and the Director of the Office of Management and Budget determines that additional funding would help the agency come into compliance, the head of the agency shall obligate additional funding, in an amount determined by the Director, to intensified compliance efforts.

(B) FUNDING.—In providing additional funding described under subparagraph (A), the head of an agency shall include—
shall use any reprogramming or transfer authority available to the agency. If after exercising that reprogramming or transfer authority additional funding is necessary to obligate the full level of funding determined by the Director of the Office of Management and Budget under subparagraph (A), the agency shall submit a request to Congress for additional reprogramming or transfer authority.

(3) REAUTHORIZATION AND STATUTORY PROPOSALS.—If an agency is determined by the Inspector General of that agency not to be in compliance under subsection (b) for more than 3 consecutive fiscal years for the same program or activity, the head of the agency shall, not later than 30 days after such determination, submit to Congress

(A) reauthorization proposals for each program or activity that has not been in compliance for 3 or more consecutive fiscal years; or

(B) proposed statutory changes necessary to bring the program or activity into compliance.

(d) COMPLIANCE ENFORCEMENT PILOT PROGRAMS.—

(1) IN GENERAL.—The Director of the Office of Management and Budget may establish 1 or more pilot programs which shall test potential accountability mechanisms with appropriate incentives and consequences tied to success in ensuring compliance with this Act and eliminating improper payments.

(2) REPORT.—Not later than 5 years after the date of enactment of this Act, the Director of the Office of Management and Budget shall submit a report to Congress on the findings associated with any pilot programs conducted under paragraph (1). The report shall include any legislative or other recommendations that the Director determines necessary.

(e) REPORT ON CHIEF FINANCIAL OFFICERS ACT OF 1990.—

Not later than 1 year after the date of the enactment of this Act, the Chief Financial Officers Council established under section 302 of the Chief Financial Officers Act of 1990 (31 U.S.C. 901 note) and the Council of Inspectors General on Integrity and Efficiency established under section 7 of the Inspector General Reform Act of 2009 (Public Law 110–409), in consultation with a broad cross-section of experts and stakeholders in Government accounting and financial management shall—

(1) jointly examine the lessons learned during the first 20 years of implementing the Chief Financial Officers Act of 1990 (31 U.S.C. 901) and identify reforms or improvements, if any, to the legislative and regulatory compliance framework for Federal financial management that will optimize Federal agency efforts to—

(A) publish relevant, timely, and reliable reports on Government finances; and

(B) implement internal controls that mitigate the risk for fraud, waste, and error in Government programs; and

(2) jointly submit a report on the results of the examination to—

(A) the Committee on Homeland Security and Governmental Affairs of the Senate;

(B) the Committee on Oversight and Government Reform of the House of Representatives; and
(C) the Comptroller General.

Approved July 22, 2010.