Office of Inspector General

MEMORANDUM REPORT

TO: David D. Ostermeyer
Chief Financial Officer

FROM: Rohit Chowbay /s/
Director, IG/A/FA

SUBJECT: Improper Payments Made Under the American Recovery and Reinvestment Act of 2009 (Report No. 0-000-10-001-K)

This memorandum report presents the results of our review of USAID's process for reviewing, approving and paying invoices under the American Recovery and Reinvestment Act of 2009 (Recovery Act). This is the second finding stemming from a series of reviews that the Office of Inspector General will be conducting as required by the Recovery Act. This was not an audit; however, the report contains two recommendations for your action. Based on our evaluation of USAID's management comments, final action has been taken on the recommendations included in this report. (see Appendix I for USAID's management comments)

I appreciate the cooperation and courtesy extended to our staff during this review.

Background

The Recovery Act was signed into law on February 17, 2009, as a way to jumpstart the U.S. economy, create or save millions of jobs, spur technological advances in science and health, and invest in the Nation's energy future. This effort requires an unprecedented level of transparency and accountability to ensure that U.S. citizens know where their tax dollars are going and how they are being spent. As part of the Recovery Act, USAID received $38 million for immediate information technology security and upgrades to support mission-critical operations. Because of USAID's information technology priorities, and to maximize job creation with the Recovery Act funds, USAID determined that the funding would be used for the development and deployment of the Global Acquisition and Assistance System over a 2-year period.

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We conducted this review to determine whether USAID's process for reviewing, approving and paying Recovery Act invoices was functioning effectively.

Discussion

Section 4.3 of the Office of Management and Budget's Memorandum 09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," states that agencies must not comingle Recovery Act funds with other funds and that internal fund codes must be established to track apportionments, allotments, obligations and outlays related to the Recovery Act.

Although USAID has implemented procedures for separating Recovery Act payments from other payments, it erroneously used Recovery Act funds to pay for services that were not authorized under the Recovery Act obligations. Through our review of Recovery Act invoices from November 2009 through March 2010, we identified six invoices with contract line items totaling $7,860 that were not included in the Recovery Act obligations. This amount was improperly paid with Recovery Act funds for services rendered during September 2009 through February 2010. In contracting for Recovery Act efforts, USAID established a mechanism whereby its contractors would append the designation "RA" to the contract line item number when amounts billed were related to the Recovery Act funds. The supporting documentation for services billed on the invoices totaling $7,860 did not include the "RA" designation after the contract line item number but the invoices were paid with funds obligated for Recovery Act efforts.

This error occurred because USAID did not follow its established process for reviewing, approving and paying Recovery Act invoices. Specifically, USAID did not reconcile the amount billed on the invoices to supporting documentation provided by the vendor at the detailed line item level to ensure that only Recovery Act invoices expenditures were paid from Recovery Act obligations, resulting in the erroneous payment of six invoices with contract line items totaling $7,860 using Recovery Act funds.

These payments reduced the funds available for satisfying current obligations incurred under the Recovery Act and have resulted in improper payments, as defined by the Improper Payments Information Act of 2002.

Conclusion

Because USAID did not follow its established process for reviewing, processing and paying invoices under the Recovery Act, we are making the following recommendations:

Recommendation 1. We recommend that the office of the Chief Financial Officer reimburse its Recovery Act obligations for the $7,860 that was incorrectly paid out of the American Recovery and Reinvestment Act Funds.

Recommendation 2. We recommend that the office of the Chief Financial Officer augment its procedures to review, approve and pay ARRA invoices to ensure that the amount of each invoice is reconciled to the total of the Contract Line Item Numbers outlined on the documentation that supports the invoice amount, before the invoice is recorded in the general ledger.

Evaluation of Management Comments

We have received and evaluated USAID's management comments on the finding and recommendations included in our draft report. The following is a summary of USAID's management comments and our evaluation of those comments.

USAID management acknowledged that the Agency violated its own internal management decision to use Recovery Act funding to support only labor costs, and not any provisions under the Recovery Act since the Act does not specify how Recovery Act obligations should be paid.

USAID management agreed to implement Recommendation 1 and commented that the Office of Acquisition and Assistance and the Office of the Chief Financial Officer immediately executed corrective action by notifying the vendor of the discrepancies, reviewing the vendor's subsequent submission of corrected vouchers and posting a Journal Voucher to its financial system on June 9, 2010. The Journal Voucher corrective entry credited the erroneous payment back to the Recovery Act funding line and debited the non-Recovery Act funding line for the same amount. We agree with management's decision and action on this recommendation and will continue to review USAID's Recovery Act invoice processing as part of our review and oversight of USAID's expending and reporting of Recovery Act funds.

USAID management agreed to implement Recommendation 2 and has augmented its procedures to review, approve and pay Recovery Act invoices. Specifically, USAID management has updated the Recovery Act Invoice Checklist to include additional procedures for the Contracting Officer Technical Representative, Voucher Examiners, and Certifying Officers as part of the pre-existing administrative approval process, requiring a detailed analysis of incurred costs. In addition, USAID management will route all vendor invoices subject to the receipt of Recover Act funds, to the Agency's Office of Management and Budget Circular A-123 Assessment Team for supplemental and simultaneous review of the invoice(s) to determine if the invoice payment is accurate and subject to the Recovery Act funds and payment processing procedures. We agree with management's decision and action on this recommendation and will review USAID's augmented checklist procedures during our review and oversight of USAID's expending and reporting of Recovery Act funds.

Scope and Methodology

Scope

This review consisted of an evaluation of USAID's Recovery Act procedures to review, process and pay invoices that were processed from November 2009 through March 2010. This review was not an audit.

Methodology

During this review, we performed the following procedures:

- Obtained an understanding of the process that management has implemented to review, process and pay Recovery Act invoices.

- Obtained and reviewed the Recovery Act obligations and supporting documentation.

- Obtained and reviewed invoices processed by USAID under the Recovery Act from November 2009 through March 2010.

- Determined whether the designation "RA" was appended to the contract line item numbers on the supporting documentation for services billed on Recovery Act invoices.

- Determined whether all invoices paid with Recovery Act funds were appropriately charged to the related obligation and were allowable and allocable.

- Determined whether all invoices had the appropriate Recovery Act Checklist attached. The checklist was developed by USAID Office of the Chief Financial Officer as a result of USAID Office of the Inspector General identifying improperly paid Recovery Act invoices in August 2009 for services rendered in February and March 2009.