



MAR 15 2013

Office of Inspector General

MEMORANDUM

TO: Dr. Rajiv Shah, Administrator

FROM: Michael Carroll, Deputy Inspector General /s/

SUBJECT: Report on USAID's Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 0-000-13-001-S)

This memorandum transmits our final report on USAID's compliance with the requirements of the Improper Payments Elimination and Recovery Act (IPERA) for fiscal year (FY) 2012. USAID management is responsible for complying with the requirements of the act. The Office of Inspector General (OIG) is responsible for evaluating USAID's reporting on improper payments in its Agency Financial Report and accompanying materials, and determining whether the Agency complied with IPERA.

OIG determined that for FY 2012, USAID complied in all material respects with IPERA requirements. However, we noted certain deficiencies in internal controls that should be remediated to provide reliable reports in accordance with IPERA. These deficiencies include (1) untimely reviews of potential funds control violations that could lead to identifying improper payments and (2) disbursements that do not comply with contractual or administrative requirements. This report contains three recommendations to improve USAID's internal controls to prevent and detect improper payments.

We have considered the Chief Financial Officer's response to the draft report and the recommendations included therein. We acknowledge USAID's management decisions on the recommendations. Please forward support for all final action to the Office of Audit, Planning and Coordination.

We also are issuing a copy of this report to the Senate Committee on Homeland Security and Governmental Affairs; House Committee on Oversight and Government Reform; Comptroller General of the United States; and Office of Management and Budget.

OIG appreciates the cooperation and courtesies extended during the audit.

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BACKGROUND

On July 22, 2010, Congress passed the Improper Payment Elimination and Recovery Act of 2010 (IPERA). IPERA amended the Improper Payment Information Act (IPIA), repealed the Recovery Auditing Act, and significantly increased agencies' recapture efforts for improper payments by expanding the types of payments that can be reviewed and by lowering the overall threshold of annual outlays that requires agencies to conduct payment recapture audit programs. To help agencies implement the act, OMB Memorandum M-11-16 provided agencies guidance; OMB also required them to submit plans for payment recapture audits that describe their current efforts. OMB Memorandum M-11-04 summarizes the requirements of IPERA as follows:

- IPERA lowers the threshold for conducting payment recapture audits from \$500 million in annual outlays to \$1 million if conducting such audits would be cost-effective. IPERA also expands the scope of the audits from reviewing only contract payments to reviewing all programs and activities.
- IPERA requires the director of OMB to develop specific criteria as to when an agency should be required to obtain a separate, annual audit opinion on internal control over improper payments, and criteria for establishing a multiyear cycle for obtaining an audit for internal control over improper payments.
- IPERA establishes that the director of OMB has 1 year to develop the criteria for obtaining opinions on internal control over improper payments. A payment recapture audit is an effective tool to identify improper payments and their root causes. An agency not having a robust payment recapture audit program would likely trigger a separate opinion on internal control over improper payments under the guidance on internal control over improper payments.

M-11-16 specifies that if an agency does not meet one or more of these requirements, the agency is not in compliance with IPERA. In addition, the agency's inspector general should evaluate the accuracy and completeness of the agency's reporting and performance in reducing and recapturing improper payments.

On April 12, 2012, OMB issued Memorandum M-12-11 directing agencies to develop a plan to use the "Do Not Pay List" for pre-payment eligibility reviews. The "Do Not Pay List" was established to collect information from various databases and store it in one central database. This gathering of information allows agencies to access the necessary information more easily to prevent improper payments.¹

¹ On January 10, 2013, the President signed the Improper Payments Elimination and Recovery Improvement Act of 2012, which not only required the use of the portal but also added additional guidance. This law is effective for the FY 2013 reporting of improper payments.

Evaluation Objective

The Office of Inspector General (OIG) performed this evaluation to determine whether USAID complied with IPERA for FY 2012. M-11-16 states that compliance with IPERA means that the agency has complied with the requirements in the table below. USAID's compliance with the requirements is shown in the right-hand column.

Improper Payments Compliance Requirements

Requirements	Compliant
1. Publish a Performance Accountability Report (PAR) or Agency Financial Report (AFR) for the most recent fiscal year, and post that report and any accompanying materials required by OMB on the agency Web site.	Yes
2. Conduct a program-specific risk assessment for each program or activity that conforms with Section 3321, Title 31 of the U.S. Code (if required).	Yes
3. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payment under its risk assessment (if required).	Not Applicable*
4. Publish programmatic corrective action plans in the PAR or AFR (if required).	Not Applicable*
5. Publish and meet annual reduction targets for each program assessed to be a risk, and measure for improper payments.	Not Applicable*
6. Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	Yes
7. Report information on its efforts to recapture improper payments.	Yes

* These criteria are not applicable because USAID did not report any improper payments that exceeded the 2.5 percent of program outlays and \$10 million in total, or \$100 million in total, either of which would have required reporting corrective actions and reductive targets.

FINDINGS AND RECOMMENDATIONS

USAID's Controls for Identifying and Reporting Improper Payments Were Deficient

During our evaluation of USAID's compliance with IPERA, we noted certain deficiencies in the Agency's internal controls over improper payments. While these deficiencies do not affect the agency's compliance with IPERA, the controls should be improved to provide reliable reports in accordance with IPERA. Specifically, we found that:

- USAID did not investigate and resolve potential funds control violations in a timely manner. Funds control violations may represent improper payments and/or Anti-Deficiency Act violations. Unfortunately, USAID's current policy does not establish a time frame for investigating and resolving these violations. During our evaluation, we were informed that the Office of the Chief Financial Officer had not investigated and resolved 12 potential funds control violations that were reported between August 2011 and November 2012. As of February 2013, these potential funds control violations still have not been investigated.
- USAID did not identify and report one improper payment of \$553,000 in a timely manner because it did not consider this to be an improper payment. In June 2010 a mission incorrectly classified a grant in the Phoenix accounting system as a letter of credit agreement instead of a direct reimbursement agreement as specified in the grant. Although the grantee was not eligible for payments in advance of providing services, the grantee withdrew \$553,000 before rendering the services. This constituted an improper payment. Upon discovering this, the mission allowed the grantee to submit invoices that offset the amount of the funds withdrawn and corrected the classification in Phoenix. This improper payment eventually was reported in the FY 2013 first quarter high-dollar overpayment report.

OMB Circular A-123, Appendix C defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes (1) any payment that was made to an ineligible recipient or for an ineligible service, (2) duplicate payments, (3) payments for services not received, and (4) payments that are for the wrong amount. In addition, when an agency cannot determine whether a payment was proper because of insufficient or lack of documentation, the payment must be considered an error.²

² The term "payment" means any payment or transfer of Federal funds (including the commitment for future payment, 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.

By addressing this finding, USAID will improve its internal controls for identifying and reporting improper payments. Therefore, we make the following recommendations.

Recommendation 1. We recommend that USAID update its policy to establish a time frame for investigating and resolving potential funds control violations.

Recommendation 2. We recommend that USAID investigate and resolve the potential funds control violations described in this report to determine whether they represent improper payments and/or Anti-Deficiency Act violations and report accordingly.

Recommendation 3. We recommend that USAID clarify to its staff the requirements of the Improper Payment Elimination and Recovery Act. to ensure that improper payments are identified and reported in a timely manner.

STATUS OF PRIOR YEAR'S FINDINGS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of 6 months after a final report is issued. Corrective action should proceed as rapidly as possible.

FY 2011 Finding and Recommendation

Recommendation 1. We recommend that USAID Administrator direct the Office of Acquisition and Assistance to explore all options available, including the use of public accounting firms, to expedite the audits of costs incurred by the contractors.

This recommendation is still pending final action. The Office of Acquisition and Assistance contracted with three accounting firms to conduct audits of costs incurred by contractors, but as of the date of this report, they have not completed any of them. We will continue to monitor the efforts made by USAID to have these audits completed.

EVALUATION OF MANAGEMENT COMMENTS

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

USAID management agreed to implement Recommendation 1 and will update ADS 634, "Administrative Control of Funds," accordingly. The target completion date is September 30, 2013. We acknowledge the Agency's management decision and will review USAID's implementation of this recommendation during our FY 2013 IPERA evaluation.

USAID management agreed to implement Recommendation 2 and stated that the Office of the Chief Financial Officer has taken action already to strengthen the tracking and resolution of potential funds control violations. Management has implemented several steps to identify and review funds control violations that may represent improper payments. The target completion date is September 30, 2013. We acknowledge the Agency's management decision and will review USAID's implementation of this recommendation during our FY 2013 IPERA evaluation.

USAID management stated that Management/Office of the Chief Financial Officer (M/CFO) is in the process of strengthening its 2013 improper payment communications and guidance that will be disseminated to stakeholders emphasizing the importance of IPERA. Target date for completion of this recommendation is September 30, 2013. We acknowledge the Agency's management decision and will review USAID's implementation of this recommendation during our FY 2013 IPERA evaluation.

SCOPE AND METHODOLOGY

Scope

We conducted this evaluation in accordance with the quality standards issued by the Council of the Inspectors General on Integrity and Efficiency and generally accepted government auditing standards. Those standards require that we plan and perform our evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on the evaluation's objectives. We believe that the evidence obtained provides that reasonable basis. However, our evaluation does not provide a legal determination on USAID's compliance with the specified requirements.

USAID management is responsible for (1) complying with IPERA requirements, (2) reporting improper payments in accordance with OMB Circular A-136, Section II.5.8, IPIA, as amended by IPERA, and (3) complying with other applicable laws and regulations. We reviewed the controls in place throughout the year in Washington, D.C., and all overseas missions.

OIG is responsible for obtaining reasonable assurance about whether USAID complied with IPERA requirements as of September 30, 2012. OIG is also responsible for (1) obtaining a sufficient understanding of the internal controls over improper payments and compliance to plan the evaluation, (2) testing whether USAID complied with the reporting requirements of OMB Circular A-136, Section II.5.6, IPIA, as amended by IPERA, and (3) testing compliance with selected provisions of IPERA.

To fulfill these responsibilities, OIG:

- Obtained an understanding of USAID's internal control over improper payments and compliance with IPIA and IPERA including the improper payments reported by the bureaus in Washington and the overseas missions and the quarterly high-dollar overpayment reports that the Agency submitted to OMB.
- Reviewed "Management's Decision and Analysis" and improper payments reporting details in USAID's FY 2012 AFR to ensure compliance with IPERA requirements.
- Examined, on a test basis, evidence supporting the amounts disclosed in the quarterly high-dollar overpayment report.
- Evaluated the overall presentation of the improper payments and risk assessment in the AFR.
- Tested relevant internal controls over improper payments, and evaluated the design and operating effectiveness of the internal controls.
- Tested USAID compliance with the specific IPERA requirements.

Because of inherent limitations in internal control, noncompliance may occur and not be detected, and such testing may not be sufficient for other purposes.



March 12, 2013

MEMORANDUM

TO: AIG/A, Michael Carroll

FROM: M/Acting CFO, Kent Kuyumjian /s/

SUBJECT: Report on United States Agency for International Development's (USAID) Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 0-000-13-001-S)

Thank you for your draft report on the Audit of USAID's Compliance With the Improper Payments Elimination and Recovery Act of 2010.

We are pleased that the USAID Inspector General's review determined that USAID complied with Office of Management and Budget's (OMB) government-wide guidance for the implementation of Executive Order 13520 in OMB Circular A-123, Appendix C, Part III and OMB Memorandum M-11-16 for reporting, reducing and recovering the Agency's improper payments as reported in the USAID's 2012 Annual Financial Report.

Following are our comments and management decisions regarding the proposed audit recommendations.

Recommendation 1. We recommend that USAID update its policy to establish a timeframe for investigating and resolving potential funds control violations.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation. M/CFO will update ADS 634, Administrative Control of Funds, accordingly.

Target date for completion of this recommendation is September 30, 2013.

Recommendation 2. We recommend that USAID investigate and resolve the potential funds control violations to determine whether they represent improper payments and/or Anti-Deficiency Act violations and report accordingly.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation. The Office of the Chief Financial Officer has already taken action to strengthen the potential Funds Control Violation tracking and resolution. An electronic system to capture potential funds control violations, CAC_FCV, has been established and access given to all overseas missions' Financial Management Office. Roles and responsibilities have been clearly defined in CACS_FCV to identify submitting officials from the different operating units and reviewers from M/CFO. Additional steps have been taken within M/CFO to identify appropriate expertise and assign roles and responsibilities for reviewing and making determinations on each and every case. To guarantee a sustained review system and prompt resolution, a permanent Funds Control Violation review board has been established and members designated. The review board will convene on a monthly basis and issue final recommendation to the Deputy Chief Financial Officer on potential funds control violation cases.

Target completion date for review and resolution of all potential funds control violation cases is September 30, 2013.

Recommendation 3. We recommend that USAID emphasize the importance of identifying and reporting improper payments in accordance with the IPERA.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation. M/CFO continually develops, updates, and distributes improper payments training and communications to Agency stakeholders. M/CFO is in the process of strengthening its 2013 improper payment communications and guidance that will be disseminated to stakeholders emphasizing the importance of IPERA.

Target date for completion of this recommendation is September 30, 2013.

In closing, I would like to confirm USAID's commitment to continual improvement in financial management in the prevention and recovery of improper payments.