



# OFFICE OF INSPECTOR GENERAL

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## EVALUATION OF USAID'S FISCAL YEAR 2014 COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

AUDIT REPORT NO. 0-000-15-001-S  
MAY 14, 2015

WASHINGTON, D.C.



*Office of Inspector General*

**MEMORANDUM**

**TO:** USAID Acting Administrator, Ambassador Alfonso Lenhardt

**FROM:** Acting Deputy Inspector General, Nathan Lokos/s/

**SUBJECT:** Evaluation of USAID's Fiscal Year 2014 Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 0-000-15-001-S)

This memorandum transmits our final report on the evaluation of USAID's compliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2014. 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 determining whether USAID met the criteria established by the Office of Management and Budget (OMB) for compliance with IPERA.

For FY 2014, OIG determined that USAID complied, in all material respects, with IPERA requirements. We are not issuing any recommendations in this report.

We are also issuing a copy of this report to the Homeland Security and Governmental Affairs Committee, the House Committee on Oversight and Government Reform, the Comptroller General of the United States, and OMB.

OIG appreciates the cooperation and courtesies extended during the evaluation.

# SUMMARY

The U.S. Government is committed to reducing improper payments—“payments made to the wrong entity, in the wrong amount, or for the wrong reason” (Office of Management and Budget [OMB] Memorandum M-15-02, October 20, 2014). To that end, Congress passed the following:

- *The Improper Payments Information Act of 2002* (IPIA). IPIA expanded the programs and activities for which agencies had to determine the risk of erroneous payments beyond those listed in OMB Circular A-11.
- *The Improper Payments Elimination and Recovery Act of 2010* (IPERA). It amended IPIA and redefined significant improper payments and strengthened agency reporting requirements.
- *The Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). IPERIA requires each agency to review prepayment and preaward procedures and to conduct a thorough review of available databases, including the Do Not Pay Initiative, before releasing federal funds.

We evaluated USAID’s compliance with IPERA as of September 30, 2014. We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of Inspectors General on Integrity and Efficiency<sup>1</sup>. Those standards require that we plan and perform our evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for determining compliance.

OMB Memorandum M-15-02 lists six requirements, adapted in the table below.

**Requirements for Compliance With the Improper Payments Elimination and Recovery Act**

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 United States Code (if required).	Yes
3. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Not Applicable*
4. Publish programmatic corrective action plans in the PAR or AFR (if required).	Yes
5. Publish and meet annual reduction targets for each program assessed to be at risk and estimated for improper payments.	Yes
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

\* Requirement 3 is not applicable to USAID, which did not report any estimate of improper payments that exceeded 1.5 percent of program outlays and \$10 million in total, or \$100 million in total, which would have constituted significant improper payments.

<sup>1</sup> Our evaluation was also informed based on the work performed during the Government Management Reform Act financial statement audit. This work was performed in accordance with generally accepted government auditing standards.

We determined that USAID met the criteria for compliance with IPERA. We are not issuing any recommendations in this report.

# STATUS OF PRIOR YEAR'S FINDINGS

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

## **FY 2012 Recommendation**

***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.*

Status: A management decision was issued on March 15, 2013. However, Recommendation 2 is still awaiting final action. USAID Office of the Chief Financial Officer has resolved many of the outstanding potential funds control violations. However, resolution of several potential violations related to this finding requires assistance from other bureaus and outside agencies. We will continue to monitor the efforts made by USAID to resolve potential violations and report improper payments as appropriate. USAID/Washington's new target date for closing this recommendation is June 30, 2015.

# SCOPE AND METHODOLOGY

## Scope

We conducted this evaluation in accordance with Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency<sup>2</sup>. Those standards require that we plan and perform our evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis to determine if USAID met OMB's criteria for compliance with IPERA. 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) Reporting Details," and (3) complying with other applicable laws and regulations. OIG is responsible for obtaining reasonable assurance about whether USAID complied with these requirements as of September 30, 2014. OIG is also responsible for (1) obtaining a sufficient understanding of the internal controls over improper payments and compliance, including controls over accounts payable, improper payment reporting by the missions, use of the Do Not Pay portal, and control over recoveries of outstanding questioned costs, to plan the evaluation; (2) testing whether USAID complied with the reporting requirements of OMB Circular A-136, Section II.5.8; and, (3) testing compliance with selected provisions of IPERA.

## Methodology

To fulfill these responsibilities, OIG did the following:

- Obtained an understanding of USAID's internal control over improper payments and compliance with IPERA, including the improper payments reported by the bureaus in Washington and the overseas missions.
- Reviewed "Management's Discussion and Analysis" and improper payments reporting details in USAID's FY 2014 AFR to ensure compliance with IPERA requirements.
- Evaluated the overall presentation for completeness of the improper payments and risk assessment in the AFR.<sup>3</sup>

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<sup>2</sup> Our evaluation was also informed based on the work performed during the Government Management Reform Act financial statement audit. This work was performed in accordance with generally accepted government auditing standards.

<sup>3</sup> The amounts reported come from the Agency's financial systems. On November 17, 2014, OIG issued *Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013*, Report Number 0-000-15-001-C, disclaiming an opinion because of material unsupported adjustments USAID made to reconcile its general and subsidiary ledgers. We did not perform any additional tests during this evaluation to verify the accuracy of the reported amounts. In FY 2015 OIG anticipates testing USAID's adjustments to determine if they were accurate and appropriate. USAID intends to provide explanations and other support to demonstrate the validity of the adjustments.

- Tested relevant internal controls over improper payments, and evaluated the design and operating effectiveness of the internal controls.
- Selected and tested a random sample of 45 potential funds control violations to determine if any should be reported as improper payments.
- Reviewed the methodology used in the risk assessment conducted for reporting information in the AFR to determine if the assessment was performed in accordance with OMB Circular A-123, Appendix C.
- Tested all disbursement transactions to determine if duplicate payments to vendors were made.
- Relied on work performed during the FY 2014 Government Management Reform Act financial statement audit.

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

**U.S. Agency for International Development  
Office of Inspector General**

1300 Pennsylvania Avenue, NW  
Washington, DC 20523

Tel: 202-712-1150

Fax: 202-216-3047

<http://oig.usaid.gov>

Task No. 00100514