



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S FISCAL YEAR 2015 COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

AUDIT REPORT NO. 0-000-16-001-P
MAY 13, 2016

WASHINGTON, D.C.



Office of Inspector General

MEMORANDUM

May 13, 2016

TO: USAID, Chief Financial Officer, Reginal W. Mitchell

FROM: Assistant Inspector General for Audit, Thomas E. Yatsco /s/

SUBJECT: Audit of USAID's Fiscal Year 2015 Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 0-000-16-001-P)

This memorandum transmits our report on the *Audit of USAID's Fiscal Year 2015 Compliance With the Improper Payments Elimination and Recovery Act of 2010*. We determined that the U.S. Agency for International Development met the criteria for compliance with the Act. The report contains no recommendations.

We thank you and your staff for the cooperation and assistance extended to us during this audit.

CONTENTS

Summary	1
Audit Findings.....	2
Status of Prior Years' Findings.....	2
Appendix I—Scope and Methodology	4

Abbreviations

The following abbreviations appear in this report:

AFR	Agency Financial Report
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PAR	Performance Accountability Report

SUMMARY

The U.S. Government is committed to reducing improper payments—payments by federal agencies “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). Beyond those listed in OMB Circular A-11 (*Preparation, Submission, and Execution of the Budget*, June 30, 2015), IPIA expanded the programs and activities for which agencies had to determine the risk of erroneous payments.
- *The Improper Payments Elimination and Recovery Act of 2010* (IPERA). IPERA amended IPIA by redefining significant improper payments and strengthening agency reporting requirements.
- *The Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). IPERIA requires each agency to review prepayment and pre-award procedures and to conduct a thorough review of available databases, including the Do Not Pay Portal, before releasing federal funds.

The Office of Inspector General (OIG) conducted this audit to determine whether USAID complied with the requirements of the Improper Payments Elimination and Recovery Act of 2010 as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 for the fiscal year ended September 30, 2015. We determined that USAID met the criteria for compliance with IPERA, outlined 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).	Not Applicable [†]
5. Publish and meet annual reduction targets for each program assessed to be at risk and estimated 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.	Not Applicable [†]

* 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.

[†] Requirements 4, 5, and 6 are not applicable because OMB granted USAID relief from reporting for improper payments.

According to IPERA and the OMB implementing guidance (OMB Memo M-15-02), if a program has been reporting improper payment estimates but has documented a minimum of 2 consecutive years of improper payments that are below the thresholds set by IPERA, the agency may request relief from the annual reporting requirements for this program. On March 19, 2015, USAID was granted relief from reporting by OMB. This relief places USAID's 27 program areas on a cycle of risk assessment every 3 years as long as the following do not occur:

- Significant legislative or programmatic changes.
- Significant funding increases.
- Any change that would result in potential program impact.

If such change(s) occur, USAID must perform a risk assessment of the affected program(s) as part of its next risk assessment cycle. If the risk assessment indicates susceptibility to significant improper payments, USAID must return to the full measurement and reporting process as required by OMB Memo M-15-02.

AUDIT FINDINGS

We determined that USAID met the criteria for compliance with IPERA. We noted USAID internal controls were adequately designed and implemented to prevent, detect, recover, and report improper payments. The internal controls include consulting the Do Not Pay portal before making any payment to verify that payees are not listed there and periodic reviews of transactions using various databases to detect any duplicate or other improper payments. During the course of the audit, we did not observe any deficiencies that should be included in the report. Therefore, we are not making any recommendations.

However, the Office of the Chief Financial Officer (CFO) reported to OIG after conducting an internal review that between November 2012 and March 2016, USAID made erroneous payments totaling \$39,876.35. These were cost-of-living allowance payments made to the wrong employee. The allowance is payable to Foreign Service personnel stationed overseas. The CFO's office issued a bill of collection on May 4, 2016, and received a check from the employee for the full amount on May 6, 2016. OIG will follow up on this issue to ensure USAID implements appropriate controls to avoid a recurrence.

STATUS OF PRIOR YEARS' FINDINGS

OMB Circular A-50 states that a management decision on audit recommendations must be made within 6 months after a final report is issued. Accordingly, corrective action should proceed as rapidly as possible on the following recommendation.

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. The 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 USAID's efforts to resolve potential violations and report improper payments as appropriate. USAID/Washington's new target date for closing this recommendation is June 30, 2016.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted government auditing standards between March 2016 and May 2016. Those standards require that we plan and perform our audit 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 audit 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, and (3) complying with other applicable laws and regulations. OIG is responsible for obtaining reasonable assurance about whether USAID complied with these requirements for the fiscal year ended September 30, 2015. OIG is also responsible for (1) obtaining a sufficient understanding of the internal controls over improper payments and compliance, use of the Do Not Pay Portal, and control over recoveries of outstanding questioned costs, to plan the audit, (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 the laws, regulations, and other guidance applicable to the improper payments program.
- Obtained an understanding of USAID's internal control over improper payments and compliance with IPERA.
- Obtained an understanding of the processes and procedures USAID implemented after making payments to verify their accuracy.
- Determined that USAID's prepayment and preaward procedures include the review of appropriate databases to determine eligibility and prevent improper payments. This procedure is performed with the System for Award Management.
- Determined that all disbursements are reviewed before payments are issued through the Do Not Pay Portal.
- Reviewed Management's Discussion and Analysis and Improper Payments sections in USAID's FY 2015 AFR to ensure compliance with IPERA and OMB Circular A-136 requirements. Evaluated the overall presentation for completeness and accuracy.*
- Tested relevant internal controls over improper payments, and evaluated the design and operating effectiveness.
- Tested FY 2015 disbursement transactions to determine if duplicate payments were made to vendors.

* The amounts reported come from the Agency's financial systems. On November 16, 2015, OIG issued the *Audit of USAID's Financial Statements for Fiscal Years 2015 and 2014*, Report Number 0-000-16-001-C, with an unmodified opinion.

- Tested FY 2015 disbursement transactions to determine if any payments were made to suspended or debarred recipients.
- Reviewed all of the work performed during the FY 2015 Government Management Reform Act financial statement audit related to improper payments.
- Assessed the reliability of this information.

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

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