



OFFICE OF INSPECTOR GENERAL  
U.S. Agency for International Development

# USAID COMPLIED WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IN FISCAL YEAR 2016

**AUDIT REPORT 0-000-17-004-C**

**MAY 15, 2017**

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## MEMORANDUM

DATE: May 15, 2017

TO: USAID Chief Financial Officer, Reginald W. Mitchell

FROM: Deputy Assistant Inspector General for Audit, Alvin Brown/s/

SUBJECT: USAID COMPLIED WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IN FISCAL YEAR 2016 (0-000-17-004-C)

This memorandum transmits the final report on our audit of USAID's compliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2016. Our audit objectives were to (1) determine whether USAID complied with the requirements of the Improper Payment Elimination and Recovery Act of 2010 as amended by the Improper Payment Elimination and Recovery Improvement Act of 2012 and (2) evaluate the accuracy and completeness of USAID's reporting and USAID's performance in reducing and recapturing improper payments.

We make no recommendations. The Chief Financial Officer accepted the report as written and made no comments.

We appreciate the assistance you and your staff extended to us during this audit.

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## INTRODUCTION

Estimated improper payments by all Government agencies totaled \$136.7 billion in fiscal year 2015.<sup>1</sup> To reduce these payments—made “to the wrong entity, in the wrong amount, or for the wrong reason”<sup>2</sup>—Congress has enacted legislation including the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law 111-204.

IPERA, as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires each agency to assess the risk of, estimate, report, reduce, and recover improper payments. It also requires each office of inspector general (OIG) to conduct an annual audit to determine whether its agency has complied with the requirements.

Our audit objectives were to (1) determine whether USAID complied with the requirements of the Improper Payment Elimination and Recovery Act of 2010 as amended by the Improper Payment Elimination and Recovery Improvement Act of 2012 and (2) evaluate the accuracy and completeness of USAID reporting and USAID’s performance in reducing and recapturing improper payments.

We conducted our work from January through April 2017 in accordance with generally accepted government auditing standards. More information on the scope and methodology can be found in appendix A.

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## SUMMARY

We found that USAID complied with the requirements of IPERA as amended by the IPERIA. We are not making any recommendations in this report.

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## BACKGROUND

IPERA built on the Improper Payment Information Act of 2002. IPERA set levels of improper payments for programs at \$10 million during a single fiscal year and 1.5 percent of program outlays or \$100 million regardless of the percentage. Besides reporting on estimated payments that reach these thresholds, the act requires agencies to do the following:

- Perform payment recovery or recapture audits for each program and activity that expends \$1 million or more annually if conducting such audits would be cost-effective.

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<sup>1</sup> U.S. Government Accountability Office, “IMPROPER PAYMENTS: CFO Act Agencies Need to Improve Efforts to Address Compliance Issues,” GAO-16-554, July 11, 2016.

<sup>2</sup> Office of Management and Budget (OMB) Memorandum M-15-02, October 20, 2014.

- Conduct a financial management improvement program and continue to review their programs and activities annually to identify those susceptible to significant improper payments.
- Review prepayment and preaward procedures and conduct a thorough review of available databases, including the Do Not Pay Portal, before releasing Federal funds.

The legislation offers agencies an incentive for reducing improper payments. According to IPERA and the Office of Management and Budget’s (OMB) implementing guidance, if a program has documented a minimum of 2 consecutive years of improper payments that are below the IPERA thresholds set by IPERA, the agency may request relief from the annual reporting requirements for this program.<sup>3</sup> This request must include a statement from the agency’s OIG that it agrees with the request for relief.

Accordingly, in 2015, USAID asked to be relieved from improper payment reporting for its 27 program areas. In its written request, USAID adequately demonstrated that all programs had at least 2 consecutive years of improper payments reporting below the IPERA thresholds. The request included the required statement from OIG. On March 19, 2015, OMB approved USAID’s request, placing the 27 programs on a 3-year cycle of risk assessment. Approval is contingent on no significant legislative or programmatic changes occurring, no significant funding increase, and no other change that would substantially affect programs. If such changes occur, USAID must perform a risk assessment of the affected programs as part of its next risk assessment cycle. If the risk assessment indicates that the program is susceptible to significant improper payments, USAID will have to return to full annual measurement and reporting.

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## USAID COMPLIED WITH IPERA

We determined that USAID met the criteria for compliance with IPERA. OMB Circular A-123, Appendix C, Part II.A.3, lists six requirements (shown in the following table) for review to determine compliance.

### *OIG’s Assessment of USAID’s Compliance With IPERA*

<i>Requirement</i>	<i>Compliant?</i>
1 Published an AFR (Agency Financial Report) or PAR (Performance and Accountability Report) for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website	Yes
2 Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required)	Yes
3 Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)	Not Applicable <sup>a</sup>

<sup>3</sup> OMB Memorandum M-15-02.

	<b>Requirement</b>	<b>Compliant?</b>
4	Published programmatic corrective action plans in the AFR or PAR (if required)	Not Applicable <sup>b</sup>
5	Published, and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable)	Not Applicable <sup>b</sup>
6	Reported 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 AFR or PAR	Not Applicable <sup>b</sup>

<sup>a</sup> Requirement 3 does not apply to USAID, which did not report any estimated improper payment that exceeded 1.5 percent of program outlays and \$10 million in total, or \$100 million in total, which would have constituted a significant improper payment (A-123 App. C Part I.A.9).

<sup>b</sup> Requirements 4, 5, and 6 do not apply because OMB granted USAID relief from reporting for improper payments in fiscal year 2015.

We also determined that USAID implemented policies and procedures to check the Do Not Pay system to ensure that payments were not made to ineligible parties.

Still, one matter—the handling of payments for efforts to prevent, prepare for, and respond to Ebola—remains unresolved. In the Department of State, Foreign Operations, and Related Programs Appropriations Act of 2015, Congress appropriated approximately \$2.5 billion to USAID and the Department of State, in part, for international efforts to prevent, prepare for, and respond to the 2014 Ebola outbreak. The measure allowed the agencies to reimburse accounts for obligations incurred for earlier Ebola activities. In November 2016, the U.S. Government Accountability Office (GAO) issued a report that found that of USAID’s 271 reimbursements, 21 were not in accordance with the reimbursement provisions.<sup>4</sup> GAO recommended that USAID determine whether reversing any of the reimbursements would result in a violation of the Antideficiency Act (by obligating funds in excess of appropriations) and, if so, report any violations in accordance with law. As of the date of this report, USAID had not completed its review, and OIG has not been able to determine if the reimbursements in question were improper payments. However, we will continue to pursue this matter and will report any instances of noncompliance.

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## CONCLUSION

While USAID complied with the requirements of IPERA, as amended, the reduction of improper payments continues to be a major focus area for the Federal Government—particularly as agencies may see flat or reduced funding levels in the future. Accordingly, ensuring the proper use of funds entrusted to USAID is critical.

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<sup>4</sup> “Emergency Funding for Ebola Response; Some USAID Reimbursements Did Not Comply with Legislative Requirements and Need to be Reversed,” GAO-17-35.

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## **APPENDIX A. SCOPE AND METHODOLOGY**

We conducted our work from January through April 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Because of the inherent limitations in internal controls, noncompliance may occur and not be detected, and the testing may not be sufficient for other purposes.

Our audit objectives were to:

- Determine whether USAID complied with the requirements of the Improper Payment Elimination and Recovery Act of 2010 as amended by the Improper Payment Elimination and Recovery Improvement Act of 2012.
- Evaluate the accuracy and completeness of USAID reporting and USAID's performance in reducing and recapturing improper payments.

To fulfill our responsibilities, OIG performed the following steps:

- Obtained an understanding of the laws, regulations, and other guidance applicable to improper payments.
- Obtained an understanding of USAID's internal control over improper payments and compliance with IPERA.
- Obtained an understanding of the procedures USAID implemented to verify the accuracy of payments.
- Determined that all disbursements were reviewed through the Do Not Pay portal before payments were issued.
- Reviewed USAID's Fiscal Year 2016 Agency Financial Report, Improper Payments section, to ensure USAID was in compliance with IPERA and OMB Circular A-136. We evaluated the overall presentation for completeness and accuracy.
- Tested relevant internal controls over improper payments and evaluated their design and operating effectiveness.
- Tested all FY 2016 disbursement transactions to determine if duplicate payments were made.
- Reviewed the work performed during the FY 2016 Government Management Reform Act financial statement audit related to improper payments.
- Assessed the reliability of the disbursement data during the FY 2016 GMRA financial statement audit.



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## **APPENDIX B. MAJOR CONTRIBUTORS TO THIS REPORT**

The following made major contributions to this report: Rohit Chowbay, director of Financial Audits; LaQuinthia Carroll, assistant director; David Weil, auditor; George Delia, IT specialist; Allison Tarmann, writer-editor; Steven Ramonas, auditor; and Jerry Lawson, legal counsel.