



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

USAID Complied With the Improper Payments Elimination and Recovery Act in Fiscal Year 2017

AUDIT REPORT 0-000-18-005-C
MAY 15, 2018

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MEMORANDUM

DATE: May 15, 2018

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 2017 (0-000-18-005-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 2017. Our audit objective was 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.

The report contains no recommendations. The chief financial officer had no objections to the content of the draft report.

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 2015.¹ To reduce these improper payments—made “to the wrong entity, in the wrong amount, or for the wrong reason”²—Congress has enacted legislation including the Improper Payments Elimination and Recovery Act of 2010 (IPERA).³

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.

Accordingly, our audit objective was 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.

We conducted our work from February through May 2018 in accordance with generally accepted government auditing standards. More information on the scope and methodology can be found in appendix A.

SUMMARY

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

BACKGROUND

IPERA built on the Improper Payments Information Act of 2002. IPERA defines significant improper payments for programs as those totaling \$10 million during a single fiscal year and 1.5 percent of total program outlays, or those totaling \$100 million regardless of the percentage. Besides reporting on estimated improper 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.

¹ U.S. Government Accountability Office (GAO), “Improper Payments: Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General,” GAO-17-484, May 31, 2017.

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

³ Public Law 111-204.

- 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 OMB's implementing guidance, if a program 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.⁴ 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 payment 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. No such changes occurred in fiscal year 2017, and therefore the Agency did not return to full annual measurement and reporting.

⁴ OMB Memorandum M-15-02.

USAID COMPLIED WITH IPERA

In fiscal year 2017, 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. A full listing of USAID's IPERA compliance by requirement and program can be found in appendix B.

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
4 Published programmatic corrective action plans in the AFR or PAR (if required)	Not Applicable
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
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

Related to the first requirement, we determined that USAID's fiscal year 2017 payment integrity report⁵ is substantially complete, accurate, reliable, and relevant and is in compliance with IPERA.

Related to requirement 2, per OMB Memorandum M-15-02, for programs that are deemed to be at low risk of significant improper payments, agencies must conduct risk assessments at least once every three years. USAID has elected to conduct the improper payment risk assessments in fiscal years 2015, 2016, and 2017. We determined that USAID identified and reviewed Phoenix⁶ payment data; properly considered qualitative factors; and completed its qualitative and quantitative assessments for all of its 27 programs that conform with section 2(a) of the Improper Payments Information Act of 2002.⁷

⁵ The payment integrity report is included within USAID's fiscal year 2017 AFR.

⁶ Phoenix is the Agency's financial management system for which its general ledger automatically recorded disbursement and accounts receivable transactions.

⁷ 31 U.S.C. 3321 note.

Requirements 3, 4, 5, and 6 do not apply to USAID, which did not report any estimated improper payments 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.⁸

In addition, we followed up on the status of a 2016 GAO recommendation for USAID to determine whether reversing improper reimbursements would result in a violation of the Antideficiency Act.⁹ USAID determined that reversing the reimbursements did not result in the obligation of funds in excess of appropriations. Based on the results of our audit work, we agreed with USAID's determination.

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.

⁸ A-123 App. C Part I.A.9.

⁹ GAO, "[Emergency Funding for Ebola Response: Some USAID Reimbursements Did Not Comply with Legislative Requirements and Need to Be Reversed](#)," GAO-17-35, November 2, 2017, GAO Recommendation #3.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work in Washington, DC, from February 2018 through May 2018 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit objective was 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.

To fulfill our responsibilities, we performed the following steps in accordance with OMB's procedures related to improper payment reporting¹⁰ and CIGIE Preliminary Draft Guidance.¹¹ To frame our audit work to determine compliance with IPERA, we:

- Obtained an understanding of the laws, regulations, and other guidance applicable to improper payments.
- Interviewed officials in the Agency's Office of the Chief Financial Officer to obtain an understanding of USAID's procedures and key processes to comply with the requirements of IPERA, as amended by IPERIA.

Based on our review of the laws, regulations, and other guidance related to improper payments, we determined that only requirements 1 and 2 of IPERA were applicable to USAID in fiscal year 2017.

To determine whether USAID complied with requirement 1 of IPERA, we reviewed the Agency's payment integrity report to determine whether it was substantially complete, accurate, reliable, and relevant. Specifically, we:

- Reviewed the supporting documentation for the report and recomputed total amounts of overpayment recaptures to determine the accuracy.¹² We also reviewed the Phoenix payment data identified by the Agency to produce the report.
- Independently reviewed all disbursement transaction records with U.S. Treasury information recorded in Phoenix for fiscal year 2017 to identify duplicate payments. We also reviewed the results of the Agency's duplicate payment information contained in the supporting documentation for the report.
- Reviewed and relied on the audit work related to improper payments that OIG separately performed during the audit of USAID's fiscal year 2017 financial

¹⁰ OMB M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.

¹¹ Council of the Inspectors General on Integrity and Efficiency, March 20, 2018.

¹² USAID's fiscal year 2017 AFR, payment integrity section, table 1, Overpayment Payment Recaptures With and Without Recapture Audit Programs.

statements.¹³ This audit work concluded that key internal controls over improper payments were designed and operating effectively. Specifically, the audit tested whether 1) the Agency's key personnel approved invoices; 2) the Agency's payments were made within 30 days in accordance with the prompt pay act; and 3) these payments had invoices, supporting documents, and completed administrative approval forms that demonstrated the right vendor, amount, and program areas, and that goods and services were received.

- Reviewed USAID reported information on www.paymentaccuracy.gov.

To determine whether USAID complied with requirement 2 of IPERA, we reviewed the Agency's risk assessment process to identify programs susceptible to significant improper payments. Specifically, we interviewed key Agency officials involved with the risk assessment process and reviewed the Agency's supporting documentation, policies, and procedures related to the process. We evaluated how the Agency identified payment data, qualitative factors, and risk categories. Finally, we reviewed the Phoenix payment data used by the Agency to perform the risk assessment.

In addition, we followed up on the status of the GAO recommendation reported in the OIG's fiscal year 2016 IPERA audit report, which may have had a direct material effect on IPERA requirements 1 and 2. We reviewed the Agency's corrective actions to record its program funding and reimbursements in the right program funding accounts.

¹³ USAID OIG, "Audit of USAID's Financial Statements for Fiscal Years 2017 and 2016" (0-000-18-004-C).

APPENDIX B. USAID'S IPERA COMPLIANCE BY REQUIREMENT AND PROGRAM AREA

Program Areas	FY15 to FY17 Overall Compliance	Published a PAR or AFR	Conducted the Risk Assessment	Published IP Estimates	Published CAPS	Published/Met Reduction Goals	Achieved an IP Rate of Less Than 10 Percent
A01 - Counter-Terrorism	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A02 - Combating Weapons of Mass Destruction (WMD)	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A03 - Stabilization Operations and Security Sector Reform	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A04 - Counter-Narcotics	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A05 - Transnational Crime	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A06 - Conflict Mitigation and Reconciliation	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A07 - Rule of Law and Human Rights	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A08 - Good Governance	Compliant	Yes	Yes	N/A	N/A	N/A	N/A

Program Areas	FY15 to FY17 Overall Compliance	Published a PAR or AFR	Conducted the Risk Assessment	Published IP Estimates	Published CAPS	Published/Met Reduction Goals	Achieved an IP Rate of Less Than 10 Percent
A09 - Political Competition and Consensus-Building	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A10 - Civil Society	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A11 - Health	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A12 - Education	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A13 - Social and Economic Services and Protection for Vulnerable Populations	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A14 - Macroeconomic Foundation for Growth	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A15 - Trade and Investment	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A16 - Financial Sector	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A17 - Infrastructure	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A18 - Agriculture	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A19 - Private Sector Competitiveness	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A20 - Economic Opportunity	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A21 - Environment	Compliant	Yes	Yes	N/A	N/A	N/A	N/A

Program Areas	FY15 to FY17 Overall Compliance	Published a PAR or AFR	Conducted the Risk Assessment	Published IP Estimates	Published CAPS	Published/Met Reduction Goals	Achieved an IP Rate of Less Than 10 Percent
A22 - Protection, Assistance and Solutions	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A23 - Disaster Readiness	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A24 - Migration Management	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A25 - Cross-Cutting Management and Staffing	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A26 - Program Design and Learning	Compliant	Yes	Yes	N/A	N/A	N/A	N/A
A27 - Administration and Oversight	Compliant	Yes	Yes	N/A	N/A	N/A	N/A

APPENDIX C. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: Rohit Chowbay, director; Amy Markel, assistant director; Priscilla Akita, program analyst; Chinwe Mbanefo, auditor; Nasser Nasser, auditor; Laura Pirocanac, writer-editor; and Richard Puerto, supervisory IT specialist.