OFFICE OF INSPECTOR GENERAL

REVIEW OF MILLENNIUM CHALLENGE CORPORATION'S COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT FOR FISCAL YEAR 2014

REVIEW REPORT NO. M-000-15-001-O
MAY 15, 2015

WASHINGTON, D.C.

Office of Inspector General

May 15, 2015

Mr. Matthew Bohn
Vice President and Chief Financial Officer,
Department of Administration and Finance
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Dear Mr. Bohn:

Enclosed is the final report on the *Review of Millennium Challenge Corporation's Compliance With the Improper Payments Elimination and Recovery Act (IPERA) for Fiscal Year 2014* (Report No. M-000-15-001-O). The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (Clifton) to conduct the review of MCC's compliance with IPERA for fiscal year (FY) 2014. The contract required that the review be performed in accordance with Part II.A.3 of Office of Management and Budget Memorandum M-15-02, Appendix C, to Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, dated October 20, 2014.

The review concluded that MCC complied with IPERA for FY 2014. Clifton's report did not include any recommendations, but it did identify opportunities to strengthen MCC's internal controls over improper payments. MCC's management comments appear in their entirety in Appendix A of Clifton's report.

In carrying out its oversight responsibilities, OIG reviewed Clifton's report and related supporting documentation. Our review differed from an audit in accordance with U.S. generally accepted government auditing standards and was not intended to enable us to express, and we do not express, an opinion on MCC's internal controls over improper payments. Clifton is responsible for the enclosed auditor's report and the results expressed in it. Our review disclosed no instances in which Clifton did not comply, in all material respects, with applicable standards.

OIG appreciates the cooperation and courtesies extended to our staff and to the staff of CliftonLarsonAllen LLP.

Sincerely,

/s/

Nathan Lokos
Assistant Inspector General for Audit

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Report on Millennium Challenge Corporation's (MCC) Compliance with the Improper Payments Elimination and Recovery Act (IPERA) for Fiscal Year 2014

Review Performed by CliftonLarsonAllen LLP

for United States Agency for International Development Office of Inspector General

May 13, 2015

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Office of Inspector General
United States Agency for International Development

EXECUTIVE SUMMARY

Why We Did This Review

CliftonLarsonAllen (CLA) LLP was engaged by the United States Agency for International Development (USAID) Office of Inspector General to conduct a review of and report on MCC's compliance with the IPERA for Fiscal Year (FY) 2014 in accordance with Part II.A.3 of the Office of Management and Budget (OMB) Memorandum M-15-02 (M-15-02), Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments,* dated October 20, 2014. Part II.A.3 of OMB M-15-02 pertains to *"What should each agency Inspector General review to determine if an agency is in compliance with IPERA?"*

As part of this review, we also evaluated the accuracy and completeness of MCC's reporting, and MCC's performance in reducing and recapturing improper payments.

What We Concluded

We concluded that MCC is in compliance with the IPERA for FY 2014. Detailed information on MCC's compliance as required in Part II.A.3 of OMB M-15-02 is reported in the Conclusion of CLA Review section of this report.

Our review also identified opportunities to strengthen MCC's internal and compliance controls over improper payments. These observations are included in this report.

CLIFTONLARSONALLEN LLP

CliftonLarsonAllen LLP

Arlington, VA
March 27, 2015

PROGRAM BACKGROUND

The Improper Payments Information Act (IPIA)[1] of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA)[2] of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA)[3] of 2012, requires the Inspector General (OIG) of each agency to determine whether the agency is in compliance with IPIA[4] and submit a report on that determination annually. The current OMB implementation guidance, M-15-02, was issued on October 20, 2014 and is effective for FY 2014 reporting. Under this implementation guidance, OMB Circular A-123 (A-123), Appendix C was overhauled to create more unified and comprehensive requirements for IPIA reporting.

Under IPIA, each agency shall periodically review all programs and activities and identify those that are susceptible to significant improper payments[5]. For those programs that are identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate of the annual amount of improper payments in those programs and activities and include those estimates in the accompanying materials to the Agency Financial Report (AFR) or Performance and Accountability Report (PAR)[6] of the agency.

REVIEW OBJECTIVES, SCOPE AND METHODOLOGY

Review Objectives and Scope

Our objective was to review, in accordance with Part II.A. 3 of OMB M-15-02, MCC's improper payment reporting in the MCC's FY 2014 AFR, and accompanying materials, to determine if MCC is in compliance with IPERA. In addition, as part of this review, our objective was to evaluate the accuracy and completeness of MCC's reporting, and MCC's performance in reducing and recapturing improper payments.

An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally

[1] Pub. L. No. 107-300, 116 Stat. 2350 (2002).
[2] Pub. L. No. 111-204, 124 Stat. 2224 (2010).
[3] Pub. L. No. 112-248, 126 Stat. 2390 (2012).
[4] Unless otherwise indicated, the term "IPIA" will imply "IPIA, as amended by IPERA and IPERIA."
[5] Beginning with FY 2014 reporting and beyond, "significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or (2) $100,000,000 (regardless of the improper payment percentage of total program outlays).
[6] Agencies shall report to the President and Congress (through AFRs or PARs in the format required by OMB Circular A-136 for improper payment reporting) an estimate of the annual amount and rate of improper payments for all programs and activities determined to be susceptible to significant improper payments.

applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment."

Methodology

According to the OMB M-15-02, Part II.A.3, compliance under IPERA means that the agency has:

a) Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
b) 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);
c) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
d) Published programmatic corrective action plans in the AFR or PAR (if required);
e) Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
f) 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.

If an agency does not meet one or more of these requirements, then it is not compliant under IPERA.

As part of our work, we:

- Reviewed all applicable laws, rules, and regulations pertaining to improper payments, as well as MCC guidance, policies, and procedures;
- Obtained an understanding of MCC internal controls over improper payment and evaluated the design and operating effectiveness of relevant payment and recovery controls;
- Reviewed OMB A-123, Appendix C tests results performed by MCC in FY 2014;
- Performed limited analysis and/or testing of disbursement data including grants (compacts), MCA disbursements, charge card disbursements, and question cost reviews;
- Conducted an independent evaluation of MCC-conducted FY 2014 improper payment risk assessment in determination of programs that may be susceptible to significant

improper payments. CLA utilized the Systematic Method (evaluation can be either quantitative or qualitative) outlined per OMB M-15-02 (shown below) in evaluating the soundness of MCC's risk assessment and to ensure at a *minimum*, MCC, in conducting its risk assessment has taken into account the following risk factors that may likely contribute to improper payments:

i. Whether the program or activity reviewed is new to the agency;
ii. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
iii. The volume of payments made annually;
iv. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
v. Recent major changes in program funding, authorities, practices, or procedures;
vi. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
vii. Inherent risks of improper payments due to the nature of agency programs or operations;
viii. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification; and
ix. Results from prior improper payment work.

In planning our work and gaining an understanding of the internal controls over MCC's improper payments reporting process, we considered MCC's internal control structure in developing our review procedures. We gained an understanding of management procedures and controls to the extent necessary to achieve our review objectives. Our review procedures also include analytical and/or substantive testing, as necessary. The purpose of our review was not to provide an opinion on internal controls but instead to evaluate controls over improper payments reporting.

We performed our review at MCC office in Washington, DC and CLA office in Arlington, VA from January to March 2015.

CONCLUSION OF CLA REVIEW

We concluded that MCC is in compliance with the improper payments reporting requirements as shown in Table 1.

Table 1

OMB-ESTABLISHED FACTORS FOR COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS			
#	**Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
1	Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website	**Complied**	MCC FY 2014 AFR was published on November 15, 2014. The published AFR was available on MCC website. The published AFR substantially included the applicable elements required by the latest OMB Circular A-136 (revised 9/18/14); section II.5 relating to IPIA/IPERA reporting details.
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)	**Complied**	MCC conducted a program specific risk assessment for each program. We reviewed MCC's FY 2014 OMB A-123 Appendix C workpapers and evaluated the risk assessments performed by MCC which identified five program funds that may be susceptible to improper payments (but no actual or past significant improper payment). In our review, MCC had taken

OMB-ESTABLISHED FACTORS FOR COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS			
#	**Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
			into account in its IPIA risk assessments reviews, at minimum, key risk factors that may likely contribute to improper payments. Per our review, MCC's FY 2014 risk assessments did not indicate any programs that are "susceptible to significant improper payments" per the current statutory threshold (1.5% <u>and</u> $10 million or $100 million in improper payments)
3	Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)	**Not required**	Based on CLA's compliance testing as well as a review of the FY 2014 risk assessment (including OMB A-123 Appendix C sample testing result) performed by MCC to determine whether risk of improper payments was significant enough to require publishing of annual estimates of improper payments; we determined that no program was deemed to be susceptible to "significant improper payments". As a result, MCC was not required to report improper payment estimates due to the

OMB-ESTABLISHED FACTORS FOR COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS			
#	**Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
			results of its risk assessment.
4	Published programmatic corrective action plans in the AFR or PAR (if required)	**Not required**	Based on CLA's compliance testing as well as a review of the FY 2014 risk assessment (include Appendix C sample testing result) performed by MCC to determine whether risk of improper payments was significant enough to require publishing of programmatic corrective actions in the AFR; we determined that no program was deemed to be susceptible to "significant improper payments". As a result, MCC was not required to report and publish corrective actions plans in its AFR due to the results of its risk assessment.
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 required**	Based on CLA's compliance testing as well as a review of the FY 2014 risk assessment (include Appendix C sample testing result) performed by MCC to determine whether risk of improper payments was significant enough to require publishing of annual reduction targets in the AFR;

OMB-ESTABLISHED FACTORS FOR COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS			
#	**Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
			we determined that no program was deemed to be susceptible to "significant improper payments". As a result, MCC was not required to report and publish annual reduction targets in its AFR due to the results of its risk assessment.
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 required**	MCC was not required to report and publish gross improper payment rate because it was not required to report improper payment estimates.

OBSERVATIONS

In performing the review of MCC's compliance, we considered MCC's internal and compliance controls over improper payment to design procedures that are appropriate for the purpose of performing a review. Our review identified opportunities to strengthen MCC's internal and compliance controls over improper payments.

Observation 1: Insufficient Documentation

In our review of MCC's A-123 Appendix C work results, we found that supporting invoices for one compact payment sampled by MCC cannot be located and MCC was not able to provide supporting documentation due to documentation and administrative errors. The amount of potential improper payment was approximately $150 thousand. MCC tested a total of 62 sample items amounting to approximately $20 million.

OMB Memorandum 15-02, Appendix C to Circular No. A-123 states that "In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment."

Suggestion 1:

We suggest that MCC's Vice President and Chief Financial Officer, Department of Administration and Finance, document and implement a process for retaining and making readily available documentation that supports disbursements.

Observation 2: Unresolved Questioned Costs

Our review of the FY 2014 MCA questioned costs showed that a total of $2,086 outstanding questioned costs for ineligible costs for one MCA that remained unresolved as of the end of FY 2014.

Suggestion 2:

We suggest that MCC's Vice President and Chief Financial Officer, Department of Administration and Finance, investigate and resolve all outstanding questioned costs before the end of fiscal year in order to ascertain the validity and completeness of improper payments for reporting purposes.

Observation 3: Insufficient Improper Payment Policy and Procedures

During our review, we noted a lack of a stand-alone and dedicated policies and procedures in place to mitigate the risk of fraud and error in MCC programs.

OMB Memorandum 15-02, Appendix C to Circular No. A-123 states that "agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments. A program of internal control may include policies and activities such as prepayment reviews, a requirement that all relevant documents be made available before making payment, and performance of post-award audits."

Suggestion 3:

We suggest that MCC's Vice President and Chief Financial Officer, Department of Administration and Finance, document and implement stand-alone policies and procedures specific to the handling of improper payments to formalize MCC's treatment of potential improper payments.

Observation 4: Payment Recapture Audits

MCC did not have documentation of the justifications and analysis it used to determine that conducting a payment recapture audit program would not be cost-effective for each program and activity that expends $1 million or more annually.

OMB Memorandum 15-02, Appendix C to Circular No. A-123 states that "for agencies that have programs and activities that expend more than $1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost-effective. These payment recapture audits should be implemented in a manner designed to ensure the greatest financial benefits to the Federal Government." It goes on to state that "if an agency determines that it would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than $1 million, then it must notify OMB and the agency's Inspector General of this decision and include any analysis used by the agency to reach this decision. OMB may review these materials and determine that the agency should conduct a payment recapture audit to review these programs and activities. In addition, the agency shall report in its annual AFR or PAR: 1) a list of programs and activities where it has determined conducting a payment recapture audit program would not be cost-effective; and 2) a description of the justifications and analysis that it used to determine that conducting a payment recapture audit program for these programs and activities was not cost-effective.

Suggestion 4:

We suggest that the Vice President and Chief Financial Officer, Department of Administration and Finance, document MCC's analysis of the cost-effectiveness of implementing the required payment recapture audit. MCC should make the proper disclosure in its annual Agency Financial Report if such an audit would not be cost-effective.

APPENDIX A

MEMORANDUM

Date: May 11, 2015

To: Mark Norman
Acting Deputy Assistant Inspector General
Office of the Inspector General
Millennium Challenge Corporation

From: Matthew L. Bohn //s//
Vice President of Administration and Finance and
Chief Financial Officer
Millennium Challenge Corporation

Subject: MCC Comments for The OIG's Draft Report on *The Review of Millennium Challenge Corporation's Compliance with The Improper Payments Elimination and Recovery Act (IPERA) For Fiscal Year 2014*.

MCC is in receipt of the United States Agency for International Development (USAID) Office of the Inspector General's (OIG) draft report titled *The Review of Millennium Challenge Corporation's Compliance with The Improper Payments Elimination and Recovery Act (IPERA) For Fiscal Year 2014*. MCC acknowledges the agency is in compliance with IPERA and the report noted above does not include any recommendations. There are no further required actions, and MCC has no revisions/comments to the draft report.

If you have questions and or require any additional information, please contact Karla L. Chryar, Internal Controls and Audit Compliance (ICAC), at 202-772-6805 or chryarkl@mcc.gov.

Cc: Mahmoud Bah, Deputy Chief Financial Officer
Eric Redmond, Controller

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