



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FISCAL YEAR 2015 COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

AUDIT REPORT NO. M-000-16-002-C  
MAY 13, 2016

WASHINGTON, D.C.



*Office of Inspector General*

## MEMORANDUM

May 13, 2016

**TO:** Acting Vice President and Chief Financial Officer, Mahmoud Bah

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

**SUBJECT:** Audit of the Millennium Challenge Corporation's Fiscal Year 2015 Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. M-000-16-002-C)

This memorandum transmits the final report on the *Audit of the Millennium Challenge Corporation's Fiscal Year 2015 Compliance With the Improper Payments Elimination and Recovery Act of 2010* (IPERA). The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (Clifton) to conduct the audit. Clifton is responsible for the enclosed report and the results expressed in it.

The audit concluded that in fiscal year 2015 the Millennium Challenge Corporation (MCC) did not comply with IPERA. Clifton's report includes two findings and eight recommendations to strengthen MCC's internal controls over improper payments. The recommendations are listed below, and the findings are detailed in the attached report. MCC's management comments appear in their entirety in Appendix A of Clifton's report.

To address Clifton's findings regarding internal controls, we make the following recommendations:

***Recommendation 1.*** We recommend that the Millennium Challenge Corporation Department of Administration and Finance require MCC staff and contractors responsible for compliance with the Improper Payments Elimination and Recovery Act to take training on the requirements in Office of Management and Budget Circulars A-123 and A-136 pertaining to Improper Payments Elimination and Recovery Act compliance and reporting.

***Recommendation 2.*** We recommend that the Millennium Challenge Corporation Department of Administration and Finance conduct an Improper Payments Elimination and Recovery Act risk assessment for fiscal year 2016 that includes all MCC programs.

***Recommendation 3.*** We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use current Office of Management and Budget guidance to conduct the fiscal year

*2016 Improper Payments Elimination and Recovery Act risk assessment and report on it in the Agency Financial Report*

**Recommendation 4.** *We recommend that the Millennium Challenge Corporation Department of Administration and Finance assess whether the methodology and risk factors used in the Improper Payments Elimination and Recovery Act risk assessment are relevant and sufficient to identify the risk of improper payments.*

**Recommendation 5.** *We recommend that the Millennium Challenge Corporation Department of Administration and Finance develop procedures on documenting and maintaining clear, complete records of (1) the risk ratings (including the payment transaction testing performed) for each program and risk factor, (2) payment transaction testing performed for the quantitative assessment, and (3) Millennium Challenge Corporation's review and approval of the overall risk assessment analysis.*

**Recommendation 6.** *We recommend that the Millennium Challenge Corporation Department of Administration and Finance prepare a written oversight plan to verify contractor compliance with Improper Payments Elimination and Recovery Act requirements.*

**Recommendation 7.** *We recommend that the Millennium Challenge Corporation Department of Administration and Finance issue written guidance that defines the oversight roles and responsibilities for verifying that MCC meets the requirements in Office of Management and Budget Circulars A-123 and A-136 for Improper Payments Elimination and Recovery Act compliance and reporting.*

**Recommendation 8.** *We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use the most current Office of Management and Budget Circular A-136 and comply with all applicable Agency Financial Report reporting requirements for the fiscal year 2016 recapture payment audit programs and Do Not Pay Initiative.*

MCC agreed with all eight recommendations, and we acknowledge management decisions on all eight. We disagree with part of MCC's decision on Recommendation 1. MCC stated that it would ensure government staff and personal services contractors receive training on the requirements in Office of Management and Budget Circulars A-123 and A-136 requirements as they pertain to IPERA compliance and reporting; however, MCC would not require non-personal services contractors to receive such training. Given the nature of the work that MCC's non-personal services contractors conduct on IPERA—such as the risk assessment—they should also receive training on the applicable requirements. We will track MCC's implementation of these recommendations.

We appreciate the cooperation and courtesies extended to our staff and to Clifton's staff.

cc: Eric Redmond, Controller  
[redmondeg@mcc.gov](mailto:redmondeg@mcc.gov)

Jude Koval, Director of Internal Controls and Audit Compliance  
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Attachment



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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**Audit of the Millennium Challenge Corporation's  
Fiscal Year 2015 Compliance with the  
Improper Payments Elimination and Recovery Act of 2010  
(IPERA)**

**Audit Performed  
By  
CliftonLarsonAllen LLP**

**for  
United States Agency for International Development Office of  
Inspector General**

**May 11, 2016**



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Fiscal Year 2015 Compliance with the  
Improper Payments Elimination and Recovery Act of 2010 (IPERA)**

**EXECUTIVE SUMMARY**

***Why We Did This Audit***

CliftonLarsonAllen LLP (CLA) was engaged by the United States Agency for International Development (USAID) Office of Inspector General (OIG) to conduct and audit on the Millennium Challenge Corporation's (MCC) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2015 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.

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

Our audit performance period was from December 2015 to March 2016.

***What We Concluded***

We concluded that MCC was not in compliance with IPERA for FY 2015. Detailed information on MCC's non-compliance with Part II.A.3 of OMB M-15-02 is reported in the Conclusion section of this report.

Our audit also identified opportunities to strengthen MCC's internal and compliance controls over improper payments. The findings and recommendation are included in this report.

**CliftonLarsonAllen LLP**

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Arlington, VA  
March 31, 2016

## **PROGRAM BACKGROUND**

The Improper Payments Information Act (IPIA)<sup>1</sup> of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA)<sup>2</sup> of 2010 and the Improper Payment Elimination and Recovery Improvement Act (IPERIA)<sup>3</sup> of 2012, requires the Inspector General (OIG) of each agency to determine whether the agency is in compliance with IPIA<sup>4</sup> and submit a report on that determination annually. The current OMB implementation guidance, M-15-02, was issued on October 20, 2014.

Under IPERA, each agency shall periodically review all programs and activities and identify those that are susceptible to significant improper payments.<sup>5</sup> 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 Accountability Report (PAR)<sup>6</sup> of the agency.

OMB Circular A-136, *Financial Reporting Requirements* (August 4, 2015), requires agencies to report on payment recapture audits as part of the IPIA reporting requirements in the AFR. If programs were excluded from payment recapture audits because the agency determined that it was not cost-effective, then information supporting that decision must be provided in the AFR. In addition, any payments recaptured through other sources other than the payment recapture audits must be reported for all programs in the AFR even if they were excluded from payment recapture audits. MCC did not conduct payment capture audits because MCC determined it would not be cost-effective. In addition, MCC concluded that its programs were not susceptible to significant improper payments. As a result, MCC did not address the reporting requirements for payment recapture audits (see Finding 2, page 10).

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### ***Objectives and Scope***

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<sup>1</sup> Pub. L. No. 107-300, 116 Stat. 2350 (2002).

<sup>2</sup> Pub. L. No. 111-204, 124 Stat. 2224 (2010).

<sup>3</sup> Pub. L. No. 112-248, 126 Stat. 2390 (2012).

<sup>4</sup> Unless otherwise indicated, the term "IPERA" will imply "IPIA, as amended by IPERA and IPERIA."

<sup>5</sup> "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).

<sup>6</sup> 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.



Our objective was to determine, if MCC's improper payment reporting in the MCC's FY 2015 AFR is in compliance with IPERA. As outlined by the OMB A-136, we evaluated the accuracy and completeness of MCC's reporting and MCC's performance in reducing and recapturing improper payments. In addition, we have reviewed MCC's FY15 risk assessment of programs and activities subjected to significant improper payments in accordance with Appendix C to OMB Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.

According to OMB M-15-02, Part I.A.(2), 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 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 an 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 OMB M-15-02, Part II.A.3, the agency Inspector General should review agency's AFR or PAR (and any accompanying information) for the most recent fiscal year. Compliance under IPERA means that the agency has:

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#### **Requirements**

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- 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
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program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

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

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 payments and evaluated the design and operating effectiveness of relevant payments and recovery controls;
- Reviewed the improper payments reporting details in MCC's FY 2015 Agency Financial Report (AFR) to ensure compliance with IPERA requirements.
- Assessed the overall presentation for completeness of the improper payments and risk assessment in the AFR as set by the Section II.5.8 of OMB Circular A-136, *Financial Reporting Requirements* (OMB A-136).
- Reviewed OMB A-123, Appendix C tests results performed by MCC in FY 2015;
- Evaluated MCC's FY 2015 improper payment risks assessment which included whether MCC complied with OMB Circular A-123, Appendix C, Part I, A. (9) b., which requires all agencies to institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. The systematic method could be a quantitative evaluation based on a statistical sample or a qualitative evaluation (e.g., a risk-assessment questionnaire). At a minimum, the agencies are required to take into account the following risk factors that may likely contribute to improper payments:

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#### **Risk Factor Requirements**

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1. Whether the program or activity reviewed is new to the agency;
  2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
  3. The volume of payments made annually;
  4. 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;
5. Recent major changes in program funding, authorities, practices, or procedures;
  6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
  7. Inherent risks of improper payments due to the nature of agency programs or operations;
  8. 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
  9. 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 audit procedures. Our audit procedures include inquiries, reviews of the internal control evaluations and testing performed by MCC, as required under OMB Circular A-123, Appendix C. We obtained a judgmental sample to verify the results of MCC’s improper payments testing. We reviewed supporting documentation for the transactions tested and verified the results. In addition, we reviewed the status of outstanding audit findings to identify payments that were recaptured as a result of those audits in fiscal year 2015. The purpose of our audit was not to provide an opinion on internal controls over improper payments or its reporting process. Therefore, we do not express such an opinion.

We performed our audit at MCC’s office in Washington, DC and the CLA office in Arlington, VA from December 2015 through March 31, 2016.

**CONCLUSION**

We concluded that MCC was not in compliance with the improper payments reporting requirements as shown in Table 1.

**TABLE 1**

<b>Summary of MCC Compliance with IPERA</b>			
<b>Compliance Reference</b>	<b>OMB Compliance Requirement</b>	<b>MCC Compliance Status</b>	<b>CLA Comment</b>
a	Published an AFR or PAR for the	Non-compliance	MCC FY 2015 AFR was published on November 16, 2015, and it was

Summary of MCC Compliance with IPERA			
Compliance Reference	OMB Compliance Requirement	MCC Compliance Status	CLA Comment
	most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.		<p>available on the MCC website.</p> <p>However, as required under Section II.5.8.I of OMB Circular A-136, <i>Financial Reporting Requirements</i> (OMB A-136), MCC's AFR did not list all of the MCC programs that were assessed for risk of improper payment. MCC also did not provide a description of the risk assessment that was conducted on its eight programs or the results.</p> <p>As a result of deficiencies identified in MCC risks assessment (see requirement b) explained in Finding 1, we were unable to confirm that MCC was not required to report the additional information in its AFR as specified under Section II.5.8.II through IX of OMB Circular A-136, <i>Financial Reporting Requirements</i>.</p> <p>MCC also did not address recapture of improper payments as required under Section II.5.8.X of OMB Circular A-136, <i>Financial Reporting Requirements</i>, to address those programs that were excluded from the payment recapture audit program in the AFR. In addition, MCC did not complete the required table for payment recapture audit reporting to report overpayments recaptured outside of the payment recapture audits totaling \$ 253,292 in improper payments.</p> <p>Lastly, MCC did not report in the AFR the required table displaying the results of the Do Not Pay Initiative as required under Section</p>

Summary of MCC Compliance with IPERA			
Compliance Reference	OMB Compliance Requirement	MCC Compliance Status	CLA Comment
			II.5.8.XII of OMB Circular A-136, <i>Financial Reporting Requirements</i> .
b.	Conducted a program specific risk assessment of each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required).	Non-compliance	Although MCC conducted qualitative and quantitative risk assessments of all of its eight programs in FY 2015, MCC's qualitative assessment did not have sufficient documentation to support the risk ratings that were given to each program. In some cases, the ratings given were determined to be unreasonable. Overall, the assessments for a number of risk factors were determined not to be properly conducted or not fully addressed. In addition, MCC's quantitative assessment excluded payroll transactions, which is required to be assessed for the portions of the process that is within MCC's control. In addition, MCC also excluded payments under \$25,000 with no justification for that exclusion. Finally, there were significant documentation problems regarding MCC's testing for improper payments. As a result, lack of documentation negates the reliability of the testing that was performed.
c.	Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Unable to determine	As a result of deficiencies identified in MCC's risk assessments (see requirement b), we were unable to confirm that MCC was not required to report this information in its AFR as specified under Section II.5.8.II and III of OMB Circular A-136, <i>Financial Reporting Requirements</i> .
d.	Published	Unable to	As a result of deficiencies identified

<b>Summary of MCC Compliance with IPERA</b>			
<b>Compliance Reference</b>	<b>OMB Compliance Requirement</b>	<b>MCC Compliance Status</b>	<b>CLA Comment</b>
	programmatic corrective action plans in the AFR or PAR (if required).	determine	in MCC's risk assessments (see requirement b), we were unable to confirm that MCC was not required to report the additional information in its AFR as specified under Section II.5.8.V of OMB Circular A-136, <i>Financial Reporting Requirements</i> .
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).	Unable to determine	As a result of deficiencies identified in MCC's risk assessments (see requirement b), we were unable to confirm that MCC was not required to report the additional information in its AFR as specified under Section II.5.8.III of OMB Circular A-136, <i>Financial Reporting Requirements</i> .
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.	Unable to determine	As a result of deficiencies identified in MCC's risk assessments (see requirement b), we were unable to confirm that MCC was not required to report the additional information in its AFR as specified under Section II.5.8.III of OMB Circular A-136, <i>Financial Reporting Requirements</i> .

### **FINDINGS**

In performing the audit of MCC's compliance with IPERA, we considered MCC's internal and compliance controls over improper payments as outlined by the OMB A-136 and OMB A-123, Appendix C. Our audit identified opportunities to strengthen MCC's internal and compliance controls over improper payments. Below are our findings and recommendations.

## **Finding 1: Incomplete Improper Payments Reporting in AFR, and Risks Assessments Were Not Fully Addressed, Supported and Documented**

- a. Incomplete reporting in AFR: We reviewed MCC's FY 2015 AFR IPERA reporting and found that MCC did not list all programs that were assessed for risks of improper payments and did not provide a description of the results of risk assessments that were conducted. MCC's management did not ensure that the reporting requirements of section II.5.8, IPIA as amended by IPERA Reporting Details, of OMB Circular No. A-136, dated August 4, 2015 was met.

Section II.5.8.I of OMB Circular No. A-136, states that, "All programs that are assessed for risk in a given year should be listed in this section." In addition, it also states, "Agencies should briefly describe all of the risk assessment(s) performed in the fiscal year (the risk factors examined should be included in the description)."

- b. Deficiencies in the risks assessments: Our audit of MCC's FY 2015 improper payments risk assessments found that the risk assessments did not include a clear and systematic method of reviewing MCC's programs. We also determined that MCC did not provide adequate support and documentation to identify those programs that were susceptible to significant improper payments

We found the following weaknesses in the risks assessments:

1. For MCC's qualitative assessment of its programs that addressed eleven risk factors:
  - Supporting information was missing to justify the risk ratings assigned to the programs for each risk factor.
  - In some cases, the risk rating assessment for a risk factor was not properly conducted. For example, the risk factor that addressed "Volume of and Dollar Amount of Payments" did not fully address the information related for each program. As a result, MCC assigned a zero risk rating for all its programs.
  - In some cases, the risk rating assessment was not fully addressed. For example, the risk factor that addressed the "Degree of Stability" did not consider the level of program funding in the assessment or significant changes regarding the Threshold program.
2. For MCC's quantitative assessment of its programs:
  - The population of payment transactions excluded payroll transactions and transactions under \$25,000 without providing justification.
  - We reviewed the supporting documentation for eight of the 45 payment transactions tested by MCC and noted the following supporting documentation deficiencies such as:
    - No Payment Request Form was retained by MCC to confirm that it was signed and approved by the MCC Fiscal Agent.
    - No invoice to support the amount paid.

- No evidence to show that total payments, including the sample payments, did not exceed the obligated amount.
- No support that the bank account number that received the payment agrees with the recipient's submitted bank routing documents.
- No evidence of a reconciliation of the financial information with the International Treasury Services System.
- No evidence to support confirmation that the payee was not on the list of parties excluded from Federal procurements.

Appendix C to OMB Circular No. A-123 states that unless an agency has specific written approval from OMB to deviate from the steps explained in the circular, agencies are required to follow these steps [in the OMB Circular] to determine whether the risk of improper payments is significant and to provide valid annual estimates of improper payments. The agency is responsible for maintaining the documentation to demonstrate that the agency review all programs and activities and identify those that are susceptible to significant improper payments.

As a result of the deficiencies identified in MCC's risk assessments discussed above, we determined that MCC was not in compliance with IPERA compliance requirements a and b (refer to Table 1, page 5 and 6). Moreover, we were unable to confirm that MCC's programs were not susceptible to significant improper payments.

This noncompliance resulted because MCC's management did not review the risk assessment process to ensure the process was reasonable and the risk factors were identified and addressed appropriately. Additionally, MCC's oversight did not ensure that the contractor performing the risk assessments was utilizing the current guidance from OMB and providing adequate documentation to support the risk assessments.

### **Recommendations:**

1. We recommend that the Millennium Challenge Corporation Department of Administration and Finance require MCC staff and contractors responsible for compliance with Improper Payment Elimination and Recovery Act to take training on the requirements in Office of Management Budget Circulars A-123 and A-136 pertaining to Improper Payments Elimination and Recovery Act compliance and reporting.
2. We recommend that the Millennium Challenge Corporation Department of Administration and Finance conduct an Improper Payments Elimination and Recovery Act risk assessment for fiscal year 2016 that includes all MCC programs.
3. We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use current Office of Management and Budget guidance to conduct the fiscal year 2016



Improper Payment Elimination and Recovery Act risk assessment and report on it in the Agency Financial Report.

4. We recommend that the Millennium Challenge Corporation Department of Administration and Finance assess whether the methodology and risk factors used in the Improper Payments Elimination and Recovery Act risk assessment are relevant and sufficient to identify the risk of improper payments.
5. We recommend that the Millennium Challenge Corporation Department of Administration and Finance develop procedures on documenting and maintaining clear, complete records of (1) the risk ratings (including the payment transaction testing performed) for each program and risk factor, (2) payment transaction testing performed for the quantitative assessment, and (3) Millennium Challenge Corporation's review and approval of the overall risk assessment analysis.
6. We recommend that the Millennium Challenge Corporation Department of Administration and Finance prepare a written oversight plan to verify contractor compliance with Improper Payments Elimination and Recovery Act requirements.

## **Finding 2: Reporting Requirements Not Addressed in AFR**

- a. Payment Recapture Audit was not addressed in the MCC's FY15 AFR reporting: MCC indicated in its AFR that its programs were not susceptible to significant improper payments; therefore, it did not address payment recapture audits in the AFR. In addition, MCC did not report the \$253,292 in improper payments that were recovered through other sources. MCC did not comply with Section II.5.8.X.b and c of OMB Circular No. A-136 with regards to reporting of payment recapture audit program requirements.

Section II.5.8.X.b of OMB Circular No. A-136 addresses reporting requirements for programs excluded from the Payment Recapture Audit Program in the AFR, which states,

If the agency has excluded any programs or activities from review under its payment recapture audit program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency must:

1. List all of the programs and activities where it has been determined conducting a payment recapture audit program would not be cost-effective (whether determination occurred in the current year or in a prior year),
2. Indicate when OMB was notified (month and year) that it was not cost effective to conduct a payment recapture audit and

the program would be excluded from a payment recapture audit program, and

3. Provide the justification and a summary of the analysis that is used to determine that conducting a payment recapture audit program for the program or activity was not cost effective (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective).

Section II.5.8.X.c. of OMB Circular No. A-136 addresses reporting requirements for Payment Recapture Audit Reporting within the AFR, which states,

Complete a table and include each program or activity that expends **\$1 million or more annually** and either conducts a payment recapture audit or recaptures payments outside of a payment recapture audit (if any of this information is not available indicate by either note or by “n/a” in the relevant column or cell). Agencies may include a footnote to list the programs or activities that do not have a recovery audit program in place. Programs or activities where the agency has determined a payment recapture audit program is not cost effective should still be listed in the table if they have overpayments recaptured outside of a payment recapture audit (see the Overpayments Recaptured Outside of Payment Recapture Audits section for more information).

- b. Do Not Pay Initiative reporting was not properly addressed: We reviewed MCC’s FY 2015 AFR IPERA reporting and found that MCC provided the required narrative on its efforts related to the Do Not Pay Initiative, but did not provide the required table to display the results.

Section II.5.8.XII of OMB Circular No. A-136, states that: To support this requirement, all agencies shall provide a brief narrative discussing the agency's actions attributable to the Do Not Pay Initiative and respective databases on an annual basis, regardless of the agency’s susceptibility to improper payments. This narrative shall include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards; identify the frequency of corrections or identification of incorrect information; and include completion of the table [underlined for emphasis].

Given the omission of these information in Finding 2, we determined MCC was not compliant with the IPERA compliance requirement a (refer to Table 1, page 5). Our audit determined that the cause of this non-compliance happened because MCC’s management was not aware of the recent changes in the IPERA reporting requirements in OMB Circular No. A-136, as amended.

**Recommendations:**

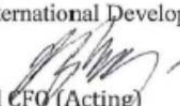
7. We recommend that the Millennium Challenge Corporation Department of Administration and Finance issue written guidance that defines the oversight roles and responsibilities for verifying that MCC meets the requirements in Office of Management and Budget Circulars A-123 and A-136 for Improper Payments Elimination and Recovery Act compliance and reporting.
8. We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use the most current Office of Management and Budget Circular A-136 and comply with all applicable Agency Financial Report reporting requirements for fiscal year 2016 recapture payment audit programs and Do Not Pay Initiative.



**MEMORANDUM**

DATE: May 5, 2016

TO: Ann Calvaresi Barr  
Inspector General  
Office of Inspector General  
U.S. Agency for International Development

FROM: Mahmoud Bah   
Vice President and CFO (Acting)  
Department of Administration and Finance  
Millennium Challenge Corporation

SUBJECT: Review of the Millennium Challenge Corporation's Fiscal Year 2015  
Compliance With the Improper Payments Elimination and Recovery Act of  
2010 (IPERA)

In response to the report findings and recommendations, MCC has provided the responses below. MCC will develop and implement a comprehensive corrective action plan to address each finding and corresponding recommendation.

**Finding 1: Incomplete Improper Payments Reporting in AFR, and Risks Assessments Were Not Fully Addressed, Supported and Documented**

**Recommendation 1:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance require MCC staff and contractors responsible for compliance with the Improper Payments Elimination and Recovery Act to take training on the requirements in Office of Management and Budget Circulars A-123 and A-136 pertaining to Improper Payments Elimination and Recovery Act compliance and reporting.

**MCC Management Response:**

MCC concurs with recommendation 1. MCC will ensure government staff and personal services contractors (PSC) responsible for compliance with IPERA receive training to gain a full understanding of the requirements under OMB Circulars A-123 and A-136 as it pertains to IPERA compliance and reporting. For non-PSCs responsible for IPERA compliance, each contract has a separate requirement to provide qualified staff to meet the contractual terms accordingly. MCC's oversight includes approving contractors before they are officially allowed to be onboard at

MCC based on qualifications through activities such as reviewing resumes and/or interviews. For example, the recently awarded OMB A-123 contract requires staff with Appendix C experience and knowledge. Additionally, although MCC cannot dictate the type of training that each non-PSC completes, each firm has a continuing professional education requirement to complete training specific to their assignments.

**Recommendation 2:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance conduct an Improper Payments Elimination and Recovery Act risk assessment for fiscal year 2016 that includes all MCC programs.

**Recommendation 3:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use current Office of Management and Budget guidance to conduct the fiscal year 2016 Improper Payments Elimination and Recovery Act risk assessment and report on it in the Agency Financial Report.

**Recommendation 4:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance assess whether the methodology and risk factors used in the Improper Payments Elimination and Recovery Act risk assessment are relevant and sufficient to identify the risk of improper payments.

**Recommendation 5:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance develop procedures on documenting and maintaining clear, complete records of (1) the risk ratings (including the payment transaction testing performed) for each program and risk factor, (2) payment transaction testing performed for the quantitative assessment, and (3) Millennium Challenge Corporation's review and approval of the overall risk assessment analysis.

**Recommendation 6:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance prepare a written oversight plan to verify contractor compliance with Improper Payments Elimination and Recovery Act requirements.

**MCC Response:**

MCC concurs with recommendations 2 through 6. On March 8, 2016, MCC awarded a new contract for the OMB A-123 Internal Control Assessment which requires a risk assessment of all MCC programs in FY 2016 as part of the OMB A-123 Appendix C tasks. Additionally, after 28 months of vacancy, the MCC Director of Internal Controls and Audit Compliance (ICAC) position was filled in August 2015. The Director, ICAC is responsible for directing and overseeing the OMB A-123 Internal Control Assessment, including the Appendix C tasks. The Director, ICAC will instruct MCC staff and contractors in writing to use the most current OMB guidance and verify that it is utilized to conduct the IPERA risk assessment. Furthermore, the Director, ICAC will develop procedures on documenting and maintaining clear, complete records. The ICAC group will also perform independent testing to ensure the A-123 contractor utilizes the appropriate risk assessment methodology and will maintain sufficient and adequate documentation throughout the process. The Director, ICAC will coordinate with the Controller to ensure that required disclosures are made in the AFR. Finally, MCC will develop and document a written oversight plan to verify contractor compliance with IPERA requirements.

**Finding 2: Reporting Requirements Not Addressed in AFR**

**Recommendation 7:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance issue written guidance that defines the oversight roles and responsibilities for verifying that MCC meets the requirements in Office of Management and Budget Circulars A-123 and A-136 for Improper Payments Elimination and Recovery Act compliance and reporting.

**Recommendation 8:**

We recommend that the Millennium Challenge Corporation Department of Administration and Finance instruct MCC staff and contractors in writing to use the most current Office of Management and Budget Circular A-136 and comply with all applicable Agency Financial Report reporting requirements for the fiscal year 2016 recapture payment audit programs and Do Not Pay Initiative.

**MCC Response:**

MCC concurs with recommendations 7 and 8. MCC will develop and issue formal written guidance to define oversight roles and responsibilities to ensure compliance with IPERA, OMB A-123, and OMB A-136. As part of the guidance, the procedures will include a mechanism to ensure all appropriate MCC staff and contractors are aware of changes to IPERA reporting requirements, OMB A-123, and OMB A-136, and changes are addressed accordingly. The Controller will instruct MCC staff and

contractors in writing to use the most current OMB guidance and comply with all applicable Agency Financial Report reporting requirements for recapture payment audit programs and Do Not Pay Initiative.

If you have any questions or require any additional information, please contact Derek Henderson, Director of Accounting and Financial Management Operations, at 202-521-2660 or [hendersonda@mcc.gov](mailto:hendersonda@mcc.gov); or Jude Koval, Director of Internal Controls and Audit Compliance (ICAC), at 202-521-7280 or [kovaljg@mcc.gov](mailto:kovaljg@mcc.gov).

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