



*Office of Inspector General*

APR 15 2014

**MEMORANDUM**

**TO:** USAID Administrator, Dr. Rajiv Shah

**FROM:** Acting Inspector General, Michael Carroll /s/

**SUBJECT:** Report on USAID's Fiscal Year 2013 Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 0-000-14-001-S)

This memorandum transmits our final report on USAID's compliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2013. USAID management is responsible for complying with the requirements of the act. The Office of Inspector General (OIG) is responsible for evaluating USAID's reporting on improper payments in its Agency Financial Report and determining whether USAID met the criteria established by the Office of Management and Budget (OMB) for compliance with IPERA.

For FY 2013, OIG determined that USAID complied, in all material respects, with IPERA requirements. However, we noted certain matters in internal controls and reporting that should be remediated to provide reliable reports in accordance with IPERA. These matters will be communicated to management in a separate letter.

We are also issuing a copy of this report to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, the Comptroller General of the United States, and OMB.

OIG appreciates the cooperation and courtesies extended during the evaluation.

# SUMMARY

On July 22, 2010, Congress passed the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA amended the Improper Payments Information Act (IPIA), redefined significant improper payments, and strengthened agency reporting requirements. To help agencies implement the act, the Office of Management and Budget (OMB) issued Memorandum M-11-16, which provides guidance and requires agencies to submit plans describing their current efforts for payment recapture (recovery) audits. Memorandum M-11-16 specifies that if an agency does not meet all the act's requirements, the agency is not in compliance. In addition, M-11-16 requires the agency's inspector general to evaluate the accuracy and completeness of the agency's reporting and performance in reducing and recapturing improper payments.

We evaluated USAID's compliance with the requirements of the Improper Payments Elimination and Recovery Act of 2012 as of September 30, 2013. USAID's management is responsible for compliance with those requirements. Our responsibility is to review USAID's improper payments reporting in the Agency Financial Report and accompanying materials to determine whether USAID met the criteria established by OMB for compliance with IPERA.

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation issued in 2012 by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform our evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on the evaluation's objectives. Our evaluation does not provide a legal determination on USAID's compliance with the specified requirements.

OMB Memorandum M-11-16 states that compliance with IPERA means that the agency has met the requirements listed in the following table.

## Improper Payments Compliance Requirements

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 payment under its risk assessment (if required).	Not Applicable*
4. Publish programmatic corrective action plans in the PAR or AFR (if required).	Yes
5. Publish and meet annual reduction targets for each program assessed to be a risk, and measure for improper payments.	Yes
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.	Yes
7. Report information on its efforts to recapture improper payments.	Yes

\* Requirement 3 is not applicable because USAID's risk assessment did not identify any programs or activities 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.

As the table shows, we determined that USAID met the criteria established by the Office of Management and Budget (OMB) for compliance with IPERA. However, we noted certain matters related to internal controls and reporting that USAID should remediate to provide reliable reports in accordance with IPERA. We address these matters in a separate letter.

Office of Inspector General  
April 15, 2014

# STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within 6 months after a final report is issued. Corrective action should proceed as rapidly as possible.

## **FY 2012 Finding and Recommendations**

***Recommendation 1.*** We recommend that USAID update its policy to establish a time frame for investigating and resolving potential funds control violations.

Status: Recommendation 1 was closed on March 19, 2014.

***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: Recommendation 2 is still pending final action. USAID/Washington implemented its process to investigate and resolve potential funds control violations. In addition, USAID/Washington implemented a referral process for its overseas missions to help them determine whether those potential funds control violations represent improper payments and to report within 30 days of receiving a notice from USAID/Washington. We will continue to monitor the efforts made by USAID to resolve potential violations and report improper payments as appropriate.

***Recommendation 3.*** We recommend that USAID clarify to its staff the requirements of the Improper Payment Elimination and Recovery Act to ensure that improper payments are identified and reported in a timely manner.

Status: Recommendation 3 was closed on December 16, 2013.

# SCOPE AND METHODOLOGY

## Scope

We conducted this evaluation in accordance with the quality standards issued by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform our evaluation 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 evaluation 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, "IPIA (as amended by IPERA) Reporting Details," and (3) complying with other applicable laws and regulations. OIG is responsible for obtaining reasonable assurance about whether USAID complied with IPERA requirements as of September 30, 2013. OIG is also responsible for (1) obtaining a sufficient understanding of the internal controls over improper payments and compliance to plan the evaluation, (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 USAID's internal control over improper payments and compliance with IPERA including the improper payments reported by the bureaus in Washington and the overseas missions.
- Reviewed "Management's Decision and Analysis" and improper payments reporting details in USAID's FY 2013 AFR to ensure compliance with IPERA requirements.
- Evaluated the overall presentation of the improper payments and risk assessment in the AFR.
- Tested relevant internal controls over improper payments, and evaluated the design and operating effectiveness of the internal controls.
- Tested USAID compliance with the specific IPERA requirements.

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