



Office of Inspector General

September 30, 2009

MEMORANDUM REPORT

TO: David D. Ostermeyer
Chief Financial Officer

FROM: Rohit Chowbay /s/
Director, IG/A/FA

SUBJECT: Improper Payments Made Under the American Recovery and Reinvestment Act of 2009 (Report No. 0-000-009-01K)

This memorandum report presents the results of our review of USAID's process for reviewing, approving, and paying invoices under the American Recovery and Reinvestment Act of 2009 (Recovery Act). This is the first in a series of reviews that the Office of Inspector General will be conducting as required by the Recovery Act. This was not an audit; however, the report contains two recommendations for your action. We have considered management's comments on the draft report and have incorporated them in their entirety into the final report.

I appreciate the cooperation and courtesy extended to our staff during this review.

Background

The Recovery Act was signed into law on February 17, 2009, as a way to jumpstart the U.S. economy, create or save millions of jobs, spur technological advances in science and health, and invest in the Nation's energy future. This effort will require an unprecedented level of transparency and accountability to ensure that U.S. citizens know where their tax dollars are going and how they are being spent. As part of the Recovery Act, USAID received \$38 million for immediate information technology security and upgrades to support mission-critical operations. Because of USAID's information technology priorities, and to maximize job creation with the Recovery Act funds, USAID determined that the funding would be used for the development and deployment of the Global Acquisition and Assistance System over a 2-year period.

We conducted this review to determine whether USAID's process for reviewing, approving, and paying Recovery Act invoices was functioning effectively.

Discussion

Section 4.3 of the Office of Management and Budget's Memorandum 09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," states that agencies must not commingle Recovery Act funds with other funds and that internal fund codes must be established to track apportionments, allotments, obligations, and outlays related to the Recovery Act.

Although USAID has implemented procedures for separating Recovery Act payments from other payments, it erroneously used Recovery Act funds to pay for services that were not related to the Recovery Act. Through our review of Recovery Act financial activity reports and invoices, we identified two invoices totaling \$116,710.24 that were improperly paid with Recovery Act funds in August 2009. The invoices were for services rendered in February and March 2009, before USAID had received its Recovery Act funding, and thus should not have been paid with funds obligated under the Recovery Act. In contracting for Recovery Act efforts, USAID established a mechanism whereby its contractors would append the designation "RA" to the contract line item number when amounts billed were related to the Recovery Act funds. The invoices did not include the "RA" designation after the contract line item number, but they were paid with funds obligated for Recovery Act services.

This error occurred because USAID did not follow its established process for reviewing, approving, and paying Recovery Act invoices. Although USAID had established the process with the required internal controls to ensure that Recovery Act funds were clearly distinguished from other funds, this process was not consistently followed, resulting in the improper payments of the two invoices with Recovery Act funds. Additionally, the error occurred because multiple invoices were being processed for the same vendor for services that were contracted before passage of the Recovery Act. The amount obligated under this contract was expended, and USAID arbitrarily selected the Recovery Act obligation to pay these invoices.

These payments reduced the funds available for satisfying current obligations incurred under the Recovery Act and have resulted in improper payments, as defined by the Improper Payments Information Act of 2002.

Conclusion

Because USAID did not follow its established process for reviewing, processing, and paying invoices under the Recovery Act, we are making the following recommendations:

Recommendation 1. We recommend that USAID's Chief Financial Officer reimburse its Recovery Act obligations for the \$116,710.24 that was incorrectly paid out of the American Reinvestment and Recovery Act Funds.

Recommendation 2. We recommend that USAID's Chief Financial Officer emphasize to his staff the importance of consistently following established procedures to review, approve, and pay invoices to ensure that non-Recovery Act invoices are not paid with the American Reinvestment and Recovery Act funds.

Evaluation of Management Comments

We have received and evaluated USAID's management comments on the finding and recommendations included in our draft report. The following is a summary of USAID's management comments and our evaluation of those comments.

USAID management agreed to implement recommendation no. 1 and commented that the Office of the Chief Financial Officer immediately executed corrective action by posting a Journal Voucher to its financial system on September 3, 2009. The Journal Voucher corrective entry credited the erroneous payment back to the Recovery Act funding line and debited the non-Recovery Act funding line for the same amount from. We agree with management's decision and action on this recommendation and will continue to review USAID's Recovery Act invoice processing as part of our review and oversight of USAID's expending and reporting of Recovery Act funds.

USAID management agreed to implement recommendation no. 2 and has developed a newly designed checklist for approving and processing of payments to vendors subject to the Recovery Act. USAID Management has counseled its staff members with direct responsibility for the registration, approval, and payment certification to further stress the importance of following the defined procedures for Recovery Act vendors and advised of potential disciplinary actions for failure to exercise due diligence. We agree with management's decision and action on this recommendation and will review USAID's checklist implementation during our review and oversight of USAID's expending and reporting of Recovery Act Funds.

Scope and Methodology

Scope

This review consisted of an evaluation of USAID's Recovery Act procedures to process and pay invoices that were active as of August 31, 2009. This review was not an audit.

Methodology

During this review, we performed the following activities:

- Obtained an understanding of the process that management has implemented to process and pay Recovery Act invoices.
- Obtained and reviewed the Recovery Act obligations and supporting documentation.
- Obtained and reviewed all invoices processed by USAID under the Recovery Act as of August 31, 2009.
- Determined whether the designation “RA” was appended to the contract line item numbers on the Recovery Act invoices.
- Determined whether all invoices paid with Recovery Act funds were appropriately charged to the related obligation and were allowable and allocable.

Management's Comments



MEMORANDUM

TO: Rohit Chowbay - Director, IG/A/FA

FROM: David D. Ostermeyer, CFO /s/

SUBJECT: Management Response to Draft Report on Improper Payments Made Under the American Recovery and Reinvestment Act of 2009 (ARRA) Report No. 0-000-009-01K

Thank you for your draft memorandum report regarding the Improper Payments Made Under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of the Chief Financial Officer (OCFO) appreciates the Office of Inspector General's (OIG) ongoing reviews, observations and recommendations regarding strengthening the internal controls for Recovery Act activities.

Following are our comments regarding the findings and proposed recommendations:

Recommendation 1: *We recommend that USAID's Chief Financial Officer reimburse its Recovery Act obligations for the \$116,710.24 that was incorrectly paid out of the American Reinvestment and Recovery Act Funds.*

Management Comments: The OCFO concurs and complied with Recommendation 1 on September 3, 2009. Upon learning of the Recovery Act violation the Cash Management and Payment Division (M/CFO/CMP) immediately executed corrective action by posting a Journal Voucher (JV) to its financial system, Phoenix. The JV corrective entry credited the amount of \$116,710.04 to the Recovery Act funding line and debited the same amount to the non-Recovery Act funding line. See attached JV and screen shot of posted Phoenix transaction.

Recommendation 2: *We recommend that USAID's Chief Financial Officer emphasize to his staff the importance of consistently following established procedures to review, approve, and pay invoices to ensure that non-Recovery Act invoices are not paid with the American Reinvestment and Recovery Act funds.*

Management Comments: The OCFO concurs. M/CFO/CMP has re-emphasized the importance of consistent and accurate processing and posting of payments involving Recovery Act funds which has heightened staff awareness. An email notification was sent to all CMP staff, detailing strengthened procedures for approving payments for these vendors. Included in this communication, was an updated list of vendors subject to the Recovery Act; as well as a newly designed checklist for the review and processing of Recovery Act vendors. The checklist adds several additional layers of internal controls and check points to the review and payment process to mitigate future occurrences.

M/CFO/CMP management counseled staff members with direct responsibility for the registration, approval and payment certification to further stress the importance of following defined procedures for Recovery Act vendors and advised of potential disciplinary actions for failure to exercise due diligence.

In closing, the risk of error increases in manual operations. However, the CFO is committed to strong internal controls and processes to minimize the risks of inaccurate payment and posting of Recovery Act funds in the future.

Attachments:

Tab A – Journal Voucher

Tab B - Phoenix Screenshot of JV

Tab C – M/CFO/CMP Recovery Act Invoice Checklist