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Performance Procedures for Reviewing Program Activities, Identifying and Reporting Improper Payments

A Mandatory Reference for
ADS Chapter 630

New Reference Date: 07/09/2010
Responsible Office: M/CFO/CMP
File Name: 630mad_070910

Overview

The United States Agency for International Development (USAID) is taking significant steps to reduce or eliminate the Agency's improper payments through comprehensive annual internal control reviews and substantive testing of payments in accordance with the [Office of Management and Budget \(OMB\) Circular A-123 Appendix C](#). *Requirements for Effective Measurement and Remediation of Improper Payments*.

The Bureau of Management Office of the Chief Financial Officer (OCFO) Cash Management and Payment Division (M/CFO/CMP) review efforts are intended to assist in successfully implementing an Improper Payment Information Act (IPIA) assessment activity as part of an overall program of effective internal control over payments. The assessment provides test procedures to:

- Facilitate adherence to the requirements of [OMB Circular A-123, Appendix C](#);
- Provide direction in terms of the nature and extent of the test work, including the means to capture results;
- Facilitate annual reporting on the IPIA assessment activity in the Agency Financial Report (AFR);
- Ensure all staff involved in the testing are aware of the steps; and
- Ensure all steps are carried out to the satisfaction of USAID, including the Office of the Inspector General (OIG).

Procedures

The following procedures are in accordance with [OMB A-123 Appendix C Part I](#). *Requirements for Effective Measurement and Remediation of Improper Payments*. Note: These procedures are not intended to reflect the steps for Part II. *Recovery Auditing*.

Review all Programs and activities and identify those which are susceptible to significant erroneous payments.

1. Develop or modify risk assessment matrix and risk assessment scoring criteria to identify those program areas susceptible to significant erroneous payments based on the following risk factors or other elements deemed important to the assessment:

- Total value of disbursements;
- Total number of disbursement transactions (accounting lines);
- Total number of unique contractors and vendors;
- Total value of returned and cancelled payments;
- Total value of interest payments;
- Degree of maturity and stability;

- Current fiscal year budgeted costs for each program area; and
- Association with Critical Priority Countries (CPCs).

As a result of updating the baseline risk assessment, determine if any of the program areas meet the OMB threshold requirements of significant erroneous payments, currently defined as annual erroneous payments exceeding both 2.5% of program payments and \$10 million.

The identification of the above risk factors follows the Government Accountability Office (GAO) Financial Audit Manual (FAM) which discloses such factors as:

- (a) Programs are significantly affected by new/changing governmental regulations, economic factors, and/or environmental factors;
- (b) New (in existence less than 2 years) programs lack written policies or procedures, lack adequate resources, have inexperienced managers, and generally have considerable confusion associated with them;
- (c) Large numbers of payments are sent to outside recipients, as in the cases of grants, medical care reimbursements, or other federal financial assistance; and
- (d) Significant programs have a history of improper administration, affecting operating activities.

In addition, the GAO FAM indicates that a risk assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed. Managing returned and cancelled payments, and interest payments are being addressed by USAID management annually in the AFR.

2. For remote testing at the missions, the OCFO developed a Risk Assessment Questionnaire for the program areas for reviewing IPIA, Recovery Auditing (explained in a separate section), returned and cancelled payments, and interest payments.

The questionnaire addresses:

- Responsibility for the program areas;
- Identification of program areas susceptible to erroneous payments;
- Recovery of improper payments;
- Implementation of corrective action plans;
- Controls in place to eliminate or minimize improper payments; and
- Implementation of tracking systems to recover improper payments.

Include the results of the risk assessment questionnaires completed by the Overseas Field Missions' Financial Management Offices (FMOs), together with the risk factors identified above to populate the risk matrix with qualitative data for each program (and risk condition). The qualitative data is used in conjunction with the scoring criteria to assign a risk score to each risk condition. The risk condition scores and weighting formulas are used to determine an overall risk score, and identify programs at high risk of being susceptible to significant improper payments.

Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities.

To comply with IPIA guidance, the objective of sampling the program areas deemed to be susceptible to significant erroneous payments is to:

- Select a statistically random sample of sufficient size over all program areas to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of erroneous payments;
- Select a sample from all the items that compose the population so that each item has an opportunity for selection; and
- Select a representative sample to reach a conclusion on the error rate by projecting the results of the sample to the population and calculating the estimated amount of improper payments made in those programs (gross total of both over and under payments (i.e., not the net of over and under payments).

The GAO FAM, section 400 Testing Phase should be used as the guide in selecting samples for examining and testing improper payments. The sample size is determined using the sample size formula provided in [Appendix C of OMB Circular A-123](#) (see **Table** below). The sample size formula assumes that a simple random sample of cases is drawn for review from a very large universe of payments.

$$n \geq \frac{2.706(1-P)}{\left(\frac{.025}{P}\right)^2}$$

Where n is the required minimum sample size and P is the estimated percentage of erroneous payments

Table: Sample size formula provided in Appendix C of OMB Circular A-123

The estimated percentage of erroneous payments is determined using the improper payment reduction rate as stated in the 'Improper Payment (IP) Reduction Outlook' table as reported in USAID's AFR.

Establish and document the rationale for a dollar threshold and select samples from all applicable accounting lines that compose the populations so that each item has an opportunity for selection. This sampling approach enables the projection of results of the sample to the population and calculates the estimated amount of improper payments made in those program areas susceptible to erroneous payments (gross total of both over and under payments (i.e., not the net of over and under payments)).

Implement a plan to reduce erroneous payments

In a continuing effort to reduce improper payments, the Agency's Office of Acquisition and Assistance (OAA) now requires new vendors to register with the Central Contractor Registration (CCR), which is the primary registrant database for the U.S. Federal Government. CCR collects, validates, stores, and disseminates data in support of agency acquisition missions. The vendor information is downloaded from CCR into the Agency's financial system, Phoenix, through an interface module thereby keeping the vendor information in the Agency's financial system current. The management improvement program establishes a vendor code cleanup process to ensure uniqueness and consistency of vendor codes in Phoenix. A vendor code is a unique identifier of a vendor in Phoenix. When multiple vendor codes exist, each code may contain different vendor information for the same vendor. Therefore, instances of improper payment may occur when a vendor code with wrong vendor information is selected for payment. The vendor code clean up effort is geared towards creating a single unique vendor code for each vendor in Phoenix. This will eliminate the selection of the wrong vendor codes for payment.

In addition, the Cash Management and Payments (CMP) Division and the field mission accounting stations have identified improvements and corrective actions to reduce or eliminate occurrences of root causes. Those plans include the recalculation of invoices for arithmetical accuracy; a review of payment instructions to ensure the proper vendor and vendor code are selected, a review of contractor bank information for validity and agreement to the core financial management system prior to payment; an assessment of risk and review of management controls to assure that they are operating as intended; performance of periodic reviews of agreements and contracts on terms of payments; and periodic reviews of processed payments.

I. Steps that have been implemented to prevent or reduce returned/cancelled payments in future periods included the following:

1. Vendors are given exact instructions on the method of payment and requested to verify with their banks the banking information.
2. Vendor name address in the first payment for new awardees will be double checked.
3. Verify the provided bank information in Phoenix before releasing payment.

4. Confirm the vendor/contractor for valid bank information.
5. Proof reading of financial information prior to scheduling a request for payment.
6. Make initial review of vendor information during the obligation process.
7. Perform periodic reviews of local vendor information.
8. Institute quarterly outreach to all grantee/partners and request that banking information is up to date and accurate.

II. Steps that have been implemented to prevent or reduce interest payments in future periods included the following:

1. Closely monitor unpaid invoices/vouchers to ensure prompt payment.
2. Require the Contracting Officers to submit payment due dates for all task orders whenever there are changes in payment terms.
3. Review checks rejected and pending payments daily.
4. Contracting Technical Officers (CTOs) have been briefed on procedure of approving vouchers; Mission is using invoicing module of Phoenix which makes tracking of the invoices and other payment claims more efficient.
5. Payment tracking system is now being used by voucher examiners, supervisory voucher examiners, and certifying officers to help ensure payments are processed and scheduled in advance to allow for queries and to help ensure payments are made in accordance with the Prompt Payment Act.
6. Pay special attention to elapsed time of any Electronic Funds Transfer (EFT) cancellation.
7. Unprocessed invoices are now being reviewed for timely action on a weekly basis and voucher examiner supervisors are closely reviewing the prompt payment type code used in Phoenix.
8. Undisbursed payment query is checking for all undisbursed vouchers on a daily basis.
10. Tracking vouchers on a weekly basis and training voucher examiners on the Prompt Payment Act.
11. A weekly report on all invoiced documents (outstanding vouchers) is produced and reviewed by the Authorized Certifying Officer (ACO).

12. The Contracting Officer (CO) has written to the Contracting Officer's Technical Representative (COTR) requesting observation of timeline for providing administrative approval.

13. Voucher Examiners have been instructed to notify Mission Controllers when approval from COTRs exceeds five work days.

14. COTRs have been instructed to notify voucher examiners when purchase orders need to be amended.

Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them

The reporting estimates of the annual amount of improper payments is prepared in accordance with [OMB A-136 Form and Content of the Performance and Accountability Report \(PAR\)](#). [OMB A-136 Section 12.6 IPJA Reporting Details](#) requires the following:

- I. Describe your agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs(i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments.
- II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.
- III. Describe the Corrective Action Plan for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences.

In addition, [OMB Circular A-136](#) requires the 'Improper Payment (IP) Reduction Outlook' table for each reporting agency and the table shall include the following: (1) all risk susceptible programs whether or not an error measurement is being reported; (2) if no measurement is provided, the agency is required to indicate the date by which a measurement is expected; (3) if the Current Year (CY) is the baseline measurement year, indicate by either footnote or by "n/a" in the Prior Year (PY) column; (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible; (5) include outlay estimates for CY +1, +2, and +3; and (5) agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable. Future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President's Budget. The required table is shown directly below and it appears in the agency's AFR as other accompanying information.

Documentation

(M/CFO/CMP) and the Overseas Field Missions FMOs are required to maintain all documentation related to the review, examination, and estimating of improper payments. The documentation should be maintained in accordance with the [ADS Chapter 502, The USAID Records Management Program](#).

Attachment A

ABBREVIATIONS AND ACRONYMS

AFR	Agency Financial Report
ACO	Authorized Certifying Officer
CCR	Central Contractor Registration
CMP	Cash Management and Payments Division
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CPC	Critical Priority Country
CTO	Contracting Technical Officer
EFT	Electronic Funds Transfer
FAM	Financial Audit Manual
FMO	Financial Management Office
GAO	Government Accountability Office
IP	Improper Payment
IPIA	Improper Payments Information Act
OAA	Office of Acquisition and Assistance
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

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