



November 1, 2011

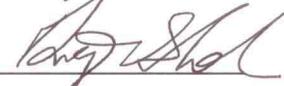
ACTION MEMO FOR THE ADMINISTRATOR

FROM: AID/A/COO-Sean Carroll

SUBJECT: Executive Order (EO) 13520 Reducing Improper Payments Reporting Requirements

Recommendations

- 1. That you sign the attached transmittal memo for submission of the Quarterly High-Dollar Overpayments Report for the period July 1, 2011, through September 30, 2011, to Acting Inspector General (IG) Michael Carroll and the Council of Inspectors General on Integrity and Efficiency.

Approve  Disapprove _____

- 2. That within 15 days of submission to the IG, you direct and authorize the CFO on your behalf to make the report available to the public by, at a minimum, submitting it to the improper payments website developed by the Department of Treasury.

Approve  Disapprove _____

- 3. That you direct and authorize the CFO, on your behalf, to submit and publicize these reports quarterly, within 30 days after the end of each quarter.

Approve  Disapprove _____

Background

Executive Order 13520, OMB Memorandum M-10-13, and the OMB Memorandum for Heads of Executive Departments and Agencies, Part III to OMB Circular A-123, Appendix C, require the head of each agency with programs susceptible to significant improper payments under the Improper Payments Information Act of 2002 to perform the above recommendations within 180 calendar days of the EO, or by May 19, 2010. The Office of the Chief Financial Officer has identified the Agency as having programs susceptible to significant improper payments.

Three high-dollar overpayments that meet the criteria established in EO 13520 and M-10-13, totaling \$2,188,413.85, have been identified in the reporting period covering July 1, 2011, through September 30, 2011. This amount was fully recovered by September 2011. The details supporting the high-dollar overpayments are included in Tab 2. The same information will be provided each quarter, as applicable.

Attachments:

- Tab 1- Memo to Inspector General
- Tab 2- High-Dollar Overpayments Report, July 1, 2011, to September 30, 2011
- Tab 3- Supplemental Information for Reducing Improper Payments Reporting Requirements \$2.1 Million Overpayment in Afghanistan



The Administrator

MEMO FOR THE INSPECTOR GENERAL

FROM: A/AID - Rajiv Shah

SUBJECT: Reducing Improper Payments Reporting Requirements

As required by Executive Order 13520 and OMB Memorandum M-10-13, this memo serves to notify you that the USAID has identified three high-dollar overpayments totaling \$2,188,413.85 for the period July 1, 2011 to September 30, 2011. The total amount has been fully recovered. The OIG discovered one (\$2,173,517.27) of these overpayments during audits of USAID missions in FY 2011 and another (\$5,868.85) during an audit of conference related travel expenses. The OIG disclosed its discovery of the overpayments to the Office of the Chief Financial Officer (OCFO) during two separate conferences in September 2011. The Agency has fully recovered both of these payments.

The OCFO identified the third high-dollar overpayment of \$9,027.73 made by a USAID mission during their examination of the Agency's outlays through statistical sampling conducted under the Improper Payments Elimination and Recovery Act (IPERA) of 2010. The amount was fully recovered in September 2011. See Tab 1 for details regarding the discovery of the three overpayments. See Tab 2 for analysis of the work performed.

Accordingly, USAID will submit a high-dollar overpayment report to the improper payments website developed by the Department of Treasury. Please contact CFO David Ostermeyer at dostermeyer@usaid.gov or (202) 567-5205, if you have any questions.

Attachments:

Tab 1 – High-Dollar Overpayments Report, July 1, 2011 to September 30, 2011

Tab 2 – Sources of Information for Quarterly High-Dollar Overpayments Report

High-Dollar Overpayment Report for the Period July 1, 2011 through September 30, 2011

| No. | Amount of Overpayment | Program Area | Date Received | Date Posted to Phoenix | Date of Overpayment | Entity or Individual | Entity/Individual Location | | Cause of Overpayment | Actions/Plans to Recover Overpayment | Status of Overpayment | Actions to Prevent Recurrence |
|--------------|-----------------------|-----------------------|---------------|------------------------|---------------------|----------------------|----------------------------|---------------|--|--------------------------------------|--|--|
| | | | | | | | City | State/Country | | | | |
| 1 | \$2,173,517.27 | A08 - Good Governance | 12/27/2010 | 12/27/2010 | 1/13/2011 | Entity | Washington | DC | The Mission staff/Certifying Official believed the invoice was somehow an error within the Phoenix system because they could not locate it. So in order to immediately execute payment to the vendor and avoid penalty/interest, they entered the entire voucher again using a new (made up) invoice number and immediately processed it. Two separate Phoenix invoice numbers were processed for the same payment (circumvention of the Invoice Control procedure). | Seek recovery from vendor. | Overpayment refunded in February 2011. | Issue guidance to Afghanistan on procedures to follow to locate posted invoices in Phoenix and inform them that the circumvention of the Invoice Control procedure should not be used to execute payments to vendors. The Financial Systems Division is developing a report that will be available in Q2 FY2012, which will show who certified a payment and the date it was certified, in order to provide FMO staff a better way of determining payment certification details. |
| 2 | \$5,868.85 | Operating Expenses | 3/23/2011 | 3/23/2011 | 3/23/2011 | Individual | Jakarta | Indonesia | The mission used a manually produced voucher to process the payment, instead of processing the payment through E2. | Seek recovery from traveler. | Traveler refunded overpayment during May 2011. | Develop and deliver refresher training and/or policy reminders for staff on the importance of safeguarding government funds. Agency personnel, including overseas field missions, will be instructed to refrain from making payments from manually produced travel vouchers. All future payments should be made from vouchers generated in E2. |
| 3 | \$9,027.73 | Operating Expenses | 9/7/2011 | 9/7/2011 | 9/7/2011 | Individual | Accra | Ghana | The mission used a manually produced voucher to process the payment, instead of processing the payment through E2. | Seek recovery from traveler. | Traveler refunded overpayment during September 2011. | Develop and deliver refresher training and/or policy reminders for staff on the importance of safeguarding government funds. Agency personnel, including overseas field missions, will be instructed to refrain from making payments from manually produced travel vouchers. All future payments should be made from vouchers generated in E2. |
| Total | | | | | | | | | | | | |

Total \$2,188,413.85

Action Plan to prevent future improper payment occurrences:

- 1 Generate a historical report of payments to the same vendor.
- 2 Ensure that the invoice is posted correctly to Phoenix.
- 3 Research payment invoices with same amounts to the same vendors.
- 4 Elevate any unresolved discrepancies to a supervisor.
- 5 Employees will be held accountable for improper payments.

Sources of Information for Quarterly High Dollar Overpayment Report

According to Executive Order 13520 (EO) and M-10-13, a high-dollar overpayment can be made to an individual or an entity and represents any overpayment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances:

1. Where the total payment to an individual exceeds \$5,000 as a single payment or in cumulative payments for the quarter; or
2. Where the payment to an entity exceeds \$25,000 as a single payment or in cumulative payments for the quarter.

In compliance with M-10-13 to identify high-dollar overpayments we considered examining several sources of information available to the Agency such as:

1. Statistical samples conducted under the IPIA;
2. Agency post-payment reviews;
3. Recovery audits;
4. Agency IG reviews;
5. Self-reports; and
6. Reports from the public through internet and telephone hotlines, and other referrals.

1. Statistical samples conducted under the IPIA

The Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300) requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. For FY 2011, the Office of the CFO (OCFO) populated a risk matrix with qualitative data for each Agency program. The qualitative data was used in conjunction with the scoring criteria to assign a risk score to each risk condition. The OCFO used the risk condition scores and weighing formulas to determine an overall risk score and to identify programs at high risk of being susceptible to significant improper payments. As a result, none of the programs met the OMB threshold requirements of significant erroneous payments, which are defined as annual erroneous payments in the program area exceeding both 2.5 percent of program payments and \$10 million. However, based on the risk assessment results, the OCFO deemed the following six (6) program areas to be susceptible to significant erroneous payments: Health, Education, Agriculture, Economic Opportunity, Protection, Assistance and Solutions, and Infrastructure.

For FY 2011, the A-123 Assessment Team selected a statistically-valid sample of in scope program payment transactions for FY 2011 using a methodology that is compliant with current OMB guidelines.

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

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

The estimated percentage of erroneous payments for FY 2010 was .22 percent. According to the Financial Audit Manual (FAM) Volume 1, July 2008, using a representative sampling selection is necessary where the reviewer cannot efficiently obtain sufficient assurance (based on the assessed risk of material misstatement and other substantive procedures including analytical procedures) about the population from non-representative selections. Therefore, USAID's selection is intended to be a representative selection (a sample projectable to the population).

The sample size determination resulted in testing a minimum of 398 sample transactions for each quarter with a varying number of sample items per program area. Thus, the total number of sample items for the FY 2011 IPIA reporting period totaled 1,592 and covered the six identified program areas for USAID Headquarters and the Overseas Field Missions. Samples were randomly selected using the Interactive Data Extraction and Analysis (IDEA) computer software. For each sample selection during the FY 2011 IPIA reporting period, the A-123 Team:

- a. Obtained sufficient supporting documentation for each sample transaction, examined, and assessed to determine whether the payments are appropriate or improper;
- b. Performed detailed tests of transactions for each sample item;
- c. Identified programs with a significant amount of improper payments;
- d. Determined error rate in the statistical sample;
- e. Extrapolated results of the statistical sample to determine the dollar value of errors in the population.

2. Agency post-payment reviews

During the period July 1, 2011, to September 30, 2011, the OCFO identified one high-dollar overpayment that exceeded the thresholds of \$5,000 to an individual. This transaction was for \$9,027.73. A second high-dollar overpayment to an individual, in the amount of \$5,868.85, was identified by the IG through an audit of conference related travel expenses. In addition, the IG in its FY2011 GMRA Overseas Mission Audit identified a high-dollar overpayment that exceeded the \$25,000 threshold to one vendor. This high-dollar overpayment totaled \$2,173,517.27. The Agency has fully recovered all of these overpayments. Each of the aforementioned transactions is reported in the "High-Dollar Overpayment Report for the Period July 1, 2011 through September 30, 2011."

3. Recovery audits

The scope of the FY 2011 recovery auditing efforts was for all classes of contracts and contract payments for the period July 1, 2010, through June 30, 2011 (recovery audit reporting period). However, the population used to determine the initial sample size was all classes of contracts and contract payments, Agency-wide, during the first two quarters of the FY 2011 recovery auditing period (July 1, 2010, through December 31, 2010). The population did not exclude any classes of contracts and contract payments. The objective of sampling all classes of contracts and contract payments for the period July 1, 2010, through June 30, 2011, was to select items to reach a conclusion, only on the items selected (non-statistical sampling/non-representative).

According to the FAM, using a non-representative selection prohibits the projection of the results to the portion of the population that was not tested. Accordingly, the application of appropriate analytical and/or other substantive procedures to the remaining items should be conducted, unless those items are immaterial in total or enough assurance is obtained that there is a low risk of material misstatement in the total population.

Based on the results of the FY 2010 recovery auditing efforts, less than 1 percent of the population contained errors. Furthermore, during FY 2007, the recovery audit contractor's review for fiscal years 2003 through 2005 indicated, "With over thirty years of history, the rate of recoveries is well below industry standards of .1 percent to .3 percent." Therefore, assurance of a low risk of material misstatement in the total population was sufficiently obtained and the application of appropriate analytical and/or other substantive procedures to the remaining items was not conducted.

The sample size determination resulted in testing 401 sample transactions during the period July 1, 2010, through June 30, 2011. Samples were randomly selected each quarter using the IDEA computer software. For each sample selection of the FY 2011 recovery auditing period, the CFO staff:

- a. Obtained sufficient supporting documentation for each sample transaction, examined, and assessed to determine whether the payments are appropriate or improper (overpayments);
- b. Performed detailed tests of transactions for each sample item
- c. Determined the amount of recoveries, if any, due to amounts erroneously paid to contractors; and
- d. Determined the proper disposition of recovered funds, as applicable.

4. Agency IG Reviews

Agency IG reviews, which identified high-dollar overpayments, are shown above under Agency Post-Payment Reviews. The M/CFO/CMP (Cash Management and Payments Division) sent an email inquiry to the Office of Inspector General (OIG) requesting knowledge of any improper payments that the OIG noted during the period July 1, 2011, through September 30, 2011. The OIG confirmed that it was not aware of any other improper payments than the items already addressed above under item #2.

5. Self-reports

For the period July 1, 2011, to September 30, 2011, we reviewed the monthly reports on interest payments and found no items to be reported as a high-dollar overpayment.

6. Reports from the public through internet and telephone hotlines and other referrals

We did not identify any high-value errors for the reporting period from the public through internet, telephone hotlines, or other referrals.

High-Dollar Overpayment Report for the Period July 1, 2011 through September 30, 2011

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Total \$2,188,413.85

Action Plan to prevent future improper payment occurrences:

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- 2 Ensure that the invoice is posted correctly to Phoenix.
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- 5 Employees will be held accountable for improper payments.

Supplemental Information for Reducing Improper Payments Reporting Requirements \$2.1 Million Overpayment in Afghanistan

How was the matter resolved?

The duplicate payment was recovered from the vendor by offsetting the amount against the vendor's next month's invoice.

What actions and next steps will be implemented to prevent recurrence?

The Office of the Chief Financial Officer (OCFO) will issue procedural guidance to Afghanistan stating that the circumvention of the Invoice Control procedure should not be used to execute payments to vendors. Additionally, OCFO will issue guidance to Afghanistan, including all other missions, on specific procedures to follow to locate posted invoices in Phoenix. The OCFO will require a mandatory refresher training of all financial management personnel in the existing Phoenix online self-tutorial annually. The Financial Systems Division is developing a report that will be available in Q2, FY2012, which will show who certified a payment and the date it was certified, in order to provide overseas Financial Management Office staff a better way of determining payment certification details. The OCFO will discuss high dollar overpayments at the Controllers' conference in December 2011.

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USAID
FROM THE AMERICAN PEOPLE

Front Office Clearance Request

ACTION MEMO

Executive Order (EO) 13520 Reducing Improper Payments Reporting Requirements
Date Received by ES: November 1, 2011

Draft

Drafter: Teresa Frakes x7-5147
Approved: AID/A/COO-Sean Carroll

| <u>Bureau Level Clearances</u> | <u>Initials</u> | <u>Clearance Status</u> | <u>Date</u> |
|--------------------------------|-----------------|-------------------------|----------------|
| M/CFO/CMP: ASandy | | clear | Date: 10/18/11 |
| M/CFO/APC: GWhite | | clear | Date: 10/18/11 |
| M/CFO: CCollins | | clear | Date: 10/18/11 |
| M/CFO: EDevitt | | clear | Date: 10/18/11 |
| M/CFO: DOstermeyer | | clear | Date: 10/19/11 |
| AID/A/COO: SCarroll | | clear | Date: 10/27/11 |
| ES: CMiconi | | not clear | Date: 11/01/11 |

FO Approval

| | | | |
|--------------------|------------|-------|-----------------|
| ES: CMiconi | <i>CM</i> | clear | 11/4/11 4:11 pm |
| C/AID: HArellano | <i>HAF</i> | clear | 11/4/11 5:28 pm |
| DCoS: DBarth | <i>DB</i> | clear | 11/10/11 |
| CoS: MSullivan | <i>MS</i> | | 11/10/11 |
| DA/AID: DSteinberg | <i>DS</i> | clear | 11/14/11 |
| A/AID: RShah | | | |

For Signature

ACTS Folder No.: ES ES201200260
ES Analyst: N. Farra

ON 11/15