OFFICE OF INSPECTOR GENERAL
Millennium Challenge Corporation

MCC COMPLIED IN FISCAL YEAR 2016 WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

AUDIT REPORT M-000-17-005-C
MAY 12, 2017

1300 Pennsylvania Avenue NW • Washington, DC 20523
oig.usaid.gov • 202-712-1150

The Office of Inspector General provides independent oversight that promotes the efficiency, effectiveness, and integrity of foreign assistance provided through the entities under OIG's jurisdiction: the U.S. Agency for International Development, U.S. African Development Foundation, Inter-American Foundation, Millennium Challenge Corporation, and Overseas Private Investment Corporation.

Report waste, fraud, and abuse

Millennium Challenge Corporation Hotline
Email: mcchotline@usaid.gov
Phone: 202-712-1023 or 800-230-6539
Mail: USAID OIG Hotline, Attn: MCC Hotline, P.O. Box 657, Washington, DC 20044-657

MEMORANDUM

DATE: May 12, 2017

TO: Acting Vice President and Chief Financial Officer,
Department of Administration and Finance, Mahmoud Bah

FROM: Deputy Assistant Inspector General, Donell Ries /s/

SUBJECT: MCC COMPLIED IN FISCAL YEAR 2016 WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 (M-000-17-005-C)

This memorandum transmits the final report on MCC's fiscal year 2016 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 perform the audit in accordance with generally accepted government auditing standards.

In carrying out our oversight responsibilities, OIG reviewed Clifton's report and related key supporting documentation. Our review differed from an audit in accordance with U.S. generally accepted government auditing standards and was not intended to enable us to express, and we do not express, an opinion on MCC's compliance with IPERA. Clifton is responsible for the enclosed auditor's report and the results expressed in it.

The audit objective was to determine if MCC's improper payment reporting in its fiscal year 2016 Agency Financial Report (AFR) complied with IPERA. To answer the audit objective, Clifton evaluated the accuracy and completeness of MCC's reporting and performance in reducing and recovering improper payments. In addition, in accordance with Office of Management and Budget Circular No. A-123, Clifton reviewed MCC's fiscal year 2016 risk assessment of programs and activities.

Clifton concluded that MCC complied with IPERA for fiscal year 2016. Clifton's report did not include any recommendations, but did identify opportunities to strengthen MCC's reporting on improper payments in its AFR.

We appreciate the assistance extended to our staff and Clifton's employees during this audit.

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.claconnect.com

MCC Complied in Fiscal Year 2016 with the Improper Payments Elimination and Recovery Act of 2010

Audit Performed
by
CliftonLarsonAllen LLP

for
United States Agency for International Development Office of Inspector General

May 1, 2017

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.claconnect.com

TABLE OF CONTENTS

MCC Complied in Fiscal Year 2016 with the Improper Payments

Elimination and Recovery Act of 2010

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 an performance audit of the Millennium Challenge Corporation's (MCC) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year (FY) 2016 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 March 2017 to April 2017.

What We Concluded

We concluded that MCC was in compliance with IPERA for FY 2016. We also observed opportunities for improvement in reporting IPERA in MCC's Agency Financial Report (AFR) that did not have an impact on MCC's compliance with IPERA.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, VA
May 1, 2017

PROGRAM BACKGROUND

The Improper Payments Information Act (IPIA)[1] of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA)[2] of 2010 and the Improper Payment Elimination and Recovery Improvement Act (IPERIA)[3] of 2012, requires the Inspector General (OIG) of each agency to determine whether the agency is in compliance with IPIA[4] 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.[5] 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 AFR or Performance Accountability Report (PAR)[6] of the agency.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives and Scope

Our objective was to determine, if MCC's improper payment reporting in the MCC's FY 2016 AFR is in compliance with IPERA. As outlined by the OMB A-136, we evaluated the accuracy and completeness of MCC's reporting and performance in reducing and recapturing improper payments. In addition, we have reviewed MCC's FY16 risk assessment of programs and activities susceptible 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

[1] Pub. No. 7-300, 116 Stat. 2350 (2002).
[2] Pub. L. No. 111-204, 124 Stat. 2224 (2010).
[3] Pub. L. No. 112-248, 126 Stat. 2390 (2012).
[4] Unless otherwise indicated, the term "IPERA" will imply "IPIA, as amended by IPERA and IPERIA."
[5] "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).
[6] 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.

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:

Requirements

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

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 2016 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 2016.
- Evaluated MCC's FY 2016 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:

Risk Factor Requirements

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 programsor 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 2016. 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 from March 2017 through April 2017.

CONCLUSION

We concluded that MCC was in compliance with the improper payments reporting requirements as shown in Table 1.

TABLE 1

Summary of MCC Compliance with IPERA

Compliance Reference	OMB Compliance Requirement	MCC Compliance Status	CLA Comment
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.	Compliant	MCC FY 2016 AFR was published on November 15, 2016, and it was available on the MCC website.
b.	Conducted a program specific risk assessment of each program or	Compliant	MCC conducted qualitative and quantitative risk assessments of all of its eight programs in FY

Summary of MCC Compliance with IPERA			
Compliance Reference	**OMB Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
	activity that conforms with Section 3321 note of Title 31 U.S.C. (if required).		2016 and determined that all of its programs were not susceptible to significant improper payments. MCC's risk assessment complied with OMB's guidance. However, we noted that the total payments in the Payment Inventory table in MCC's FY16 AFR did not include payroll disbursements of $48.6 million. We also noted that statistical sampling performed was not based on total payments nor was it projectable to the program fund categories. We noted that the recaptured amount reported in MCC's FY16 AFR included about $55 thousand that was actually recaptured in FY 17.
c.	Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Not Applicable	MCC determined that none of its programs were susceptible to significant improper payments. Therefore, this requirement was not applicable.

Summary of MCC Compliance with IPERA			
Compliance Reference	**OMB Compliance Requirement**	**MCC Compliance Status**	**CLA Comment**
d.	Published programmatic corrective action plans in the AFR or PAR (if required).	Not Applicable	MCC determined that none of its programs were susceptible to significant improper payments. Therefore, this requirement was not applicable.
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).	Not Applicable	MCC determined that none of its programs were susceptible to significant improper payments. Therefore, this requirement was not applicable.
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.	Not Applicable	MCC determined that none of its programs were susceptible to significant improper payments. Therefore, this requirement was not applicable.

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE: May 8, 2017

TO: Donell Ries
Deputy Assistant Inspector General
Office of Inspector General
United States Agency for International Development
Millennium Challenge Corporation

FROM: Mahmoud Bah /s/
Acting Vice President and Chief Financial Officer
Department of Administration and Finance
Millennium Challenge Corporation

SUBJECT: MCC's Management Response to the Draft Report, "MCC Complied in Fiscal Year 2016 with the Improper Payments Elimination and Recovery Act" dated May 1, 2017

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review the draft report on the Office of Inspector General (OIG)'s audit, "MCC Complied in Fiscal Year 2016 with the Improper Payments Elimination and Recovery Act," dated May 1, 2017. MCC concurs with the conclusion of the report and deemed the report constructive in helping to validate the agency's compliance with the Improper Payments Elimination and Recovery Act of 2010.

There were no recommendations as part of this audit, and as such, MCC does not provide a corrective action plan.

If you have any questions or require any additional information, please contact Mahmoud Bah, Acting Vice President and Chief Financial Officer, at 202-521-3653 or Bahm@mcc.gov; or Jude Koval, Director of Internal Controls and Audit Compliance (ICAC), at 202-521-7280 or Kovaljg@mcc.gov.

CC: Fred Jones, Director Financial Audits Division, OIG, USAID
Aleta Johnson, Administrative Assistant, OIG, USAID
Eric Redmond, Controller, Financial Management Division, A&F, MCC
Jude Koval, Director of ICAC, A&F, MCC
Karla L. Chryar, Compliance Officer (Contractor), ICAC, A&F, MCC