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**To:** Jody Olsen, Director

**From:** Kathy A. Buller, Inspector General

**Date:** May 15, 2020

**Subject:** Final Audit Report: The Peace Corps' Compliance with the Improper Payments Elimination and Recovery Act (IG-20-02-A)

Transmitted for your information is our final report on the agency's compliance with the Improper Payments Elimination and Recovery Act.

Management concurred with all six recommendations, which remain open. In its response, management described actions it is taking or intends to take to address the issues that prompted each of our recommendations. The recommendations will remain open pending confirmation from the chief compliance officer that the documentation identified in management's response has been received. We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions or that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities.

You may address questions regarding follow-up or documentation to Assistant Inspector General for Audit Judy Leonhardt at 202.692.2914 or Lead Auditor Rebecca Underhill at 202.692.2941.

Please accept our thanks for your cooperation and assistance in our review.

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Peace Corps Office of
INSPECTOR GENERAL

# Final Audit Report
The Peace Corps' Compliance with the Improper Payments Elimination and Recovery Act

IG-20-02-A
May 2020

# EXECUTIVE SUMMARY

## *BACKGROUND*

The Improper Payments Elimination and Recovery Act of 2010, as amended[1] (IPERA) requires the Office of Inspector General (OIG) to annually review the agency's improper payment reporting made in the annual Performance and Accountability Report (PAR) or Agency Financial Report (AFR) to determine if they are compliant.

## *OBJECTIVES*

The objectives of this audit were to assess whether the Peace Corps complied with the IPERA reporting requirements and provided adequate disclosure within the annual AFR and accompanying materials. In addition, we also evaluated the accuracy and completeness of the agency's reporting.

## *WHAT WE FOUND*

Our review determined, for the second year, that the Peace Corps was not compliant with IPERA because the agency did not perform the necessary steps to assess improper payment risk to its program. Additionally, the improper payment estimation that the agency provided in the FY 2019 AFR was inaccurate. Furthermore, we found that the agency did not fully utilize the tools available to them through the Do Not Pay Initiative.

**Table 1: The Peace Corps' Compliance with the Requirements of IPERA**

| IPERA Compliance Requirements | Did the Agency Comply? |
|---|---|
| Published an AFR or PAR | Yes |
| Conducted a risk assessment | No |
| Published improper payment estimates | Not Applicable |
| Published programmatic corrective actions plans | Not Applicable |
| Published, and is meeting, annual reduction targets | Not Applicable |
| Reported a gross improper payment rate of less than 10% | Not Applicable |

However, it is highly unlikely that the Peace Corps reached the significant improper payment threshold in Fiscal Year (FY) 2019. We determined this based on the types of payments and the dollar values of the individual payments being very low in comparison to the significant improper payment threshold amounts. Furthermore, we did not identify significant improper payments that met or exceeded the IPERA-established threshold during our audit work for this

[1] The law governing improper payment reporting requirements was recently amended by the Payment Integrity Information Act of 2019. Pub. L. No. 116-117 (March 2, 2020). However, the scope of this review covered payments from FY 2019, so this change did not apply to the work we conducted for this audit.

audit or our other audits conducted in FY 2019, the independent public accountant's audit of the agency's FY 2019 financial statements, or other sources of OIG work conducted during the fiscal year.

Our report makes 6 recommendations to help the agency meet the IPERA requirements and strengthen the internal controls over payments made.

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# BACKGROUND

In 31 U.S.C. § 3321, the term "improper payment" is defined as:

> (A) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
>
> (B) includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.[2]
>
> Improper payments fall into three categories: intentional fraud and abuse, unintentional payment errors, and instances where the documentation for a payment is so insufficient that the reviewer is unable to discern whether a payment is proper. While all improper payments are harmful to the integrity and reputation of Federal payment systems and the Federal Government as a whole, not all improper payments result in a monetary loss to the Federal Government.

## *FEDERAL REQUIREMENTS*

The Federal Government has a robust infrastructure of legislative and administrative requirements with which agencies must comply in order to prevent improper payments. These requirements include:

- Improper Payments Information Act of 2002;
- Improper Payments Elimination and Recovery Act of 2010 (IPERA); and
- Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)
- Appendix C to Office of Management and Budget (OMB) Circular A-123 (which was last updated in June 2018 as OMB Memorandum M-18-20)

## *OIG REPORTING REQUIREMENTS*

IPERA requires the Office of Inspector General to annually review the agency's improper payment reporting made in the annual PAR or AFR to determine if they are compliant.

## *PREVIOUS OIG REPORTING*

In FY 2018, OIG previously reported that the Peace Corps was not compliant with IPERA because the agency did not perform the necessary steps to assess improper payment risk to their program. Furthermore, OIG did not agree with the methodology the agency used to determine if any improper payments were made.

[2] See section 2(g)(2) of the Improper Payments Information Act of 2002.

## *PEACE CORPS DISBURSEMENT CATEGORIES*

The Peace Corps paid out approximately $468 million[3] in FY 2019 to outside vendors. The Peace Corps identified six major categories that these payments were made from. The categories and percentage of the total outlays were as follows:

1. Overseas and Domestic Invoices – payments made to vendors using cash, checks, or electronic funds transfer – 38 percent
2. Charge Cards – payments made to vendors using a purchase card or a travel card – 7 percent
3. Volunteer In-Country Reimbursements – payments made to Volunteers for living allowances, certain types of grants, and reimbursements for other expenditures – 7 percent
4. U.S. Direct Hire Payroll – payments to U.S. staff members – 28 percent
5. Host Country Payroll – payments to host country and third-country national staff – 14 percent
6. Volunteer Readjustment Allowances - financial assistance from the agency to assist returned Volunteers' transition from Peace Corps service to other endeavors – 6 percent

[3] The FY 2019 AFR, Appendix 3, IPERA, states that in FY 2019, improper payments were approximately $234,000 or .05 percent of agency disbursements. This equals to total payments equaling approximately $468 million (234/.0005)

# AUDIT OBJECTIVES

The objectives of this audit were to assess whether the Peace Corps complied with the IPERA reporting requirements and provided adequate disclosure within the annual AFR and accompanying materials. In addition, we also evaluated the accuracy and completeness of the agency's reporting.

As specified in Office of Management and Budget (OMB) guidance, compliance with IPERA means that the agency has met all six of the following requirements:

1) 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;
2) 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);
3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
4) Published programmatic corrective action plans in the AFR or PAR (if required);
5) Published, and is meeting, annual reduction targets (See Part IV.A.5, below) for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
6) 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 applicable requirements, then it is not compliant with IPERA.

# AUDIT RESULTS

Our audit determined that the Peace Corps was not compliant with IPERA. Specifically, we found that the agency did not (1) properly assess the risk of improper payments in its operations and (2) accurately report estimated improper payment amounts in the AFR.

Furthermore, we found that the agency did not fully utilize the tools available through the Do Not Pay Initiative.

However, we note that it is highly unlikely that the Peace Corps reached the significant improper payment threshold in Fiscal Year (FY) 2019. We did not identify any significant improper payments that met or exceeded the IPERA-established threshold during our work for this audit or our other audits conducted in FY 2019, the independent public accountant's audit of the agency's FY 2019 financial statements, or other sources of OIG work conducted during the fiscal year.

## *PUBLISHED AN AFR OR PAR*

OMB A-136 requires the agency to report program outlays for the current fiscal year, estimated amount of payments that were properly paid, improperly paid, improperly paid due to insufficient or lack of documentation, and the corresponding percent for each by program or activity for the current fiscal year. The Peace Corps published their FY 2019 AFR on the linked public website. This report contains the required information about payments made.

In FY 2018, OIG reported that the agency's AFR did not contain any detailed information on how the agency did not meet the threshold for significant improper payments. In FY 2019, the agency improved their reporting by including a specific appendix[4] on their compliance with IPERA. However, the information provided in the FY 2019 appendix was not an accurate representation of improper payments made. (see Finding "Published Improper Payment Estimates" below)

## *CONDUCT A RISK ASSESSMENT*

For programs deemed not susceptible to significant improper payments, such as the Peace Corps, OMB requires agencies to perform risk assessments at least once every 3 years. In FY 2019, the agency began to document some of the vulnerabilities of making improper payments in a "risk analysis" document. However, this analysis document is not complete because the agency lacks a comprehensive risk-based approach to managing its operations. Performing a full risk assessment will allow the agency to ensure that proper oversight is in place to protect the taxpayers' money that is used to support the Peace Corps' mission.

[4] Appendix 3 of the Peace Corps AFR for FY 2019

### REQUIREMENTS

Every 3 years, programs deemed not susceptible to significant improper payments, such as the Peace Corps, are required to perform a risk assessment. When conducting improper payment risk assessments, agencies should consider risk factors that are likely to contribute to a susceptibility of significant improper payments, such as:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by state or local government, or regional Federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
- 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.

### FY 2018 OIG REPORTING

In FY 2018, OIG reported that the Peace Corps had not conducted the required risk assessment in over 3 years to determine its program's susceptibility to significant improper payments. Specifically, the agency did not identify the different types of risks across the operating environment or consider if they had controls in place to help mitigate those risks.

### FY 2019 RISK ASSESSMENT INCOMPLETE

In FY 2019, the agency began to take actions to address the lack of a formal risk assessment by documenting some of the vulnerabilities of making improper payments in a "risk analysis" document. However, this analysis document was not complete and did not address all of the criteria elements established by OMB.

Specifically, while the Peace Corps identified six different disbursement categories, the risk analysis only focused on one of these six categories, "Overseas and Domestic Invoices." For their analysis of domestic and overseas payments, the agency did include some of the required risk factors, such as information on the volume of payments made annually and the methodology used to sample payments. However, the agency did not address other risk factors, such as the level, experience, and quality of training for personnel certifying payments or significant deficiencies in audit reports.

Furthermore, the agency still has not followed the guidance outlined in Appendix C to OMB Circular A-123 requiring agencies to consider credit card payments and payments made to employees for salaries, including the use of shared service providers in their risk assessment. The Peace Corps risk analysis document did not address these areas of risk.

**LACK OF AN ENTERPRISE RISK MANAGEMENT PROGRAM**

The agency's risk assessment was incomplete because the agency did not have an internal control environment that focused on risk. Specifically, the agency lacked a comprehensive risk-based approach to managing its operations, as required by OMB M-16-17, "Management's Responsibility for Enterprise Risk Management and Internal Control." In July 2019, the agency approved an Enterprise Risk Management (ERM) policy and established a council to serve as a senior advisory board. However, the agency had not begun to establish its risk profile and overall risks at the enterprise, business, and system levels. Previous OIG reports have highlighted the need for a functioning ERM program, and the lack of such program has caused issues in the agency fully understanding the risk and compensating controls the agency has in place to ensure proper operations.[5]

**IMPACTS TO THE PEACE CORPS**

Performing a comprehensive risk assessment for the full program of payments is critical and required. Outlining risks will allow the agency to ensure that proper oversight is in place to protect the taxpayers' funds that are used to support the Peace Corps' mission. A formal risk assessment will also allow the agency to determine how existing and proposed changes to policies, procedures, or methodology will impact controls and risks to payments. Further, it will help ensure that the agency has the right personnel employed and trained to conduct oversight of payments made. Adequate oversight will minimize errors and small improper payments from going undetected, which would ensure our agency's budget is being effectively used.

**WE RECOMMEND:**

1. **That the Director develop a risk profile in alignment with the agency's comprehensive enterprise risk management policy.**
2. **That the Director develop a comprehensive risk assessment document that follows OMB M-18-20 and addresses the risk factors over all payment methods as outlined in this guidance document.**

## *PUBLISHED IMPROPER PAYMENT ESTIMATES*

While not being required to do so, the Peace Corps did provide improper payment estimates in Appendix 3 to the FY 2019 AFR. However, we determined that these amounts were not accurate. The improper payment estimates were not correct because the agency did not have a robust internal controls program established. Specifically, the Peace Corps did not capture adequate

[5] FY 2020 DATA Act Audit and FY 2019 and FY 2018 FISMA reviews

information for each of its reporting categories, the error rates reported were not validated, and the agency was relying on internal controls that were not operating effectively. Without comprehensive and accurate information in the AFR, the agency did not provide its stakeholders with a clear understanding of improper payments made.

**REQUIREMENTS**

Appendix C to OMB Circular A-123 requires agencies to determine an annual estimated amount of improper payments for all programs and activities susceptible to significant improper payments.

> 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).

**REPORTED IMPROPER PAYMENT ESTIMATES INACCURATE**

The Peace Corps has not assessed itself to be an agency susceptible to significant improper payments, and therefore is not required to report improper payment estimates. However, the Peace Corps attempted to provide transparency to their stakeholders by providing improper payment estimates in Appendix 3 to the FY 2019 AFR. Through our fieldwork, we determined that these amounts were not an accurate estimation.

FY 2019 was the first year that the agency provided improper payment estimates in its AFR. It reported dollar amounts for six different payment categories. However, the agency did not track improper payments related to each of these six categories, and therefore made estimations for 5 of the 6 categories.

The only disbursement group that the Peace Corps kept records for was "Overseas and Domestic Invoices." However, these records were not complete because the agency only kept records for the overseas payments portion. Additionally, the agency did not have a centralized tracking method for overseas payments for the full fiscal year, so the numbers reported in the "Overseas and Domestic Invoices" category were calculated using estimates as well. The agency applied the estimated error rate for domestic and overseas invoices (0.03%) to the disbursement categories "Charge Cards" and "Volunteer In-Country Reimbursements," even though the payment process and internal control oversight for these categories was completely different.

Additionally, the Office of the Chief Financial Officer (OCFO) did not provide oversight over the "U.S. Direct Hire Payroll" payments. The agency's Office of Human Resources (HR) was responsible for setting up new employees and ensuring that all payroll amounts and benefit deductions were established correctly. OCFO only recorded the payment based on the information entered each pay period without conducting any validation for accuracy or completeness. Any errors or changes were handled by HR. At the end of FY 2019, OCFO obtained an improper payment estimate from HR to report in the AFR. The estimate that HR provided was then used to determine an improper payment rate (0.07%) for the two remaining disbursement categories: "Host Country Payroll" and "Volunteer Readjustment Allowances." However, as noted, the payment process and internal control oversight for these categories was completely different from the "U.S. Direct Hire Payroll" structure.

OIG tested a judgmental sample for all six of the FY 2019 disbursement categories to determine if the reported figures were accurate. (See Appendix A for details on our methodology and sample population.) Based on the results of our testing, we estimated that there was approximately $1,047,277 in improper payments made. This is $813,277 more than what the agency reported in the AFR. However, our estimation might be higher than the true figure because we faced challenges getting supporting documentation from the agency for approximately $622,936 of payments selected. The Peace Corps could not provide all the requested supporting documents for the sample selected, because the agency:

- Did not maintain documentation in a centralized location;
- Lacked records and supporting documentation regarding errors and corrective actions taken; and
- Had limited resources to provide supporting documentation due to the agency's emergency response to COVID-19 and the need to evacuate all Volunteers in an expedited manner.

Without the necessary supporting documentation, we were unable to validate if certain payments were legal, proper, and correct. Therefore, as required by OMB guidance, we recorded these payments as improper. See Table 2 for a comparison of the agency's estimates and OIG's identified improper payments for FY 2019.

**Table 2. The Peace Corps' Reported Improper Payment Estimates Compared to OIG Identified Improper Payments**

| Payment Category | Appendix 3 Improper Payment Estimate | OIG Identified Improper Payment Amounts | Difference |
|---|---|---|---|
| Overseas and Domestic Invoices | $57,000 | $181,982* | $124,982 |
| Charge Cards | $10,000 | $534,738* | $524,738 |
| Volunteer In-Country Reimbursements | $10,000 | - | -$10,000 |
| U.S. Direct Hire Payroll | $93,000 | $256,329 | $163,329 |
| Host Country Payroll | $44,000 | $74,228 | $30,228 |
| Volunteer Readjustment Allowances | $20,000 | - | -$20,000 |
| **Total** | **$234,000** | **$1,047,277** | **$813,277** |

* The agency was not able to provide supporting documentation for these categories. Overseas and domestic invoices totaling $100,862.52 and charge card payments totaling $522,073.21.

### THE AGENCY LACKED A ROBUST INTERNAL CONTROL STRUCTURE

Improper payment estimates were inadequate because the agency did not have a robust internal controls program established. Specifically, the Peace Corps did not capture adequate information for each of its reporting categories, the error rates reported were not validated, and the agency was relying on internal controls that were not operating effectively.

***Errors Not Tracked***

In FY 2019, the agency began to capture centralized data for reporting improper payment estimates. However, the agency had not fully developed a comprehensive approach. Agency officials stated that in FY 2020 they started to capture more detailed information for several of the disbursement categories, and they hoped to have more detailed information for reporting in the FY 2020 AFR.

However, OIG noted that the tracking that the agency did have in place for overseas payments did not contain enough detailed information to be useful. While the OCFO staff responsible for validating payments would note if documentation was missing or a payment was incorrect, they were not consistently noting the corrective actions taken to resolve the issue or the total dollar amount of the error. Without these details it is difficult to determine if an improper payment was made and the total value of this improper payment. This information is critical for the agency to determine their annual improper payment amounts.

***Error Rates Not Validated***

Since OCFO did not have oversight over the “U.S. Direct Hire Payroll” payments, they relied solely on HR providing them accurate information on errors and corrections made during the fiscal year. However, through interviews with the HR staff responsible for generating these numbers, we were told that HR did not maintain any supporting documentation or information regarding how these numbers were created. Without adequate information and the ability to validate these figures it was impossible for the agency to know if the improper payment amounts were justified. Through our analysis we determined that the improper payment amount reported for “U.S. Direct Hire Payroll” was underestimated by $163,329. The actual errors we identified were over double the amount the agency reported in the FY 2019 AFR.

To estimate improper payments for “Host Country Payroll,” the agency used the improper payment rate from “U.S. Direct Hire Payroll” and applied it to the total dollar value of “Host Country Payroll” paid out in FY 2019. However, the agency did not run simple validation methods to determine if this estimation was valid. For example, during our fieldwork, we ran a quick search of all bills of collection generated for host country staff and determined that during the Government shutdown, between December 22, 2018 and January 25, 2019, there had been an overpayment of bonuses made to many staff members in one country office. We were quickly able to determine that the estimation provided in Appendix 3 to the FY 2019 AFR was well under what the actual improper payment amount was for the year. We determined that the agency under-reported improper payments by approximately 69 percent ($30,228).

***Internal Controls Not Operating as Designed***

We also identified other internal controls issues where policies, procedures, and training were not properly designed and implemented. Specifically, the CFO implemented informal monitoring procedures, and did not provide any written guidance or provide training to staff performing these control activities.

For the tracking of overseas payments, the agency lacked a formal procedure, guidance, and training for staff responsible for documenting and tracking these errors. In reviewing the tracking sheets for FY 2019 we identified inconsistencies and missing information. Without having clear instructions and understanding by those conducting the reviews, the information gathered was not useful for reporting improper payments.

Furthermore, while the agency had set up a procedure for validating charge card purchases and reviewing payments made, these reviews were not consistently conducted. Charge card disbursements were divided between both purchase cards and travel cards. The purchase card program was managed by OCFO and staff were performing the required oversight. However, the travel card program was managed by the Transportation group in the Office of Management, which was not conducting the required reviews of transactions to ensure they were proper and supported. While staff were aware of the requirements to conduct the validation reviews, they stated that they had not conducted these reviews for over a year. Furthermore, the procedures had not been formally documented in guidance materials.

**IMPACTS TO IMPROPER PAYMENT REPORTING**

Without comprehensive and accurate information in the AFR, the agency does not provide its stakeholders with a clear understanding of improper payments made. Furthermore, the agency does not understand the true risk to its programs and validation that its internal control structure is effective.

**WE RECOMMEND:**

3. **That the Director develop a comprehensive tracking system to record all improper payments, dollar values of the errors, and corrective actions taken for each of the six disbursement groups.**

4. **That the Chief Financial Officer develop and implement formal procedures and training for staff to ensure they understand how to detect and track improper payments.**

5. **That the Chief Financial Officer obtain, validate, and retain support on improper payment amounts reported in the Annual Financial Report.**

## *DO NOT PAY INITIATIVE*

The Peace Corps is required to ensure that a thorough review of available databases occurs prior to the release of Federal funds to help verify eligibility and prevent certain improper payments. While the Peace Corps did some validation of payments, the agency was not utilizing all of the validation methods available in the Do Not Pay Portal and was unaware that they had not fully implemented the Do Not Pay Initiative. Without utilizing all of the tools available, the agency risked making improper payments to vendors who were ineligible to receive payments from the Federal government.

## REQUIREMENTS

IPERIA, as amended by the Bipartisan Budget Act of 2013 and the Federal Improper Payments Coordination Act of 2015, requires agencies to ensure that a thorough review of available databases occurs prior to the release of Federal funds to help verify eligibility and prevent certain improper payments.

"The Do Not Pay Initiative includes multiple resources designed to help agencies determine eligibility to confirm that the right recipient obtains the right payment for the right reason at the right time." One resource is the "Do Not Pay Portal" maintained by the Department of Treasury. This system allows agencies to perform pre-payment reviews as well as other activities, such as investigative activities for fraud and systemic improper payments detection.

The Do Not Pay Portal uses 10 different databases to search for information on potential recipients to ensure they are eligible to receive Federal funds.

A. American InfoSource Death Database – contains information on deceased individuals obtained from funeral homes, newspapers, and probate records.

B. Credit Alert System – verifies if an individual is a delinquent Federal borrower.

C. Death Master File – uses Social Security information to verify if a payee is deceased.

D. Department of Defense Death Data – contains information on individuals in active and reserve military, including if the individual is deceased.

E. Department of State Death Data – contains records of U.S. citizens who are deceased to presumed deceased in foreign countries, as reported by U.S. embassies or consulates.

F. List of Excluded Individuals and Entities – verifies whether payments are to individuals and entities currently excluded from participating in Federal health care programs.

G. Office of Foreign Assets Control – verifies whether an individual or entity is prohibited from entering into financial transactions with the U.S. government or U.S. financial institutions.

H. System for Award Management (SAM) Entity Registration Records – verifies that a vendor seeking to do business with the Federal government is registered, in accordance with the Federal Acquisition Regulation.

I. SAM Exclusion Records – verifies whether payments are to debarred individuals.

J. Treasury Offset Program – verifies whether a payee owes delinquent non-tax debts to Federal government and participating states.

There are four different functionalities within the Do Not Pay Portal by which an agency can perform searches of databases at various times during the payment process.

- **Payment Integration.** The payment integration functionality matches agency payment files that are sent to Treasury at the time of payment. Federal agencies are required to use the payment integration function unless they receive a waiver from OMB.

- **Online single search.** Through online single search, an agency can match a single entity against the authorized and available databases for that agency in the portal.

- **Batch matching.** Batch matching is a similar process in which an agency can match multiple entities against the authorized and available databases at one time. Online single search and batch matching can be conducted either before or after a payment is made, as decided by the agency.

- **Continuous monitoring.** Continuous monitoring matches an agency's file of entities against the authorized and available data sources on an ongoing basis whenever the data is updated.

However, not all 10 databases are checked with each of the four functionalities offered. The only functionality to search all of the 10 different databases is the online search functionality. Table 3 outlines the different verification databases utilized by each of the four functionalities (listed by the letter identified above).

**Table 3. Do Not Pay Portal Functionality Versus Database Checked**

| Portal Functionality | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|
| Payment Integration | X | X | X | X | | | | | | |
| Online Search | X | X | X | X | X | X | X | X | X | X |
| Batch Matching | X | X | X | X | | X | X | X | X | X |
| Continuous Monitoring | X | X | X | X | | X | X | X | X | X |

**PEACE CORPS NOT UTILIZING ALL VALIDATION METHODS AVAILABLE**

The Peace Corps was not utilizing all of the validation methods available in the Do Not Pay Portal. Of the four different functionalities in the Do Not Pay Portal (payment integration, online search, batch matching, and continuous monitoring), the Peace Corps was only using the payment integration function. Since six of the databases did not have payment integration functionality, by not utilizing the other functionalities of the portal the agency could have been authorizing payments to vendors who were flagged for do not pay in those six databases. It is possible that these databases were not applicable to the types of payments that the Peace Corps makes, but the agency did not have any written justification for why these six databases were not being utilized to ensure payments aren't improperly made.

Additionally, only 11 percent of payments the Peace Corps processed in FY 2019 were processed through the Department of Treasury (totaling approximately $338,209,000). The Peace Corps used the Department of State to process overseas payments, which made up 89 percent of its FY 2019 payments. The Department of State only made scans against its agency's Office of Foreign Assets Control (Listed as G. above) to ensure international payments were valid. The Department of State did not perform scans against the Do Not Pay Portal because most payments were to vendors that didn't have US tax identification numbers. By not using the three other functionalities of the Do Not Pay Portal, the Peace Corps had 89 percent of its FY 2019 payments (totaling approximately $168,337,000) scanned against only 1 of the 10 available databases.

We note, that outside of the Do Not Pay Portal, the Peace Corps validated some vendors against the source databases. Specifically, the agency would perform a check against the SAM database

(H. and I. listed above) prior to awarding a contract. However, this process was only done prior to the initial award and not on any reoccurring basis.

### UNAWARE OF NON-COMPLIANCE

The agency was unaware that it had not fully implemented the Do Not Pay Initiative. As stated in the FY 2019 AFR:

> [T]he Peace Corps is a full participant in the Department of the Treasury's "Do Not Pay" program operating through the Do Not Pay Business Center. Payees under consideration for payment are reviewed for eligibility through the pre-award component of the business center, payments are then re-verified in the pre-payment component, followed by post payment data matching reviews.

However, the agency was not using the pre-award component of the portal. The agency did validate vendor information for those vendors who were entered in contracts with the agency prior to award, but this only checked 2 of the 10 databases one time, not on a continuous basis.

In October 2016, the Government Accountability Office (GAO) conducted a review which looked at how agencies were using the Do Not Pay Portal[6] and determined that the 10 agencies they reviewed only used the Do Not Pay Portal in limited ways, in part because of a lack of clear OMB strategy and guidance. The most common way these agencies used the Do Not Pay Portal was through its payment integration process. GAO also found that OMB had not developed a strategy or communicated through guidance how it expects agencies to use the Do Not Pay Portal, and, as a result, agencies may not effectively and efficiently be using the system to help reduce improper payments.

### IMPACT TO THE PEACE CORPS

Without utilizing all of the tools available, the agency risks making improper payments to vendors who are ineligible to receive payments from the Federal government.

**WE RECOMMEND:**

**6. That the Chief Financial Officer develop and implement procedures to validate all vendor and pre-payment information on a routine and recurring basis against all ten of the Do Not Pay Portal databases.**

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[6] GAO-17-15, Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended, October 2016

# LIST OF RECOMMENDATIONS

We recommend:

1. That the Director develop a risk profile in alignment with the agency's comprehensive enterprise risk management policy.
2. That the Director develop a comprehensive risk assessment document that follows OMB M-18-20 and addresses the risk factors over all payment methods as outlined in this guidance document.
3. That the Director develop a comprehensive tracking system to record all improper payments, dollar values of the errors, and corrective actions taken for each of the six disbursement groups.
4. That the Chief Financial Officer develop and implement formal procedures and training for staff to ensure they understand how to detect and track improper payments.
5. That the Chief Financial Officer obtain, validate, and retain support on improper payment amounts reported in the Annual Financial Report.
6. That the Chief Financial Officer develop and implement procedures to validate all vendor and pre-payment information on a routine and recurring basis against all ten of the Do Not Pay Portal databases.

# APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

## *OBJECTIVES*

The objectives of this audit were to assess whether the Peace Corps complied with the IPERA reporting requirements and provided adequate disclosure within the annual Agency Financial Report (AFR) and accompanying materials. In addition, we also evaluated the accuracy and completeness of the agency's reporting.

As specified in Office of Management and Budget guidance, compliance with IPERA means that the agency met all six of the following 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 (See Part IV.A.5, below) 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 with IPERA.

## *SCOPE*

OIG conducted this audit between January 2020 and April 1, 2020 at the Peace Corps headquarters in Washington, D.C. The scope of our audit included auditing samples of the financial payments, and the associated supporting documentation, that the Peace Corps processed between October 1, 2018 and September 31, 2019 (Fiscal Year 2019). We assessed improper payments in the following areas: (1) Overseas and Domestic Invoices; (2) Charge Cards (travel and purchase); (3) Volunteer In-Country Reimbursements; (4) U.S. Direct Hire Payroll; (5) Host Country Payroll; and (6) Volunteer Readjustment Allowances.

The total payments reported for FY 2019 were approximately $463,188,000. However, we excluded intra-governmental transactions which are not required to be reviewed under IPERA. Our audit focused on payments from the six disbursement groups identified in the agency's Annual Financial Report for FY 2019 which totaled about $439,788,000. During our audit, we learned that HR did not retain financial records for employee's salary corrections as required. In addition, we experienced excessive delays in receiving National Finance Center (NFC) reports and did not receive all of the requested supporting documentation from HR staff. Therefore, we were unable to perform detailed testing on U.S. Direct Hire Payroll corrections.

In addition, we were restricted in our testing with charge cards and invoices because the agency did not provide all of the supporting documentation for the requested samples. This was the result of the agency's response to COVID-19, in which the agency had to focus all resources on suspending Volunteer activities and evacuating Volunteers from approximately 61 countries. Therefore, we calculated the samples without supporting documentation as improper payments.

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards, 2018 revision. 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.

Throughout the audit, auditors were aware of the possibility or existence of fraud, waste, or misuse significant to the audit objectives and conducted procedures designed to obtain reasonable assurance of detecting any such fraud as deemed appropriate.

### *METHODOLOGY*

Our audit methodology followed the *Appendix C* to *OMB Circular A-123, Requirement for Payment Integrity Improvement* issued June 2018, OMB Circular A-136 and *Financial Reporting Requirements* revised on June 2019. To obtain background information on the agency's internal control process, we reviewed policies relating to the Peace Corps' financial and administrative operations such as the Peace Corps Manual, Overseas Financial Management Handbook, and Domestic Financial Management Handbook. Further, we conducted interviews with Peace Corps headquarters managers to learn about the payment review process. Additionally, we performed the following tasks:

- obtained an understanding of any regulatory criteria related to the agency's responsibilities to report risk assessments and improper payments;
- reviewed the agency's Annual Financial Report—Appendix 3, Improper Payment Elimination and Recover Act;
- reviewed and assessed the agency's risk assessment plan and improper payment estimate;
- assessed the internal and information system controls in place related to the detection, prevention and corrections to improper payments;
- reviewed the agency's FY 2019 collections report;

- reviewed the agency's reconciliation between the FY 2019 Treasury disbursement report, annual disbursement report, and charge card transaction reports;
- assessed the completeness, accuracy, timeliness, and quality of the financial reports and estimates sampled by the agency;
- reviewed OIG audit recommendations and investigative reports for improper payments within FY 2019;
- assessed the agency's process for accessing Do Not Pay Portal databases;
- reviewed payroll reports and supporting documentation for corrective invoices;
- reviewed supporting documentation for samples selected by the audit team;
- reviewed error tracking report for overseas invoices;
- reviewed charge card report for transactions that exceed $2,500;
- reviewed charge card transactions excluded from the annual disbursement report;

We selected a judgmental sample of 292 payments from the agency's FY 2019 annual disbursement report, NFC U.S. direct hire payroll corrections, and credit card payment report. The combined reports provided by the agency consisted of 723,703 payments.

| **Table 1: Sample Size Determination: 292 out of 723,703 Payments** | |
|---|---|
| Overseas and Domestic Invoices | Selected 109 transactions that were related to headquarters and the three regional areas (Africa; Europe, Mediterranean, Asia; and Inter-America and Pacific). Transactions selected were noted as errors on the overseas payment tracking report. In addition, the remaining selections were chosen because of the high dollar value, subsequent correction to payment made, or unusual description.<br><br>We excluded Peace Corps/Ghana transactions from our sample because they were already reviewed in a prior audit and the errors were included in OIG's calculation of improper payments. |
| Charge Cards | Selected 59 transactions that appeared as errors in the description (duplicate), unusual transactions (could be considered unallowable), or the amounts were large dollar values that exceeded $2,500. Due to the agency emergency resulting from COVID-19, we were unable to review the documentation for 40 transactions. |
| Volunteer In-Country Reimbursements | Selected 28 transactions that consisted of monthly allowances, grants, non-allowance payments, and third-party payments. The Volunteer reimbursements were considered low-impact. |
| US Direct Hire Payroll | Reviewed all 68 payment corrections included on the NFC corrections report. The audit team did not receive a complete NFC corrections file because it was modified by human resources staff. Therefore, we were unable to determine if the data provided was complete. The NFC correction file did not include payments identified as improper by OIG investigation reports however these payments were included in OIG's improper payment calculation. |

| | |
|---|---|
| Host Country Payroll (Personal Service Contractors) | Selected 19 transactions based on changes to PSC's bi-weekly salary. We excluded transactions that were already identified as errors on the FY 2019 bills of collection report, however the amounts were included in OIG's improper payment calculation |
| Volunteer Readjustment Allowance | Selected 9 transactions because the risk analysis shows the readjustment allowance as low impact. The selections consisted of 6 largest payments and 3 payments made to third parties on behalf of the Volunteers. |

## REVIEW OF INTERNAL CONTROLS

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. We took steps to assess the design of internal and information system controls as it relates to the Peace Corps disbursement activities and creation of the improper payment estimates as reported in Appendix 3 of the FY 2019 AFR. We utilized the Government Accountability Office's *Standards for Internal Control in the Federal Government* five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) to direct the work. We conducted walkthrough meetings and reviewed policies and data extracted from the Peace Corps' financial system.

We also relied upon the work of our financial statement auditors who assess the controls over the Peace Corps financial data and systems. Additionally, we used the work of our annual IT security reviewers. They assess the Peace Corps' overall information security program.

## USE OF COMPUTER PROCESSED DATA

The Government Accountability Office's *Assessing the Reliability of Computer-Processed Data* defines reliability to mean that the data is reasonably complete, accurate, meets its intended purpose, and is not subject to inappropriate alteration.

To determine if the data from the Peace Corps financial system was accurate, we conducted validation testing to align disbursements made to what Peace Corps reported to the Department of Treasury for expenditures. We also reviewed supporting documentation and records for a judgmental sample of transactions in FY 2019. Our results determined that the data provided in the Peace Corps financial system meets its intended purpose and could be relied upon for our audit work.

# APPENDIX B: LIST OF ACRONYMS

| | |
|---|---|
| AFR | Annual Financial Report |
| ERM | Enterprise Risk Management |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| HR | Human Resources |
| IPERA | Improper Payments Elimination and Recovery Act of 2010 |
| IPERIA | Improper Payments Elimination and Recovery Improvement Act of 2012 |
| NFC | National Finance Center |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PAR | Performance and Accountability Report |
| SAM | System for Award Management |

# APPENDIX C: AGENCY RESPONSE TO THE PRELIMINARY REPORT

**MEMORANDUM**

**To:** Kathy Buller, Inspector General

**Through:** Angela Kissel, Chief Compliance Officer Angela Kissel
Michelle K. Brooks, Chief of Staff Michelle K Brooks

**From:** Jody Olsen, Director Jody Olsen

**Date:** May 11, 2020

**CC:** Matthew McKinney, Deputy Chief of Staff/White House Liaison
Carl Sosebee, Senior Advisor to the Director
Timothy Noelker, General Counsel
Patrick Young, Associate Director, Office of Global Operations
Traci DiMartini, Chief Human Capital Officer
Clark Presnell, Acting Associate Director, Office of Management
Richard E. Swarttz, Chief Financial Officer
Andrew Pierce, Deputy Chief Financial Officer
Paul Shea, Expert Consultant to the Chief Financial Officer

**Subject:** Preliminary Audit Report: The Peace Corps' Compliance with the Improper Payments Elimination and Recovery Act (20-AUD-02)

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Enclosed please find the agency's response to the recommendations made by the Inspector

General as outlined in the Preliminary Audit Report: The Peace Corps' Compliance with the Improper Payments Elimination and Recovery Act (20-AUD-02) sent to the agency on April 15, 2020.

The agency does not concur with the assertion that Peace Corps did not perform a valid risk assessment. The risk assessment that the agency performed covered $112 million (or one quarter of overall agency FY18 non-federal disbursements). That analysis showed a risk of $127,000 in improper payments. In addition, the agency relied on audited IPERA estimates from 3 previous fiscal years (FYs 15, 16, 17), each yielding improper payments well below the significant improper payment threshold. A sample pool of that size yielding improper payments of such a minor amount is statistically significant for the purposes of assessing the overall risk of improper payments staying below the threshold of significant improper payments (defined as in Appendix C to OMB Circular A-123 as "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.)" The agency believes it is in compliance with the law.

Also, the actual difference between OIG's improper payments review (where the review was actually completed) and OCFOs improper payments estimate is 0.06%. It is the agency's assertion that a 0.06% difference does not indicate a lack of internal controls or an indication that internal controls are not working as designed. A variance of that size is, in the agency's opinion, remarkably accurate and within the agency's acceptable error rate.

**Recommendation 1**
**That the Director develop a risk profile in alignment with the agency's comprehensive enterprise risk management policy.**

**Concur**
**Response:** The agency includes payment processing as a part of the overall Enterprise Risk Management strategy and it is specifically within the agency risk register.

**Documents to be Submitted:**
- Agency Risk Register

**Status and Timeline for Completion:** September 2020

**Recommendation 2**
**That the Director develop a comprehensive risk assessment document that addresses all six disbursement categories and follows the guidance outlined in OMB M-18-20.**

**Concur**
**Response:** The OCFO will prepare a formal risk assessment for all agency disbursements to document that the agency is not susceptible to significant improper payments.

**Documents to be Submitted:**
- Formal risk assessment for all agency disbursements

**Status and Timeline for Completion:** October 2020

**Recommendation 3**
**That the Director develop a comprehensive tracking system to record all improper payments, dollar values of the errors, and corrective actions taken for each of the six disbursement groups.**

**Concur**
**Response:** The agency will improve the existing current tracking system for error tracking.

**Documents to be Submitted:**
- Updated tracking system

**Status and Timeline for Completion:** September 2020

**Recommendation 4**
**That the Chief Financial Officer develop and implement formal procedures and training for staff to ensure they understand how to detect and track improper payments.**

**Concur**
**Response:** The OCFO will continue to train voucher examiners and financial management officers on the proper supporting documentation that is require to accompany payment requests. In addition, OCFO will strengthen the existing documentation records associated with payment requests that require follow up with submitting offices.

**Documents to be Submitted:**
- Proof of voucher examiner and FMO training

**Status and Timeline for Completion:** September 2020

**Recommendation 5**
**That the Chief Financial Officer obtain, validate, and retain support on improper payment amounts reported in the Annual Financial Report.**

**Concur**
**Response:** The OCFO will improve the existing processes for obtaining, validating, and retaining support for improper payments. However, the agency will no longer publish amounts of estimated improper payments in the annual financial report. Rather, the OCFO will prepare a formal risk assessment for all agency disbursements to document that the agency is not susceptible to significant improper payments.

**Documents to be Submitted:**
- Formal risk assessment for all agency disbursements
- Updated error tracking system

**Status and Timeline for Completion:** October 2020

**Recommendation 6**
**That the Chief Financial Officer develop and implement procedures to validate all vendor and pre-payment information on a routine and recurring basis against all ten of the Do Not Pay Portal databases.**

**Concur**
**Response:** For domestic payments (Treasury Department processed), the agency will utilize all Do Not Pay databases. For overseas payments (State Department processed), Peace Corps will align agency processes with State Department processes.

**Documents to be Submitted:**

- Correspondence with Do Not Pay documenting our increased database usage for domestic vendors
- Correspondence with State Department documenting their database usage of Do Not Pay databases
- Documentation of any applicable new database usage.

**Status and Timeline for Completion:** October 2020

# APPENDIX D: OIG COMMENTS

Management concurred with all 6 recommendations. However, in their response, they stated: “The agency believes it is in compliance with the law.” We disagree with this statement, as our audit report highlights the agency has not followed the guidance outlined in Appendix C to OMB Circular A-123. Specifically, the Peace Corps did not include risks to credit card payments, payments made to employees for salaries, and the use of shared service providers, as required. While the agency concurred with recommendation 2, to develop a risk assessment that follows the OMB guidance, we are concerned this will remain a finding in the next IPERA review without accepting that their current risk assessment does not comply.

Furthermore, agency management described actions it intends to take to address the issues that prompted each of our recommendations. These recommendations will remain open pending a copy of documentation listed in the agency’s response.

We wish to note that in closing recommendations, we are not certifying that the agency has taken these actions, nor that we have reviewed their effect. Certifying compliance and verifying effectiveness are management’s responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

# APPENDIX E: AUDIT COMPLETION AND OIG CONTACT

**AUDIT COMPLETION**

This audit was conducted under the direction of Assistant Inspector General for Audit Judy Leonhardt by Lead Auditor Renita Davis, Lead Auditor Snehal Nanavati, and Lead Auditor Rebecca Underhill.

Judy Leonhardt

**OIG CONTACT**

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please contact Assistant Inspector General for Audit Judy Leonhardt at jleonhardt@peacecorpsoig.gov or 202.692.2914.

# Help Promote the Integrity, Efficiency, and Effectiveness of the Peace Corps

Anyone knowing of wasteful practices, abuse, mismanagement, fraud, or unlawful activity involving Peace Corps programs or personnel should call or write the Office of Inspector General. Reports or complaints can also be made anonymously.

# Contact OIG

## Reporting Hotline:

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|---|---|
| U.S./International: | 202.692.2915 |
| Toll-Free (U.S. only): | 800.233.5874 |
| Email: | OIG@peacecorpsoig.gov |
| Online Reporting Tool: | peacecorps.gov/oig/contactoig |
| Mail: | Peace Corps Office of Inspector General<br>1275 First Street NE<br>Washington, DC 20526 |

## For General Information:

| | |
|---|---|
| Main Office: | 202.692.2900 |
| Website: | peacecorps.gov/oig |
| Twitter: | twitter.com/PCOIG |