United States Department of Agriculture
Office of Inspector General

U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012



Audit Report 50024-0004-11
March 2013

Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012

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What Were OIG's Objectives

We performed a required review of the Department of Agriculture's (USDA) fiscal year 2012 Agency Financial Report (AFR) and accompanying information to determine whether the agency was compliant with the Improper Payments Information Act of 2002, as amended in 2010.

What OIG Reviewed

To assess USDA's compliance with the law, the Office of Inspector General (OIG) reviewed the Improper Payments Elimination and Recovery Act of 2010 (IPERA), related information in the fiscal year 2012 AFR, and supporting documentation. We also interviewed the Office of the Chief Financial Officer (OCFO) and component agency officials responsible for administering the 16 programs and activities susceptible to significant improper payments. For fiscal year 2012, USDA reported these programs accounted for an estimated $5.5 billion in improper payments.

What OIG Recommends

USDA should implement controls to ensure its actions to report and reduce improper payments meet IPERA requirements, and accurately and completely reflect USDA's progress.

OIG audited USDA to determine whether the Department complied with the Improper Payments Elimination and Recovery Act of 2010 to effectively reduce its improper payments.

What OIG Found

OIG determined that USDA did not comply with IPERA for a second consecutive year. Although USDA made progress to improve its processes to substantially comply with IPERA, the Department was not compliant with three of the seven IPERA requirements. Specifically, USDA and its component agencies did not always report sufficient estimates for high-risk programs, report error rates below specific thresholds, and meet annual reduction targets. This occurred because USDA has not completed actions to assess results and achieve compliance. These noncompliances continue to illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately $74 million in improper payments by meeting reduction targets. As required, OIG must report to Congress that USDA did not comply with IPERA. For those programs that did not comply with IPERA for two consecutive fiscal years, USDA must consult with the Office of Management and Budget to discuss further actions. In addition, USDA needs to implement further actions to improve its risk assessments and reporting accuracy. With improvements not yet fully implemented, the Department faces an increased risk that it may not identify programs that need to annually report and reduce improper payments. Also, some of USDA's reported actions to prevent and reduce improper payments do not reflect its actual progress.

We briefed USDA officials on our results, and they generally concurred with our findings and recommendations. We received OCFO's written response and accept management decisions, but did not obtain written comments to the report from component agencies prior to the OMB-mandated report issuance date of March 15, 2013.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: March 14, 2013

AUDIT NUMBER: 50024-0004-11

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Gil H. Harden

SUBJECT: U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012.

This report presents the results of the subject audit. We determined that the U.S. Department of Agriculture (USDA) did not comply with the Improper Payments Elimination and Recovery Act for a second consecutive year. The Office of the Chief Financial Officer's (OCFO) written response to the official draft report, dated March 14, 2013, is included in its entirety at the end of the report. Excerpts from the response and the Office of Inspector General's position are incorporated into the relevant sections of the report. We accept OCFO's management decisions for the four recommendations to OCFO. We briefed USDA officials from the component USDA agencies on our results, and they generally concurred with our findings and recommendations.

However, we did not obtain written comments to the report from USDA's component agencies prior to the Office of Management and Budget's mandated report issuance date of March 15, 2013. Management responses are pending.

Component agencies, in accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days, describing the corrective actions taken or planned, and timeframes for implementing the recommendations. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objective

Background

The U.S. Department of Agriculture (USDA) delivers approximately $144 billion in public services annually through more than 300 programs. Of the 29 component agencies and offices that operate these programs, 7 component agencies currently administer "high-risk" programs that are vulnerable to significant improper payments. USDA estimated in fiscal year 2012 that these agencies' 16 total high-risk programs made $5.5 billion in improper payments, a 5.11 percent error rate. The seven agencies affected include the Food and Nutrition Service (FNS), Farm Service Agency (FSA), Commodity Credit Corporation (CCC), Natural Resources Conservation Service (NRCS), Rural Development, Forest Service (FS), and Risk Management Agency (RMA).

In general, an improper payment is any payment that should not have been made or that was made in an incorrect amount. An improper payment also includes any payment made to an ineligible recipient, a payment for an ineligible good or service, or a payment for goods or services not received. In addition, a payment is improper if it lacks sufficient documentation.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 (IPIA). IPERA requires agencies to conduct annual risk assessments to identify programs susceptible to significant improper payments ("high-risk programs"), and to measure and report improper payment estimates for those high-risk programs each year.[1] IPERA requires agencies to conduct expanded and more rigorous recovery audits to identify and recapture overpayments and outlines actions that non-compliant agencies must implement.

IPERA authorizes the Office of Management and Budget (OMB) to issue additional guidance related to eliminating improper payments, as it is tasked with overseeing the Governmentwide improper payments reduction effort. IPERA requires the Office of Inspector General (OIG) to annually determine whether USDA properly reported improper payments. OIG published its first annual IPERA review on March 14, 2012.[2]

Specifically, OIG determined if USDA met seven requirements. Generally, an IPERA-compliant agency is one that has:

- Published an Agency Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying OMB-required materials on the agency website;
- Conducted a program-specific risk assessment for each program or activity;
- Published improper payment estimates for all programs that risk assessments identified as at high-risk for improper payments;
- Published programmatic corrective action plans in the AFR;

[1] IPIA, Public Law 107-300 (November 26, 2002); and IPERA, Public Law 111-204 (July 22, 2010). IPERA considers a program susceptible to significant improper payments if improper payments exceed $10 million and account for 2.5 percent of program outlays. In addition, programs that do not meet these thresholds may be required, on a case-by-case basis, to annually report improper payment estimates.
[2] Audit Report 50024-0001-11, *Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review* (March 14, 2012).

- Reported a gross improper payment rate of less than 10 percent for each high-risk program in the AFR;
- Published, and has met, annual reduction targets for each measured high-risk program; and
- Reported information on its efforts to recapture improper payments.

Exhibit A provides a detailed description of these requirements.

To determine the Department's compliance, we primarily used data from USDA's fiscal year 2012 AFR. The AFR is a document published annually by the Office of the Chief Financial Officer (OCFO), no later than November 15, to report USDA's financial data, including improper payments information. To assist OCFO in meeting reporting requirements, USDA's component agencies administering high-risk programs must submit improper payment information in accordance with OCFO's guidance. Exhibit B provides a list of USDA's 16 current high-risk programs.

During our review, OCFO implemented actions to improve its oversight. Specifically, it hired permanent leadership within the OCFO group responsible for IPERA compliance and reporting. It also established an improper payment working group, comprised of financial officers and senior accountable officials. These actions are intended to show positive results for internal controls over the implementation of IPERA for fiscal year 2013 and beyond.

Objective

Our objective was to determine whether USDA was compliant with IPIA, as amended by IPERA, for fiscal year 2012.

Section 1: USDA Did Not Fully Comply With IPERA for a Second Consecutive Year

Finding 1: Actions Taken To Achieve Full Compliance With IPERA May Take Years To Complete

We found that 8 of the 16 USDA high-risk programs did not comply with one or more of the seven requirements. Specifically, USDA did not: (1) publish sufficient improper payment estimates for two programs; (2) publish improper payment rates of less than 10 percent for two programs; and (3) meet the annual reduction targets for six programs. Although the four USDA component agencies responsible for these programs have initiated actions, some actions were not completed to assess results and achieve compliance. These non-compliances continue to illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately $74 million in improper payments by meeting reduction targets. As required, OIG must report to Congress that USDA did not comply with IPERA. In addition, for those programs that did not comply with IPERA for two consecutive fiscal years, USDA must consult with OMB to discuss further actions.

To comply with IPERA, agencies must have met seven specific requirements, including published improper payment estimates for all applicable high-risk programs; published a gross improper payment rate of less than 10 percent for each program; and published and met annual reduction targets.

Our first annual IPERA review disclosed that USDA was not compliant with four of the seven specific IPERA requirements. During this second annual review, we determined that USDA improved its processes to substantially comply with requirements, which reduced the Department's non-compliances to three. In addition, USDA's overall reported error rate fell from 5.37 percent in fiscal year 2011 to 5.11 percent in fiscal year 2012. However, the Department needs to complete several actions intended to address previously-identified deficiencies. With individual programs taking actions that are currently in progress, as outlined below, we are not making additional recommendations to component agencies for this finding at this time. However, the Department remains non-compliant in the following respects overall, and must meet with OMB to discuss funding related to compliance activities for those programs identified as non-compliant for a second year.

USDA Did Not Report Sufficient Improper Payment Estimates for All High-Risk Programs

Of the 16 high-risk programs, we found one program did not report a gross estimate and another program did not have an adequate sampling methodology to estimate improper payments. These programs were FNS' Child and Adult Care Food Program (CACFP), and RMA's Federal Crop Insurance Corporation Program (FCIC), respectively.[3]

[3] USDA reported gross estimates for 13 of 16 high-risk programs. OMB did not require an estimate of improper payments for two programs, FSA's Loan Deficiency Payments program (LDP) and Milk Income Loss Contract program (MILC), in fiscal year 2012 because it was not cost effective due to LDP's low outlays of $100,000, and MILC's outlays of $1 million.

For CACFP, the Department again reported only a partial estimate of improper payments. This occurred because FNS does not yet have a cost-effective method to estimate improper payments for one of the program's two components, Family Day Care Homes Meal Claims. [4]

During our second annual review, FNS officials continued to express difficulties in determining a gross estimate for CACFP, which includes over 190,000 participating day care homes and centers and varied eligibility requirements for each of the program's two components. FNS reported that it would cost approximately $20 million to conduct a national study to estimate improper payments for the entire program, including the Meal Claims component. FNS officials stated that, given competing demands for limited discretionary appropriations, the budget climate has not been conducive to a request for funds to conduct such a study. Rather than again seeking such a significant investment, FNS deemed it more prudent to determine the feasibility of developing an estimate of improper payments in CACFP through alternative projects. In fiscal year 2012, FNS hired a contractor to assess the feasibility of using information from parent recall interviews to validate claims that family day care providers submit in order to be reimbursed for meals. The assessment was still in process during our audit.

USDA reported that CACFP would have a gross estimate by the end of fiscal year 2017. Because FNS officials provided plans for actions, we do not make any formal recommendations for this non-compliance in this report.

Additionally, not all component agencies based their estimates on adequate information. A prior audit reported that RMA's FCIC sampling methodology to estimate improper payments was statistically inadequate because RMA evaluators excluded payments, such as premium subsidies and denied claims.[5] We recommended that RMA implement a more valid statistical sampling method for determining and calculating its rate of improper payments that fully meets the requirements of IPIA by including all payments, premium subsidies, and denied claims. RMA reported that FCIC improper payments were approximately $173 million, a 4.08 percent error rate. However, because of RMA's sampling methods, OIG believes that this estimate may have been understated.

Because RMA and OIG are working to resolve this recommendation, we do not make recommendations related to RMA's sampling methodology in this report.

USDA Did Not Report Improper Payment Rates of Less Than 10 Percent For All Programs

For 2 of the 16 high-risk programs, USDA reported improper payment estimates of greater than 10 percent. Specifically, FNS' National School Lunch program (NSLP) and School Breakfast program (SBP) reported estimated improper payment percentages of 15.53 and 25.18, respectively. FNS' administration of these programs is highly decentralized and involves a myriad of Governmental and non-Governmental

[4] USDA reported an estimate based on the Family Day Care Homes Tiering Decisions component only. The Tiering Decisions component relates to validating reimbursable rate determinations for FNS CACFP providers. The Meal Claims component relates to verifying the meal counts of the CACFP participants.
[5] Audit Report 05601-11-At, *Risk Management Agency Compliance Activities* (September 16, 2009).

organizations to provide benefits at approximately 100,000 school meal locations. FNS reported that many of these benefit providers simply do not have the capacity to develop robust accountability processes. FNS officials stated they are aware of the significant improper payment rate in NSLP and SBP, and continue to work with State partners to develop initiatives and practices to address this problem. Further, FNS stated that the Healthy, Hunger-Free Kids Act of 2010 included new tools and strategies that will help reduce errors in NSLP and SBP.[6]

Officials with FNS are aware that its baseline for estimates of improper payments may be unreliable. FNS developed the current formulas used to estimate improper payments rates based on a previous study.[7] Since the study examined program figures from school year 2005 only and cannot provide confidence levels for other years, we cannot rely on estimates projected from this study.

To update data used to determine FNS current improper payment estimates, FNS hired a contractor to conduct a study for school year 2012 during our first annual IPERA review. FNS officials believe this school year 2012 study will reflect NSLP and SBP current improper payment rates and account for corrective actions implemented since the study conducted for school year 2005. FNS officials stated that they expect to obtain the results of the study in 2014, and use those results to assess FNS efforts to comply with IPERA's requirement.

Because FNS officials stated the Healthy, Hunger-Free Kids Act of 2010 will improve program delivery and that the study will measure the current impact of improper payments in NSLP and SBP, we do not make any formal recommendations in this report for this non-compliance.

[6] Congress enacted the Healthy, Hunger-Free Kids Act of 2010, which includes provisions to improve the management and integrity of child nutrition programs. For instance, the Act (1) increased the frequency of administrative oversight reviews of NSLP from once every 5 years to once every 3 years; (2) further strengthened direct certification for school meals by rewarding States for improvement in direct certification rates; (3) provided alternatives to paper application systems in low-income areas, i.e. on-line application alternatives to the standard program application process to reduce the number of paper applications that need manual processing; and (4) established additional review requirements for school districts that demonstrate high levels of administrative error.

[7] FNS conducted the Access, Participation, Eligibility, and Certification study for its school breakfast and lunch programs.

Almost half of USDA's high-risk programs that did not meet reduction targets during our first annual IPERA review met their targets during this second review.[8] However, six programs were non-compliant in meeting their fiscal year 2012 reduction targets.[9] Specifically, these six programs missed their reduction target by an average of 0.61 percent, which is a decrease from the 1.21 percent reported previously. If these programs had met their reduction targets, $74 million in reported improper payments could have been avoided.[10] Various factors, such as resources and revised sampling methods, may have affected agencies' abilities to meet reduction targets. Because USDA has initiated actions toward achieving compliance, we do not have recommendations on this non-compliance at this time.[11]

As in our first annual IPERA review, this review found that the Department did not report the amount of improper payments it expected to recover outside of recovery auditing (i.e., "recovery targets") because of conflicting OMB guidance. In Circular A-123, OMB requires USDA to report actual improper payments the agency expects to recapture in its required supplemental information to the financial statements, i.e., the AFR.[12] However, the templates in OMB's Circular A-136 do not explicitly require an agency to report the amount of improper payments it expects to recover outside of recovery auditing.[13] USDA followed OMB Circular A-136 requirements; and, therefore, did not report these recovery target amounts in the AFR. Because OMB issued conflicting guidance related to recovery targets, we do not make a recommendation to USDA on this issue.

Although actions intended to achieve compliance with IPERA are in progress, USDA remains non-compliant with IPERA overall. Also, we found that some of USDA's high-risk programs did not comply with one or more requirements for a second straight year.[14] According to IPERA, if an agency is non-compliant for two consecutive fiscal years for the same program or activity, and the Director of OMB determines that additional funding would help the agency come into compliance, the head of the agency shall obligate additional funding, in an amount determined by the Director, to intensify compliance efforts. If any programs remain non-compliant with IPERA for three consecutive years, the program's officials may be forced to propose statutory changes necessary to bring the programs into compliance.

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[8] Our first annual IPERA report disclosed that 11 of the 16 high-risk programs did not meet their reduction targets. Reported figures exceeded the targets by an average of 1.21 percent.

[9] Per OMB guidance, each year USDA reports annual reduction targets. Fiscal year 2012 reduction targets were reported in USDA's fiscal year 2011 Performance and Accountability Report.

[10] These six programs included FNS' CACFP, FNS' SBP, FNS' Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); FSA's Noninsured Assistance Program (NAP), FSA's Direct and Counter-Cyclical Payments program (DCP); and Rural Development's Rental Assistance Program (RAP).

[11] Subsequent to our previous audit, OCFO revised its corrective action plans to require component agencies to discuss why targets were not met. OCFO also obtained and provided feedback to OMB and component agencies regarding whether reduction targets were realistic.

[12] OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (April 14, 2011).

[13] OMB Circular A-136, *Financial Reporting Requirements* (August 3, 2012).

[14] The seven programs that were non-compliant a second consecutive year included FNS' CACFP, FNS' NSLP, FNS' SBP, FNS' WIC, FSA's NAP, RMA's FCIC program, and Rural Development's RAP.

For non-compliant programs, USDA will need to discuss funding related to compliance activities with OMB. Because IPERA is an ongoing annual review that requires followup, we recommend that OCFO document the Department's discussion with OMB regarding those programs that did not comply for two consecutive years.

Recommendation 1 to OCFO

Document the Department's discussion with OMB regarding those programs that did not comply with IPERA for two consecutive years.

OCFO Response

The Office of the Chief Financial Officer (OCFO) will document OCFO's discussion with OMB regarding those programs that did not comply with IPERA for two consecutive years. OCFO will complete this action by September 30, 2013.

OIG Position

We accept management decision for this recommendation.

Section 2: USDA’s Internal Controls Over Risk Assessments and Improper Payments Reporting

Finding 2: Additional Actions Needed To Strengthen USDA’s Risk Assessments

Last year, we noted deficiencies in USDA’s risk assessment process and recommended that the Department enhance its oversight by reviewing some risk assessments to ensure compliance. This year, we found that USDA’s oversight of program risk assessments continues to be an area of concern, as we identified issues related to three of the six risk assessments we reviewed. This occurred partly because other priorities affected OCFO’s ability to fully implement our prior audit recommendation to enhance OCFO’s oversight, and partly because OCFO needs to further improve its guidance. As a result, the Department faces an increased risk that it may not identify programs that need to annually report and reduce improper payments.

All agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments.[15] According to OCFO’s risk assessment guidance, transaction testing must be a statistically valid random sample to determine the effectiveness of program design and internal controls in the prevention of improper payments. In addition, the universe of payments tested must cover a 12-month timeframe and the results must provide a dollar amount of improper payments and an error rate for the program.[16] Federal managers are responsible for applying the internal control standards consistently to meet objectives and assess effectiveness.

We non-statistically selected six risk assessments, which included both qualitative and quantitative assessments. We found that, with improvements to OCFO’s oversight not yet implemented, two programs with quantitative assessments, National Institute of Food and Agriculture’s Research and Education Activities, and Agricultural Marketing Service’s Commodity Purchase Program, did not conduct transaction testing, as OCFO’s guidance required. Each of these programs did not estimate its improper payments and amounts. In addition, a third risk assessment, the assessment of Rural Development’s Single Family Housing Guaranteed loan program, did not disclose important information to evaluate whether the sample size selected for transaction testing was adequate to justify a low risk determination. This occurred because OCFO did not provide adequate oversight and instructions related to selecting sample sizes.

Without appropriate oversight, two programs were able to report their control environment testing to OCFO, instead of performing transaction testing, as required.[17] We concluded that because the control environment testing was not designed to provide sufficient details in terms of IPERA, the agencies’ testing results did not provide sufficient details to support a low risk determination and should not have been used in lieu of the required test of transactions. For

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[15] OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (April 14, 2011).
[16] *USDA Fiscal Year 2012 Risk Assessment Guidance*, Version 8.1 (November 22, 2011)
[17] The National Institute of Food and Agriculture’s Research and Education Activities, and Agricultural Marketing Service’s Commodity Purchase Program reported their control environment testing in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting* (December 21, 2004).

example, the Agricultural Marketing Service's program samples did not cover the required 12-month period. Further, without appropriate oversight, an agency was able to report its testing without sufficient support. After subsequent discussions with Rural Development officials and our statistician, we were able to validate that Rural Development's Single Family Housing Guaranteed Loan program sampling was sufficient to justify its low risk determination. However, our analysis at Rural Development demonstrated that the Department's risk assessment guidance for transaction testing needs improvement. Specifically, OCFO's guidance related to tests of transactions did not provide adequate information about sample sizes.

The intent of IPERA is to ensure that agencies are not only reporting their improper payment estimates, but aggressively determining areas that need improvement. In order to identify areas for improvement, agencies should adequately test their transactions when required. The Department plans to implement our prior audit recommendation by the end of fiscal year 2013. When USDA implements our prior audit recommendation to enhance its oversight of its risk assessment review process, OCFO's enhanced oversight should improve the Department's risk assessments used to determine a program's or activity's susceptibility to improper payments. OCFO can also improve reporting by revising its risk assessment guidance for testing transactions to ensure component agencies' sample sizes are adequate to support their level of risk determinations. OCFO officials agreed with our conclusions.

Recommendation 2 to OCFO

Revise the Department's risk assessment guidance for testing transactions to ensure component agencies' sample sizes are adequate to support their level of risk determinations.

OCFO Response

OCFO will revise the Department's risk assessment guidance to instruct agencies on how to determine an adequate sample size to test transactions. OCFO will complete this action by October 31, 2013.

OIG Position

We accept management decision for this recommendation.

Finding 3: Improper Payments Information in the AFR Was Inaccurate and Incomplete

For 7 of the 16 high-risk programs, we found areas where some reported information related to improper payments was not properly supported, or was incomplete.[18] We found similar occurrences during our first annual IPERA review.[19] Although USDA implemented a quality review process to reduce discrepancies between the AFR and supporting documentation, the process did not, for instance, produce an audit trail, consistently reference accurate timeframes, and ensure that the Department and its component agencies review information for accuracy. OCFO officials acknowledged that the quality of improper payment information was affected by delayed guidance from OCFO to the component agencies and inadequate reviews by the Department and its agencies. In addition, component agencies did not provide necessary information. As a result, we continue to see that some of USDA's reported actions to prevent and reduce improper payments do not reflect its actual progress.

OMB requires agencies to summarize their progress in preventing and reducing improper payments, and include the detailed portion of the reporting as accompanying information in their AFRs. USDA requires its component agencies to submit improper payment information to OCFO for inclusion in the AFR. Federal managers are responsible for applying the internal control standards consistently to meet objectives and assess effectiveness. Finally, OMB requires OIGs to evaluate the accuracy and completeness of agency reporting. [20]

Our first annual review identified discrepancies between supporting documents and USDA's AFR for 12 high-risk programs. Subsequently, OCFO took steps to implement a review process for the Department and its agencies. However, our second review of improper payments information continued to find several discrepancies, specifically in the supplemental improper payments sections.

For example:

- The AFR reported that verification of eligibility and certain Internal Revenue Service requirements were regulatory barriers for NRCS, though the supporting documentation stated NRCS had no barriers, and NRCS officials confirmed there were none.

- The AFR did not report the Rental Assistance Program's (RAP) action to enhance its assessment of property managers' performance, though RAP's corrective action plan included this action, and noted that inadequate documentation from property managers was one of the reasons why the program's reduction target was not met.

OCFO officials acknowledged that there were discrepancies. As a corrective action, OCFO officials stated they will implement a formal review process for the Management's Discussion and Analysis and supplemental improper payments section of the AFR that requires signatures

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[18] These 7 programs included FNS' WIC, FNS' CACFP; FSA's DCP, FSA's Conservation Reserve Program; RMA's FCIC program; NRCS' Farm Security and Rural Investment Act programs; and Rural Development's RAP.
[19] Audit Report 50024-0001-11, *USDA Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review* (March 14, 2012).
[20] We reviewed OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (M-11-16, April 14, 2011); *OCFO USDA Fiscal Year 2012 Corrective Action Plan Guidance* (July 2012); and OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

from all the reviewers. In addition, OCFO officials stated they will provide the corrective action plan guidance to the agencies earlier and perform quicker follow up with the agencies that have missing and/or incomplete information.

In addition to these discrepancies, we found that the table of overpayments recaptured outside of recovery auditing that USDA presented in the AFR was inaccurate and/or incomplete, and that, overall, USDA could improve its reporting of these recoveries. Each component agency was required to report the amount of improper payments recovered in its programs, but we found that some agencies did not report them to OCFO. For example, FNS did not report its recovered amounts, though it has a history of reporting recovery amounts for the Supplemental Nutrition Assistance Program. Additionally, the AFR stated that the overpayments recaptured were for the entire fiscal year. However, we found that the information only included the first three quarters of fiscal year 2012 because USDA finalized the supplemental information in the AFR prior to the end of the fiscal year.

As a corrective action, OCFO officials stated that reported overpayments recaptured outside of the recovery auditing table will represent the fourth quarter of the previous fiscal year and the first three quarters of the current fiscal year.[21] In addition, OCFO officials stated that they will report the correct recovery timeframe referenced in the overpayments recaptured outside of recovery auditing table in subsequent AFRs.

Accurate reporting is indispensable to convey to the readers the actual progress made by USDA to prevent improper payments. OCFO mentioned that it would revise procedures requiring component agencies certify that they have reviewed the AFR and concur with the information as presented. We agree with OCFO's action, and it should be incorporated within a comprehensive review process. Furthermore, component agencies should implement a process to ensure their programs' improper payments information reported to Congress, OMB, and the public are accurate and reflective of the component agencies' progress.

Recommendation 3 to OCFO

Revise the Department's current quality review process to ensure that it includes a documented strategy with well-defined processes that produce the audit trail needed for verifying the accuracy and completeness of information in the IPERA section of the required supplemental information in the financial statements.

OCFO Response

OCFO will revise its quality review process to include documented well-defined processes so that the information in the IPERA section of the AFR can be substantiated. OCFO will complete this action by August 31, 2013.

OIG Position

We accept management decision for this recommendation.

[21] For example, the fiscal year 2013 AFR's overpayments recaptured outside of recovery auditing table will include fiscal year 2012 fourth quarter recoveries and the first three quarters of fiscal year 2013.

Recommendation 4 to OCFO

Accurately disclose in USDA's AFR the timeframe referenced in the overpayments recaptured outside of recovery auditing table.

OCFO Response

OCFO will provide the timeframe for the information on the overpayments recaptured outside of recovery auditing table.

OIG Position

We accept management decision for this recommendation.

Recommendation 5 to FNS

Develop and implement a process to ensure FNS information in USDA's AFR is accurate and complete.

FNS Response

FNS' response is pending.

Recommendation 6 to FSA/CCC

Develop and implement a process to ensure FSA/CCC information in USDA's AFR is accurate and complete.

FSA/CCC Response

FSA/CCC's response is pending.

Recommendation 7 to FS

Develop and implement a process to ensure FS information in USDA's AFR is accurate and complete.

FS Response

FS' response is pending.

Recommendation 8 to NRCS

Develop and implement a process to ensure NRCS information in USDA's AFR is accurate and complete.

NRCS Response

NRCS' response is pending.

Recommendation 9 to RMA

Develop and implement a process to ensure RMA information in USDA's AFR is accurate and complete.

RMA Response

RMA's response is pending.

Recommendation 10 to Rural Development

Develop and implement a process to ensure Rural Development information in USDA's AFR is accurate and complete.

Rural Development Response

Rural Development response is pending.

Scope and Methodology

Our audit focused on improper payments information reported in USDA's fiscal year 2012 AFR and additional supporting documentation. We performed our review at OCFO Headquarters in Washington, D.C. We commenced fieldwork in December 2012 and completed our fieldwork in February 2013.

We interviewed OCFO officials and USDA component agencies' management, supervisory, and staff personnel involved with the 16 programs susceptible to significant improper payments. We obtained and reviewed all applicable laws, rules, and regulations pertaining to improper payments, as well as OCFO's guidance, policies, and procedures. We also reviewed each program's plans describing how sampling was performed, estimates calculated, and completed or proposed corrective actions to reduce improper payments in the future.

To accomplish our objective, we performed the following audit steps to assess USDA's compliance with the seven IPERA requirements as follows:

Published an AFR for the Most Recent Fiscal Year and Posted that Report on the Agency Website

We obtained and reviewed the fiscal year 2012 AFR. We also browsed USDA's website to verify that the AFR was posted on the internet.

Conducted a Program-Specific Risk Assessment for Each Program or Activity

We non-statistically selected six programs, based on program outlays, results from prior audits, and the type of risk assessment required. Annually, OCFO selects which risk assessment to perform for a particular program, based on its stage in the 3-year cycle.

The risk assessments range from completing a one-page form certifying that events affecting a program have not changed, to completing a full risk assessment, including a test of transactions. Our six selected programs captured various types of risk assessments. We reviewed these assessments to determine whether the level of risk determination was reasonable.

Published Improper Payment Estimates for All Programs Identified as High-Risk for Improper Payments Under Its Risk Assessment

We reviewed the improper payment sampling results table in Section 3, *Other Accompanying Information*, of the AFR to identify which programs reported "NA" (not available).

Published Programmatic Corrective Action Plans in the AFR

We reviewed the corrective actions and additional information reported in the AFR to determine whether USDA complied with OMB guidance. We also reviewed each high-risk program's detailed corrective action plan submitted to OCFO to verify that the information in the AFR was accurate and supported.

Published, and Has Met, Annual Reduction Targets for Each Program Assessed to Be at Risk and Measured for Improper Payments

We reviewed the improper payments reduction outlook table in Section 3 of the fiscal year 2012 AFR and compared each program's reduction target to the actual results listed in the improper payment sampling results table in Section 3 of the fiscal year 2012 AFR.

Reported a Gross Improper Payment Rate of Less Than 10 Percent for Each High-Risk Program and Published in the AFR

We reviewed the improper payment sampling results table in Section 3 of the fiscal year 2012 AFR to identify which programs did not report estimates less than 10 percent.

Reported Information on Its Efforts to Recapture Improper Payments

We reviewed the recovery auditing and overpayments recaptured outside of recovery auditing information in Section 3 of the fiscal year 2012 AFR to verify that USDA discussed its recovery efforts.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

AFR .... Agency Financial Report
CACFP........................Child and Adult Care Food Program
CAP.............................Corrective Action Plan
CCC.............................Commodity Credit Corporation
CRP.............................Conservation Reserve Program
DCP.............................Direct and Counter-Cyclical Payments
FCIC............................Federal Crop Insurance Corporation
FNS ....Food and Nutrition Service
FS ....Forest Service
FSA ....Farm Service Agency
FSRI............................Farm Security and Rural Investment Act Programs
IPERA.........................Improper Payments Elimination and Recovery Act of 2010
IPIA.............................Improper Payments Information Act of 2002
LDP ....Loan Deficiency Payments
MAL............................Marketing Assistance Loan Program
MDP............................Miscellaneous Disaster Programs
MILC........................... Milk Income Loss Contract Program
NAP.............................Noninsured Assistance Program
NRCS..........................Natural Resources Conservation Service
NSLP...........................National School Lunch Program
OCFO..........................Office of the Chief Financial Officer
OIG ....Office of Inspector General
OMB .... Office of Management and Budget
RAP............................ Rental Assistance Program
RMA........................... Risk Management Agency
SBP............................ School Breakfast Program
SFH .... Single Family Housing
SNAP ....Supplemental Nutrition Assistance Program
USDA..........................Department of Agriculture
WFSM.........................Wildland Fire Suppression Management
WIC.............................Special Supplemental Nutrition Program for Women, Infants, and Children

Exhibit A: Summary of IPERA Requirements

Exhibit A provides a detailed description of the seven requirements agencies must meet to comply with IPERA.

Description of IPERA Requirements	OIG Fiscal Year 2012 Compliance Determination. Did USDA Comply?	Reason for OIG Compliance Decision
Published an Agency Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying Office of Management and Budget (OMB) required materials on the agency website.	YES	The Department of Agriculture (USDA) published and posted an AFR with accompanying materials on the agency's website.
Conducted a program specific risk assessment for each program or activity.	YES	OMB approved USDA's 3-year risk assessment cycle. The Office of the Chief Financial Officer provided the Office of Inspector General its risk assessment guidance inventory of programs and activities.
Published improper payment estimates for all high-risk programs and activities.	NO	Discussed in Finding 1
Published programmatic corrective action plans in the AFR.	YES	USDA published its corrective action plans.
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	NO	Discussed in Finding 1
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.	NO	
Reported information on its efforts to recapture improper payments.	YES	USDA reported its efforts to recapture improper payments in Section 3 of the AFR.

Exhibit B: USDA’s 16 Programs Susceptible to Significant Improper Payments

Exhibit B provides a list of USDA’s 16 current high-risk programs or program categories.

High-Risk Program	USDA Component Agency
1. Supplemental Nutrition Assistance Program (SNAP) SNAP provides low income families benefits to purchase food from approved retailers.	Food and Nutrition Service (FNS)
2. National School Lunch Program (NSLP) NSLP provides cash subsidies and donated foods from USDA for each meal schools serve.	
3. School Breakfast Program (SBP) SBP is a federally assisted meal program where participating school districts receive cash subsidies for each meal they serve.	
4. Child and Adult Care Food Program (CACFP) Provides nutritious meals to participants in day care facilities, such as child care centers, day care homes, and adult day care centers.	
5. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) WIC provides supplemental foods and other health services to low-income participating women; and children up to the age of 5 years.	
6. Federal Crop Insurance Corporation (FCIC) Program Fund FCIC provides insurance and risk management strategies to American producers.	Risk Management Agency (RMA)
7. Milk Income Loss Contract Program (MILC) MILC compensates dairy producers when domestic milk prices fall below a specified level.	Farm Service Agency (FSA)/ Commodity Credit Corporation (CCC)
8. Loan Deficiency Payments (LDP) LDP is available to eligible participants who do not want to participate in the MAL program.	
9. Direct and Counter-Cyclical Payments (DCP) DCP provides payments based on yields or market prices to eligible producers on farms.	
10. Conservation Reserve Program (CRP) CRP is a voluntary program available to agricultural producers to help them use environmentally sensitive land for conservation benefits.	
11. Miscellaneous Disaster Programs (MDP) MDP provides assistance through various programs to participants when there are disasters.	
12. Noninsured Assistance Program (NAP) NAP provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented planting occur due to a natural disaster.	
13. Marketing Assistance Loan Program (MAL) MAL provides an influx of cash when market prices are low, which allows the producer to delay the sale of the commodity until more favorable market conditions emerge.	
14. Rental Assistance Program (RAP) RAP provides an additional source of support for households with incomes too low to pay the basic rent from their own resources.	Rural Development
15. Farm Security and Rural Investment Act programs (FSRI) FSRI programs provide products and services that enable people to be good stewards of the Nation’s soil, water, and related natural resources on non-Federal lands.	Natural Resources Conservation Service (NRCS)
16. Wildland Fire Suppression Management (WFSM) WFSM protects life, property, and natural resources on acres of National Forest System and State and private lands through fee or reciprocal protection agreements.	Forest Service (FS)

OFFICE OF THE CHIEF FINANCIAL OFFICER'S RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, D.C. 20250

March 14, 2013

TO: Tracy A. LaPoint
Deputy Assistant Inspector General

FROM: Jon M. Holladay -S- Jon M. Holladay
Deputy Chief Financial Officer

SUBJECT: Management Response to *Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012*, Audit No. 50024-0004-11

This responds to your request for management's response to the Draft audit recommendations in Audit Report No. 50024-0004-11.

If you have any questions or need additional information, please contact our office at (202) 720-5539 or have a member of your staff contact Kathy Donaldson at (202) 720-1893.

Improper Payments Elimination and Recovery Act of 2010, Fiscal Year 2012 Report, Audit No. 50024-0004-11

Recommendation 1

Document the Department's discussion with Office of Management and Budget (OMB) regarding those programs that did not comply with Improper Payments Elimination and Recovery Act of 2010 (IPERA) for two consecutive years.

Management Response: The Office of the Chief Financial Officer (OCFO) will document OCFO's discussion with OMB regarding those programs that did not comply with IPERA for two consecutive years.

Date Corrective Action will be Completed: September 30, 2013

Responsible Organization: Fiscal Policy Division (FPD), OCFO

Recommendation 2

Revise the Department's risk assessment guidance for testing transactions to ensure component agencies' sample sizes are adequate to support their level of risk determinations.

Management Response: OCFO will revise the Department's risk assessment guidance to instruct agencies on how to determine an adequate sample size to test transactions.

Date Corrective Action will be Completed: October 31, 2013

Responsible Organization: Fiscal Policy Division (FPD), OCFO

Recommendation 3

Revise the Department's current quality review process to ensure that it includes a documented strategy with well-defined processes that produces the audit trail needed for verifying the accuracy and completeness of information in the IPERA section of the required supplemental information in the financial statements.

Management Response: OCFO will revise its quality review process to include documented well-defined processes so that the information in the IPERA section of the Annual Financial Report (AFR) can be substantiated.

Date Corrective Action will be Completed: August 31, 2013

Responsible Organization: FPD, OCFO

Improper Payments Elimination and Recovery Act of 2010,
Fiscal Year 2012 Report, Audit No. 50024-0004-11

Recommendation 4

Accurately disclose in the Department's AFR the timeframe referenced in the overpayments recaptured outside of recovery auditing table.

Management Response: OCFO will provide the timeframe for the information on the overpayments recaptured outside of recovery auditing table.

Date Corrective Action will be Completed: November 15, 2013

Responsible Organization: FPD, OCFO

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

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