United States Department of Agriculture

Office of Inspector General

U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Review for Fiscal Year 2013



50024-0005-11

April 2014

Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013

Audit Report 50024-0005-11

What Were OIG's Objectives

We performed a required review of USDA's fiscal year (FY) 2013 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, OIG reviewed IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010, related information in the FY 2013 AFR, and supporting documentation. We also interviewed the Office of the Chief Financial Officer and component agency officials responsible for administering the 16 programs and activities susceptible to significant improper payments. For FY 2013, USDA reported these programs accounted for an estimated $6.2 billion in improper payments.

What OIG Recommends

USDA must take steps to ensure its actions to report and reduce improper payments meet IPIA requirements, and accurately and completely reflect USDA's progress.

OIG reviewed USDA's compliance with the Improper Payments Information Act

What OIG Found

The Office of Inspector General (OIG) found that the Department of Agriculture (USDA) did not comply with the Improper Payment Information Act (IPIA), as amended, for a third consecutive year. Although USDA made progress towards improving its processes to move towards compliance, the Department was not compliant with three of the seven IPIA requirements. Specifically, for its high risk programs, USDA and its component agencies did not always report comprehensive estimates, report error rates below 10 percent, or meet annual reduction targets. This occurred because some of USDA's actions were not effective or completed to achieve compliance. These noncompliances continue to illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately $416 million in improper payments by meeting reduction targets. As required, OIG must report to Congress that USDA did not comply with IPIA. For those programs that did not comply with IPIA, USDA must implement several actions, including submitting proposals to Congress.

Because the Department has not yet fully implemented corrective actions, some of USDA's reported actions to prevent and reduce improper payments do not reflect its actual progress. The Department must improve its reporting accuracy, as in at least one case, improper payments that an agency recovered were not reported correctly.

USDA officials generally concurred with our findings and recommendations. We received the Office of the Chief Financial Officer's written response and accept management decisions for the report's four recommendations.

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

DATE: April 15, 2014

AUDIT NUMBER: 50024-0005-11

TO:

Jon Holladay
Deputy Chief Financial Officer
Office of the Chief Financial Officer
ATTN: Kathy Donaldson

Juan M. Garcia
Administrator
Farm Service Agency
ATTN: Philip Sharp

Doug O'Brien
Deputy Under Secretary
Rural Development
ATTN: John Dunsmuir

Audrey Rowe
Administrator
Food and Nutrition Service
ATTN: Mark Porter

Thomas Tidwell
Chief
Forest Service
ATTN: Thelma Strong

Brandon Willis
Administrator
Risk Management Agency
ATTN: Kent Lanclos

Jason Weller
Chief
Natural Resources Conservation Service
ATTN: Leon Brooks

FROM: Gil H. Harden
Assistant Inspector General for Audit

for Tracy LaPoint

SUBJECT: U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013

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 Information Act, as amended, for a third consecutive year. The Office of the Chief Financial Officer's (OCFO) written response to the draft report, dated April 14, 2014, 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 all recommendations.

In accordance with Departmental Regulation 1720-1, final action is required within 1 year of management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in reporting final action.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objectives

Background

The U.S. Department of Agriculture (USDA) delivers approximately $159 billion in public services annually through more than 300 programs. Of the 300 programs, 16 programs or activities administered by 7 USDA component agencies are considered vulnerable to significant improper payments (high-risk programs). USDA estimated in fiscal year (FY) 2013 that, collectively, these 16 high-risk programs made $6.2 billion in improper payments, a 5.36 percent error rate. The seven component 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 risk assessments to identify 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 noncompliant agencies must implement.

Additionally, 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 is compliant with IPIA.

Specifically, OIG must determine if USDA met seven requirements. Generally, an IPIA-compliant agency is one that has:

- Published an Agency Financial Report (AFR) for the most recent FY 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.

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[1] IPIA, Public Law 107-300 (November 26, 2002); and IPERA, Public Law 111-204 (July 22, 2010). IPIA considers a program susceptible to significant improper payments if improper payments exceed $10 million and account for 2.5 percent of program outlays, or exceed $100 million regardless of percent of program outlays. In addition, programs that do not meet these thresholds may be required by OMB, on a case-by-case basis, to annually report improper payment estimates.

- Reported a gross improper payment rate of less than 10 percent for each high-risk program in the AFR.
- Published, and met, annual reduction targets for each measured high-risk program.
- 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 FY 2013 AFR. The AFR was a document published by the Office of the Chief Financial Officer (OCFO) on December 16, 2013, to report USDA's financial data, including improper payments information, as required by OMB. To assist OCFO in meeting reporting requirements, USDA's component agencies administering high-risk programs submitted improper payments information in accordance with OCFO's guidance. Exhibit B provides a list of USDA's 16 current high-risk programs.

Objectives

Our objective was to determine whether USDA was compliant with IPIA, as amended by IPERA, for FY 2013. In addition, we evaluated USDA's accuracy and completeness of reporting, and performance in reducing and recapturing improper payments.

Section 1: USDA Did Not Fully Comply With the Improper Payments Information Act for a Third Consecutive Year

Finding 1: USDA's Actions to Achieve Full Compliance with IPIA Are Still in Progress

Of the 16 USDA high-risk programs, we found that 11 did not comply with 1 or more of the 7 requirements. Specifically, USDA did not: (1) publish an improper payment gross estimate for three programs; (2) publish improper payment rates of less than 10 percent for two programs; and (3) meet reduction targets for eight programs. In addition, we continued to note that the sampling methods for one high-risk program were inadequate to estimate its improper payments. Although the four USDA component agencies responsible for these programs initiated corrective actions, some actions were not effective or completed to achieve compliance. In some instances, component agencies took corrective action, but then identified the need for further improvements to reduce improper payments. These noncompliances continue to illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately $416 million in improper payments if these programs met their reduction targets. As required, OIG must report to Congress that USDA did not comply with IPIA for a third consecutive year.

To comply with IPIA, as amended, agencies must have met seven specific requirements that included publishing improper payment estimates for all applicable high-risk programs, publishing gross improper payment rates of less than 10 percent for each program, and meeting annual reduction targets.[2] OMB required all programs and activities susceptible to improper payments to ensure that their alternative sampling methodologies are approved by OMB prior to conducting their measurements. Finally, OMB guidance stated that agencies should incorporate refinements to their improper payment rate methodologies based on recommendations from agency staff or auditors.[3]

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

Of the 16 high-risk programs, we found that 3 programs did not report a gross estimate and another program did not have a sufficient sampling methodology to estimate its improper payments. These programs were FNS' Child and Adult Care Food Program (CACFP), FSA's Direct and Counter-Cyclical Payments (DCP) and Loan Deficiency Payments (LDP), and RMA's Federal Crop Insurance Corporation (FCIC).

CACFP Reported a Partial Improper Payment Estimate

For CACFP, the Department again reported only a partial estimate of improper payments. This occurred because FNS has not yet developed a reliable method to

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[2] IPERA, Public Law 111-204 (July 22, 2010).
[3] OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (April 14, 2011).

estimate improper payments for the meal claims component of CACFP's high-risk Family Day Care Homes (FDCH) category. An estimate of improper payments associated with meal claim reimbursements is one of two components FNS should report for FDCH receiving benefits through CACFP.[4]

CACFP has three distinct categories: the Child Care Centers, Adult Day Care Facilities, and FDCH. FNS identified the approximately 127,977 FDCHs receiving benefits through CACFP as potentially high-risk, and OMB approved FNS to measure errors in this category of the program using an alternate methodology. Since 2006, FNS has conducted feasibility studies to develop a reliable method for estimating improper payments of FDCH meal claim reimbursements; however, these past studies were not reliable. FNS reported that it would cost approximately $20 million to conduct a national study to estimate improper payments for CACFP as a whole, including the meal claims component. Funding for this national study was denied by Congress in FY 2006.

Last year, our FY 2012 review reported 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.[5] During our third annual review, the results of the parent recall interviews were still pending. FNS officials stated that results are expected in June 2014 and would be used to determine whether they could develop a reliable sampling method for the FDCH meal claim component.

Eight years have passed without CACFP developing a reliable method to estimate improper payments in the high-risk FDCH meal claim component. Although the Department discussed plans to publish an estimate by FY 2015, this is the third consecutive year CACFP was not compliant with IPIA. As required by the law, USDA must submit to Congress proposed statutory changes necessary to bring CACFP into compliance.

DCP and LDP Did Not Report an Improper Payment Estimate

While CACFP reported a partial estimate, we found that some programs did not report any estimate. FSA officials explained that they did not sample because of the uncertainty of the Farm Bill reauthorization for DCP and sampling was not cost effective for LDP since outlays amounted to $104,040.[6] We discovered that FSA and OCFO officials discussed not sampling these two programs in FY 2013,

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[4] USDA reported an estimate based on the FDCH 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 50024-0004-11, *USDA Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012* (March 14, 2013).
[6] USDA's AFR stated that DCP authority was to end on September 30, 2012, but the authority was later extended in FY 2013.

including the actions necessary to request approval from OMB. Although FSA and OCFO officials indicated they met with OMB in August 2012 to present alternative methodologies to be used beginning with the FY 2012 review cycle and obtained verbal approval during this meeting to utilize the alternative methodologies, neither FSA nor OCFO officials could provide documentation to demonstrate that proper approval was obtained prior to excluding DCP and LDP from sampling in FY 2013. Therefore, we concluded that these programs were required to publish a gross estimate in accordance with the law.

USDA must retain sufficient documentation to support USDA's actions as they relate to IPIA. While we are not making specific recommendations for DCP and LDP, we recommend that USDA establish a process to document its communications with OMB related to its IPIA activities.[7]

FCIC Sampling Methods to Estimate Improper Payments were Inadequate

Finally, not all component agencies based their estimates on adequate information. A prior audit reported that RMA's FCIC alternative sampling methodology to estimate improper payments was inadequate because RMA evaluators excluded significant payments, such as premium subsidies and indemnities below certain thresholds.[8] RMA reported that FCIC improper payments were approximately $566 million, a 5.23 percent error rate. However, because of RMA's sampling methods, OIG believes that this estimate may have been understated.

Although OMB approved FCIC's alternative sampling method in October 2004, OMB officials became aware of our concerns and held discussions with the Department. In October 2013, OMB rescinded FCIC's approved alternative sampling methods. RMA officials are consulting with OCFO, OMB, and OIG to develop a new alternative method. RMA officials expect to use its new sampling method to report FCIC's estimated improper payments for FY 2015 reporting.

Because RMA, OCFO, and OIG are working to improve FCIC's sampling methods to estimate improper payments, we are not making 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' School Breakfast Program (SBP) and

[7] The Agricultural Act of 2014 repealed FSA's DCP program. Because DCP is no longer authorized to receive future appropriations, we are not making any recommendations for DCP. In addition, because of the Department's planned actions to adequately document its discussions with OMB, we do not make a specific recommendation for LDP.
[8] Audit Report 05601-11-AT, *Risk Management Agency Compliance Activities* (September 16, 2009). RMA excluded indemnities below $2,500 from its sampling plan.

National School Lunch Program (NSLP) reported estimated improper payment percentages of 25.26 and 15.69, respectively. Last year, our FY 2012 review reported that FNS used results from a school year 2005 study to develop its current formulas to estimate improper payment rates for SBP and NSLP.[9] However, we noted that the study was outdated and could not provide confidence levels for future years; therefore, we did not believe FNS estimates projected from this study were reliable.

Furthermore, we reported FNS hired a contractor to conduct a study for school year 2012.[10] FNS officials believed this school year 2012 study would better reflect SBP and NSLP improper payment rates and account for corrective actions implemented since the last study conducted for school year 2005. During this review, we found that results from the updated study for SBP and NSLP were pending.

FNS expects results by the end of calendar year 2014 to assess FNS' efforts to comply with IPIA. Officials also continued to believe that the new tools and strategies included in the Healthy, Hunger-Free Kids Act of 2010 will help reduce errors in SBP and NSLP, but believed that it would take time to achieve less than a 10 percent error rate.[11]

We determined SBP and NSLP were not compliant with IPIA for a third consecutive year. As required by the law, USDA must submit to Congress proposed statutory changes necessary to bring these two programs into compliance.

USDA Did Not Meet Its Annual Reduction Targets

Half of USDA's high-risk programs did not meet their reduction target. These eight programs missed their reduction target by an average of 1.50 percent, ranging from 0.03 percent to 6.90 percent. Specifically, FNS' SBP, NSLP, and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) missed their reduction target by 0.90, 0.59, and 0.38 percent, respectively. FNS officials believed that its corrective actions noted in its action plan would reduce payment errors in these programs, and missing its targets by less than one percent was reasonable and within the confidence interval calculated for its sampling methods. FSA's Miscellaneous Disaster programs, Noninsured Assistance Program (NAP), and Conservation Reserve Program (CRP) missed their target by 1.68, 0.26, and 0.03 percent, respectively. FSA attributed the missed target to administrative and documentation errors, and believed that since the

[9] Audit Report 50024-0004-11, *USDA Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012* (March 14, 2013).

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

[11] 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. community eligibility to eliminate the collection and processing of household applications for benefits; and (4) established a second review of applications requirement for school districts that demonstrate high levels of administrative error associated with certification and verification.

NAP error rate had declined from FY 2012, it showed the agency has continued to reduce its improper payment rate. FSA also noted that new web-based software initiatives were expected to help reduce errors.

RMA's FCIC missed its target by 1.23 percent. RMA determined one of the companies sampled for FY 2013 improper payment reporting had grossly underestimated the resources it needed to address the crop insurance claim load for one of its crop years.[12] As a result, RMA found excessive errors in a high percentage of this company's IPIA samples, which caused an increase in FCIC's overall improper payment estimate.[13] RMA officials stated that the company was under close monitoring for the 2013 crop year and would not be approved for 2014, pending additional corrective actions and improvements. In addition, RMA implemented additional controls and requirements to ensure new applicants can demonstrate the capacity to address selling and servicing the business they write in accordance with their obligations under the Standard Reinsurance Agreement.[14]

Finally, NRCS' Farm Security and Rural Investment Act programs (FSRI) missed their target by 6.90 percent. NRCS officials stated that they made significant improvements to testing, which allowed them to identify more improper payments than in previous years. NRCS conducted training, issued national bulletins, updated its policy, and conducted a detailed review to ensure this does not happen again. Furthermore, officials stated they plan to conduct more in-depth training during FY 2014.

However, if these programs had met their reduction targets, $416 million in reported improper payments could have been avoided. Although these eight high-risk programs have initiated actions toward reducing improper payments, USDA must submit plans to Congress.

Overall, we found that some of USDA's high-risk programs did not comply with IPIA either for 1 year, or 3 consecutive years. Although many different actions intended to achieve compliance with IPIA are in progress, USDA remains noncompliant with IPIA overall. As required by law, the Department must submit to Congress: (1) a plan describing the actions that the agency will take to become compliant for those high-risk programs that did not comply with IPIA for 1 year; and (2) reauthorization proposals or proposed statutory changes necessary to bring those high-risk programs that did not comply with IPIA for 3 consecutive fiscal years into compliance. In addition, the Department should establish a process to document its communications related to its IPIA activities with OMB and other officials responsible for oversight, such as Congress.

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[12] RMA uses a 3 year running average to calculate its improper payment rate. The FY 2013 rate was based on the measurement of 2009, 2010, and 2011 crop year outlays. The identified company underestimated resources for the 2011 crop year.

[13] RMA reported that the company's error rate was 27.3 percent. This caused a significant increase in the reported error rate for all of 2011 IPIA samples, which subsequently increased FCIC's 3 year running average error rate to the 5.2 percent reported in USDA's FY 2013 AFR.

[14] The Standard Reinsurance Agreement is a cooperative financial assistance agreement between the FCIC and an insurance company. It establishes the terms under which FCIC provides reinsurance and subsidies on eligible crop insurance contracts sold by the insurance company.

Recommendation 1

Establish a process to document USDA's communications related to its IPIA activities with OMB and other officials responsible for oversight, such as Congress.

Agency Response

OCFO will establish a process to document its communications related to its IPIA activities with OMB and other oversight agencies. OCFO will complete this action by June 2, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

For programs that did not comply with IPIA for 1 year, submit a plan to the Homeland Security and Government Affairs Committee of the U.S. Senate and the Committee on Oversight and Governmental Reform of the U.S. House of Representatives describing the actions that the agency will take to become compliant.

Agency Response

USDA will submit a plan to the required Congressional committees describing the actions that the agency will take to become compliant for all programs that did not comply with IPIA for one year. OCFO will complete this action by July 31, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

For programs that did not comply with IPIA for 3 consecutive years, submit to Congress reauthorization proposals or proposed statutory changes necessary to bring these programs into compliance.

Agency Response

OCFO will issue guidance directing agencies to comply with this requirement. OCFO will complete this action by June 30, 2014.

OIG Position

We accept management decision for this recommendation.

Section 2: USDA's Internal Controls Over Reporting Improper Payments

Finding 2: Improper Payments Information in the AFR was Inaccurate and Incomplete

For 3 of the 16 high-risk programs, we found areas where some information related to improper payments reported was not properly supported.[15] In addition, we found that USDA's information on recoveries outside of recovery auditing was incomplete. Although USDA implemented a review process to reduce discrepancies between the AFR and supporting documentation, USDA did not fully implement our audit recommendation from the FY 2012 IPIA compliance report. In addition, certain links in the IPIA sampling process section of the AFR did not fully describe current sampling methods. Finally, the information was incomplete on recoveries outside of recovery auditing because one component agency did not provide the amount of recoveries its programs received, and OCFO erroneously excluded amounts from another program. As a result, we continue to see that some of USDA's reported actions to prevent, detect, reduce, and recover improper payments do not reflect its actual progress.

OMB requires agencies to summarize their progress in preventing, reducing, and recovering improper payments, and include the detailed portion of the reporting as an appendix to 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 Inspectors General to evaluate the accuracy and completeness of agency reporting.[16]

We reported similar occurrences since we began assessing USDA's compliance with IPIA in FY 2011.[17] During this third annual review, we found that OCFO required agencies to certify that the information in USDA's AFR was reviewed and accurate. This action helped reduce the number of programs with discrepancies in USDA's AFR from seven programs reported for FY 2012 to three programs reported for FY 2013. However, we continued to identify unsupported statements in USDA's AFR.

For example:

- The AFR did not report that incorrect acreage was a cause for improper payments in FSA's CRP, though the supporting documentation listed it as a cause.

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[15] These three programs included NRCS' FSRI, FNS' WIC, and FSA's CRP.
[16] 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 2013 Corrective Action Plan Guidance*; and OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).
[17] Audit Report 50024-0001-11, *USDA Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review* (March 14, 2012). Audit Report 50024-0004-11, *USDA 2012 Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012* (March 14, 2013).

- The AFR reported inaccurate sampling information for FNS' WIC, FSA's CRP, and NRCS' FSRI, although the supporting documentation used to develop USDA's AFR included the correct sampling methods.

Most of the inaccurate sampling information noted above occurred because links in the FY 2013 AFR directed the reader to outdated data and OCFO did not perform an adequate second party review to ensure updated information was provided. The presentation of the IPIA sampling section of the AFR should be updated to accurately reflect each program's method to estimate its improper payments.

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 incomplete. Each component agency was required to report the amount of improper payments recovered in its programs, regardless of whether it administered a high-risk program. However, we found that OCFO unintentionally omitted $120,000 in recovered amounts reported by Rural Development's Direct Single Family Housing Subsidies program, and FNS did not report recovered amounts for any of its programs. FNS officials responded that they will start reporting the Supplemental Nutrition Assistance Program (SNAP) recoveries in FY 2014, and will pursue the feasibility of reporting recoveries for its other programs. Because FNS indicated that it plans to report on some recoveries starting in FY 2014, we are not making a recommendation to FNS at this time. In addition, OCFO planned to enhance its current quality review process to reduce the risk of discrepancies in the IPIA section of the AFR.

Accurate reporting is indispensable to convey to Congress, OMB, and the public USDA's actual progress to prevent and recover improper payments. OCFO officials stated that they plan to fully implement our prior audit recommendation by revising the Department's current quality review process. That process includes a documented strategy with well-defined processes that produce the audit trail needed for verifying the accuracy and completeness of information in the IPIA section of the required supplemental information in the financial statements. In addition, the Department should revise the presentation of the "sampling process" section in USDA's AFR to ensure that the hyperlinks direct the reader to each program's most current sampling methods in accordance with OMB's guidance.

Recommendation 4

Revise the presentation of the "sampling process" section in USDA's AFR to ensure readers are able to find each program's most current sampling methods.

Agency Response

OCFO will enhance the agency review and certification process implemented last year by adding a checklist. OCFO will also develop a second checklist for OCFO staff's second party review process. OCFO will complete this action by September 30, 2014.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit focused on improper payments information reported in USDA's FY 2013 AFR and additional supporting documentation. We performed our review at OCFO Headquarters in Washington, D.C. We commenced fieldwork in December 2013 and completed our fieldwork in March 2014.

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 that described: (1) how sampling was performed; (2) how estimates were calculated and completed, or (3) 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 specific requirements of the IPIA, as amended:

- **Published an AFR for the Most Recent Fiscal Year and Posted that Report on the Agency Website**: We obtained and reviewed the FY 2013 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**: Of the 112 risk assessed programs or activities, we non-statistically selected 8 programs and activities, 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 eight 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**: 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 High-Risk Program Assessed**: We reviewed the improper payments reduction outlook table in Section 3 of the FY 2013 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 FY 2013 AFR.

- **Reported a Gross Improper Payment Rate of Less Than 10 Percent for Each High-Risk Program Published in the AFR**: We reviewed the improper payment sampling results table in Section 3 of the FY 2013 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 FY 2013 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

OIG..Office of Inspector General
USDA.....................................Department of Agriculture
AFR...Agency Financial Report
CACFP...................................Child and Adult Care Food Program
CCC.......................................Commodity Credit Corporation
CRP..Conservation Reserve Program
DCP..Direct and Counter-Cyclical Payments
FCIC.......................................Federal Crop Insurance Corporation
FDCH.....................................Family Day Care Homes
FNS..Food and Nutrition Service
FS...Forest Service
FSA..Farm Service Agency
FSRI.......................................Farm Security and Rural Investment Act Programs
FY...Fiscal Year
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
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 IPIA Requirements

Exhibit A provides a detailed description of the seven requirements agencies must meet to comply with Improper Payments Information Act of 2002, as amended.

Description of IPIA Requirements	OIG Fiscal Year 2013 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	Discussed in Finding 1.
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 compliance services 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 Marketing Assistance Loan 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)

USDA'S
RESPONSE TO AUDIT REPORT

April 14, 2014

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, D.C. 20250

TO: Tracy A. LaPoint
Deputy Assistant Inspector General
Office of 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 2013*, Audit No. 50024-0005-11

This responds to your request for management's response to the Draft audit recommendations in Audit Report No. 50024-0005-11. The management response is attached.

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.

Attachment

Improper Payments Elimination and Recovery Act of 2010,
Fiscal Year 2013 Report, Audit No. 50024-0005-11

Recommendation 1

Establish a process to document USDA's communications related to its Improper Payments Information Act of 2002 (IPIA) activities with OMB, and other officials responsible for oversight, such as Congress.

Management Response: The Office of the Chief Financial Officer (OCFO) will establish a process to document its communications related to its IPIA activities with OMB and other oversight agencies. All team members will be directed to send a summary email after verbal communications or to prepare a memo of conversation. All memos of conversation, emails, letters, memos and scanned hard copy documents will be placed in a designated folder on the network drive.

Date Corrective Action will be Completed: June 2, 2014

Responsible Organization: Fiscal Policy Division (FPD), OCFO

Recommendation 2

For programs that did not comply with IPIA for 1 year, submit a plan to the Homeland Security and Government Affairs Committee of the U.S. Senate and the Committee on Oversight and Governmental Reform of the U.S. House of Representatives describing the actions that the agency will take to become compliant.

Management Response: USDA will submit a plan to the Homeland Security and Government Affairs Committee of the U.S. Senate and the Committee on Oversight and Governmental Reform of the U.S. House of Representatives describing the actions that the agency will take to become compliant for all programs that did not comply with IPIA for one year.

Date Corrective Action will be Completed: July 31, 2014

Responsible Organization: FPD, OCFO

Recommendation 3

For programs that did not comply with IPIA for three consecutive years, submit to Congress reauthorization proposals or proposed statutory changes necessary to bring these programs into compliance.

Management Response: USDA will issue guidance directing agencies to comply with this requirement.

Date Corrective Action will be Completed: June 30, 2014

Responsible Organization: FPD, OCFO

Recommendation 4

Revise the presentation of the "sampling process" section in USDA's AFR to ensure the hyperlinks direct the reader to each program's most current sampling methods.

Management Response: OCFO is considering several options to eliminate errors in the 2014 AFR sampling process section including eliminating all hyper-links. OCFO will enhance the agency review and certification process implemented last year by adding a checklist. OCFO will also develop a second checklist for OCFO staff's second party review process. Both checklists will include special emphasis on the sampling process.

Date Corrective Action will be Completed: September 30, 2014

Responsible Organization: FPD, OCFO

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

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