U.S. Department of Agriculture

Office of Inspector General
Western Region

Audit Report

Improper Payments - Monitoring the Progress of Corrective Actions for High-Risk Programs in the Forest Service

Report No. 08601-47-SF
February 2007

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

FEB 1 2007

REPLY TO
ATTN OF: 08601-47-SF

TO: Dale Bosworth
Chief
Forest Service

ATTN: Sandy Coleman
Audit Liaison

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Improper Payments – Monitoring the Progress of Corrective Actions for High-Risk Programs in the Forest Service

This report presents the results of our audit of Forest Service (FS) actions to quantify the extent of improper payments in the Wildland Fire Suppression Program and to evaluate efforts by the FS to eliminate improper payments in this program. The FS' written response to the draft report is included as exhibit C with excerpts from the response and the Office of Inspector General's position incorporated into the relevant sections of the report.

Based on the written response, we have accepted FS' management decision for all the report recommendations. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the assistance your staff provided to our auditors during our audit.

Attachment

Executive Summary

Improper Payments – Monitoring the Progress of Corrective Actions for High Risk Programs in the Forest Service

Results in Brief

In November 2002, the President signed the Improper Payments Information Act, which requires agencies to report in their performance and accountability reports (PAR) an annual estimated amount of improper payments for all programs they identify as high risk beginning in fiscal year (FY) 2004. Improper payments are payments that should not have been made or that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Forest Service (FS) reported its Wildland Fire Suppression Program (WFSU) as its only high-risk program.

Our audit focused on FS' compliance with Office of Management and Budget (OMB) requirements for determining improper payments for WFSU and for establishing corrective actions. Accordingly, we did not recalculate WFSU's error rate and estimated improper payment amount when errors were determined by our audit. We also reviewed the risk assessments FS performed for its other programs where it had estimated a high error rate and improper payment amount but did not designate the programs as high risk.

We concluded that FS lacked the controls necessary to ensure that both the improper payment reviews it performed on WFSU and the risk assessments it performed on its remaining programs met OMB requirements. Due to this lack of controls, FS incorrectly estimated the error rate and improper payment amount for WFSU and three of its other programs. FS also lacked statistical sampling plans for its improper payment reviews and had no plans to recover the erroneous payments identified during these reviews. As a result FS could not provide a reasonable estimate of improper payments for its high risk programs as required by OMB.

<u>WFSU's FY 2005 Estimated Error Rate and Improper Payment Amount Incorrectly Determined</u>

In FY 2005, FS' approach to estimating an improper payment rate for WFSU did not meet the statistical sampling requirements established by OMB. Specifically, we determined that FS did not properly: (1) account for each of the payments that it statistically selected in its sample, (2) calculate an error rate using only the amount of the selected payment that was in error, and (3) apply the error rate to the universe of payments made within WFSU. We attribute these errors to FS' lack of controls for ensuring that the improper payment reviews were conducted in compliance with OMB requirements. As a result, FS' $73 million

estimate of improper payments for WFSU (3.7 percent of total outlays) was neither statistically valid nor representative of the program.

No Statistical Sampling Plan

Although Government Accountability Office (GAO) guidelines require that a sampling plan be developed prior to implementing any sampling procedures, FS did not have statistical sampling plans for its improper payment reviews. According to FS, they did not know that statistical sampling plans were required and they lacked the expertise to develop them. Statistical sampling plans are necessary not only to document the statistical sampling process, but also to explain and support the results. During the audit, FS could not readily explain how it arrived at its FY 2005 error rate since it had not been adequately documented. A sampling plan would have provided FS with a means to document how WFSU's FY 2005 error rate was calculated. According to FS official's, they will develop statistical sampling plans for each of the FS improper payment reviews. However, prior to developing these plans, FS may need to consult with an outside expert to ensure that they meet both OMB and GAO guidelines.

No Plan for Recovering Erroneous Payments

FS did not have a process in place for recovering erroneous payments identified during its improper payment reviews. Further, in its PAR, FS did not report the erroneous payments it expected to recover or how it planned to recover them. FS had not made it a priority to recover any erroneous payments determined from its improper payment reviews and therefore omitted this required information from the PAR. We concluded that it may not be cost effective for FS to collect back every erroneous payment identified during its improper payment reviews due to the low amounts of the payments (see exhibit B). FS should establish a materiality level for determining which of the identified erroneous payments should be recovered.

Incorrectly Estimated Error Rates and Improper Payment Amounts for Other Programs

While performing risk assessments in FY 2006, FS made similar errors when estimating error rates and improper payment amounts for three of its other programs: National Forest System (NFS), Wildland Fire Management (WFM), and Capital Improvement and Maintenance (CIM). Specifically, FS did not properly (1) account for each of the payments that it judgmentally selected in its sample, and (2) calculate an error rate using only the amount of the selected payment that was in error. We attributed these errors to the lack of controls previously discussed. As a

result, FS did not report an accurate error rate and improper payment amount to OMB for these other programs.

We reported the first three conditions discussed above to FS' Chief in May 2006 in a management alert. In its May 2006 response, FS agreed with each of our recommendations.

Recommendations In Brief

We recommend that FS recalculate FY 2005's estimated error rate and improper payment amount for WFSU in accordance with OMB requirements and report the change in its next PAR. We also recommend that FS develop sampling plans for all improper payment reviews and establish internal controls to provide reasonable assurance that the statistical sampling and PAR reporting process conform to OMB requirements. These controls should include a quality assurance review of its sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance.

In addition, we recommend that FS establish a materiality level for determining which of the erroneous payments identified during its improper payment reviews needs to be recovered. We also recommend that FS report in the next PAR the actual amount of erroneous payments it plans to recover from its FY 2005 and 2006 improper payment reviews.

Finally, we recommend that FS recalculate FY 2006's estimated error rates and improper payment amounts for NFS, CIM and WFM in accordance with OMB requirements and report the changes to the Office of the Chief Financial Officer.

Agency Response

In its written response to the draft report, dated December 21, 2006, FS generally concurred with all of our findings and recommendations and stated its belief that our recommendations will benefit the overall payment processing of high-risk programs. FS' written response is shown in exhibit C of the audit report.

OIG Position

Based on FS' written response, OIG accepts FS' management decisions for all of the audit recommendations.

Abbreviations Used in This Report

CIM	Capital Improvement and Maintenance
FS	Forest Service
FY	Fiscal Year
GAO	Government Accountability Office
IPIA	Improper Payments Information Act of 2002
NFS	National Forest System
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance Accountability Report
USDA	United States Department of Agriculture
WFM	Wildland Fire Management
WFSU	Wildland Fire Suppression
WO	Forest Service Washington Office

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Background and Objectives

Background

In November 2002, the President signed Public Law 107-300, the Improper Payments Information Act of 2002 (IPIA). IPIA requires agencies to report in their performance and accountability reports beginning in fiscal year (FY) 2004 an annual estimate of improper payments for all programs they identify as high risk. Improper payments are payments that should not have been made or that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Forest Service (FS) reported the Wildland Fire Suppression Program (WFSU) as its only high risk program.

In May 2003, the Office of Management and Budget (OMB) issued guidance requiring agencies to review annually all programs and activities they administer and to identify those which may be at high risk for improper payments.[1] To accomplish this, agencies were required to perform risk assessments in which a judgmentally selected sample of transactions was tested to estimate an initial error rate and improper payment amount. OMB defines high-risk programs as programs that agencies have estimated their improper payments to exceed an annual threshold of $10 million and 2.5 percent of the program's payments. For those programs and activities identified as high risk, agencies were then required to estimate the amount of improper payments based on a valid statistical sample.[2] This estimate is the gross total of both over and underpayments.

For all programs determined to be high risk (based on a statistical projection), agency officials are to identify the precise reasons why its programs and activities are at risk for improper payments and to take corrective action. When agencies compile their plans to reduce improper payments, targets should be set for future improper payment levels and a timeline established by which the targets will be reached. Agency managers (including the agency head) are to be held accountable for reducing and recovering improper payments. In addition, agencies are to assess and report on any infrastructure needed to reduce improper payments and to identify any barrier which may limit the agencies in mitigating improper payments.

Within the U.S. Department of Agriculture (USDA), the Office of the Chief Financial Officer (OCFO) is designated as the lead agency for coordinating and reporting the Department's efforts to implement IPIA.

Objectives

Our objectives were to: (1) evaluate FS' actions to quantify the extent of improper payments in WFSU, and (2) evaluate FS' efforts to establish

[1] OMB Memo. M-03-13 (May 21, 2003)

[2] The estimates are to be based on the equivalent of a statistical random sample with a precision requiring a sample of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percent around the estimate of the percentage of erroneous payments.

corrective actions. We also reviewed risk assessments the agency performed for its other programs where it had estimated a high error rate and improper payment amount, but did not designate the programs as high risk.

See the Scope and Methodology section at the end of this report for details about our audit methodology.

Findings and Recommendations

Section 1. Error Rates and Improper Payments

Our audit determined that FS lacked the controls necessary to ensure that both the improper payment reviews it performed on its Wildland Fire Suppression Program (WFSU) and the risk assessments it performed on its remaining programs met OMB requirements. Due to this lack of controls, FS incorrectly estimated the error rate and improper payment amount for WFSU and three other programs. FS also lacked statistical sampling plans for its improper payment reviews and had no procedures in place to recover the erroneous payments identified from those reviews.

Finding 1 — FS Incorrectly Estimated Its FY 2005 Error Rate and Improper Payment Amount for the Wildland Fire Suppression Program

FS' approach to estimating an improper payment rate for WFSU in FY 2005 did not meet the statistical sampling requirements established by OMB. Specifically, we determined that FS did not properly: (1) account for each of the payments that it statistically selected in its sample, (2) calculate an error rate using only the amount of the selected payment that was in error, and (3) apply the error rate to the universe of payments made within WFSU. We attribute these errors to FS' lack of controls for ensuring that the improper payment reviews were conducted in compliance with OMB requirements. For example, FS did not have a quality assurance review of the sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance. As a result, FS' $73 million estimate of improper payments for WFSU (3.7 percent of total outlays) was neither statistically valid nor representative of the program. Our audit also identified two errors that FS made while conducting its review to identify improper payments for FY 2006. FS agreed to correct the errors before completing its FY 2006 review and estimating the new error rate and improper payment amount.

OMB requires agencies to estimate the annual amount of improper payments (the gross total of overpayments and underpayments) for their high-risk programs using valid statistical samples.[3] Agencies are also required to maintain documentation to support their reviews and to report their programs' statistically valid error rates to the President and Congress in their performance accountability reports (PAR).

[3] OMB Memo. M-03-13, pgs. 2-4 (May 21, 2003)

The following are discrepancies we noted while reviewing FS' process for estimating error rates and improper payment amounts for FYs 2005 and 2006.

FY 2005

For FY 2005, FS reported an error rate of 3.7 percent for WFSU and improper payments of $73 million. However, we determined that FS did not correctly compute the error rate using the appropriate universe of program payments in order to project the improper payment amount, and did not complete a followup for all of the transactions it selected for review.

WFSU had 1.67 million payment transactions valued at almost $1 billion in FY 2005. To determine the FY 2005 error rate for WFSU, FS began by excluding from the program universe 1.62 million of the transactions valued at $402,345,868 related to payroll and travel because they were systematic payments that the National Finance Center had already audited and therefore at minimal risk of being in error. However, FS did not first obtain approval from OCFO to exclude the 1.62 million payroll and travel related transactions. According to OCFO, it would need to approve the exclusion of these transactions from the program universe. From the remaining 48,545 transactions valued at $496,928,241, FS used statistical sampling software to determine the appropriate number to review. The software selected 167 transactions valued at $1.15 million. FS could not locate supporting documents for 10 of these due to its recent office move and the agency, therefore, excluded them from the sample. FS' review of the remaining 157 transactions determined that 8 had improper payment errors.

FS' corrective action plan for WFSU indicated that the program's error rate was calculated by dividing the total number of improper payments (8) by the total number of payment transactions reviewed (157). This calculation, however, results in an error rate of just over 5 percent—not the 3.7 percent that FS reported in PAR. When questioned, FS could not explain how it had arrived at its error rate.

FS then used the error rate to estimate WFSU's $73 million improper payment amount by multiplying almost $2 billion in total program outlays by 3.7 percent. However, the $2 billion in program outlays included both $1 billion from other programs that were not part of WFSU transactions, and the payroll and travel transactions that FS had previously excluded.

After discussing FS' sampling methodology with OIG's statistician, we concluded that the error rate should have been calculated by adding the value of the portion of the selected transactions reviewed that were

improper and then dividing that amount by the total value of all statistically selected payments. In calculating the improper payment amount, FS should have multiplied that error rate by the value of only those payments within WFSU, excluding payroll and travel which was eliminated from the program universe before the sample of transactions reviewed was selected.

We also concluded that the 10 selected transactions where documentation could not be found should have been considered improper and their value included in the error rate calculation. As a result of our audit, FS followed up on the 10 transactions and found supporting documentation for 4 of them. In its recalculation of the error rate, FS should therefore consider as improper only the six transactions that lack supporting documentation.

Finally, we concluded that FS needs to obtain OCFO's approval before eliminating the payroll and travel related transactions from the WFSU program universe when performing its improper payment reviews.

FY 2006

In reviewing a sample of the FY 2006 payment transactions that FS statistically selected for review, we noted two errors.

1. FS determined one payment was improper because it was paid early.[4] The contract pertaining to the transaction, however, allowed for early payment.

2. FS determined that a payment was proper but our review disclosed an error in the date used to calculate the interest.[5]

FS agreed to correct the errors before it completes its FY 2006 review and calculates the new error rate and improper payment amount.

For both the FY 2005 and 2006 improper payment reviews, FS did not have statistical sampling plans. According to FS, the plans were not required and the agency lacked the expertise to develop them. GAO guidelines require that sampling plans be developed prior to implementing any sampling procedures.[6] Statistical sampling plans are necessary not only to document the statistical sampling process, but also to explain and support the results. Without such a plan, for example, FS was not able to explain how it arrived at its FY 2005 error rate. FS now intends to develop statistical sampling plans for each of its improper payment reviews. However, the agency may need to consult with an outside expert to ensure that they meet OMB and GAO guidelines.

[4] Payment #WFSU-0156-013
[5] Payment #WFSU-0812-132
[6] GAO/PEMD-10.1.6, "Statistical Sampling," pgs. 30-31

OMB requires agencies to report the amount of actual erroneous payments that the agency expects to recover and how it will go about recovering them.[7] It also requires agencies to describe the steps taken and planned to ensure that agency managers (including the agency head) are held accountable for recovering erroneous payments. FS, however, did not have a process in place for recovering the erroneous payments it identified during the FY 2005 and 2006 improper payment reviews. FS also did not report in its PAR the amount of erroneous payments it expected to recover or how it planned to recover them. These conditions arose because the agency had not made it a priority to recover any erroneous payments identified during its improper payments review.

We reviewed the identified improper payments (see exhibit B) and at the time of our review, FS had not taken actions to collect the improper payments identified (see exhibit A). The FS should establish a materiality level for determining which improper payments should be recovered. The FS should also report in its next PAR the amount it plans to recover from its FY 2005 and 2006 improper payment reviews and how it plans to recover them.

In May 2006, we reported all but the last condition to the FS' Chief in a management alert. The alert recommended that FS (1) recalculate FY 2005's estimated error rate and amount of improper payments in accordance with OMB requirements and report the changes in the next PAR, (2) correct those errors noted during our audit before determining FY 2006's error rate and improper payment amount, (3) develop sampling plans for all improper payment reviews, and (4) establish internal controls to provide reasonable assurance that the statistical sampling and PAR reporting process conform to OMB requirements. In its May 2006 written response to the management alert, FS concurred with each of our recommendations.

Recommendation 1

Obtain approval from OCFO before excluding the payroll and travel related transactions from the WFSU program universe when performing improper payment reviews.

Agency Response

The FS requested and was denied approval to exclude payroll and travel transactions from the WFSU program universe. The agency is therefore currently including these transactions in the universe and considers this recommendation closed.

[7] OMB Memo. M-03-13, pg. 5, (May 21, 2003)

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Recommendation 2

Recalculate FY 2005's estimated error rate and improper payment amount in accordance with OMB requirements and report the changes in the next PAR.

Agency Response

The agency recalculated the error rate from 3.7 percent to 1 percent as a result of the correction in computation. This resulted in a change in reported estimated erroneous payments from $65 million to $4.9 million. The USDA FY 2006 IPIA Corrective Action Plan report, dated June 9, 2006, includes these corrections. This information has also been included in the FY 2006 FS PAR's MD&A section that has been reviewed by KPMG as part of the financial statement audit.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of its FY 2006 IPIA Corrective Action Plan and PAR.

Recommendation 3

Before determining FY 2006's estimated error rate and improper payment amount, correct the two errors noted on page 5 where one of the transactions should have been determined proper because the contract allowed for early payment and other determined improper due to an error found in the date used to calculate the interest.

Agency Response

The agency has corrected the error by 1) removing the amount that OIG determined was properly paid, and 2) adding the amount that OIG determined was improper because the date used to calculate the interest was incorrect. The action was completed with the submission of the USDA FY 2006 IPIA Corrective Action Plan.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing the errors were corrected before determining FY 2006's estimated error rate and improper payment amount.

Recommendation 4

Establish internal controls to provide reasonable assurance that the statistical sampling and the PAR reporting processes conform to OMB requirements. These controls should include a quality assurance review of the sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance.

Agency Response

A procedure for quality assurance of the sampling design and second party reviews of the sampling process and guidance will be developed. FS has contracted with external consultants to obtain the advisory and review capability for its proposed statistical sampling process. This contract is in place and they will perform a quality assurance review of the process. FS will also work with internal statisticians to develop the sampling process for the contractor to review. This will ensure that FS has adequate controls within the sampling process to comply with the OMB guidance. In addition, FS will utilize an internal quality review process to test the compliance of the actual audit to the sampling plan to ensure internal quality with an external review conducted by FS statisticians to ensure compliance with the sampling plan. Therefore, FS will have several reviews to ensure quality and compliance to the sampling plan. FS' estimated completion date for this action is January 31, 2007.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide to the Office of the Chief Financial Officer documentation showing that the agreed upon action has been taken.

Recommendation 5

Develop sampling plans for all improper payment reviews.

Agency Response

As mentioned in the response to Recommendation No. 4, the agency will develop a sampling plan for the improper payments reviews utilizing external consultants specializing in auditing sampling plans. These consultants will

work closely with FS staff to ensure that the plan meets the criteria and that compliance is documented. FS' estimated completion date for this action is January 31, 2007.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer a copy of its sampling plan.

Recommendation 6

Establish a materiality level for determining which of the erroneous payments identified during improper payment reviews should be recovered.

Agency Response

The agency currently has a process for recovering erroneous payments. That process is being utilized for erroneous payments identified by the IPIA Recovery Auditing Process. FS will revise the policy to include a materiality threshold for recovering erroneous payments identified by the IPIA process. FS' estimated completion date for this action is January 31, 2007.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer its revised policy including the materiality threshold for recovering erroneous payments identified by the IPIA process.

Recommendation 7

Recover from vendors those erroneous payments determined by FS' improper payment reviews (see exhibit B) that exceed the materiality level established in Recommendation 6.

Agency Response

The agency will collect the payments that were a direct result of a FS payment error which totaled $5,260.93. The agency disagrees with the collection of unsupported costs of $87,592.47. The reason for the error is that the agency cannot locate the supporting documentation for the six transactions that represent this amount. During the FY 2005 audit, the WFSU records were relocated to the Albuquerque Service Center from various payment sites throughout the country. The FS cannot collect this amount as there is no documentation to determine that there was an actual overpayment. The agency does not believe this is an overpayment. The

effort to locate the supporting documentation is not cost beneficial. FS' estimated completion date for this action is January 31, 2007.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide the Office of the Chief Financial Officer documentation showing that it has recovered from vendors the $5,260.93 in overpayments.

Recommendation 8

Report the actual amount of erroneous payments that FS plans to recover from its FY 2005 and 2006 improper payment reviews, and how it plans to recover them in the next PAR.

Agency Response

Due to the timing of issuing the PAR, the FY 2006 PAR is a final draft and no changes are allowed. The FS will create policy and procedures to collect and recover erroneous payments identified in the IPIA audit. An administratively appropriate level of materiality, as identified in Recommendation No. 6, will determine the formal policy that will be written after the analysis is complete. The process will utilize the existing collection process used for other erroneous payments identified by other processes, for example, recovery auditing or internal analysis. Any amounts recovered will be reported in the 2007 PAR. The narrative will indicate which erroneous payments have been identified, how much has been billed, and actual recovery amounts. FS' estimated completion date for this action is November 27, 2007.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide to the Office of the Chief Financial Officer a copy of its FY 2007 PAR along with its policy and procedures for collecting and recovering erroneous payments identified in the IPIA audit.

Finding 2 — FS Incorrectly Estimated Error Rates and Improper Payment Amounts for Its NFS, WFM, and CIM Programs

While performing the risk assessments in FY 2006, FS incorrectly estimated error rates and improper payment amounts for three programs: National Forest System (NFS), Wildland Fire Management (WFM), and Capital

Improvement and Maintenance (CIM). Specifically, FS did not properly (1) account for each of the payments that it judgmentally selected in its sample, and (2) calculate an error rate using only the amount of the selected payment that was in error. We attributed these errors to the lack of controls discussed in Finding 1. As a result, FS did not properly determine and report to OMB each program's error rate and improper payment estimate as required.

To determine whether other FS programs should have also been designated as high risk, we reviewed the form FS used to document the results of its risk assessments for FYs 2005 and 2006. NFS, WFS and CIS each had estimated improper payments exceeding $10 million and 2.5 percent of program payments. Although regulations required programs to be designated as high risk at these levels, FS had not done so because it wanted first to assess each program's internal controls and then to decide whether further testing was needed. FS believed that most of these errors were due to the recent migration of the payment function to the Albuquerque service center.

To determine the FY 2006 error rates for NFS, WFM, and CIS, FS judgmentally selected the 25 largest transactions from each program's universe of payment transactions. For NFS, FS could not locate supporting documents for 2 of the selected payment transactions due to its recent office move and therefore excluded them from the judgmental sample. FS' review of the remaining transactions determined the following error rates: NFS (18 percent), CIM (7 percent), and WFM (6 percent).

The form FS used to document the results of the risk assessment indicated that each program's error rate was calculated by dividing the total value of the payment transactions that had errors by the total value of the payment transactions reviewed. We concluded, though, that the error rate should have been calculated by adding only the value of the portion of the selected transactions reviewed that were improper and then dividing that amount by the total value of all judgmentally selected payments. In calculating the improper payment amount, FS should have multiplied that error rate by the total value of those payments within the program under review.

We also concluded that the 2 selected transactions for NFS where documentation could not be found should have been considered improper and the value of the transactions which totaled over $2.2 million included in the error rate calculation. However, as a result of our audit, FS followed up on the 2 transactions and subsequently found supporting documentation for each of them.

Recommendation 9

Recalculate FY 2006's error rates and estimated improper payments for NFS, CIM and WFM in accordance with OMB requirements and report the changes to OCFO.

Agency Response

The agency recalculated the FY 2006 error rates and estimated improper payments for NFS, CIM, and WFM in accordance with OMB requirements and reported the changes to OCFO. The error rates calculated out to 0 percent. This information has been included in the FY 2006 FS PAR's MD&A section that has been reviewed by KPMG as part of the Financial Statement Audit.

OIG Position

We accept FS' management decision on this recommendation. For final action, FS needs to provide to the Office of the Chief Financial Officer the FY 2006 PAR showing the recalculated error rates and estimated improper payments for NFS, CIM, and WFM.

Scope and Methodology

The primary purpose of our review was to determine whether FS had properly estimated the error rate and improper payment amount for its Wildland Fire Suppression Program for FYs 2005 and 2006 in accordance with OMB requirements. We also reviewed the risk assessments the agency performed for its other programs where it had calculated a high error rate and estimate of improper payments but did not designate the programs as high risk.

To accomplish our audit objectives, we performed audit work at FS' Albuquerque service center in Albuquerque, New Mexico. Fieldwork was performed between March and July 2006.

In developing the findings in this report, we performed the following steps and procedures:

- Reviewed all laws and regulations pertaining to the improper payment review process.
- Interviewed key FS staff at the Albuquerque service center, including the branch chief for budget and finance and the improper payment review team leader.
- Obtained and reviewed all documentation pertaining to FS improper payment reviews conducted for FYs 2005 and 2006.
- Discussed FS' sampling methodology with OIG's statistician to determine its validity.
- Interviewed FS staff including the incident business branch chief to ascertain FS' process for collecting erroneous overpayments.
- Reviewed forms documenting the risk assessments that FS conducted in FYs 2005 and 2006 for its other programs to ascertain whether the risk levels were properly determined and reported.

Our audit was conducted in accordance with generally accepted Government auditing standards.

Exhibit A – Summary of Monetary Results

Recommendation Number	Description	Amount	Category
7	Amount FS overpaid vendors (determined from its FY 2005 and 2006 improper payment reviews (see exhibit B)).	$5,260.93[1]	Questioned Costs, Recovery Recommended
7	Amount FS paid vendors that was unsupported (determined from its FY 2005 and 2006 improper payment reviews (see exhibit B)).	$87,592.47[2]	Unsupported Costs, Recovery Recommended
7	Amount FS underpaid vendors (determined from its FY 2005 and 2006 improper payment reviews (see exhibit B)).	$243.09[1]	Underpayments and Overcollections
Total		$93,096.49	

[1] Amount was identified by FS but FS had no plans to collect it back.
[2] Amount pertaining to 6 transactions FS statistically selected for review but later dropped from its sample after it could not find supporting documentation. We concluded that the transactions should have been considered improper and their values included in the error rate calculation.

Exhibit B – Erroneous Payments FS Identified During Its FY 2005 and 2006 Improper Payment Reviews

SAMPLE NUMBER	PAYMENT AMOUNT	AMOUNT OVERPAID	AMOUNT UNDERPAID	AMOUNT UNSUPPORTED	TOTAL AMOUNT
FY 2005					
WF SU-R-10-0506-107	$1,859.08	$2.26			
WF SU-R-11-0506-126	$9,122.66	$4,732.06			
WF SU-R-11-0503-116	$334.60		$62.40		
WF SU-R-11-0506-118	$2,289.53	$38.64			
WF SU-R-11-0506-119	$155.44	$38.64			
WF SU-R-12-0415-150	$39,243.65		$117.45		
WF SU-R-12-0502-147	$108.36	$2.33			
WF SU-R-01-0116-016	$549.50			$549.50	
WF SU-R-01-0116-020	$771.45			$771.45	
WF SU-R-02-0116-043	$3,159.28			$3,159.28	
WF SU-R-12-0305-158	$36.00			$36.00	
WF SU-R-11-0615-129	$737.70			$737.70	
WF SU-R-11-0618-132	$712.30			$712.30	
TOTAL FY 2005	$59,079.55	$4,813.93	$179.85	$5,966.23	$10,960.01
FY 2006					
WF SU-0812-132	$1,644.05		$3.75		
WF SU-1502-159	$92,016.36		$19.13		
WF SU-0312-037	$7,250.00		$32.65		
WF SU-0114-007	$3,297.00		$7.71		
WF SU-0114-008	$700.50	$447.00			
WF SU-0116-009				$11.08	
WF SU-0216-020				$14,486.00	
WF SU-0231-022				$108.43	
WF SU-0417-050				$9,894.97	
WF SU-0460-054				$191.88	
WF SU-0502-058				$23.28	
WF SU-0502-059				$16.29	
WF SU-0507-071				$961.13	
WF SU-0509-074				$2,199.69	
WF SU-0510-076				$161.00	
WF SU-0512-080				$22.12	
WF SU-0512-082				$203.28	
WF SU-0515-087				$3,674.48	
WF SU-0520-091				$89.20	
WF SU-0521-092				$278.17	
WF SU-0521-093				$14.86	
WF SU-0521-094				$794.00	
WF SU-0521-095				$4,903.20	
WF SU-0601-104				$2,463.31	
WF SU-0602-108				$22,742.15	
WF SU-0602-109				$221.70	
WF SU-0627-124				$325.12	
WF SU-0802-126				$1,427.00	
WF SU-0802-127				$816.00	
WF SU-0802-128				$407.40	
WF SU-0802-129				$4,531.68	
WF SU-0802-130				$9,227.52	
WF SU-0807-131				$900.00	
WF SU-1302-142				$4.77	
WF SU-1325-149				$14.53	
WF SU-2442-165				$512.00	
TOTAL FY 2006	$104,907.91	$447.00	$63.24	$81,626.24	$82,136.48
TOTAL FY'S 2005 & 2006	$163,987.46	$5,260.93	$243.09	$87,592.47	$93,096.49

USDA United States Department of Agriculture | Forest Service | Washington Office | 1400 Independence Avenue, SW Washington, DC 20250

File Code: 1430
Route To:

Date: DEC 2 1 2006

Subject: Response to the Office of Inspector General (OIG) Audit Report No. 08601-47-SF, "Forest Service Improper Payments - Monitoring the Progress of Corrective Actions for High-Risk Programs in the Forest Service"

To: Robert W. Young, Assistant Inspector General for Audit, Office of Inspector General, USDA

Thank you for the opportunity to review and comment on the official draft OIG Audit Report No. 08601-47-SF, "Forest Service Improper Payments - Monitoring the Progress of Corrective Actions for High-Risk Programs in the Forest Service." The Forest Service generally concurs with the recommendations in the report. Also, the corrective actions to implement the recommendations will benefit the overall payment processing of High-Risk programs. Please refer to the enclosed for actions taken or proposed to implement the recommendations.

If you have any questions, please contact Sandy T. Coleman, Assistant Director for GAO/OIG Audit Liaison Staff, at 703-605-4699 or Art Seggerson, OIG Audit Liaison, at 703-605-4983.

for Warren Yr
JESSE L. KING
Chief Financial Officer

Enclosures

cc: Art Seggerson, Patrick J Wagner, Jennifer McGuire

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United States Department of Agriculture
Forest Service (FS)

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Office of Inspector General (OIG) Audit Report No. 08601-47-SF
Improper Payments
Monitoring Progress of Corrective Actions – High Risk Payments
Issued November 2006

FS Response to Official Draft

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OIG Recommendation 1: Obtain approval from OCFO before excluding payroll and travel related transactions from the WFSU program universe when performing improper payment reviews.

FS Response to Recommendation 1: The Forest Service requested and was denied approval to exclude payroll and travel transactions from the WFSU program universe. The Agency has included these transactions in the universe and considers this recommendation closed. The first round of statistical sampling for the WFSU program has pulled 40 payroll (Trans Code PY) and 12 travel transactions (Trans Code XT) that are currently being audited. See **TAB A**.

Estimated Completion Date: Completed

OIG Recommendation 2: Recalculate FY 2005's estimated error rate and improper payment amount in accordance with OMB requirements and report the changes in the next PAR.

FS Response to Recommendation 2: The Forest Service concurs with this audit recommendation. The Agency recalculated the error rate from 3.7% to 1% as a result of the correction in computation. This resulted in a change in reported estimated erroneous payments from $65 million to $4.9 million. Based on the 2005 audit error rate of 1% and the 2006 audit error rate of 2.49%, the Forest Service believes that the WFSU fund has effective internal controls over the payment function. The USDA FY 2006 IPIA Corrective Action Plan report, dated June 9, 2006, includes these corrections. See **TAB B**. This information has been included in the FY 2006 Forest Service PAR's MD&A section that has been reviewed by KPMG as part of the Financial Statement Audit. See **TAB C**, page 35, Improper Payment Information Act, first paragraph.

Estimated Completion Date: Completed

Page 1 of 4

OIG Recommendation 3: Before determining FY 2006's estimated error rate and improper payment amount, correct the two errors noted on page 5 where one of the transactions should have been determined proper because the contract allowed for early payment and the other determined improper due to an error found in the date used to calculate the interest.

FS Response to Recommendation 3: The Forest Service concurs with this audit recommendation. The Agency has corrected the error by 1) removing the amount that the OIG determined was properly paid and 2) adding the amount that OIG determined was improper because the date used to calculate the interest was incorrect. The action was completed with the submission of the USDS FY 2006 IPIA Corrective Action Plans, Forest Service Actions. See **TAB B**. The amount shown reflects the net effect of the changes noted.

Estimated Completion Date: Completed

OIG Recommendation 4: Establish internal control to provide reasonable assurance that the statistical sampling and the PAR reporting processes conform to OMB requirements. These controls should include a quality assurance review of the sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance.

FS Response to Recommendation 4: Forest Service concurs with this audit recommendation. A procedure for quality assurance of the sampling design and second party reviews of the sampling process and guidance will be developed. Forest Service has contracted with external consultants to obtain the advisory and review capability for our proposed statistical sampling process. This contract is in place and they will perform a quality assurance review of our process. We will also work with internal statisticians to develop the sampling process for the contractor to review. This will ensure that we have adequate controls within the sampling process to comply with the OMB Guidance. In addition, Forest Service will utilize an internal quality review process to test the compliance of the actual audit to the sampling plan to ensure internal quality with an external review conducted by Forest Service statisticians to ensure compliance with the sampling plan. Therefore, Forest Service will have several reviews to ensure quality and compliance to the sampling plan.

Estimated Completion Date: January 31, 2007

OIG Recommendation 5: Develop sampling plans for all improper payment reviews.

FS Response to Recommendation 5: The Forest Service concurs with this audit recommendation. As mentioned in the response to recommendation No. 4, the Agency

will develop a sampling plan for the improper payments reviews utilizing external consultants specializing in auditing sampling plans. These consultants will work closely with our staff to ensure that the plan meets the criteria and that compliance is documented.

Estimated Completion Date: January 31, 2007

OIG Recommendation 6: Establish a materiality level for determining which of the erroneous payments identified during improper payment reviews should be recovered.

FS Response to Recommendation 6: The Forest Service concurs with this audit recommendation. The Agency currently has a process for recovering erroneous payments. That process is being utilized for erroneous payments identified by the IPIA Recovery Auditing Process. Forest Service will revise the policy to include a materiality threshold for recovering erroneous payments identified by the IPIA process. The agency hasn't recovered the erroneous payments identified in the 2005 audit and agrees to recover $4,732.06 from the one vendor. The remaining $81 from 2005 and $447 from 2006 will not be recovered. As noted in Recommendation No. 7, the Forest Service does not concur with collecting the $5,966.23 (2005) and $81,626.24 (2006) for unsupported payments. These payments were not identified as an erroneous payment to a vendor but payments in which Forest Service could not locate the documentation to support the transaction.

Estimated Completion Date: January 31, 2007

OIG Recommendation 7: Recover from vendors those erroneous payments determined by FS improper payment reviews (see exhibit B) that exceed the materiality level established in Recommendation 5.

FS Response to Recommendation 7: The Forest Service partially concurs with this audit recommendation. The Agency will collect the payments that were a direct result of a Forest Service payment error which totaled $5,260.93. The Agency disagrees with the collection of unsupported costs of $87,592.47. The reason for the error is the agency cannot locate the supporting documentation for the six transactions that represent this amount. During the FY 2005 audit, the WFSU records were relocated to the Albuquerque Service Center from various payment sites throughout the country. The Forest Service cannot collect this amount as there is no documentation to determine there was an actual overpayment. The Agency does not believe this is an overpayment. The effort to locate the supporting documentation is not cost beneficial.

Estimated Completion Date: January 31, 2007

OIG Recommendation 8: Report the actual amount of erroneous payments that FS plans to recover from its FY 2005 and FY 2006 improper payment reviews and how it plans to recover them in the next PAR.

FS Response to Recommendation 8: The Forest Service concurs with this audit recommendation. The Agency's FY 2006 PAR discusses the IPIA for both FY 2005 and FY 2006. The FS projects an error rate of 0% for FY 2005. Thus, there is no discussion of how the Agency will recover erroneous payment. This information has been included in the FY 2006 Forest Service PAR's MD&A Section that has been reviewed by KPMG as part of the Financial Statement Audit. See **TAB C,** page 35, Improper Payment Information Act.

Due to the timing of issuing the PAR, the FY 2006 PAR is a final draft and no changes are allowed. The Forest Service will create policy and procedures to collect and recover erroneous payments identified in the IPIA audit. An administratively appropriate level of materiality, as identified in Recommendation No. 6, will determine the formal policy that will be written after the analysis is complete. The process will utilize the existing collection process used for other erroneous payments identified by other processes; for example, recovery auditing or internal analysis. Any amounts recovered will be reported in the 2007 PAR. The narrative will indicate which erroneous payments have been identified, how much has been billed, and actual recovery amounts.

Estimated Completion Date: November 27, 2007.

OIG Recommendation 9: Recalculate FY 2006's error rates and estimated improper payments for NFS, CIM, and WFM in accordance with OMB requirements and report the changes to OCFO

FS Response to Recommendation 9: The Forest Service concurs with this audit recommendation. The Agency recalculated the FY 2006 error rates and estimated improper payments for NFS (**TAB D**), CIM (**TAB E**), and WFM (**TAB F**) in accordance with OMB requirement, and reported the changes to OCFO. The error rates calculated out to 0% as shown in the PAR. This information has been included in the FY 2006 Forest Service PAR's MD&A Section that has been reviewed by KPMG as part of the Financial Statement Audit. See **TAB C,** page 35, Improper Payment Information Act, second paragraph.

Estimated Completion Date: Completed

Informational copies of this report have been distributed to:

Office of the Chief Financial Officer	
Planning and Accountability Division	
Director	(1)
Government Accountability Office	(2)