



U.S. Department of Agriculture



Office of Inspector General
Midwest Region

Audit Report

Improper Payments – Monitoring the Progress of Corrective Actions for High Risk Programs in Natural Resources Conservation Service

Report No. 10601-0003-Ch
June 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: June 12, 2006

REPLY TO
ATTN OF: 10601-0003-Ch

TO: Bruce Knight
Chief
Natural Resources Conservation Service

THROUGH: Dan Runnels
Director
Operations Management and Oversight Division

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

SUBJECT: Improper Payments – Monitoring the Progress of Corrective Actions for High Risk Programs in Natural Resources Conservation Service

We have completed our audit of the Natural Resources Conservation Service's (NRCS) actions to estimate its improper payments in the Farm Security and Rural Investment program. Our objectives were to evaluate agency actions to quantify the extent of improper payments and evaluate agency efforts to establish corrective actions. Nothing came to our attention that warranted formal reporting.

BACKGROUND

The Improper Payments Information Act of 2002 (IPIA), Public Law 107-300, expanded prior reporting requirements to include all programs that may be susceptible to significant improper payments. The Act also required agencies to report to Congress the annual estimated amount of improper payments for all programs and activities considered high risk, if the estimates exceed \$10 million. In May 2003, the Office of Management and Budget (OMB) issued guidance¹ to agencies for estimating and reporting improper payments, including a provision that agencies base their high risk program estimates on valid statistical samples.

¹ OMB Memorandum M-03-13, dated May 21, 2003.

NRCS used fiscal year (FY) 2004 payments for the eight programs included in the Farm Security and Rural Investment Act (Farm Bill) as its universe for estimating improper payments in 2005. The agency reported \$1.02 billion as total outlays for the Farm Bill programs, and the sampled transactions totaled \$42 million. The error rate for the sampled transactions was 1.55 percent, however, when applied to the universe, the total dollar amount of errors was \$15.8 million, thus, exceeding the \$10 million threshold for reporting.

SCOPE AND METHODOLOGY

We performed work from February through April 2006 at NRCS' National Office in Washington, DC. We interviewed agency and contractor officials to determine who actually performed the sampling and verification of the support for the selected transactions. We identified the payment lifecycle and evaluated the contractor's method of identifying controls at each point in the payment lifecycle. We obtained the contractor's sampling plan and evaluated the specific details on how the statistical sampling was conducted and the error rates were calculated. We reviewed records and interviewed agency officials as needed to accomplish our objectives. We also evaluated the corrective action plan the agency developed based on the results of the statistical sample. We performed this audit in accordance with Government Auditing Standards.

SUMMARY OF WORK PERFORMED

We verified that NRCS, via a contractor, had statistically selected 1,193 payments from the eight programs within the Farm Bill to estimate the amount of improper payments for FY 2005 in accordance with OMB requirements. The contractor verified eligibility for the payments selected, recalculated payments for one of the programs, and requested the field offices to verify payment accuracy for the other programs. They had also developed corrective action plans to reduce the amount of improper payments based on the causes identified in the sampled payments. The causes identified included conditions such as the producer, land, or conservation practice not being eligible for the program and documents to support payment requests being missing or incomplete.

We obtained the documentation and verified the total number of payments selected for each program, and the dollar amount of those payments. We also verified the 39 payments that NRCS identified as improper. Although the statistical sampling plan was vague and did not provide specific information regarding the sampling process, we were able to verify the sampling process through interviews with agency and contractor officials and review of documents. We judgmentally selected 20 of the sampled payments (5 considered improper) to verify whether the agency's conclusions regarding these payments were accurate. We agreed with their conclusion on all of the payments.

NRCS had identified the vulnerabilities and causes of improper payments for each part of the payment lifecycle for the individual programs included in the Farm Bill, and did not exclude any part for estimating improper payments. Additionally, we reviewed the sampling information, held numerous discussions with the agency and contractor officials, and were able to confirm

that the sample, as conducted, met the OMB requirements. Also, we learned the agency has made additional improvements in the sampling process for FY 2006. Specifically, field office staffs will send the entire producer files for selected payments to the contractor and the contractor's staff will perform all verifications and recalculate all payments. Additionally, the contractor has developed a review template for use in its verifications, which includes the main program components that affect improper payments. The contractor will provide this to the agency staff to use when conducting their State reviews.

CONCLUSION

Our examination did not disclose any reportable conditions regarding agency efforts to identify and then mitigate improper payments. We concluded that NRCS had performed its statistical sampling to estimate improper payments in accordance with OMB requirements and performed adequate verifications to determine whether payments made for the Farm Bill programs were proper. In addition, the corrective action plans were developed to address the specific causes of improper payments that occurred in each program. NRCS was also working to improve the sampling process for the 2006 estimates.

We appreciate the assistance and cooperation of your staff. If you have any questions, please call me at (202) 720-6945, or have a member of your staff contact Steven Rickrode, Director, Administration and Finance Division at (202) 720-1918.

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