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Office of Inspector General

U.S. Department of Agriculture, Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review



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FROM: Gil H. Harden
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Gil H. Harden

SUBJECT: Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review

This report presents the results of the subject audit. Your written response to the draft report, dated March 9, 2012, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant sections of the report. Based on your response, we were able to accept management decision on all recommendations in the report, and no further response to us is necessary.

In accordance with Departmental Regulation 1720-1, final action is required to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Director, Planning and Accountability Division.

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

Table of Contents

Executive Summary 1

Background and Objective 3

Section 1: USDA Did Not Meet IPERA Requirements 5

Finding 1: USDA Needs to Develop Plans to Meet IPERA Requirements 5

Recommendation 1 9

Recommendation 2 10

Finding 2: USDA Risk Assessments and Sampling Review Did Not Consider Entire Lifecycle of Payments 11

Recommendation 3 14

Recommendation 4 14

Recommendation 5 14

Finding 3: Improper Payments Information in the PAR was Inaccurate 16

Recommendation 6 18

Recommendation 7 18

Recommendation 8 19

Scope and Methodology 20

Abbreviations 22

Exhibit A: Summary of Improper Payments Elimination and Recovery Act of 2010 (IPERA) Requirements 23

Exhibit B: The Department of Agriculture's (USDA)16 Programs Susceptible to Significant Improper Payments 24

Agency's Response 25

Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review – 50024-0001-11

Executive Summary

The Department of Agriculture (USDA) delivers approximately $189 billion in public services annually through more than 300 programs. Currently, 16 of those programs are considered vulnerable to significant improper payments, as they each had improper payments that were a material proportion of program outlays. In recent years, USDA has reported to Congress that several of these "high risk" programs have considerably reduced their improper payment rates; in fiscal year 2009, USDA estimated that, overall, these programs made 5.92 percent of payments in error, and reduced that rate to 5.37 percent by 2010. With Congress' enactment of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), efforts to report, reduce, monitor, and resolve underlying payment problems have intensified.[1] IPERA requires the Office of Inspector General to determine whether USDA was compliant with IPERA annually, starting with fiscal year 2011. The Office of the Chief Financial Officer (OCFO) is responsible for USDA's improper payment reporting process.

When we evaluated improper payment information that USDA reports annually, we found USDA did not fully comply with four of seven requirements. USDA did not always report estimates for high-risk programs, report complete information about programmatic corrective actions, meet annual reduction targets, and report error rates below specific thresholds. Although individual programs' non-compliance occurred for various reasons, USDA's overall non-compliance occurred because OCFO has not fully developed its reporting process to ensure that it reports all required information about improper payments and that USDA meets its reduction targets. To comply with annual IPERA requirements, USDA may need to allocate more program resources to improper payment reduction efforts and intensify compliance efforts.

We also found that to be compliant with IPERA, USDA needs to address problems related to the way that some component agencies evaluated programs' susceptibility to improper payments, and categorized payment errors. Program evaluators were not always adequately comprehensive in their risk assessments and sampling, and did not always categorize errors properly. These reporting problems occurred because internal controls over USDA's improper payment reporting have not been fully developed. As a result, USDA's improper payment estimates may be understated, and USDA may have provided inaccurate information to Congress about its progress made to prevent and eventually eliminate improper payments.

Recommendation Summary

To ensure that USDA reports consistent, accurate information about improper payments, we recommend that OCFO enhance internal controls, including guidance, oversight, and second party reviews, over the improper payment reporting process.

[1] IPERA, Public Law 111-204 (July 22, 2010).

Agency Response

In its written response, dated March 9, 2012, OCFO concurred with the audit findings and recommendations. Excerpts from the response and the Office of Inspector General's (OIG) position have been incorporated in the relevant sections. The written response is included in its entirety at the end of the report.

OIG Position

Based on OCFO's written response, OIG accepts management decision on all eight recommendations.

Background and Objective

Background

The Department of Agriculture (USDA) delivers approximately $189 billion in public services annually through more than 300 programs. Of the 33 component agencies and offices that operate these programs, 7 component agencies currently administer "high-risk" programs that are vulnerable to significant improper payments.[2] USDA reported in fiscal year 2011 that these agencies' 16 total high-risk programs made $5.4 billion in improper payments, a 5.37 percent error rate.

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

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 (IPIA). IPERA requires agencies to conduct annual risk assessments to identify programs susceptible to significant improper payments ("high-risk programs"), and to measure and report improper payment estimates for those high-risk programs each year.[3] IPERA requires agencies to conduct expanded and more rigorous recovery audits to identify and recapture overpayments; outlines actions that non-compliant agencies must implement; and requires the Office of Inspector General (OIG) to annually determine whether USDA properly reported improper payments.

Specifically, OIG determines if USDA met seven requirements. An IPERA compliant agency has:

- published a Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying materials required by OMB 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 PAR;

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[2] The seven agencies include the Food and Nutrition Service (FNS), Farm Service Agency (FSA), Commodity Credit Corporation, Natural Resources Conservation Service (NRCS), Rural Development, Forest Service (FS), and Risk Management Agency (RMA).

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

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

Exhibit A provides a detailed description of these requirements.

To determine the Department's compliance, we primarily used data from USDA's "Fiscal Year 2011 Performance and Accountability Report," a document published November 15, 2011, that the Office of the Chief Financial Officer (OCFO) publishes each year to report USDA's financial and performance data, including improper payment information.[4] To assist OCFO in meeting reporting requirements, USDA's component agencies administering high-risk programs must submit improper payment information in accordance with OCFO's guidance. Exhibit B provides a list of USDA's 16 current high-risk programs.

Objective

Our objective was to determine whether USDA was compliant with IPIA, as amended by IPERA, for fiscal year 2011.

[4] For the purposes of this report, we refer to this specific document as the 2011 PAR.

Section 1: USDA Did Not Meet IPERA Requirements

Finding 1: USDA Needs to Develop Plans to Meet IPERA Requirements

We found that USDA did not comply with four of seven IPERA requirements. Specifically, for its 16 high-risk programs, USDA did not: (1) publish a gross estimate of improper payments for 1 program,[5] (2) report completion dates or results of all corrective actions for 14 programs,[6] (3) meet annual reduction targets for 11 programs, and (4) publish improper payment rates of less than 10 percent for 2 programs[7]. Although individual instances of non-compliance occurred for various reasons, USDA's overall non-compliance occurred because OCFO had not fully developed its reporting process to ensure that it reported all required information about improper payments and that USDA meets its reduction targets. As a result, OIG must report to Congress that USDA did not comply with IPERA. Furthermore, USDA may need to allocate more program resources to improper payment reduction efforts and intensify compliance efforts.

To comply with IPERA, agencies must have met seven specific requirements, including having published improper payment estimates for all high risk programs; published programmatic corrective action plans; published, and met, annual reduction targets; and published a gross improper payment rate of less than 10 percent for each program.[8] OMB requires agencies to describe corrective action plans for reducing their improper payments.[9]

USDA has improved its reporting and reduced its improper payment rates for some high-risk programs. For example, in the past 10 years, FNS' Supplemental Nutrition Assistance Program has decreased its error rate from 8.9 percent to 3.81 percent, which represents a significant improvement given its $65 billion budget.[10] For the past two years, FS' Wildland Fire Suppression Management program has reported a zero improper payment percentage.

Subsequent to IPERA's enactment, OCFO had implemented several actions to develop USDA's process for reporting improper payments. For instance, OCFO officials revised guidance, met with OMB to obtain clarification about how IPERA requirements apply to USDA, and solicited bids to conduct a newly authorized type of recovery audit. OCFO also used various mechanisms to provide oversight of USDA's improper payment reporting. OCFO conducts monthly meetings with component agency officials responsible for reporting improper payment information on the high-risk programs. It also issues guidance to facilitate consistent reporting among these programs, and reviews and provides feedback on documents submitted by these officials.

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[5] This program was FNS' Child and Adult Care Food Program (CACFP). In addition, FSA's Loan Deficiency Program (LDP) did not report a gross estimate; however, OMB did not require an estimate of improper payments for LDP in fiscal year 2011 because of LDP's relatively low outlays of $200,000.

[6] Although completion dates can be planned or actual dates, USDA did not report completion dates for any of its high-risk programs. However, 2 of the 16 high-risk programs, FS' Wildland Fire Suppression Management and FSA's LDP, were not required to do so since they reported a 0 percent error rate and no error rate, respectively.

[7] These two programs included FNS' National School Lunch Program (NSLP) and School Breakfast Program (SBP).

[8] IPERA, Public Law 111-204 (July 22, 2010).

[9] OMB Circular A-123, Parts I and II, Appendix C (April 14, 2011).

[10] Fiscal Year 2011 Budget.

Despite these efforts and mechanisms, we identified that USDA did not fully comply with IPERA's requirements. While OCFO must rely on agencies to provide improper payment related information, OCFO is responsible to oversee and organize the reporting process. OCFO needs to take additional actions to comply with the recently implemented IPERA requirements. OCFO's oversight activities and implementation actions were not adequate to ensure that USDA complied with IPERA. Specifically, OCFO's guidance was not adequate to ensure component agencies provided corrective action dates. Also, component agencies' corrective actions were not always adequate to achieve reduction targets. The following subsections detail these issues.

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

For 1 of the 16 high-risk programs, USDA did not report a gross estimate in the PAR.[11] Specifically, FNS' CACFP did not publish estimates of improper payments. This occurred because the agency did not have enough information about one program component to provide a gross estimate.

IPERA requires agencies to measure and report gross improper payment estimates for each high-risk program.

Although FNS reported a partial estimate of improper payments in CACFP, we noted that the program consists of two components: Family Day Care Homes Tiering Decisions and Family Day Care Homes Meal Claims.[12] CACFP reported an estimate for the former component, but not the latter component, and thus did not report a gross estimate.

During our review, FNS officials expressed difficulties in determining a gross estimate for CACFP, which includes 186,000 participating day care homes and centers and varied eligibility requirements for each component. FNS reported that it would cost approximately $20 million to conduct a national study to estimate improper payments for the entire program, including the Meal Claims component. FNS officials stated that given competing demands for limited discretionary appropriations, the budget climate has not been conducive to a request for funds to conduct such a study. Rather than again seeking such a significant investment, FNS deemed it more prudent to pursue multiple projects to determine the feasibility of developing an estimate of improper payments in CACFP. For instance, FNS is currently planning a project that would 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.[13]

Because FNS officials provided plans for alternate actions, we do not make any formal recommendations for this non-compliance in this report.

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[11] USDA reported gross estimates for 14 of 16 high-risk programs. OMB did not require an estimate of improper payments for, one program, FSA's LDP, in fiscal year 2011 because of LDP's relatively low outlays of $200,000.
[12] The Tiering Decisions component relates to validating reimbursable rate determinations for FNS CACFP providers. The Meal Claims component relates to verifying the meal counts to the CACFP participants.
[13] Parent recall interviews are surveys to determine if children were really present at a family day care home when claimed.

Additionally, in relation to estimates of improper payments in USDA agencies, OIG has noted that not all agencies base their estimates on adequate information. A prior audit reported that RMA's Federal Crop Insurance Corporation's (FCIC) sampling methodology to estimate improper payments was inadequate because RMA evaluators excluded some types of payments, such as premium subsidies and denied claims.[14] We recommended that RMA implement a sampling method for determining and calculating its rate of improper payments that fully meets the requirements of IPIA by including all payments, premium subsidies, and denied claims. Because RMA and OIG are coordinating to resolve this recommendation, we do not make recommendations related to RMA's sampling methodology in this report.

USDA Did Not Report Completion Dates or Results for Programmatic Corrective Actions

For 14 of 16 high-risk programs, USDA did not report completion dates of all corrective actions or describe the results of actions taken. Component agencies administering these high-risk programs did not always provide OCFO with dates or results to include in the fiscal year 2011 PAR. Although OCFO guidance requested component agencies to list milestones to reduce improper payments, it did not explicitly request component agencies to submit completion dates and report results.

OMB required corrective action plans to include the actions most likely to significantly reduce future improper payments; planned or actual completion dates of these actions; and the results of the actions that have been taken.[15]

OCFO guidance requires agencies to provide OCFO details on corrective actions; however, OCFO did not establish a mechanism to ensure that it received and published all required details in the PAR, including completion dates for these actions. When we asked OCFO about developing plans to implement such a mechanism, OCFO officials stated OCFO will adjust the fiscal year 2012 corrective action plan guidance to include a table with appropriate columns requiring specific information on milestones relating to each corrective action. We agree with OCFO's action, and further recommend that OCFO revise its guidance to explicitly request that component agencies submit dates and results related to corrective actions for each cause of improper payments.

USDA Did Not Meet Its Annual Reduction Targets

For 11 of 16 high-risk programs, USDA did not meet fiscal year 2011 reduction targets.[16] Specifically, these 11 programs missed their reduction target by an average of 1.21 percent. This occurred because prior to 2011, agencies were not required to meet

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[14] Audit Report 05601-11-AT, *Risk Management Agency Compliance Activities* (September 16, 2009).

[15] OMB Circular A-123, Parts I and II, Appendix C (April 14, 2011).

[16] These 11 programs included FNS' NSLP, FNS' SBP, FNS' CACFP, FNS' Special Supplemental Nutrition Program for Women, Infants and Children (WIC), FSA's Milk Income Loss Contract program, FSA's Conservation Reserve Program, FSA's Miscellaneous Disaster Program, FSA's Noninsured Assistance Program, Rural Development's Rental Assistance Payment Program (RAP), RMA's FCIC Fund, and NRCS' Farm Security and Rural Investment Act programs (FSRI).

reduction targets and did not always conduct assessments to determine whether past reduction targets were achieved and fiscal year 2011 reduction targets were realistic. As a result, the majority of high-risk programs may not have met reduction targets.

Per OMB guidance, each year USDA reports annual reduction targets. Fiscal year 2011 reduction targets were reported in USDA's fiscal year 2010 PAR. IPERA requires agencies to publish, and meet, annual reduction targets.

During our discussions regarding IPERA requirements, OCFO officials stated that they will recommend that the Secretary send a memo to each non-compliant component agency informing them that their program(s) have not met reduction targets, the current repercussions, and the potential repercussions if this trend continues. OCFO officials further stated that OCFO will request component agencies to provide OCFO with a plan describing robust and appropriately focused corrective actions to allow the agencies to meet their reduction targets. We agree with OCFO's proposed actions.

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

For 2 of 16 high-risk programs, USDA reported improper payment estimates of greater than 10 percent. Specifically, FNS' NSLP and SBP reported estimated improper payment percentages of 15.98 and 24.96, respectively. NSLP and SBP significant improper payments resulted from the nature of the program, and FNS' previously limited authority to conduct more thorough reviews and implement measures to tackle some of the causes of errors in the programs.

Congress recently 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 five years to once every three years; (2) further strengthened direct certification for school meals by rewarding States for improvement in direct certification rates; (3) provided alternatives to paper application systems in low-income areas, i.e. on-line application alternatives to the standard Program application process to reduce the number of paper applications that are processed manually; and (4) established additional review requirements for school districts that demonstrate high levels of administrative error.

FNS officials stated they are aware of the significant improper payment rate in NSLP and SBP, and continue to work with State partners to develop initiatives and practices to address this problem. Further, FNS stated that the Healthy, Hunger-Free Kids Act of 2010 included new tools and strategies that will help reduce errors in NSLP and SBP. Officials with FNS are aware that its baseline for estimates of improper payments may be unreliable. FNS developed the formulas that it has used to estimate improper payments rates from a previous study. Since the study examined program figures from school year 2005 only and cannot provide confidence levels for other years, we cannot rely on estimates projected from this study. Recently, FNS has scheduled a study to update data used to determine FNS current improper payments. FNS officials believe this

September 2012 study will reflect NSLP and SBP current improper payment rates and account for corrective actions implemented since the last study.

OCFO officials stated that FNS should work with OMB and Congress on corrective actions, and to obtain additional funding, and/or legislative changes that will result in much lower improper payment error rates. If NSLP and SBP error rates remain non-compliant with IPERA for three consecutive years, they will be forced to propose statutory changes necessary to bring the programs into compliance. Because FNS officials stated the Healthy, Hunger-Free Kids Act of 2010 will improve program delivery and that the study will measure the current impact of improper payments in NSLP and SBP, we do not make any formal recommendations in this report for this non-compliance.

In this first year of IPERA reporting, OCFO has begun to develop its controls over the IPERA reporting process. Although OCFO's responsibilities were not always initially clear, OMB has formalized its guidance and provided clarifications. OCFO may still need to take action to develop its internal controls in light of these clarifications in order to meet IPERA requirements. For instance, although OCFO guidance requests recovery targets from USDA's component agencies, USDA did not mention these targets in the 2011 PAR because OMB issued conflicting guidance. OMB Circular A-136, *Financial Reporting Requirements*, templates did not explicitly require recovery targets in the PAR;[17] however, OMB Circular A-123, *Requirements for Effective Measurement and Remediation of Improper Payments*, requires USDA to report this information in the PAR.[18] In subsequent years, OCFO will continue to oversee USDA's reporting of improper payment rates, and will need to ensure that its implementation of the reporting process supports USDA's efforts to eliminate and recover improper payments. OCFO should evaluate the adequacy of its oversight activities and implement actions to improve all policies, procedures, reviews, or guidance to assist in efforts to bring USDA into compliance with IPERA.

The purpose of IPERA compliance is to capture sufficient details for agency officials to identify systemic problems and take adequate corrective actions. As USDA continues to address improper payments, we emphasize the importance and utility of complying with IPERA and other improper payment requirements. If USDA takes steps to develop a more robust process for reporting on its efforts, the public can be more confident that USDA conscientiously and effectively accounts for, uses, and when necessary, recovers taxpayer dollars.

Recommendation 1

Update OCFO's corrective action plan guidance to require component agencies to submit dates and results related to corrective actions for each cause of improper payments.

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[17] OCFO's Guidance on Corrective Action Plans (March 23, 2011); OMB Circular A-136, *Financial Reporting Requirements* (October 27, 2011).
[18] OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (April 14, 2011).

Agency Response

OCFO concurred with this recommendation. OCFO will revise the Departmental Corrective Action Plan (CAP) guidance. The revised guidance will include a table with appropriate columns for specific information on corrective actions for each cause of improper payments. The table will include measurable milestones and completion dates. In addition, agencies will report quarterly on their progress toward meeting milestones and completing scheduled actions. OCFO will complete this action by June 30, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Recommendation 2

Direct component agencies to evaluate why reduction targets were not met and implement corrective actions based on the results, and implement a process to assess future reduction targets to determine if they are realistic and achievable.

Agency Response

OCFO concurred with this recommendation. OCFO will: (1) issue a memorandum to the component agencies if their programs did not meet reduction targets in the fiscal year 2011 PAR; (2) revise guidance to direct component agencies to determine why their reduction targets were unmet; and (3) consult with OMB and component agencies to determine whether or not the future reduction targets are realistic and achievable. OCFO will complete this action by August 31, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Finding 2: USDA Risk Assessments and Sampling Review Did Not Consider Entire Lifecycle of Payments

We found that evaluators did not review the entire lifecycle of sampled payments for 2 of 16 high-risk programs during their fiscal year 2011 IPERA review, and that one additional USDA program may be at risk for significant improper payments. This occurred because one component agency did not develop adequate guidance for evaluators regarding eligibility for the program. A second component agency decided to exclude a phase of the payment lifecycle from review without receiving OMB approval, and this component agency did not address eligibility as a key vulnerability when it assessed the risk of another program As a result, the two programs' reported improper payment estimates of $11 million and $15 million may be understated. Furthermore, an additional program may need to be added to USDA's list of high-risk programs.

For all programs identified as high-risk for improper payments, component agencies must annually select and review a statistical sample of program payments, and report their results as improper payment estimates.[19] According to OMB guidance, for each high-risk program, agencies must review the entire lifecycle of payments from the eligibility determination phase through the recipient's receipt of payment unless OMB grants an agency permission to focus its review on individual components. This alternative approach must be documented in the PAR.[20] OCFO risk assessment guidance states that a USDA component agency should include program eligibility requirements as a key vulnerability when a component agency assesses a program's susceptibility to improper payments.[21]

When we reviewed each agency's sampling methods for high-risk programs and a non-statistical sample of four assessments of other USDA programs' susceptibility to improper payments, we identified issues with three programs' evaluations.[22] We found that evaluators excluded some phases from programs' payment lifecycles from their reviews. Specifically:

- evaluators of NRCS' FSRI, a high-risk program, did not adequately validate eligibility;
- evaluators of Rural Development's RAP, a high-risk program, did not validate the payment amount; and
- evaluators of Rural Development's Single Family Housing (SFH) Guaranteed Loan Program did not adequately validate eligibility when they assessed whether it was a high-risk program.

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[19] OMB allows agencies to use alternative non-statistical methods to determine program improper payment estimates, but they must be approved by OMB prior to implementation.

[20] OMB Circular A-123, Appendix C*, Requirements for Effective Measurement and Remediation of Improper Payments* (M-11-16, April 14, 2011).

[21] Fiscal Year 2011 USDA Risk Assessment Guidance, Version 7.1 (November 23, 2010).

[22] Specifically, we reviewed sampling methodologies reported in the 2011 PAR and additional documents describing evaluators' methods. In addition, we considered results from prior improper payment reviews conducted by OIG between fiscal years 2009 and 2011. We also reviewed 4 of the 46 risk assessments of programs that USDA conducted in fiscal year 2011.

The intent of IPERA is to ensure that agencies report estimates as well as actively identify areas for improvements in their program delivery to the public. To identify necessary improvements, agencies should assess each phase of sampled payments. Further, to ensure that USDA has accurately assessed programs' vulnerabilities to improper payments, OCFO should review all risk assessments. However, OCFO did not adequately evaluate risk assessments for USDA programs. With enhanced internal controls to appropriately assess all phases of payment lifecycles, as well as risk assessments, USDA could better ensure that the improper payment estimates it reports are accurate.

For the first program, NRCS' FRSI, we found that evaluators did not always validate eligibility because, apart from the review form, NRCS had not developed formal guidance for the IPERA review process. [23] It did not provide adequate instructions to its evaluators and created a single review form for all FSRI component programs that did not reflect the unique document requirements of each program. As a result, NRCS FRSI's improper payment estimate may be understated. NRCS officials acknowledged that eligibility was not "specifically tested" in all payment samples. However, since OIG is assessing NRCS' FSRI's compliance with IPERA in a separate review, we are not making a recommendation on this issue in this report.[24]

For the second program, Rural Development's RAP, we identified that evaluators did not test whether RAP properly paid the appropriate subsidy requested by the borrower. Rural Development excluded the program's payment processing stage from testing because, in 2004, it implemented an automated data entry process which reduced data entry errors by Rural Development field office staff. With 96 percent of all properties with rental assistance submitting certifications electronically to Rural Development, the agency currently processes 93 percent of all subsidy requests automatically. Since there is no opportunity for additional error due to the automated nature of the payment process, and therefore, no impact on the improper payment rate, Rural Development evaluators decided not to test the actual payments to borrowers.[25] In addition, Rural Development reported that errors at this phase of the payment process were historically minimal prior to it being automated.

Although Rural Development officials determined that there is a low risk that subsidy payments are inaccurate at this phase, agencies must receive OMB approval prior to implementing this approach. Rural Development officials stated that RAP did not receive approval from OMB to test individual components of its sampled payments and exclude verifying the subsidy payment was accurate.

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[23] NRCS' FSRI single estimate of improper payments includes 11 programs: the Farm and Ranch Lands Protection Program, Wildlife Habitat Incentive Program, Wetlands Reserve Program, Environmental Quality Incentives Program, Grassland Reserve Program, Conservation Security Program (which was succeeded by the Conservation Stewardship Program under the Food, Conservation, and Energy Act of 2008), Agricultural Maintenance Assistance, Healthy Forest Reserve Program, Chesapeake Bay Watershed Program (which was authorized by the Food, Conservation, and Energy Act of 2008), and Agricultural Water Enhancement Program.

[24] Audit Report 10024-0001-11, *Fiscal Year 2011 Natural Resources Conservation Service Improper Payment Review,* scheduled for release in spring 2012.

[25] Rural Development Multi-Family Housing Programs Improper Payment Information Act Compliance Report, May 2011.

OCFO officials stated that they were not aware of OMB excluding certain phases of the lifecycle of payments that are included in the two mentioned high-risk programs. OCFO officials further stated that they will revise guidance to include a table framework containing primary components of the lifecycle process to ensure that the agencies are addressing key elements. We agree with OCFO's approach.

The third program, Rural Development's SFH Guaranteed Loan Program, was not reported on USDA's list of high-risk programs. However, although OCFO guidance requires it, when assessing whether the program should be on this list, Rural Development did not address eligibility as a key vulnerability in its risk assessment or state why eligibility was not a vulnerable phase. When Rural Development's evaluators conducted a risk assessment including a review of selected payments in fiscal year 2011, the agency considered the program low-risk for significant improper payments. Rural Development based this determination on the improper payment estimate from the payment review and assessments of other drivers.[26] However, evaluators did not include program eligibility requirements as a driver.

Eligibility is an important component of payment lifecycle reviews. Rural Development may have underestimated this program's susceptibility to improper payments at the eligibility phase. In an audit report issued on September 30, 2011, we reported that lenders had not fully complied with Federal regulations or Recovery Act directives in determining borrower eligibility for 33 of 100 loans we reviewed.[27] Consequently, there is increased risk that Rural Development had improperly paid or will improperly pay loss claims on these ineligible loans.

For fiscal year 2011, OCFO did not assess whether Rural Development's SFH Guaranteed Loan program's risk assessment complied with OCFO's guidance and adequately reviewed payments selected for review. OCFO officials stated that they conducted a limited review of the draft risk assessments based on competing legislative and executive mandates. Officials generally agreed with our recommendation to implement a process to thoroughly review a sample of risk assessments for compliance with the guidance.

By excluding verification of eligibility, Rural Development and NRCS did not fully address one of the highest risk areas for improper payments, as noted by the Department in its risk assessment guidance. We also note that Rural Development's SFH Guaranteed Loan program and NRCS FSRI have a history of making payments or loan guarantees to ineligible participants.[28]

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[26] Evaluators looked at five drivers to assess the propriety of SFH Guaranteed Loan program payments, including verification of edit codes, additional interest past the settlement date, due date of last paid installment, method of liquidation, and payee.

[27] Audit Report 04703-0002-CH, *Controls Over Eligibility Determinations for SFH Guaranteed Loan Recovery Act Funds (Phase 2)* (September 30, 2011).

[28] In response to a previous audit, NRCS officials acknowledged that one of its programs under FSRI paid at least $2.2 million to ineligible participants. Audit Report 10601-0004-KC, *Natural Resources Conservation Service Conservation Security Program* (June 25, 2009). Another audit estimated that 30,310 loans were ineligible for loan guarantees by Rural Development, with a projected total value of $4.16 billion. We are 95 percent confident that between 21,129 (almost 26 percent) and 39,492 (over 48 percent) loans were ineligible for one or more reasons and the total value of those loans is between $2.7 and $5.6 billion. Audit Report 04703-0002-Ch, *Controls Over Eligibility Determinations for SFH Guaranteed Loan Recovery Act Funds (Phase 2)* (September 30, 2011).

Like other phases of a payment's lifecycle, the eligibility phase is a key element of any improper payment review. Taking steps to ensure that agencies assess the entire lifecycle of program payments improves the accuracy of information about errors that may arise during the process. By taking such steps, USDA can strengthen its ability to eliminate and recover improper payments.

Recommendation 3

Direct Rural Development to include payment verification in its RAP sampling review process; or obtain approval from OMB for the exclusion of payment verification from its sampling review process, and document the exclusion in the fiscal year 2012 PAR.

Agency Response

OCFO concurred with this recommendation. OCFO will: (1) direct Rural Development to include payment verification in its RAP sampling review process, or obtain OMB approval to exclude payment verification from it sampling review process; and (2) revise the USDA Improper Payments Information Act High Risk Program Measurement Plan Guidance to include a table containing primary components of the lifecycle process of payments. This step will ensure that agencies address all key elements, including payment verification. OCFO will complete this action by May 31, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Recommendation 4

Enhance OCFO's oversight process to include a thorough review of sampled risk assessments to determine compliance with OCFO guidance.

Agency Response

OCFO concurred with this recommendation. OCFO will develop a more comprehensive review process of USDA's risk assessments to determine compliance with OCFO guidance. This process will include a review of the sampled risk assessments by the Credit, Travel, and Grants Policy Division with the assistance of the Internal Controls Division. OCFO will complete this action by June 30, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Recommendation 5

Direct Rural Development to re-assess its SFH Guaranteed Loan program to determine the level of risk susceptible to significant improper payments. Verification of eligibility should be one of the evaluators' drivers.

Agency Response

OCFO concurred with this recommendation. OCFO will direct Rural Development to perform a risk assessment with a test of transactions on the SFH Guaranteed Loan Program for fiscal year 2012. This test will include verification of eligibility as one of the evaluators' drivers. OCFO will complete this action by June 30, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Finding 3: Improper Payments Information in the PAR was Inaccurate

We found that USDA reported inconsistent and improperly supported information concerning 12 of the 16 high-risk programs in its fiscal year 2011 PAR, and did not properly categorize the root causes of improper payments.[29] This occurred because USDA lacked an effective quality assurance process to ensure improper payment information was consolidated accurately in the PAR, and because component agencies with high-risk programs inconsistently applied the guidance used to categorize the improper payments. As a result, when USDA reported to Congress, it provided information about its progress made to prevent and eventually eliminate improper payments that was not always accurate.

OMB requires agencies to summarize their progress in preventing and reducing improper payments in the Management's Discussion and Analysis (MD&A) section of the PAR, and include the detailed portion of the reporting as an appendix.[30] USDA requires its component agencies to submit improper payment information to OCFO for inclusion in the PAR.[31] Federal managers are responsible for applying the internal control standards consistently to meet objectives and assess effectiveness.[32]

During our review of improper payment information, we found several discrepancies between supporting documents and the MD&A and appendix sections of the PAR.

For example:

- The PAR stated that "NRCS' FSRI incorporated IPIA goals and objectives in performance standards;" while, NCRS' FSRI's corrective action plan stated that "a plan does not currently exist for holding managers accountable, but is under development."

- According to the PAR, the causes of improper payments in FSA's MILC included incorrect payee share calculation, insufficient documentation, and ineligibility. However, the documents we reviewed did not support these statements. When we spoke with FSA officials, they clarified that causes included insufficient and incomplete documentation only.

OCFO officials acknowledged the discrepancies. OCFO officials stated that competing executive and legislative mandates limited the amount of review of the PAR improper payment section. Officials further stated that, for subsequent reporting periods, OCFO will strengthen its quality control process over the PAR by completing a second-party quality control review

[29] These 12 programs included FNS' Supplemental Nutrition Assistance Program, WIC, and CACFP; NRCS' FSRI; RMA's FCIC; and FSA's Milk Income Loss Contract (MILC), Marketing Assistance Loan Program, Loan Deficiency Payments, Direct and Counter-Cyclical Payments, Conservation Reserve Program, Miscellaneous Disaster Programs, and Noninsured Assistance Program.
[30] OMB Circular A-123, Appendix C*, Requirements for Effective Measurement and Remediation of Improper Payments* (M-11-16, April 14, 2011).
[31] OCFO USDA Fiscal Year 2011 Corrective Action Plan Guidance (March 23, 2011).
[32] OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

process earlier, and involve component agencies in the review process. We agree with OCFO proposed actions to improve its quality assurance process.

In addition to these discrepancies, we identified that the way the Department categorized the causes of errors did not agree with improper payment information reported in the appendix of the PAR. OMB requires agencies to report information about the root causes of improper payments by assigning errors to one of the following three categories:

- Administrative and Documentation errors: i.e., errors due to the absence of supporting documentation, or incorrect inputting, classifying, or processing of applications.

- Authentication and Medical Necessity errors: i.e., errors in eligibility criteria that cannot be authenticated through third-party databases or other resources because no databases or other resources exist. [33]

- Verification errors: i.e., errors that arise from failure or inability to verify recipient information, including earnings, income, assets, or work status, even though verifying information does exist in third-party databases or other resources, or errors due to beneficiaries failing to report correct information to an agency.[34]

In the appendix of the PAR, each high-risk program attributes its improper payments to one or more of these categories. The MD&A illustrates USDA's overall percentage for each of these three categories. In reporting the overall percentages of causes of improper payments in USDA programs to Congress, USDA assigned 2 percent of errors to the first category, 1 percent of errors to the second, and 97 percent to the third. However, we questioned whether these percentages provided Congress an accurate description of USDA's causes of improper payments.

To determine the Departmentwide percentages for each category, OCFO asked component agencies to indicate what percentage of its improper payments related to each category. We found component agencies did not consistently assign the appropriate category.

For example, USDA reported in the appendix of the PAR that FNS' SBP attributed most of its improper payments to authentication and administrative errors; the first two categories. Based on our document review, we determined that USDA's percentages in the MD&A for the first two categories should have been higher because FNS' SBP accounts for 13 percent of USDA's total rate of improper payments. This occurred because FNS officials assigned all errors to the third category; and OCFO did not perform a comparison of the cause categories in the MD&A with the appendix of the PAR to ensure the percentages were reasonable and consistent.

In addition, we found officials of two high-risk programs assigned similar root causes to two different categories. Specifically, RMA categorized recipient fraud as an authentication error, while FNS categorized recipient fraud as a verification error. Although fraud may relate to more than one category of OMB root causes, the same type of fraud should be reported in the same category. We determined that OMB guidance for categorizing improper payments' root causes

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[33] Medical Necessity errors do not apply to USDA programs.
[34] OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (M-10-13, March 22, 2010).

can be misinterpreted, which may lead to component agencies inconsistently categorizing similar errors. By further developing OCFO guidance to provide examples customized to USDA programs, OCFO could better assist agencies in improving the accuracy of USDA's reporting.

OCFO officials acknowledged that agencies are struggling to properly categorize the root causes of improper payments into the proper OMB cause categories. Officials stated that they will request that OMB work with all Federal agencies to better define the three categories and provide clarifying examples. In addition, officials stated that they will coordinate with component agency officials to develop a plan to better understand and address how to standardize the categories of root causes. Finally, OCFO officials stated that they will revise the corrective action plan template to include specific improper payment examples applicable to each OMB category.

Accurate reporting is indispensable to convey actual progress made by USDA to prevent and eventually eliminate improper payments. Without appropriate reporting, there is a risk that decision makers and the public will misinterpret the impact of USDA efforts to eliminate and recover improper payments. Therefore, USDA should improve its final review process and assure consistent reporting.

Recommendation 6

Implement a second-party quality review process to ensure that information reported in the PAR is properly supported.

Agency Response

OCFO concurred with this recommendation. OCFO will strengthen its quality control process over the improper payments section of the PAR, including a comparison of the MD&A and Appendix, by completing a second-party quality control review early in the drafting process. The quality control process will also include a review of the improper payments section by the contributing component agencies. OCFO will complete this action by September 30, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Recommendation 7

Implement controls to ensure that the agencies consistently and accurately categorize improper payments.

Agency Response

OCFO concurred with this recommendation. OCFO will: (1) request guidance from OMB to better define the three categories of errors and provide examples; (2) coordinate with component agencies to develop a plan to standardize the classification of USDA payment errors within OMB's three categories of root causes; (3) revise the Departmental CAP guidance to include examples of USDA payment errors applicable to each OMB category; and (4) conduct a quality control review of component agencies' submissions for the fiscal year 2012 PAR to ensure payment errors are consistently and accurately categorized. OCFO will complete this action by August 31, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Recommendation 8

Update OCFO guidance for determining the cause category of an error to include specific examples related to USDA programs.

Agency Response

OCFO concurred with this recommendation. OCFO will: (1) revise the Departmental CAP guidance to include examples of errors applicable to each OMB category; and (2) conduct a quality control review of component agencies submission for the fiscal year 2012 PAR. OCFO will complete this action by August 31, 2012.

OIG Position

We accept OCFO's management decision on this recommendation.

Scope and Methodology

Our audit focused on improper payment information reported in USDA's fiscal year 2011 PAR and additional supporting documentation. We performed our review at OCFO Headquarters in Washington, D.C. We commenced fieldwork in December 2011, and completed our fieldwork in February 2012.

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

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

Published a PAR for the most recent fiscal year and posted that report on the agency website

We obtained and reviewed the fiscal year 2011 PAR. We also browsed the USDA's website to verify that the PAR was posted on the internet.

Conducted a program-specific risk assessment for each program or activity

We non-statistically selected four programs based on program outlays, results from prior audits, and the type of risk assessment required. Annually, OCFO selects which risk assessment to perform for a particular program based on its stage in the 3-year cycle. The risk assessments range from completing a one page form certifying that events affecting a program have not changed, to completing a full risk assessment including a test of transactions. Our four selected programs captured various types of risk assessments. We reviewed these assessments to determine whether level of risk determinations were reasonable.

Published improper payment estimates for all programs identified as high-risk for improper payments under its risk assessment

We reviewed the improper payment sampling results table in Appendix B, *Improper Payments and Recovery Auditing Details*, of the PAR to identify which programs recorded "NA" (not available).

Published programmatic corrective action plans in the PAR

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

Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments

We reviewed the improper payment reduction outlook table in Appendix B of the fiscal year 2010 PAR and compared each program's reduction target to the actual results listed in the improper payment sampling results table in Appendix B of the fiscal year 2011 PAR.

Reported a gross improper payment rate of less than 10 percent for each high-risk program and published in the PAR

We reviewed the improper payment sampling results table in Appendix B of the fiscal year 2011 PAR 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 recovery of payments sections in Appendix B of the fiscal year 2011 PAR 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

CACFP	Child and Adult Care Food Program
CAP	Corrective Action Plan
CCC	Commodity Credit Corporation
CRP	Conservation Reserve Program
DCP	Direct and Counter-Cyclical Payments
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSRI	Farm Security and Rural Investment Act Programs
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
LDP	Loan Deficiency Payments
MAL	Marketing Assistance Loan Program
MD&A	Management's Discussion and Analysis
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
PAR	Performance and Accountability Report
RAP	Rental Assistance Program
RMA	Risk Management Agency
SBP	School Breakfast Program
SFH	Single Family Housing
SNAP	Supplemental Nutrition Assistance Program
USDA	Department of Agriculture
WFSM	Wildland Fire Suppression Management
WIC	Special Supplemental Nutrition Program for Women, Infants and Children Program

Exhibit A: Summary of Improper Payments Elimination and Recovery Act of 2010 (IPERA) Requirements

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

<table>
<tr><th>Description of IPERA Requirements</th><th>OIG Fiscal Year 2011 Compliance Determination. Did USDA Comply?</th><th>Reason for OIG Compliance Decision</th></tr>
<tr><td>Published a Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying the Office of Management and Budget (OMB) required materials on the agency website.</td><td>YES</td><td>The Department of Agriculture (USDA) published and posted a PAR with accompanying materials on the agency’s website.</td></tr>
<tr><td>Conducted a program specific risk assessment for each program or activity.</td><td>YES</td><td>Although IPERA required all programs to be risk assessed after one year of enactment, 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.</td></tr>
<tr><td>Published improper payment estimates for all high-risk programs and activities.</td><td>NO</td><td rowspan="4">Discussed in Finding 1</td></tr>
<tr><td>Published programmatic corrective action plans in the PAR.</td><td>NO</td></tr>
<tr><td>Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.</td><td>NO</td></tr>
<tr><td>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 PAR.</td><td>NO</td></tr>
<tr><td>Reported information on its efforts to recapture improper payments.</td><td>YES</td><td>USDA reported its efforts to recapture improper payments in Appendix B of the PAR.</td></tr>
</table>

Exhibit B: The Department of Agriculture's (USDA)16 Programs Susceptible to Significant Improper Payments

Exhibit B provides a list of USDA's 16 current high-risk programs.

High-Risk Programs	USDA Component Agency
1. Supplemental Nutrition Assistance Program (SNAP)	Food Nutrition and Service (FNS)
2. National School Lunch Program (NSLP)	
3. School Breakfast Program (SBP)	
4. Child and Adult Care Food Program (CACFP)	
5. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	
6. Federal Crop Insurance Corporation (FCIC) Program Fund	Risk Management Agency (RMA)
7. Marketing Assistance Loan Program (MAL)	Farm Service Agency (FSA) and Commodity Credit Corporation (CCC)
8. Milk Income Loss Contract Program (MILC)	FSA
9. Loan Deficiency Payments (LDP)	
10. Direct and Counter-Cyclical Payments (DCP)	
11. Conservation Reserve Program (CRP)	
12. Miscellaneous Disaster Programs (MDP)	
13. Noninsured Assistance Program (NAP)	
14. Rental Assistance Program (RAP)	Rural Development
15. Farm Security and Rural Investment Act programs (FSRI)	Natural Resources Conservation Service (NRCS)
16. Wildland Fire Suppression Management (WFSM)	Forest Service (FS)

OFFICE OF THE CHIEF FINANCIAL OFFICER
RESPONSE TO AUDIT REPORT

USDA

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, DC 20250

TO: Phyllis K. Fong
Inspector General
Office of Inspector General

March 9, 2012

FROM: Jon M. Holladay
Deputy Chief Financial Officer
Office of the Chief Financial Officer

-s- John G. Brewer for

SUBJECT: Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review Audit No. 50024-0001-11, Discussion Draft Report

This memorandum responds to your request for management's response to the audit recommendations in Audit No. 50024-0001-FM, Official Draft Report, dated February 27, 2012. The management response is attached.

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

Attachment

Fiscal Year 2011 Improper Payments Elimination And Recovery Act of 2010 Compliance Review Audit No: 50024-1-11

Recommendation No. 1: Update Office of the Chief Financial Officer's (OCFO) corrective action plan guidance to require component agencies submit dates and results related to corrective actions for each cause of improper payments.

Management Response: We concur with the Office of Inspector General's (OIG) recommendation that the USDA's Corrective Action Plan (CAP) guidance require component agencies to submit dates and results related to corrective actions for each cause of improper payments. The fiscal year (FY) 2011 CAP guidance required agencies to provide milestones for each corrective action. It also required agencies to tie corrective actions to the corresponding root causes of improper payments, and provide milestones to reduce the weaknesses. We will revise the guidance so that agencies provide sufficient information to comply with the Improper Payments and Elimination and Recovery Act of 2010.

The following action will address this recommendation:

OCFO will revise the Departmental CAP guidance. The revised guidance will include a table with appropriate columns for specific information on corrective actions for each cause of improper payments. The table will include measurable milestones and completion dates. In addition, agencies will report quarterly on their progress toward meeting milestones and completing scheduled actions.

Date Corrective Action Will be Completed: June 30, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

Recommendation No. 2: Direct component agencies to evaluate why their reduction targets were not met and implement action based on their results, and implement a process to assess future reduction targets to determine if they are realistic and achievable.

Management Response: We concur with OIG's recommendation to direct component agencies to evaluate why their reduction targets were unmet, and determine if these targets should be revised for the *FY 2012 Performance and Accountability Report (PAR)*.

The following actions will address this recommendation:

1) The revised guidance will direct component agencies to determine why their reduction targets were unmet. Agencies will be required to justify the basis for any needed revisions to their reduction targets for FY 2012;

2) OCFO will issue a memorandum to the component agencies if their programs did not meet reduction targets in the FY 2011 PAR. This memorandum will explain the current repercussions for failing to meet reduction targets and the potential implications if this trend continues for future reduction targets; and
3) We will consult with the Office of Management and Budget (OMB) and component agencies to determine whether or not the future reduction targets are realistic and achievable.

Date Corrective Action Will be Completed: August 31, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

Recommendation No. 3: Direct Rural Development (RD) to include payment verification in its Rental Assistance Program (RAP) sampling review process; or obtain approval from OMB for the exclusion of payment verification from its sampling review process and document the exclusion in the *FY 2012 PAR*.

Management Response: We concur with OIG's recommendation that RD include payment verification in its RAP sampling review process or obtain OMB approval to exclude payment verification from its sampling review process. Any exclusion will be documented in the *FY 2012 PAR*.

The following actions will address this recommendation:

1) We will direct RD to include payment verification in its RAP sampling review process, or obtain OMB approval to exclude payment verification from it sampling review process; and
2) We will revise the USDA Improper Payments Information Act High Risk Program Measurement Plan Guidance. The revised guidance will include a table containing primary components of the lifecycle process of payments. This step will ensure that agencies address all key elements, including payment verification.

Date Corrective Action Will be Completed: May 31, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

Recommendation No. 4: Enhance the OCFO's oversight process to include a thorough review of sampled risk assessments to determine compliance with OCFO guidance.

Management Response: We concur with OIG's recommendation that OCFO enhance its oversight process to include a thorough review of sampled risk assessments.

The following action will address this recommendation:

OCFO will develop a more comprehensive review process of USDA's risk assessments to determine compliance with OCFO guidance. This process will include a review of the sampled risk assessments by the Credit, Travel, and Grants Policy Division with the assistance of the Internal Controls Division.

Date Corrective Action Will be Completed: June 30, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division and Internal Controls Division, Office of the Chief Financial Officer

Recommendation No. 5: Direct RD to re-assess its Single Family Housing (SFH) Guaranteed Loan program to determine the level of risk susceptible to significant improper payments. Verification of eligibility should be one of the evaluators' drivers.

Management Response: USDA concurs with OIG's recommendation that the SFH Guaranteed Loan Program staff re-assess the criteria used to determine the risk level for significant improper payments.

The following action will address this recommendation:

We will direct RD to perform a risk assessment with a test of transactions on the SFH Guaranteed Loan Program for FY 2012. This test will include verification of eligibility as one of the evaluators' drivers.

Date Corrective Action Will be Completed: June 30, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

Recommendation No. 6: Implement a second-party quality review process to ensure that information reported in the PAR is properly supported.

Management Response: We concur with OIG's recommendation that USDA implement a second-party quality review process to ensure that information reported in the PAR is properly supported.

The following action will address this recommendation:

We will strengthen our quality control process over the improper payments section of the PAR, including a comparison of the MD&A and Appendix, by completing a second-party quality control review early in the drafting process. The Credit, Travel, and Grants Policy Division will perform the first review. The Planning and Accountability Division will perform the second review based on a third quarter report. The quality control process will also include a review of the improper payments section by the contributing component agencies.

Date Corrective Action Will be Completed: September 30, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, and Planning and Accountability Division, Office of the Chief Financial Officer

Recommendation No. 7: Implement a system of controls to ensure that the agencies consistently and accurately categorize improper payments.

Management Response: We concur with OIG's recommendation to direct the agencies to establish a process to consistently and accurately categorize improper payments.

The following actions will address this recommendation:

1) We will request guidance from OMB to better define the three categories of errors and provide examples;
2) We will coordinate with component agencies to develop a plan to standardize the classification of USDA payment errors within OMB's three categories of root causes;
3) OCFO will revise the Departmental CAP guidance to include examples of USDA payment errors applicable to each OMB category; and
4) We will conduct a quality control review of component agencies' submissions for the *FY 2012 PAR* to ensure payment errors are consistently and accurately categorized.

Date Corrective Action Will be Completed: August 3l, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

Recommendation No. 8: Update OCFO guidance for determining the cause category of an error to include specific examples related to USDA programs.

Management Response: USDA concurs with OIG's recommendation to update OCFO guidance for determining the cause category of an error to include examples related to USDA programs.

The following actions will address this recommendation:

1. We will revise the Departmental CAP guidance to include examples of errors applicable to each OMB category; and
2. We will conduct a quality control review of component agencies submission for the *FY 2012 PAR.* This review will ensure that the payments errors are consistently and accurately categorized.

Date Corrective Action Will be Completed: August 3l, 2012

Responsible Organization: Credit, Travel, and Grants Policy Division, Office of the Chief Financial Officer

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

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