



U.S. Department of Agriculture

Office of Inspector General



**Calendar Year 2010 Executive Order 13520,
Reducing Improper Payments,
High Dollar Report Review**

**Audit Report 50024-1-FM
July 2011**



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



DATE: July 15, 2011

AUDIT
NUMBER: 50024-1-FM

TO: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer
Planning and Accountability Division

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Calendar Year 2010 Executive Order 13520, Reducing Improper Payments,
High-Dollar Report Review

Executive Summary

Executive Order 13520 (Executive Order),¹ *Reducing Improper Payments*, requires the Office of Inspector General (OIG) to review quarterly reports on high-dollar overpayments identified by agencies with high-risk programs, and to make recommendations, as necessary, to agencies' plans to recover and prevent high-dollar overpayments.²

Our review disclosed that the Department of Agriculture (USDA) did not fully comply with the requirements of the Executive Order and the Office of Management and Budget's (OMB) guidance and direction. Specifically, USDA's high-dollar quarterly reports did not (1) meet the required deadlines, (2) include all high-dollar overpayments, and (3) accurately reflect the Department's corrective actions intended to prevent future overpayments.

Further, we determined that USDA's overpayment reporting format could be misleading. At the time of our audit, the Department's efforts to implement the Executive Order were still in progress and it did not have adequate reporting processes in place. We believe that if USDA addresses these concerns, its reports will be more transparent and accurate.

¹ 74 Federal Regulation 62201, Executive Order 13520, *Reducing Improper Payments*, dated November 20, 2009.

² High-risk programs are programs susceptible to significant improper payments.

Your written response to the official draft report, dated July 7, 2011, is included at the end of the report. Excerpts from the response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on the information in your written response, we have accepted your management decision on all three recommendations.

In accordance with Departmental Regulation 1720-1, final action must be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report.

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

Background

The Executive Order signed on November 20, 2009, assists Federal agencies in reducing and preventing improper payments through increased transparency and improved agency accountability. The Executive Order mandates that Federal agencies submit quarterly reports on any high-dollar improper overpayments identified by the agency to their respective OIG and the Council of the Inspectors General on Integrity and Efficiency.

The Executive Order and supporting OMB guidance require that these quarterly high-dollar reports (1) list all high-dollar overpayments identified by the agency during the quarter; (2) describe whether each high-dollar overpayment was made to an entity or individual, including the city, county, and State where that entity or individual was located; (3) list the program responsible for each high-dollar overpayment error; (4) describe any actions the agency has taken or plans to take to recover high-dollar overpayments; and (5) describe any actions the agency will take to prevent overpayments from occurring in the future.

According to OMB's guidance, a high-dollar overpayment is any overpayment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances.³

1. Where the total payment to an individual exceeds \$5,000, as a single payment, or in cumulative payments for the quarter.
2. Where the payment to an entity exceeds \$25,000, as a single payment, or in cumulative payments for the quarter.

As of fiscal year 2010, USDA had 16 high-risk programs subject to the Executive Order's high-dollar overpayment reporting requirements. These 16 programs are administered by seven component agencies, including the Commodity Credit Corporation (CCC), Food and Nutrition

³ OMB Circular A-123, Appendix C, Part III, "Requirements for Implementing Executive Order 13520: *Reducing Improper Payments*," dated March 22, 2010.

Service (FNS), Rural Development, Natural Resource Conservation Service, Risk Management Agency (RMA), Forest Service (FS), and Farm Service Agency (FSA).⁴

During fiscal year 2010, between January 2010 and September 2010, three of USDA's 16 high-risk programs reported high-dollar overpayments, totaling \$888,002: RMA's Federal Crop Insurance Corporation (FCIC) Program Fund reported overpayments of \$688,237;⁵ FS' Wildland Fire Suppression Management Program reported overpayments of \$160,523; and FSA's Noninsured Crop Disaster Assistance Program reported overpayments of \$39,242. During our fieldwork, we determined that USDA recovered \$241,600, and recovery efforts or offsets were in progress for the remaining amounts.⁶

RMA's FCIC provides American producers Federal crop insurance solely through approved insurance providers that market and process claims for loss on crop insurance policies, upon which these companies share the risk. FS' Wildland Fire Suppression Management Program manages wildland fires to protect human life, welfare, and property, and solicits various vendors to carry out its mission. FSA's Noninsured Crop Disaster Assistance Program provides financial assistance to producers of noninsurable crops when a low yield, loss of inventory, or prevented planting occurs due to natural disasters.

The Office of the Chief Financial Officer (OCFO) is responsible for coordinating and submitting USDA's high-dollar overpayments report. Based on the documentation provided and our discussion with OCFO, FSA, RMA, and FS officials, reducing improper payments within these programs continues to be a priority, and oversight is continuous. The Department has issued task orders to implement various improper payment requirements, including the Executive Order. As part of the Executive Order, the Department also publishes its quarterly high-dollar reports at http://www.ocfo.usda.gov/qhd_reporting.html.

Objectives

As required by the Executive Order, we reviewed USDA's quarterly high-dollar report to determine if it complied with the Executive Order. The objective of our audit was to assess the level of risk associated with the applicable programs, determine the extent of oversight warranted, and provide the agency head with recommendations, if any, for modifying the agency's recovery and corrective action plans.

⁴ FNS, FSA, and CCC have more than one high-risk program; therefore, there are more high-risk programs than the component agencies that administer them.

⁵ We did not include RMA's second quarter high-dollar overpayments, which totaled approximately \$11 million. This amount was significantly inflated because RMA did not adjust its report to include only those overpayments that met OMB's high-dollar overpayment criteria. They have since corrected this issue.

⁶ Some overpayments were not recoverable, due to statutory restrictions.

Scope and Methodology

Our review was for the limited purpose described in the objectives and would not necessarily identify all deficiencies in internal controls for determining improper payments. We reviewed USDA's second, third, and fourth quarter high-dollar reports, received on July 1, 2010, October 22, 2010, and December 1, 2010, respectively.⁷ We also reviewed improper payment data reported in USDA's fiscal year 2010 corrective action plans. To accomplish our objectives, we interviewed RMA, FS, and FSA officials involved with reporting high-dollar improper overpayments for the FCIC Program Fund, the Wildland Fire Suppression Management Program, and the Noninsured Crop Disaster Assistance Program. Additionally, we evaluated supporting documentation provided by these officials. We performed our review at OCFO, RMA, and FSA offices in Washington, DC, and held teleconferences with FS officials located in Albuquerque, New Mexico. Fieldwork for this assessment was performed between December 2010 and March 2011. We followed applicable Government Auditing Standards in performing this assessment, and we believe the evidence obtained provides a reasonable basis for our conclusions, based on our objectives.

Finding 1: Additional Actions Needed to Ensure Timely, Complete, and Transparent High-Dollar Overpayment Reports

When submitting overpayment reports, USDA did not fully comply with the Executive Order and OMB's guidance. More specifically, in the course of our audit, we found that USDA (1) submitted reports after the deadline, (2) did not report all high-dollar overpayments, and (3) was not accurately reporting its corrective actions. Further, we determined that USDA's current reporting format for listing overpayment amounts could be misleading. These issues occurred because the Department and its component agencies did not have adequate reporting processes in place. Additionally, at the time of our audit, efforts to implement Executive Order requirements were still in progress. As USDA implements Executive Order requirements, we emphasize that untimely, incomplete, and misleading reports may not accurately portray the progress each agency is making in recovering and preventing high-dollar overpayments.

Timeliness of Reports

We found the Department did not timely submit its quarterly high-dollar reports. While the second quarter report was due May 19, 2010, the Department did not submit it until July 1; for the third quarter, which was due July 30, 2010, the Department submitted its report nearly 3 months later, on October 22; and the fourth quarter was submitted on December 1, even though it was due by October 30. When we spoke with OCFO officials, they were aware of the issue and stated that the Department was working on actions to timely report high-dollar overpayments, such as modifying component agencies' deadlines for submission to OCFO and

⁷ Executive Order 13520 did not require USDA to submit a first quarter report in fiscal year 2010.

consulting with OMB on an improved process. We agree that this is an appropriate course of action and do not make any formal recommendations at this time.

Completeness of Reports

We found that agencies identified and corrected some high-dollar overpayments, but did not report them on quarterly reports. For example, an OIG review reported that FSA's Supplemental Revenue Assistance Payment program disbursed an overpayment of \$51,646.⁸ FSA verified and recovered most of the overpayment in the fourth quarter; however, it was not listed in the high-dollar report. This payment was omitted because the quarterly data FSA used to identify high-dollar overpayments did not include overpayments recovered during that quarter. FSA officials stated that several other payments may have been omitted and they would modify FSA's process for identifying relevant overpayments to include receivables recovered during the quarter. We agree with FSA's corrective actions and formally recommend FSA modify its methodology for identifying high-dollar overpayments to include overpayments recaptured during that quarter.

In addition, RMA had two overpayments, which included both premium and indemnity payments in the amount of \$309,827; however, on its quarterly report to the Department, RMA reported only \$285,975 in indemnity overpayments, and did not include the premium portions, totaling \$23,852. RMA omitted the premium overpayments because they were not over the \$25,000 threshold for an entity necessary for reporting.⁹ However, because these premium and indemnity overpayments were disbursed on the same insurance policy to the same entity and collectively meet the threshold—over \$25,000 when combined—we determined that, in this instance, RMA should have reported its premium overpayments. Therefore, we recommend that RMA report premium and indemnity overpayments on its high-dollar overpayments report if these payments are more than 50 percent of the correct amount, and collectively, more than \$25,000. OCFO officials agreed with this recommendation.

Accuracy of Reported Corrective Actions

We also found that some reported corrective actions did not accurately reflect the actual corrective actions being taken to prevent future overpayments. In the report, the corrective actions did not appear to address the actual cause of the overpayments. For example, some of FSA's overpayments were caused by system errors, but FSA reported unrelated corrective actions (training field personnel on improper payments and reviewing policies and procedures) that would not necessarily correct system errors. However, based on documentation received during our audit, we found that FSA officials were addressing the system errors by enhancing the software with internal controls to prevent incorrect rate calculations on future overpayments.

⁸Audit Report 50401-70-FM, *USDA Consolidated Financial Statements for Fiscal Years 2010 and 2009*, dated November 15, 2010.

⁹RMA reports high-dollar overpayments by entity.

We are not making any formal recommendations related to this issue; however, we stress that in order to accurately portray its efforts to OIG, the Department and its component agencies should report the actual corrective actions they take. From there, OIG can properly assess whether these efforts address the cause of overpayments and will prevent future overpayments.

Transparency of Listed Amounts

Currently, USDA lists the sum of the correct payment and improper overpayment amount together. This format can be misleading; while the definition of an improper payment can technically include both the correct and overpayment amounts, listing the sum amount could mislead the public into thinking that the entire amount listed is an overpayment. To improve transparency and avoid the appearance of inflated overpayment amounts, we suggest that USDA list the overpayment portion separately, next to the total amount disbursed.

Fiscal year 2010 was the first year of high-dollar overpayments reporting. As we continue to review agencies' methodologies to identify high-dollar overpayments and actions to prevent future overpayments, we rely on the accuracy and completeness of these reports. From the information in these reports, we will be able to assess downward trends in overpayments with similar causes and whether agency actions are effective, and provide recommendations on enhanced oversight and accountability. It is therefore critical that these reports accurately reflect each agency's work and status.

Recommendation 1

Direct FSA to modify its methodology for identifying high-dollar overpayments to include overpayments recovered during the relevant quarter.

Agency Response

USDA officials concurred with this recommendation. USDA officials stated that while FSA identified and corrected some high-dollar overpayments, it failed to report them on quarterly reports. USDA plans to implement the following actions:

- OCFO will revise the Departmental guidance for the Quarterly High-Dollar Overpayment Report. The revised guidance will reiterate and strengthen the requirement for USDA agencies with high-risk programs. It will incorporate a methodology and process to accurately identify, verify, and report high-dollar overpayments as outlined in the Executive Order and supporting Office of Management and Budget guidance; and
- OCFO will direct FSA, through the revised Departmental guidance for the Quarterly High-Dollar Overpayment Report, to review and modify (if applicable) its methodology and process for identifying, verifying, and reporting high-dollar overpayments. This will ensure all high-dollar overpayments identified and verified during a quarter are included in FSA's quarterly report provided to OCFO.

OIG Position

We accept the Department's management decision.

Recommendation 2

Direct RMA to report premium and indemnity overpayments on its high-dollar overpayments report if these payments are more than 50 percent of the correct amount, and collectively, more than \$25,000.

Agency Response

USDA officials concurred with this recommendation. USDA officials stated that since these premium and indemnity overpayments are disbursed under the same insurance policy to the same entity, RMA should report the combined indemnity and premium overpayments when the cumulative overpayments exceeds the threshold, and are more than 50 percent of the correct amount. OCFO will direct RMA to report premium and indemnity overpayments, under the same insurance policy to the same entity, if these payments are more than 50 percent of the correct amount, and, collectively, more than \$25,000 in its Quarterly High-Dollar Report.

OIG Position

We accept the Department's management decision.

Recommendation 3

Include an additional column in the high-dollar report listing the overpayment amount next to the total amount disbursed.

Agency Response

USDA concurred with OIG's finding that the current reporting format of listing the sum of the correct payment and the improper overpayment amounts together could be misleading. OCFO revised the reporting format for the 2nd Quarter fiscal year 2011 High-Dollar Report to include additional columns for the actual payment amount, correct payment, and overpayment amount.

OIG Position

We accepted the Department's management decision, and verified that this recommendation was implemented.

Abbreviations

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|-----------------|---------------------------------------|
| CCC | Commodity Credit Corporation |
| Executive Order | Executive Order 13520 |
| FCIC | Federal Crop Insurance Corporation |
| FNS | Food and Nutrition Service |
| FS | Forest Service |
| FSA | Farm Service Agency |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| RMA | Risk Management Agency |
| USDA | Department of Agriculture |

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



**United States
Department of
Agriculture**

July 7, 2011

Office of the Chief
Financial Officer

1400 Independence
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Washington, DC
20250

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Jon M. Holladay –s- John Brewer For
Deputy Chief Financial Officer

SUBJECT: Calendar Year 2010 Executive Order 13520,
Reducing Improper Payments, High-Dollar Report Review
Audit No. 50024-1-FM, Official Draft Report

This responds to your request for management's response to the audit recommendations in Audit No. 50024-1-FM, Official Draft Report, dated June 13, 2011. The management response is attached.

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

Attachment

Calendar Year 2010 Executive Order 13520
Reducing Improper Payments, High-Dollar Report Review
Audit No: 50024-1-FM

Recommendation No. 1. Direct Farm Service Agency (FSA) to modify its methodology for identifying high-dollar overpayment to include overpayments recovered during the relevant quarter.

Management Response: United States Department of Agriculture (USDA) concurs with the Office of Inspector General's (OIG) finding that, while FSA identified and corrected some high-dollar overpayments, it failed to report them on quarterly reports.

The following actions are planned to address this recommendation:

- 1) The Office of the Chief Financial Officer (OCFO) will revise the Departmental guidance for the Quarterly High-Dollar Overpayment Report. The revised guidance will reiterate and strengthen the requirement for USDA agencies with high-risk programs. It will incorporate a methodology and process to accurately identify, verify, and report high-dollar overpayments as outlined in the Executive Order and supporting Office of Management and Budget guidance; and
- 2) OCFO will direct FSA, through the revised Departmental guidance for the Quarterly High-Dollar Overpayment Report, to review and modify (if applicable) its methodology and process for identifying, verifying, and reporting high-dollar overpayments. This will ensure all high-dollar overpayments identified and verified during a quarter are included in FSA's quarterly report provided to OCFO.

Date Corrective Action Will be Completed: September 30, 2011

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

Recommendation No. 2. Direct Risk Management Agency (RMA) to report premium and indemnity overpayments on its high-dollar overpayments report if these payments are more than 50 percent of the correct amount, and, collectively, more than \$25,000.

Management Response: USDA concurs with OIG's finding that RMA omitted the premium overpayments since it did not surpass the \$25,000 threshold necessary for entity reporting. Since these premium and indemnity overpayments are disbursed under the same insurance policy to the same entity, RMA should report the combined indemnity and

premium overpayments when the cumulative overpayments exceeds the threshold, and are more than 50 percent of the correct amount.

The following action is planned to address this recommendation:

OCFO will direct RMA to report premium and indemnity overpayments, under the same insurance policy to the same entity, if these payments are more than 50 percent of the correct amount, and, collectively, more than \$25,000 in its Quarterly High-Dollar Report.

Date Corrective Action Will be Completed: September 30, 2011

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

Recommendation No. 3. Include an additional column to the high-dollar report listing the overpayment amount next to the total amount disbursed.

Management Response: USDA concurs with OIG's finding that the current reporting format of listing the sum of the correct payment and the improper overpayment amounts together could be misleading.

OCFO revised the reporting format for the 2nd Quarter FY 2011 High-Dollar Report to include additional columns for the actual payment amount, correct payment, and overpayment amount.

The 2nd Quarter FY 2011 USDA High-Dollar Report with the revised format of additional columns can be found at:

<http://www.ocfo.usda.gov/USDA%20High%20Dollar%20Overpayment%20Report.pdf>.

Date Corrective Action Was Completed: June 16, 2011

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