

**APPENDIX A3**

**OIG FY 2014 COMPLIANCE IMPROPER PAYMENT REQUIREMENTS**



United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL





## USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements

Audit Report 50024-0008-11

### What Were OIG's

#### Objectives

We performed a required review of USDA's FY 2014 AFR and accompanying information to determine whether the agency was compliant with improper payment requirements.

#### What OIG Reviewed

To assess USDA's compliance with improper payment requirements, we reviewed related information in the FY 2014 AFR and supporting documentation. We also interviewed OCFO and component agency officials responsible for administering the 20 high-risk programs and activities. For FY 2014, USDA reported that these programs accounted for an estimated \$6.9 billion in improper payments, which is a 5.53 percent improper payment rate.

#### What OIG Recommends

USDA must take steps to ensure its mandated actions are completed and on time to meet improper payment requirements and adequately report USDA's progress.

### **USDA did not comply with improper payment requirements as set forth by IPIA, as amended, for a fourth consecutive year.**

#### What OIG Found

The Department of Agriculture (USDA) reported mandatory improper payment information for 20 programs identified as susceptible to significant improper payments (high-risk). We found that USDA complied with three of six requirements for the Improper Payments Information Act of 2002 (IPIA), as amended, by: (1) publishing improper payment information in its fiscal year (FY) 2014 Agency Financial Report (AFR), (2) conducting risk assessments for each program or activity, and (3) publishing programmatic corrective action plans in the AFR. However, 8 of the 20 high-risk programs did not comply with one or more of the following requirements: (4) publishing an improper payment estimate as required, (5) meeting annual reduction targets, or (6) publishing gross improper payment rates of less than 10 percent. This occurred because two component agencies used flawed sampling methods to report improper payment estimates, and some component agencies' corrective actions were ineffective. Another component agency strengthened reviews for improper payments, which caused it to identify additional improper payments.

We also found instances where information or actions related to other improper payment activities were insufficient, incomplete, or inaccurate. During this fourth review, we determined that it is critical for the Office of the Chief Financial Officer (OCFO) and senior officials for each noncompliant component agency to set aggressive goals to help USDA achieve compliance with IPIA, as amended.

The Department generally agreed with our findings and recommendations, and we accepted management decision on 7 of the 10 recommendations.





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



DATE: May 15, 2015

AUDIT  
NUMBER: 50024-0008-11

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SUBJECT: USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements

This report presents the results of the subject audit. Your written responses to the official draft report, dated May 13 and 14, 2015, are included in their entirety at the end of this report. Your responses and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your response, we accept management decision on Recommendations 3, 4, 5, 6, 7, 9, and 10 in the report. Management decision has not been achieved for Recommendations 1, 2, and 8. The documentation or action needed to reach management decision for these recommendations is described under the relevant OIG positions.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

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

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## Background and Objectives

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### Background

The Department of Agriculture (USDA) delivers approximately \$144 billion in public services annually through more than 300 programs. Of these 300 programs, the Department identified 20 programs as susceptible to significant improper payments (high-risk) in fiscal year (FY) 2014. Of these 20 high-risk programs, the Office of Management and Budget (OMB) identified 4 programs under a former section of the “Preparation, Submission, and Execution of the Budget” guidance (OMB Circular A-11); USDA identified 10 programs through its risk-assessment process; and the Disaster Relief Appropriations Act of 2013 (Hurricane Sandy funding) identified another 6 programs. USDA reported in FY 2014 that these 20 high-risk programs collectively made approximately \$6.9 billion in improper payments, which is a 5.53 percent improper payment rate.

USDA funds its 20 high-risk programs through 7 component agencies, including the Food and Nutrition Service (FNS), Forest Service (FS), Natural Resources Conservation Service (NRCS), Risk Management Agency (RMA), Rural Development, Farm Service Agency (FSA), and Commodity Credit Corporation (CCC). CCC has no actual employees; however, it carries out its programs through the personnel and facilities of FSA and several other agencies. FSA implements CCC-funded programs for income support, disaster assistance, conservation, and international food procurement.<sup>1</sup>

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 (IPIA). It requires agencies to conduct annual risk assessments to identify programs susceptible to significant improper payments, and to measure and report improper payment estimates for those high-risk programs each year.<sup>2</sup> IPERA defines significant improper payments as improper payments that exceeded \$10 million during the fiscal year reported and 1.5 percent of program outlays, or \$100 million regardless of percentage of program outlays. In general, an improper payment is any payment that an agency should not have made or 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, OMB requires agencies to consider a payment improper if the agency lacks sufficient documentation to validate that it was a proper payment.

IPERA requires agencies to report on actions to recover improper payments, and outline actions that noncompliant agencies must implement. The law also requires the Office of Inspector General (OIG) to determine annually whether USDA complied with the law’s requirements. To determine compliance, OIG reviews the Department’s Agency Financial Report (AFR) and any

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<sup>1</sup> FSA and CCC are two of the seven component agencies; however, because CCC has no employees, we will refer only to FSA throughout the report.

<sup>2</sup> IPIA, Public Law 107-300 (November 26, 2002); and IPERA, Public Law 111-204 (July 22, 2010).

accompanying information for the most recent fiscal year.<sup>3</sup> Compliance under the law means that the agency has:

1. Published an AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
2. Conducted a program-specific risk assessment for each program or activity.
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
4. Published programmatic corrective action plans in the AFR (if required).
5. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

IPERA states that if an agency does not meet one or more of these six requirements, then it is not compliant.<sup>4</sup> Section 1 of this report discusses USDA's compliance under IPERA. Exhibit B provides a description of the IPERA improper payment requirements.

Congress later amended IPIA with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).<sup>5</sup> IPERIA codified several requirements outlined in an improper payments executive order the President issued in 2009.<sup>6</sup> IPERIA requires high-risk programs also deemed high-priority by OMB to report (1) any action the agency has taken—or plans to take—to recover improper payments, and (2) any action the agency intends to take to prevent future improper payments. Among other criteria, high-priority programs are high-risk programs that estimated and reported improper payments above \$750 million and OMB deemed high-priority.<sup>7</sup> Section 2 of this report discusses USDA's compliance under IPERIA.

Both IPERA and IPERIA authorize OMB to issue additional guidance related to eliminating and reporting improper payments. OMB combined OIG's annual compliance assessment under IPERA with OIG's evaluation of actions implemented for the high-priority programs under IPERIA.<sup>8</sup> OMB guidance also states that Inspectors General may evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing

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<sup>3</sup> IPERA, Public Law 111-204 (July 22, 2010); and OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

<sup>4</sup> Prior to FY 2014, OMB's implementation guidance for improper payments required OIG to determine compliance under IPERA based on seven requirements. OMB's revised implementation guidance removed the seventh requirement of reporting actions on recoveries. This guidance aligns with IPERA's language that lists six requirements.

<sup>5</sup> IPERIA, Public Law 112-248 (January 10, 2013).

<sup>6</sup> Executive Order 13520, *Reducing Improper Payments* (November 20, 2009).

<sup>7</sup> OMB may revise this threshold in future years and, if so, will notify agencies of the new threshold and if any programs shall be added or removed (based on reporting errors above or below the new threshold) from the high-priority list. For FY 2014, the programs OMB deemed high-priority for USDA were FNS' Supplemental Nutrition Assistance and National School Lunch programs.

<sup>8</sup> OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

improper payments as part of their annual compliance review. Section 3 of this report discusses the accuracy and completion of USDA's reporting.

All three laws—IPIA, IPERA, and IPERIA—require agencies to implement actions to identify, reduce, recover, and report improper payments. This report provides a broad assessment of USDA's compliance with those improper payment requirements. To ease readability and avoid confusion, we have elected to use the generic phrase “improper payment requirements” in the body of the text, and identify the specific law with a footnote.

To determine the Department's compliance, we primarily used data from USDA's FY 2014 AFR. The Office of the Chief Financial Officer (OCFO) annually publishes the AFR to report USDA's financial data, including improper payment information. To assist OCFO in meeting reporting requirements, USDA's component agencies that administer high-risk programs must submit improper payment information in accordance with OCFO's guidance. Exhibit A provides a list of USDA's current 20 high-risk programs.

## Objectives

We reviewed USDA's FY 2014 AFR and accompanying information to determine whether the agency is compliant with the improper payment requirements.<sup>9</sup> In addition, we evaluated USDA's accuracy and completeness of reporting, and the Department's performance in reducing and recapturing improper payments.

For agencies that have high-priority programs, we evaluated the agency's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology; determined the extent of oversight warranted; and provided the agency head with recommendations for modifying the agency's methodology, promoting continued program access and participation, and maintaining adequate internal controls.<sup>10</sup>

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<sup>9</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report. OMB requires Inspectors General to complete their review within 180 days of the agency annual financial report.

<sup>10</sup> We are referring to agency requirements for high-priority programs under IPERIA.

## **Section 1: USDA's FY 2014 Compliance Determination Under IPERA**

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USDA officials provided evidence that the Department and its component agencies are making progress towards complying with improper payment requirements.<sup>11</sup> For example, the number of noncompliant programs decreased from 11 in FY 2013 to 8 programs in FY 2014. In addition, we found that OMB approved USDA's request to return two previously determined high-risk programs to USDA's 3 year risk assessment cycle because improper payment estimates for those programs remained below the improper payment reporting thresholds for 2 or more consecutive years.<sup>12</sup> The Department also continued to self-assess its compliance with the improper payment requirements and reported this in its AFR.<sup>13</sup> Furthermore, we determined that USDA substantially complied with three of the six improper payment requirements<sup>14</sup> by (1) publishing its FY 2014 AFR and posting the report and any accompanying OMB-required materials on the agency website, (2) conducting a program-specific risk assessment for each program or activity, and (3) publishing programmatic corrective action plans in the AFR.

However, USDA's FY 2014 reported improper payment estimate was \$6.9 billion, a rate of 5.53 percent. This is an increase from the \$6.2 billion estimate, a rate of 5.36 percent, reported for FY 2013. During this fourth consecutive annual review, we determined that OCFO officials and each noncompliant component agency's accountable official or accountable senior official must begin setting more aggressive goals to assist USDA in achieving compliance with the following improper payment requirements.<sup>15</sup>

### **Finding 1: USDA Has Not Complied with IPERA for a Fourth Consecutive Year**

We found that 8 of USDA's 20 high-risk programs did not fully comply with 1 or more of the following 3 improper payment requirements. They did not (1) publish an improper payment estimate, as required; (2) meet annual reduction targets; or (3) publish gross improper payment rates of less than 10 percent. This occurred because two component agencies used flawed sampling methods to report improper payment estimates and some component agencies' corrective actions were ineffective. In one case, a component agency strengthened its reviews for improper payments, which caused it to identify additional improper payments. As a result, USDA is noncompliant with the improper payment requirements for a fourth consecutive year.

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<sup>11</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>12</sup> The two programs returned to USDA's 3 year risk assessment cycle were FSA's Conservation Reserve Program and Marketing Assistance Loan Program.

<sup>13</sup> We are referring to agency requirements under IPERA.

<sup>14</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>15</sup> An accountable official is an official who holds an existing Senate confirmed position and is accountable for the efforts to implement the requirements for high-priority programs. An accountable senior official is a designated senior agency official accountable for the progress of the agency coming into compliance for each program.

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## USDA Did Not Publish a Comprehensive Improper Payment Estimate for One Program

The Department again reported only a partial improper payment estimate for FNS' Child and Adult Care Food Program (CACFP). CACFP has three categories: (1) child care centers, (2) adult day care facilities, and (3) family day care homes. In FY 2006, FNS reported that it would cost approximately \$20 million to conduct a national study to estimate improper payments for CACFP as a whole. Congress denied funding for this study. FNS needed a way to measure improper payments, so it identified the approximately 123,000 family day care homes receiving benefits through CACFP as high-risk. OMB gave FNS approval to measure errors in this category of the program using an alternate methodology in FY 2007.

CACFP's improper payment estimate was supposed to include estimates for two components under the family day care homes category: tiering decisions and meal claims.<sup>16</sup> FNS has been successful at measuring improper payment estimates for tiering decisions, but it has not done the same for meal claims. Since 2009, FNS has spent \$2.4 million conducting feasibility studies to develop a dependable method for estimating improper payments for the meal claims component. However, these past studies did not prove reliable and FNS could not submit that information for USDA's AFR. As a result, the FY 2014 AFR again reported only a partial estimate of improper payments for CACFP, which included the tiering decisions, but not the estimate for meal claims. This occurred because FNS has not yet developed a reliable method to estimate improper payments for the meal claims component of CACFP's high-risk family day care homes category.

In our report for FY 2013, we reported that FNS hired a contractor to assess the feasibility of using parent recall interviews to validate family day care provider meal claims submitted for reimbursement, but the results were pending at the time of publication of our audit.<sup>17</sup> The contractor completed the assessment in FY 2014, and FNS concluded that this method was also unreliable for estimating improper meal claim reimbursements. In September 2014, FNS awarded a contract to conduct a new CACFP study to estimate improper payments for its meal claims component.

This is the fourth consecutive year CACFP was not compliant with improper payment requirements.<sup>18</sup> Senior agency officials need to develop a reliable sampling method soon. In the meantime, to achieve compliance with the improper payment requirements, we recommend FNS resubmit CACFP's alternative sampling method to OMB for approval. That resubmission should include a reasonable date for estimating the meal claims component. USDA must also submit proposed statutory changes to Congress as required by the law.<sup>19</sup>

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<sup>16</sup> The tiering decisions component relates to validating reimbursable rate determinations for FNS CACFP providers. The meal claims component relates to verifying the meal counts of the CACFP participants.

<sup>17</sup> Audit Report 50024-0005-11, *U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Review for Fiscal Year 2013* (April 2014).

<sup>18</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>19</sup> IPERA, Public Law 111-204 (July 22, 2010).

## **USDA Did Not Meet Its Annual Reduction Targets**

Six of USDA's 20 high-risk programs missed their reduction target by an average of 6.17 percent, ranging from 0.27 percent to 18.40 percent. If these programs had met their reduction targets, the reporting of \$508 million in improper payments could have been avoided. Exhibit D lists these six programs' actual improper payment rates and reduction targets.

### **NRCS' Farm Security and Rural Investment Act Programs (FSRIP) Could Have Avoided Reporting \$360 Million in Improper Payments**

FSRIP missed its reduction target by 16.38 percent, and accounted for approximately \$360 million of the avoidable \$508 million in reported improper payments. FSRIP's improper payment estimate increased because NRCS strengthened its improper payment sampling reviews. The agency added testing criteria to assist with identifying improper payments. Most of FSRIP's improper payments were related to eligibility issues because entity participants did not register in the System for Award Management (SAM), as required.<sup>20</sup> NRCS' actions to reduce FSRIP improper payments included updates to national bulletins (which required program personnel to verify SAM registration), training webinars that included reminders on registering in SAM, and additional language in program applications. NRCS' officials stated that the majority of the corrective actions did not become effective until July 2014. They believe results in USDA's FY 2015 report may show some progress, but a significant decrease in the improper payment rate will likely not be reflected until the FY 2016 AFR.

### **RMA's Federal Crop Insurance Corporation Program Fund (FCIC) Could Have Avoided Reporting \$75 Million in Improper Payments**

FCIC accounted for approximately \$75 million of the avoidable \$508 million in reported improper payments. FCIC missed its reduction target by 0.43 percent because RMA used flawed sampling methods to report FCIC's improper payment estimate. FCIC's improper payment rate was based on rolling rates over a 3 year cycle. FCIC attributed its failure to meet the reduction target to the 27 percent improper payment rate reported in FY 2013 for one of its reviewed companies. RMA said that it addressed this matter with corrective actions in FY 2013. However, because of the structure of FCIC's sampling methods, this company's improper payment rate continued to impact the agency's compliance with its reduction target.

As discussed in our FY 2013 report, OMB rescinded its approval of FCIC's sampling methodology because FCIC had not accounted for all categories of potential improper payments and the methodology was not statistically valid. To address these sampling deficiencies, RMA developed and OMB approved new sampling methods for the FY 2015 and 2016 reporting periods. OMB anticipates RMA will submit a more comprehensive sampling methodology for approval and use for FY 2017 reporting and beyond.

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<sup>20</sup> If a business or organization applies for a conservation program or grant funding through NRCS using an Employer Identification Number, it must be registered in SAM to receive payments.

The flawed sampling structure impacted FCIC's ability to meet its reduction target for this fiscal year. RMA senior officials must monitor the progress of the new corrective actions initiated to reduce FCIC's improper payments.

### **FSA's Direct and Counter-Cyclical Payments Program (DCP) and Loan Deficiency Payments Program (LDP) Could Have Avoided Reporting \$18 Million in Improper Payments**

DCP missed its reduction target by 0.38 percent, which accounted for approximately \$18 million of the avoidable \$508 million in reported improper payments. FSA attributed these improper payments to administrative and process errors. The Agricultural Act of 2014 did not authorize DCP for 2014 and future crop years.<sup>21</sup> Since the program was repealed, FSA did not take or plan any actions to further reduce improper payments in FY 2014. FSA stated that it provides continual compliance and oversight in the delivery of all authorized programs to minimize the risks associated with the disbursement of improper payments; because DCP is no longer authorized, the level of risk is zero. FSA also provided documentation of OMB's approval to relieve DCP from annually reporting improper payment estimates because DCP had "phased out."

LDP missed its reduction target by 18.40 percent, which accounted for about \$40,000 of the avoidable \$508 million in reported improper payments. LDP's errors consisted of underpayments and overpayments that resulted from FSA staff not verifying all producer eligibility requirements before some LDP payments were reissued.<sup>22</sup> According to FSA officials, these errors occurred because many employees have retired in the last several years. The remaining employees were unfamiliar with the eligibility requirements, since some county offices had not made LDP payments in years. To reduce these errors, FSA implemented several actions. The agency notified field offices of specific eligibility requirements for LDP, required completion of a checklist for all reissued LDP payments, and required a second party review of LDP applications. We determined that FSA's actions were reasonable. As FSA continues to reduce improper payments in its programs, FSA's senior officials must monitor progress to complete these initiated corrective actions.

### **FNS' School Breakfast Program (SBP) and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Could Have Avoided Reporting \$43 Million and \$12 Million in Improper Payments, Respectively**

SBP accounted for approximately \$43 million of the avoidable \$508 million in reported improper payments. SBP missed its reduction target by 1.18 percent because of an increase in certification errors. To help reduce SBP's improper payments, FNS submitted

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<sup>21</sup> Agricultural Act of 2014, Public Law 113-79 (February 7, 2014).

<sup>22</sup> FSA initially issued LDP payments and found that the participants did not provide sufficient documentation to prove income eligibility. As a result, FSA established a receivable. Once the participants provided the specific documentation, FSA reissued the LDP payments. However, during the improper payment review for FY 2014 reporting, FSA reviewers discovered that other eligibility documentation was not provided.

budgetary proposals to the Department for USDA's FY 2016 budget that included funding to States to implement effective tools.<sup>23</sup>

WIC accounted for approximately \$12 million of the avoidable reported improper payments, and missed its reduction target by 0.27 percent. WIC's improper payments were primarily attributed to the improper redemption of WIC benefits issued to ineligible participants and improper redemption of WIC purchases by authorized vendors. WIC's improper payment rate has increased over the last few years, from 4.13 percent in FY 2012 to 4.55 percent in FY 2014.<sup>24</sup> For FY 2014, FNS reported that it implemented or planned several actions to reduce WIC's errors that included requiring additional training, issuing guidance and memos, creating workgroups, and performing reviews of State agencies and vendors. Senior officials must monitor the implementation, sufficiency, and effectiveness of these corrective actions to reduce WIC improper payments and comply with the law.<sup>25</sup>

This is USDA's fourth consecutive year of noncompliance for SBP and WIC. USDA set goals for achieving compliance with improper payment requirements by December 2020 for SBP and September 2015 for WIC.<sup>26</sup> However, to meet these goals, we determined that USDA must submit a reauthorization proposal to Congress for WIC, as required. And, while FNS submitted budgetary proposals for SBP, USDA must also propose statutory changes, as required.

## **USDA Did Not Report Gross Improper Payment Rates of Less Than 10 Percent for All Programs**

For 4 of the 20 high-risk programs, USDA did not report gross improper payment rates of less than 10 percent: FNS' SBP and National School Lunch Program (NSLP), FSA's LDP, and NRCS' FSRIP.

### **School Breakfast and Lunch Programs Rates Remain Above 10 Percent**

FNS' SBP and NSLP reported estimated improper payments of \$923 million (25.61 percent) and \$1.7 billion (15.25 percent), respectively. For FY 2014 reporting, FNS continued to use the formulas developed from its school year 2005 Access, Participation, Eligibility, and Certification (APEC) study to estimate SBP's and NSLP's

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<sup>23</sup> The proposed tools included the creation of a State exchange program to share best practices to promote compliance with program requirements and the development of procedures to streamline States' reporting of improper payments.

<sup>24</sup> WIC's alternative sampling method used periodic studies to assess the level of error in program payments. FNS "ages" the data using a linear projection to produce updated annual estimates for WIC. FNS officials stated that this linear projection caused WIC improper payment rates to show slight increases, and the impact of corrective actions will not be captured until the next benchmark study.

<sup>25</sup> IPERA, Public Law 111-204 (July 22, 2010).

<sup>26</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.



improper payments.<sup>27</sup> For SBP, FNS attributed improper payments primarily to administrative and documentation errors related to certification and counting/claiming errors.<sup>28</sup> For NSLP, FNS attributed improper payments primarily to administrative and process errors that were also related to certification errors, and counting and claiming errors. NSLP's 15.25 percent improper payment rate was an improvement over the 15.69 percent improper payment rate reported in FY 2013, due primarily to a decrease in the improper payment rate for NSLP's certification component.<sup>29</sup> FNS officials continue to believe that the new tools and strategies included in the Healthy, Hunger-Free Kids Act of 2010 will help reduce errors in SBP and NSLP, and FNS set a goal of achieving compliance with the standard by December 2020.<sup>30</sup>

As in prior years, FNS officials also attributed SBP and NSLP noncompliance with the less than 10 percent requirement to the methodology used to estimate these programs' improper payments.<sup>31</sup> SBP's and NSLP's improper payment rates were based on formulas developed from the aged, school year 2005 APEC study. We noted in a 2011 OIG report that the study was outdated and the formula lacked precision; therefore, we maintain that estimates developed from the study are flawed.<sup>32</sup> At that time, FNS officials believed the updated school year 2012 study would better reflect SBP and NSLP improper payment rates and account for corrective actions. Although the results were not ready for review during our fieldwork, the sampling methodology for the revised study was available, and OIG's statistician reviewed the methodology for statistical propriety, as well as OMB compliance. Since NSLP was deemed a high-priority program and we are required to report actions related to all high-priority programs, we reported our conclusions related to the sufficiency of SBP and NSLP sampling methods for the updated APEC study under Finding 3 of this report.

SBP and NSLP have been noncompliant with improper payment requirements for 4 consecutive years.<sup>33</sup> FNS senior officials must take necessary actions to implement

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<sup>27</sup> U.S. Department of Agriculture, Food and Nutrition Service, Office of Research, Nutrition and Analysis, *NSLP/SBP Access, Participation, Eligibility, and Certification Study—Erroneous Payments in the NSLP and SBP, Vol. I: Study Findings* (November 2007).

<sup>28</sup> FNS defines certification errors as the misclassification of the meal eligibility status of participating students and counting/claim errors as the improper counting and claiming of meals by schools.

<sup>29</sup> NSLP's improper payment estimate, including the certification component is based on an aged 2005 APEC study.

<sup>30</sup> The Healthy, Hunger-Free Kids Act of 2010, Public Law 111–296 (December 13, 2010). Among other things, the act requires school districts to be audited every 3 years, provides funding for training and technical assistance to school food service providers, and outlines several actions for improving the management and integrity of USDA's child and nutrition programs.

<sup>31</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>32</sup> Audit Report 50024-2-FM, *Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report Review* (March 2011). OIG's statisticians concluded that the estimates did not include an assessment of precision for the interim estimates of annual improper payments. Without precision, we could not determine whether the estimates were close to the actual percentages of improper payments; therefore, we did not have any assurance of the accuracy of the estimates. We recommended that FNS reassess NSLP's econometric model to evaluate how precision can be determined and modify the model as necessary to update annual rates associated with the results from its APEC study.

<sup>33</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

approved corrective actions for SBP and NSLP. USDA must also submit to Congress proposed statutory changes, as required by law.

### **Improper Payments at LDP Caused by Administrative and Process Errors**

FSA reviewed 100 percent of LDP's \$200,000 in outlays and reported an actual improper payment rate of 18.80 percent for FY 2014.<sup>34</sup> As mentioned in the previous section related to missed reduction targets, LDP's improper payment rate was high, but its improper payment amount of \$40,000 was insignificant. FSA attributed LDP's improper payments to administrative errors on the part of FSA staff. We determined that FSA's corrective actions were reasonable to address these improper payments. However, senior officials must better oversee these actions to reduce improper payments at LDP.

### **FSRIP Additional Testing Criteria Contributed to Higher Reported Rates**

FSRIP's improper payment rate was 23.08 percent, which represented an estimated \$508 million in improper payments. According to NRCS officials, FSRIP's improper payment testing processes have changed since FY 2012 to create more robust testing criteria for identifying improper payments. As discussed in the previous section related to missed reduction targets, NRCS' robust improper payment testing process increased FSRIP's improper payment estimate. FSRIP's improper payments were mainly attributed to ineligibility of participants for financial assistance. While NRCS implemented actions to correct these eligibility problems, officials did not expect those actions to reflect favorably on the agency's improper payment rate until FY 2016 reporting. As NRCS strives to reduce improper payments in its financial assistance programs, NRCS senior officials must monitor the effectiveness of these corrective actions.

Achieving compliance with improper payment requirements is the responsibility of OCFO and each component agency.<sup>35</sup> For FSA's LDP, NRCS' FSRIP, and RMA's FCIC, OMB is responsible for determining if additional funding would help these programs come into compliance, as they have been noncompliant for 2 consecutive years. Since these determinations will occur as part of the development process for the President's annual budget, we are not making formal recommendations for these noncompliant programs.

FSA's DCP and FNS' CACFP, NSLP, SBP, and WIC have been noncompliant for 4 consecutive years. Because DCP is no longer an authorized program, we are not making formal recommendations to FSA. However, we are recommending that FNS implement additional actions to bring its programs into compliance.

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<sup>34</sup> The review for FY 2014 reporting included LDP payments originally issued between 2009 and 2011, the time any commodities were in LDP status.

<sup>35</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

## **Recommendation 1 to FNS**

Resubmit the CACFP alternative sampling method to OMB for approval and identify the year a comprehensive rate for the family day care homes category will be available. This comprehensive rate should include the meal claims component.

### **Agency Response**

In its response, dated May 14, 2015, FNS stated that in lieu of the necessary funding for a program-wide measurement; FNS developed an alternative methodology, which identified the family day care homes category as high-risk. FNS also began development of new approaches to estimate the accuracy of both tiering decisions and meal counting and claiming. FNS will resubmit its alternative sampling method to OMB for approval as part of the FY 2015 annual financial report submission to the Department and OMB.

FNS also stated that the development of a dependable method for estimating improper payments for the meal claims component has remained elusive. In September 2014, FNS awarded a contract to conduct a new CACFP study to look at alternative methodologies for developing a reliable measurement. This study is ongoing. This type of integrated, research-based approach is the clearest path forward for bringing CACFP as a whole into compliance with the provisions of IPERA. FNS estimates that the new study will be completed by September 30, 2016.

### **OIG Position**

We are unable to reach management decision on this recommendation. In order to reach management decision, FNS needs to provide us details on CACFP's alternative sampling method. Specifically, FNS needs to include the year it expects to report improper payment estimates for CACFP's meal claims component.

## **Recommendation 2 to FNS**

Request that the Secretary submit proposed statutory changes to Congress for CACFP, NSLP, and SBP.

### **Agency Response**

In its response, dated May 14, 2015, FNS stated that it has limited opportunities to offer up statutory or legislative proposals over the course of program operations. In general, the two opportunities come at the time of program reauthorization, which occurs every 5 or 6 years, or as part of the annual Budget submission. FNS will continue to submit budgetary proposals to strengthen integrity issues and address improper payments in NSLP and SBP each year as part of the Budget process. Once proposals are submitted, specific proposals approved by the Secretary go to OMB. Proposals accepted by OMB will then be published in the President's Budget. FNS' implementation plan for these proposals will therefore be contingent upon which proposals move forward with the President's Budget, and what action Congress subsequently takes.

Legislative change is not necessary to continue progress toward an error measurement in CACFP. Further, proposing legislative changes to the program to reduce improper payments in the absence of at least an initial error measurement would be premature. FNS remains committed to working with our State partners to improve the effectiveness of the program and to improve payment accuracy.

FNS estimates that its actions will be completed by September 30, 2015.

### **OIG Position**

Although FNS provided an adequate response to management's proposed actions for NSLP and SBP, we are unable to reach management decision on this recommendation. In order to reach management decision, FNS needs to agree to discuss the IPERA requirement for CACFP with the Office of the Secretary, and provide us a date that it will be accomplished.

### **Recommendation 3 to FNS**

Request that the Secretary submit a reauthorization proposal for WIC.

### **Agency Response**

In its response, dated May 14, 2015, FNS stated that it is currently involved in reauthorization discussions with the Department concerning potential proposals for WIC in general. Integrity issues are high on the list of priorities and concerns. However, detailing of specific proposals is not possible at this time due to the pre-decisional nature of such discussions. FNS will continue to move forward, in collaboration with its State partners, to address issues of integrity and improper payments in WIC. FNS estimates that this action will be completed by December 31, 2015.

### **OIG Position**

We accept management decision for this recommendation.

## **Finding 2: USDA Required Actions for FY 2013 Noncompliances Were Incomplete**

Last year, we reported that 11 of USDA's high-risk programs did not comply with improper payment requirements, for 1 or 3 consecutive years, and USDA was required to submit to Congress a compliance plan, reauthorization proposals, or proposed statutory changes.<sup>36</sup> However, during our current review, we found that USDA did not submit its compliance plan to Congress related to the five high-risk programs that were noncompliant for 1 year. Additionally, USDA did not submit reauthorization proposals or propose statutory changes for the remaining six programs that were noncompliant for 3 consecutive years. This can be attributed to an inadequate escalation process between OCFO and component agency officials; and component agency determinations that reauthorization or statutory changes were not warranted. As illustrated in Finding 1, some of these programs remained noncompliant for FY 2014.<sup>37</sup>

The law and OMB guidance require agencies that are not compliant for 1 fiscal year to submit a plan to both OMB and Congress that describes the actions the agency will take to become compliant.<sup>38</sup> This plan must be submitted within 90 days of the determination of noncompliance. The law also requires agencies that are not compliant for 3 consecutive fiscal years for the same program or activity to submit to Congress either reauthorization proposals for each discretionary program or activity, or proposed statutory changes for each mandatory program or activity that will achieve compliance. The reauthorization proposals or proposed statutory changes must be submitted within 30 days of the determination of noncompliance by OIG.

### **USDA Has Not Submitted a Compliance Plan for Five of the Noncompliant Programs**

On April 15, 2014, we reported that NRCS' FSRIP, RMA's FCIC, and FSA's LDP, Miscellaneous Disaster Programs, and Conservation Reserve Program were noncompliant for 1 year. Therefore, USDA had to submit a plan to Congress by July 14, 2014, describing actions to become compliant. In June 2014, the Department's Chief Financial Officer (CFO) issued a letter to each noncompliant component agency official. The CFO requested information required for its Congressional submission, including the names of accountable senior officials responsible for ensuring program compliance with the improper payment requirements, by June 30, 2014.<sup>39</sup>

However, we found that USDA did not submit its plan to Congress by the required July deadline. OCFO officials explained that one component agency, FSA, did not provide an adequate response until November 2014. OCFO officials stated that USDA's submission for these five programs was in the clearance process; to date, this plan has not been submitted to Congress.

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<sup>36</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>37</sup> The programs that remained noncompliant were FNS' CACFP, SBP, WIC, and NSLP; FSA's DCP and LDP; NRCS' FSRIP; and RMA's FCIC.

<sup>38</sup> Plans are submitted to the Senate Committee on Homeland Security and Governmental Affairs, and the House Committee on Oversight and Government Reform.

<sup>39</sup> We are referring to agency requirements under IPERA.

Three of these five programs remain noncompliant for a second consecutive year.<sup>40</sup> We discussed USDA's actions associated with these three programs in Finding 1 of this report.

### **Six of the Noncompliant Programs Did Not Submit Proposals**

Our report for FY 2013 noted that FSA's DCP and Noninsured Assistance Program (NAP), and FNS' CACFP, NSLP, SBP, and WIC were noncompliant for 3 consecutive years.<sup>41</sup> For these six programs, USDA had to submit proposed statutory changes or reauthorization proposals to Congress by May 15, 2014. The Department's CFO notified FSA and FNS that a reauthorization proposal for discretionary programs or proposed statutory changes for mandatory programs must be submitted to Congress. Therefore, FSA's DCP and FNS' WIC were required to submit reauthorization proposals, and FSA's NAP and FNS' CACFP, NSLP, and SBP were required to propose statutory changes.

We found that FSA did not submit a reauthorization request to Congress for DCP because the Agricultural Act of 2014 repealed DCP.<sup>42</sup> Although the law required submission within 30 days, we understand FSA's decision not to submit a reauthorization proposal for DCP since this program is no longer authorized. In addition, FSA officials decided not to send statutory proposals for NAP because the Agricultural Act of 2014 recently changed the program. FSA officials also believed that the corrective actions implemented at that time would reduce NAP's improper payments. In our current review, we found that FSA had implemented some corrective actions for NAP, making NAP compliant.<sup>43</sup> Therefore, we accepted FSA's decision to not submit proposed statutory changes to Congress.

We found that FNS did not submit a reauthorization proposal for WIC, or propose statutory changes for CACFP, NSLP, and SBP. FNS officials stated that OMB advised them that proposing reauthorization for WIC because it missed its reduction target by 0.38 percent in FY 2013 was unnecessary, but could not provide documentation to support this statement. WIC missed its reduction target for FY 2014 as well (by 0.27 percent); and WIC's improper payment rate has increased to 4.55 percent, representing improper payments of \$206 million. As stated in Finding 1, the law requires that USDA must submit a reauthorization proposal to Congress.<sup>44</sup>

FNS officials believed statutory changes for CACFP's noncompliance issues were unnecessary. FNS indicated that OCFO, FNS, and OMB agreed about the cause for CACFP's noncompliance: the inability to find a reliable methodology to measure improper payments associated with the meal claims component for the high-risk family day care homes category. Studies to identify such a methodology were underway. Thus, statutory changes would not resolve CACFP's

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<sup>40</sup> The three programs that remain noncompliant are FSA's LDP; NRCS' FSRIP; and RMA's FCIC. The Miscellaneous Disaster programs category met its reduction target for FY 2014. Since the Conservation Reserve Program's improper payment estimates were below the high-risk threshold for 2 or more consecutive years, OMB approved USDA's request to return the program to the Department's 3 year risk assessment cycle.

<sup>41</sup> Audit Report 50024-0005-11, *U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Review for Fiscal Year 2013* (April 2014).

<sup>42</sup> Agricultural Act of 2014, Public Law 113-79 (February 7, 2014).

<sup>43</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

<sup>44</sup> We are referring to agency requirements under IPERA.

noncompliance with the improper payment requirements.<sup>45</sup> FNS also stated that it would be premature to propose legislative changes to the program to reduce improper payments in the absence of at least an initial error measurement. However, for the past 9 years, FNS has unsuccessfully attempted to develop a reliable sampling method for its meal claim component and report a comprehensive improper payment estimate for CACFP's family day care homes category. As stated in Finding 1, FNS should re-submit an alternative sampling method to OMB for approval, and indicate the year a comprehensive rate for the family day care homes category will be available. USDA must also submit proposed statutory changes to Congress, as required by the law.

Finally, we found that FNS submitted budgetary proposals to assist SBP and NSLP with reducing improper payments. USDA's FY 2016 budget included several proposals related to NSLP and SBP, such as providing funding to States to implement effective tools, and funding to evaluate the new Administrative Review process for schools to reduce improper and erroneous payments.<sup>46</sup> However, proposed statutory changes were not submitted, and some of FNS' budgetary requests were not included in USDA's final budget. As stated in Finding 1, USDA must submit proposed statutory changes to Congress as required by the law.<sup>47</sup>

Timely and complete submissions to Congress are just as critical as the actions planned or implemented by the agencies to achieve compliance. Therefore, USDA needs to establish a process that allows accountable senior officials to monitor the progress of such submissions ensuring that USDA's mandated actions are completed and on time.

## **Recommendation 4 to OCFO**

Revise the established follow-up and escalation process to include accountable officials and/or accountable senior officials to ensure mandated actions are completed.

## **Agency Response**

In its response, dated May 14, 2015, OCFO stated that it has escalation procedures. Missed deadlines are elevated to the Director of the Fiscal Policy Division and the Agency CFO is notified. This action usually resolves the agency submission. If not, the Associate CFO and the Deputy CFO will be notified. OCFO further stated that a meeting was held in the beginning of this year with the Deputy CFO and Associate CFO on timely escalation of required deliverables from the agencies. Finally, OCFO stated that the Associate CFO for Financial Policy and Planning is receiving a calendar of items relating to agency compliance for reporting and will announce/present them monthly at the CFO council. OCFO estimates that this action will be completed by September 30, 2015.

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<sup>45</sup> We are referring to agency requirements under IPERA.

<sup>46</sup> The Healthy Hunger-Free Kids Act of 2010, requires an accountability system that conducts Administrative Reviews to evaluate program requirements for NSLP and SBP during a 3 year cycle. Administrative Reviews provide a comprehensive evaluation of school meals programs by State agencies participating in the NSLP and SBP.

<sup>47</sup> We are referring to agency requirements under IPERA.

## **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 5 to FSA**

Establish a process to assist the accountable senior official with monitoring progress and ensuring mandated actions are completed on time.<sup>48</sup>

#### **Agency Response**

In its response, dated May 13, 2015, FSA stated that, effective with the FY 2015 Review Cycle, it will set up monthly meetings to address key deliverables to help ensure that all necessary programmatic actions are completed in advance of due dates established by the OCFO. FSA also stated that a deliverable schedule established by the OCFO will be shared with Program Managers as well as the Deputy Administrator for Farm Programs. Progress/status reports will be provided by the FSA CFO on a weekly basis to senior staff officials. This will ensure that due dates will be met and adequately address all reporting requirements. FSA stated that it implemented this action on May 12, 2015.

## **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 6 to FNS**

Establish a process to assist the accountable official and accountable senior officials with monitoring the progress and ensuring mandated actions, such as submitting proposals to Congress, are completed and on time.<sup>49</sup>

#### **Agency Response**

In its response, dated May 14, 2015, FNS stated that it will establish a process to assist the accountable official and senior officials with monitoring the progress and ensuring that mandated actions are completed and on time. This process will include annual submissions of corrective action plans and measurement plans for our high-risk programs as part of our submission to the Department's AFR. In addition, weekly meetings are held with senior officials and the accountable official to discuss items of interest and importance. Integrity issues and improper payments efforts are generally discussed, including meeting timeframes for required actions. FNS estimates that this action will be completed by June 30, 2015.

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<sup>48</sup> An accountable senior official is a designated senior agency official accountable for the progress of the agency coming into compliance for each program.

<sup>49</sup> An accountable official is an official who holds an existing Senate confirmed position to be accountable for the efforts to implement the requirements for high-priority programs.



## **OIG Position**

We accept management decision for this recommendation.

## Section 2: USDA's Actions Related to High-Priority Programs under IPERIA

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### Finding 3: USDA Makes Efforts to Comply with Requirements for High-Priority Programs

USDA submitted its AFR in accordance with the deadlines and guidance available at the time of production. However, USDA did not report all of the required information on high-priority programs in its FY 2014 AFR. This occurred because OMB issued revised implementation guidance for high-priority programs after USDA produced its AFR.<sup>50</sup> Also, OMB's AFR reporting guidance for FY 2014 did not outline how agencies should report high-priority programs.<sup>51</sup> Due to the timing of OMB's guidance, USDA missed an opportunity to demonstrate in the AFR the progress the Department has made towards reducing billions of dollars of improper payments by high-priority programs. In addition, USDA has not updated the required supplemental measures for inclusion on OMB's improper payment website since 2012, despite OCFO's attempts to obtain required information from FNS for its high-priority programs.<sup>52</sup> USDA's inability to report this information not only results in noncompliance with OMB's requirements, but also undermines public confidence that these programs are effectively minimizing improper payments.

OMB's guidance requires OIGs to review high-priority program requirements when they conduct their annual improper payment compliance reviews.<sup>53</sup> Specifically, OIG is required to evaluate the quality of the improper payment estimates and methodology, determine the extent of oversight warranted, and provide the agency head with recommendations, if any, for modifying the agency's methodology or maintaining adequate internal controls.<sup>54</sup>

Each agency with programs identified as high-priority is required to annually report to its Inspector General, and make available to the public: (1) any action the agency has taken or plans to take to recover improper payments, and (2) any action the agency intends to take to prevent future improper payments, including tailoring corrective actions for high-priority programs.<sup>55</sup> To avoid duplication, OMB requires agencies to report this information through its published AFR. Furthermore, agencies with high-priority programs must establish annual or semi-annual (or more frequent, if possible) supplemental measures (or actions) for reducing improper payments and submit these plans to OMB's improper payment website ([paymentaccuracy.gov](http://paymentaccuracy.gov)) where the public can view this information.<sup>56</sup> Finally, the improper payment executive order issued by the

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<sup>50</sup> OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

<sup>51</sup> OMB Circular A-136, *Financial Reporting Requirements* (September 18, 2014).

<sup>52</sup> [Paymentaccuracy.gov](http://Paymentaccuracy.gov) reported SNAP's and NSLP's FY 2013 annual improper payment estimates. OMB is in the process of updating the site to include the FY 2014 results. However, the supplemental measures were not updated by USDA since 2012.

<sup>53</sup> We are referring to requirements for high-priority programs under IPERIA.

<sup>54</sup> IPERIA, Public Law 112-248 (January 10, 2013).

<sup>55</sup> We are referring to high-priority program requirements under IPERIA.

<sup>56</sup> OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

President in 2009 requires an agency head with any high-priority program to designate an accountable official to implement the high-priority program requirements of the executive order.<sup>57</sup>

OMB designated FNS' Supplemental Nutrition Assistance Program (SNAP) and NSLP as high-priority programs. These two programs accounted for approximately \$4.2 billion of the \$6.9 billion of improper payments, or about 60 percent, reported by USDA's high-risk programs for FY 2014.

### **Review of SNAP's Improper Payment Measurement, Corrective Action, and Recovery Plans**

FNS calculated SNAP's national improper payment rate through its quality control process. For FY 2014 reporting, FNS systematically selected a sub-sample from reviews conducted by each State agency and performed an independent re-review.<sup>58</sup> FNS then determined each State agency's official improper payment rate based on a regression formula.<sup>59</sup> Based on those rates, FNS calculated a national improper payment estimate for SNAP. As required by the law, our statistician conducted an independent review, and determined that the quality control methodology developed for SNAP to estimate improper payments was statistically valid and in compliance with OMB requirements.<sup>60,61</sup>

We determined that corrective actions for SNAP reported in the FY 2014 AFR substantially met the high-priority requirements. SNAP corrective actions were primarily focused on ensuring that State agencies that did not meet their improper payment benchmarks implemented corrective actions specific to their State. Actions also included the implementation of best practices and successful reduction techniques found throughout the States. SNAP's corrective actions appeared effective in addressing the identified root causes as SNAP had a FY 2014 improper payment rate of 3.20 percent, which was a decrease from the prior year improper payment rate of 3.42 percent. This rate was also below SNAP's FY 2014 reduction target of 3.80 percent.

Currently, FNS does not have procedures for gathering and reporting recaptured SNAP overpayment dollars in the AFR. While an FNS official indicated that the nature of FNS' programs (i.e., distribution to the State agency for ultimate distribution to the beneficiary) does not allow for recapture auditing, overpayments can still be identified through

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<sup>57</sup> Executive Order 13520, *Reducing Improper Payments* (November 20, 2009). An accountable official is an official who holds an existing Senate confirmed position and is accountable for the efforts to implement the Executive Order and its requirements for high-priority programs.

<sup>58</sup> State agencies were required to select monthly statistically random samples from the universe of households receiving SNAP benefits. The State agency conducted a quality control review of each case sample, comparing eligibility and benefit determinations against program standards for accuracy.

<sup>59</sup> A regression formula is used to quantify the relationship among variables.

<sup>60</sup> We are referring to high-priority program requirements under IPERIA. IPERIA requires OIG to evaluate the quality of the improper payment estimates and methodology.

<sup>61</sup> OIG is also assessing the application of SNAP's sampling methods in a separate audit. The objectives of this review are to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP improper payment rates are accurately determined, the appropriate actions are taken to reduce the improper payment rates, and errors are timely corrected when detected.

independent audits, State reporting, and the Department of the Treasury Offset Program.<sup>62</sup> An FNS official stated that FNS will begin reporting SNAP recoveries sometime in FY 2015. In order to report SNAP recoveries, FNS should implement a process to identify, collect, and report overpayment information from available State agency reports, the Treasury Offset Program, and other sources.

### **Review of NSLP's Improper Payment Measurement, Corrective Action, and Recovery Plans**

As discussed in Finding 1, the methodology used to estimate NSLP's FY 2014 improper payments was based on an aged 2005 study. OIG maintains that this study was not precise enough to project accurate estimates. FNS hired a contractor to conduct a school year 2012-2013 study that would better reflect NSLP's improper payment rate, and account for corrective actions implemented since the last study for school year 2005. Although the results of this study were pending during our fieldwork, we obtained and assessed the adequacy of the sampling methods used to conduct the study. Our statistician reviewed the sampling design for statistical accuracy and compliance with OMB guidance related to the estimation of improper payments in NSLP. We determined that the study's sampling design complied with OMB's requirements. FNS expects to release improper payment estimates from this study by mid-2015.

We determined that corrective actions for NSLP reported in the FY 2014 AFR substantially met the requirements for high-priority programs.<sup>63</sup> NSLP took corrective actions related to certification and counting errors, and those actions focused on increasing the accuracy of eligibility decisions and meal counting tabulations. NSLP's corrective actions appeared effective in addressing the identified root causes; in FY 2014, NSLP had an improper payment rate of 15.25 percent, which represented a decrease from the prior year's improper payment rate of 15.69 percent.

Similar to SNAP, we found that FNS had not established procedures for gathering and reporting recaptured overpayment dollars in the AFR for NSLP. FNS needs to assess whether gathering NSLP overpayment data and reporting recoveries is possible and, if so, begin reporting that data. FNS' assessment should consider all sources including independent audits.

### **Review of SNAP's and NSLP's Access Plans and Supplemental Measures**

We are required to provide USDA with recommendations, if any, for promoting continued access and participation when implementing actions to reduce improper payments in high-priority programs.<sup>64</sup> USDA did not specifically report, within the AFR, FNS plans to ensure its actions to reduce improper payments do not negatively impact SNAP's and NSLP's access and participation. However, we noted that access and participation within the programs are protected by Congress through the laws and

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<sup>62</sup> The Department of the Treasury Offset Program is a centralized offset program, administered by the Bureau of the Fiscal Service's Debt Management Services, to collect delinquent debts owed to Federal agencies and States.

<sup>63</sup> We are referring to high-priority program requirements under IPERIA.

<sup>64</sup> We are referring to OIG requirements under IPERIA.

program limitations it establishes, and USDA discussed these instances in the *Barriers* section of the AFR. Furthermore, FNS stated that its primary mission is to provide access and participation to every eligible individual and family. Therefore, we are not making formal recommendations related to program access and participation to FNS.

Furthermore, USDA has gathered and reported supplemental measures for high-priority programs on [paymentaccuracy.gov](http://paymentaccuracy.gov) in the past, but that information is not current.<sup>65</sup> Supplemental measures focus on higher risk areas within the high-priority programs. While OCFO officials are responsible for physically uploading the information to the website, they must obtain the underlying data from FNS. We found several instances where OCFO requested information on supplemental measures from FNS. However, OCFO never received the requested information, and USDA has not reported on supplemental measures for SNAP and NSLP on the website since 2012.

As discussed throughout this finding, many of USDA's actions on high-priority programs were not discussed in the AFR. However, we believe that the risk of omissions in the FY 2015 AFR is low because OMB's AFR reporting guidance for FY 2015 should reflect these high-priority requirements, and the Department should have adequate time to incorporate the additional language in the AFR.

During the course of our review, there was a misunderstanding over which USDA office or component agency is responsible for ensuring high-priority program requirements are met and reported in USDA's AFR. USDA has a designated accountable official at FNS who is responsible for carrying out high-priority program requirements under the executive order; however, OCFO has been responsible for providing guidance and consolidating improper payment information in USDA's AFR. The law and OMB's guidance do not explicitly state who at the agency should report the required information.<sup>66</sup> Therefore, USDA's Office of the Secretary, OCFO, FNS, and other relevant officials need to coordinate to determine which office or component agency is responsible for meeting high-priority requirements and reporting the related program information in the AFR.

Once USDA decides which office or component agency is responsible for reporting USDA's high-priority program information, officials need to: (1) ensure these requirements are communicated by including a section on high-priority programs in the AFR starting in FY 2015, (2) update or develop Departmental guidance to obtain specific information related to high-priority programs for AFR reporting, and (3) establish an effective monitoring process to ensure information is submitted to [paymentaccuracy.gov](http://paymentaccuracy.gov) timely and high-priority requirements are met.

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<sup>65</sup> Because OMB's implementation guidance was issued after the development of the AFR and OMB's reporting guidance for FY 2014 did not outline how high-priority programs should be reported, USDA's FY 2014 AFR also did not include a basic summary discussing the supplemental measures, such as the frequency of each measure reported on [paymentaccuracy.gov](http://paymentaccuracy.gov), how information from this measure will help the program reduce improper payments, and any reasons for meeting, exceeding, or failing to meet the supplemental targets per OMB's guidance.

<sup>66</sup> IPERIA, Public Law 112-248 (January 10, 2013) and OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

## **Recommendation 7 to OCFO**

Coordinate with the Office of the Secretary, FNS, and other relevant officials to issue a policy to clearly delineate which office or component agency is responsible for meeting high-priority program requirements and reporting required high-priority program information in the AFR.

### **Agency Response**

In its response, dated May 14, 2015, OCFO stated that it will coordinate with the Office of the Secretary, FNS, and other relevant officials to clearly designate USDA's Accountable Official(s) and who will be responsible for performing high-priority requirements. OCFO also stated that it will issue guidance for reporting high-priority program information in the AFR. OCFO estimates that this action will be completed by December 31, 2015.

### **OIG Position**

We accept management decision for this recommendation.

## **Recommendation 8 to FNS**

Implement a process to identify, collect, and report overpayment information on FNS high-risk and high-priority programs from available sources.

### **Agency Response**

In its response, dated May 14, 2015, FNS stated that it will begin reporting recoveries of overpayments in SNAP to the Department on a quarterly basis, beginning with the third quarter of FY 2015. FNS estimates that this action will be completed by July 1, 2015.

### **OIG Position**

We are unable to reach management decision on this recommendation. In order to reach management decision, FNS needs to agree to implement a process to also identify and collect overpayment information on FNS high-risk and high-priority programs, and provide us a date that the process will be implemented.

## Section 3: Accuracy and Completeness of USDA's Improper Payment Information

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### Finding 4: USDA Needs to Take Additional Action to Ensure Information on Improper Payment Activities is Complete and Accurate

We noticed that OCFO and USDA component agencies took significant strides to ensure that USDA reported improper payment information accurately with an effective second party quality review process. Further, we found that the information in USDA's AFR was supported by documentation from OCFO or component agencies. Nevertheless, we also discovered several instances in which information related to improper payment activities was incomplete because OCFO did not properly report it. Furthermore, component agencies did not report their information adequately or on time. Additionally, we determined that one program's reported cause of improper payments was inaccurate because the component agency misinterpreted a definition in the OCFO and OMB guidance for naming causes. As a result, USDA was not able to fully report to the public its efforts to identify and recover improper payments.

OMB requires agencies to summarize their progress in preventing, reducing, and recovering improper payments and to include the detailed portion of the reporting as an appendix to its AFRs. USDA requires its agencies to submit improper payment information to OCFO for inclusion in the AFR. Federal managers are responsible for applying the internal control standards consistently to meet objectives and assess the effectiveness of their programs. Finally, OMB guidance states that Inspectors General may evaluate the accuracy and completeness of agency reporting.<sup>67</sup>

Although OMB guidance requires the reporting of specific dollar values in each improper payment cause category, USDA did not report these values in the AFR. OCFO officials acknowledged that this was an oversight, and that the amounts would be correctly reported in the FY 2015 AFR. Additionally, we determined that FNS inaccurately reported to OCFO the root cause for all SNAP improper payments as an "Administrative or Process Errors" category. Based on information from FNS, some improper payments were caused by program participants misreporting income or deductions, and FNS incorrectly associated these reasons with the "Administrative and Process Errors" sub-category "Other Party."

However, OCFO and OMB guidance dictate that the "Other Party" sub-category should only be used for administrative and process errors made by any other organization administering Federal dollars. When this problem was raised to FNS, an FNS official explained that the OMB improper payment cause categories did not fit their programs well, and that, in the absence of a better description for their improper payments, they had selected the "Administrative and Process Errors" category as a best fit. OIG concluded, however, that a more accurate category in this case would be "Other" because administrative errors are only those "caused by incorrect

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<sup>67</sup> OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

inputting, classifying, or processing of applications or payments.”<sup>68</sup> Going forward, FNS should more carefully consider these cause categories when reporting improper payments caused by participants who misreport information.

On a quarterly basis, OCFO asked component agencies to submit recaptured overpayments for inclusion in USDA’s AFR. For FY 2014, USDA reported that it identified and recovered overpayments totaling \$301 million and \$234 million, respectively. However, our review of component agency submissions to OCFO for FY 2014 reporting found that overpayments from FNS’ programs were not included in the totals. We reported the same issue in our compliance review for FY 2013.<sup>69</sup> At that time, we did not make a recommendation to FNS because FNS indicated it planned to report SNAP recoveries in FY 2014, and to explore the feasibility of reporting recoveries for its other programs. Again, FNS officials explained to us their plan to report recaptured overpayments using available information. Reporting the recapture of overpayments illustrates to the public that Federal agencies are actively recouping overpayments of taxpayers’ dollars when they are identified. In Finding 3 of this report, we recommended that FNS report overpayments recaptured through available sources.

We also found that USDA’s FY 2014 AFR sampling process descriptions were incomplete for five of FSA’s six reporting high-risk programs. For three of the five programs, the AFR sampling process section simply stated, “[t]his information is not available at this time.” OCFO started preparing USDA’s AFR in August 2014, and the draft narrative, which included the improper payment sections, was scheduled to be completed by October 17, 2014.<sup>70</sup> On October 20, 2014, FSA provided OCFO action plans for its improper payments, which was approximately 4 months late. On October 21 and 22, 2014, OCFO officials informed FSA that their review showed significant problems with the plans and provided a list of what they considered the most egregious problems with FSA’s action plans. In turn, FSA provided additional documents and OCFO officials accepted some of the revised information, but rejected the rest because it was both improperly formatted and unsuitable for AFR reporting. Part of this unsuitability was that FSA inadequately summarized information about its improper payment sampling methods. FSA acknowledged this decision, and nothing received after that point was incorporated into the AFR. While reoccurrence of this situation is unlikely in FY 2015, FSA’s accountable senior official needs to monitor FSA’s staff progress in providing required improper payment information to OCFO, as recommended in Finding 2 of this report.

In addition to the AFR’s incompleteness, we also found that in 1 of the 10 risk assessments we analyzed; the agency had not sampled its transactions according to OCFO guidance.<sup>71</sup> As part of USDA’s risk assessment cycle, programs previously determined to be at low risk for making significant improper payments must be reassessed at least every 3 years. To remain in compliance with OCFO’s risk assessment guidance, some agencies must test their transactions during the 3 year cycle. We found that the risk assessment conducted for Rural Development’s

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<sup>68</sup> OCFO FY 2014 corrective action plan guidance and OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

<sup>69</sup> Audit Report 50024-0005-11, *U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Review for Fiscal Year 2013* (April 2014).

<sup>70</sup> As part of OIG’s audit of USDA’s consolidated financial statements, OCFO was scheduled to submit USDA’s draft AFR, including the improper payment narrative, on October 17, 2014, to OIG.

<sup>71</sup> OCFO Final USDA FY 2014 Risk Assessment Guidance (December 17, 2013).



Water and Waste Disposal Systems Loans for Rural Communities did not follow OCFO requirements to select a statistically valid sample of transactions from which to perform its test of transactions.<sup>72</sup> To test transactions, Rural Development officials reviewed a subsample of files from five States, with 56 loan files associated with Rural Development's FY 2014 State program reviews. Rural Development reported that the 56 loan files included 173 disbursements, representing \$14.5 million. It then selected a sample of 10 percent (or, as a raw number, 17) of those disbursements to test for improper payments. We found, however, that Rural Development selected its sample improperly from the FY 2014 State program reviews, instead of from the full universe, required by OCFO guidance, of the programs' overall outlays, totaling \$879 million.

While Rural Development noted that the review did not identify any errors associated with the 17 tested files, we determined that the sample size was too small to meet the standard in OCFO guidance of a 90 percent confidence interval that errors did not exist, plus or minus 2.5 percent.<sup>73</sup> We found that OCFO had the same concerns and met with Rural Development to discuss its test of transaction methods. However, neither OCFO nor Rural Development officials could provide evidence related to their discussion or explain why OCFO ultimately approved the testing plan afterward.

If USDA applied additional rigor to its testing and reporting methodologies, it could readily eliminate inaccuracies and incompleteness of information reported on improper payment activities. With additional actions and adequate coordination between OCFO and component agency staff, including the accountable officials and accountable senior officials, USDA can accurately and completely report its progress in reducing and eliminating improper payments.

## **Recommendation 9 to OCFO**

Include the dollar amounts of improper payments associated with the OMB cause categories.

### **Agency Response**

In its response, dated May 14, 2015, OCFO stated that it will instruct USDA agencies with high-risk programs to include the dollar amount associated with the cause categories of improper payments for reporting in the FY 2015 AFR. OCFO estimates that this action will be completed by December 31, 2015.

### **OIG Position**

We accept management decision for this recommendation.

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<sup>72</sup> We found that Rural Development responded to the qualitative questions in the risk assessment guidance.

<sup>73</sup> OCFO Final USDA FY 2014 Risk Assessment Guidance (December 17, 2013).

## **Recommendation 10 to OCFO**

Direct Rural Development to re-assess the Water and Waste Disposal Systems Loans for Rural Communities in accordance with OCFO's guidance.

### **Agency Response**

In its response, dated May 14, 2015, OCFO stated that it revised the risk assessment guidance to direct the Water and Waste Disposal Systems Loans for Rural Communities to perform a risk assessment with supplemental testing in the fiscal year 2016 risk assessment cycle. OCFO estimates that this action will be completed by April 28, 2015.

### **OIG Position**

We accept management decision for this recommendation.

## Scope and Methodology

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Our audit focused on improper payment information reported in USDA's FY 2014 AFR and additional supporting documentation. We performed our review at OCFO Headquarters in Washington, D.C. We commenced fieldwork in December 2014, and completed our fieldwork in April 2015.

We interviewed OCFO officials and USDA component agencies' management, supervisory, and staff personnel involved with the 20 programs identified as susceptible to significant improper payments. We obtained and reviewed all applicable laws, rules, and regulations pertaining to improper payments, as well as OCFO's guidance, policies, and procedures. We also reviewed each program's plans that described: (1) how sampling was performed; (2) how estimates were calculated and completed, and/or (3) proposed corrective actions to reduce improper payments in the future.

To accomplish our objectives, we performed the following audit steps to assess USDA's compliance with the specific requirements of IPIA, as amended:

### **Published an AFR for the Most Recent Fiscal Year and Posted that Report on the Agency Website**

We obtained and reviewed the FY 2014 AFR. We also confirmed that the AFR was posted on USDA's website.

### **Conducted a Program-Specific Risk Assessment for Each Program or Activity**

Of the 149 programs and activities listed in USDA's inventory, we non-statistically, but randomly, selected 10 programs and activities risk-assessed in FY 2014. 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 certification that events affecting a program have not changed to completing a full-scale risk assessment, including a test of transactions. Our 10 selected programs captured various types of risk assessments. We reviewed these assessments to determine whether the level of risk determination was reasonable.

### **Published Improper Payment Estimates for All Programs Identified as High Risk**

We reviewed the improper payment sampling results table in *Section III, Other Information*, of the AFR to identify which programs reported "NA" (not available). We reviewed documentation to determine which of those programs with an "NA" were required to report an improper payment estimate.

### **Published Programmatic Corrective Action Plans in the AFR**

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

### **Published and Has Met Annual Reduction Targets for Each High-Risk Program Assessed**

We reviewed the improper payments reduction outlook table in *Section III, Other Information*, of the FY 2014 AFR and compared each program's reduction target to the actual results listed in the improper payment sampling results table in *Section III, Other Information*, of the FY 2014 AFR.

### **Reported a Gross Improper Payment Rate of Less Than 10 Percent for Each High-Risk Program Published in the AFR**

We reviewed the improper payment sampling results table in *Section III, Other Information*, of the FY 2014 AFR to identify which programs did not report estimates of less than 10 percent.

### **Reported Information on High-Priority Programs**

We interviewed OCFO and FNS officials and obtained documentation to complete our assessment of high-priority programs, as required.

We conducted this 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 objectives.

During the course of our audit, we did not verify information in any of USDA's electronic information systems, and make no representation regarding the adequacy of any agency computer system or the information generated from it.

## Abbreviations

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AFR.....	Agency Financial Report
APEC .....	Access, Participation, Eligibility, and Certification
CACFP .....	Child and Adult Care Food Program
CCC.....	Commodity Credit Corporation
CFO.....	Chief Financial Officer
DCP.....	Direct and Counter-Cyclical Payments Program
FCIC.....	Federal Crop Insurance Corporation Program Fund
FNS .....	Food and Nutrition Service
FS .....	Forest Service
FSA .....	Farm Service Agency
FSRIP .....	Farm Security and Rural Investment Act Programs
FY .....	Fiscal Year
IPERA .....	Improper Payments Elimination and Recovery Act of 2010
IPERIA.....	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA.....	Improper Payments Information Act of 2002
LDP .....	Loan Deficiency Payments 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
RMA .....	Risk Management Agency
SAM.....	System for Award Management
SBP .....	School Breakfast Program
SNAP .....	Supplemental Nutrition Assistance Program
USDA.....	Department of Agriculture
WIC.....	Special Supplemental Nutrition Program for Women, Infants, and Children

## Exhibit A: USDA's 20 High-Risk Programs

Exhibit A provides a list of USDA's 20 current high-risk programs or program categories.

High-Risk Program	USDA Component Agency
1. Supplemental Nutrition Assistance Program (SNAP) SNAP provides low income households benefits to purchase food from approved retailers.	Food and Nutrition Service
2. National School Lunch Program (NSLP) NSLP assists States, through cash grants and food donations, in providing a nutritious nonprofit lunch service for school children.	
3. School Breakfast Program (SBP) SBP assists States in providing a nutritious nonprofit breakfast service for school children, through cash grants and food donations.	
4. Child and Adult Care Food Program (CACFP) CACFP, through grants-in-aid and other means, assists States with maintaining nonprofit food service programs for children and elderly or impaired adults in day care facilities, and children in afterschool care programs in low income areas and emergency shelters.	
5. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) WIC provides supplemental nutritious foods and other health services to low-income eligible participating women and children up to age of 5 years.	
6. Hurricane Sandy – The Emergency Food Assistance Program This program helps supplement the diets of low-income persons impacted by Hurricane Sandy by making donated foods available to the State agencies that are responsible for the distribution of such foods within the States.	
7. Federal Crop Insurance Corporation Program Fund (FCIC) FCIC provides insurance and risk management tools to agricultural producers and rural communities.	Risk Management Agency
8. Milk Income Loss Contract Program (MILC) MILC compensates dairy producers when domestic milk prices fall below a specified level.	Farm Service Agency and Commodity Credit Corporation
9. Loan Deficiency Payments Program (LDP) LDP's objective is to improve and stabilize farm income, assist in bringing better balance between supply and demand of the commodities, and assist farmers in the orderly marketing of their crops.	
10. Direct and Counter – Cyclical Payments Program (DCP) DCP provides income support to eligible producers of covered commodities.	
11. Supplemental Revenue Assistance Program (SURE) SURE falls under FSA's high-risk Miscellaneous Disaster programs category. SURE provides financial assistance for farm revenue losses due to natural disaster.	
12. Noninsured Assistance Program (NAP) NAP provides crop loss assistance to producers of commercial crops or other agricultural commodities for which the catastrophic risk protection level of crop insurance is not available.	
13. Hurricane Sandy – Emergency Conservation Program This program enables farmers to perform emergency conservation measures to control wind erosion on farmlands, and to rehabilitate farmlands damaged by wind erosion, floods, hurricanes, or other natural disasters.	
14. Hurricane Sandy – Emergency Forest Restoration Program This program provides financial assistance, through cost share payments, to eligible participants on eligible land for certain practices to restore nonindustrial private forest land that has been damaged by a natural disaster.	

## **Exhibit A: USDA’s 20 High-Risk Programs**

<b>High-Risk Program</b>	<b>USDA Component Agency</b>
<p>15. <b>Rental Assistance Program (RAP)</b>                      RAP provides an additional source of support for households with incomes too low to pay the basic rent from their own resources.</p>	Rural Development
<p>16. <b>Farm Security and Rural Investment Act Programs (FSRIP)</b>                      FSRI programs provide financial assistance to help plan and implement conservation practices that address natural resource concerns or opportunities to help save energy, improve soil, water, plant, air, animal and related resources on agricultural lands and non-industrial private forest land.</p>	Natural Resources Conservation Service
<p>17. <b>Hurricane Sandy – Emergency Watershed Protection Program</b>                      This program assists sponsors, landowners, and operators in implementing emergency recovery measures for runoff retardation and erosion prevention to relieve imminent hazards to life and property affected by Hurricane Sandy.</p>	Natural Resources Conservation Service
<p>18. <b>Wildland Fire Suppression Management (WFSU)</b>                      WFSU protects life, property, and natural resources on acres of National Forest System and State and private lands through fee or reciprocal protection agreements.</p>	Forest Service
<p>19. <b>Hurricane Sandy – Emergency Forest Restoration Program</b>                      This program provides funding to the state forester or designated official as reimbursement for approved technical assistance provided to eligible forest landowners by the state forestry agency in support of USDA’s Farm Service Agency and the delivery of the Emergency Forest Restoration Program.</p>	Forest Service
<p>20. <b>Hurricane Sandy – Capital Improvement and Maintenance (CMDf)</b>                      CMDf funds provide construction and maintenance funding to address emergency infrastructure needs to restore roads, trails, and facilities damaged by natural disaster.</p>	Forest Service

## **Exhibit B: IPERA Compliance Determination**

Exhibit B provides a description of the six requirements agencies must meet to comply under the Improper Payments Elimination and Recovery Act of 2010.

<b>Description of IPERA Requirements</b>	<b>OIG Fiscal Year 2014 Compliance Determination: Did USDA Comply?</b>	<b>Reason for OIG Compliance Decision</b>
1. Published an Agency Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying Office of Management and Budget required materials on the agency website.	YES	The Department of Agriculture (USDA) published and posted an AFR with accompanying materials on the agency's website.
2. Conducted a program-specific risk assessment for each program or activity.	YES	USDA implemented a 3 year risk assessment cycle. The Office of the Chief Financial Officer provided the Office of Inspector General its risk assessment guidance inventory of programs and activities, including salaries and expenses.
3. Published improper payment estimates for all high-risk programs and activities.	NO	Discussed in Finding 1.
4. Published programmatic corrective action plans in the AFR.	YES	USDA published its corrective action plans.
5. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	NO	Discussed in Finding 1.
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.	NO	Discussed in Finding 1.



## **Exhibit C: USDA’s Noncompliances by Requirement and Program**

Exhibit C provides a list of the eight programs we determined were noncompliant under the Improper Payments Elimination and Recovery Act of 2010.

<b>High-risk Program</b>	<b>FY 2014 Noncompliant with Reporting Estimates</b>	<b>FY 2014 Noncompliant with Meeting Annual Reduction Targets</b>	<b>FY 2014 Noncompliant because Errors are over 10 Percent</b>	<b>Number of Years Noncompliant, FY 2011 through FY 2014 OIG Reviews</b>
<b>FSA Loan Deficiency Payments Program</b>		X	X	2
<b>NRCS Farm Security and Rural Investment Act Programs</b>		X	X	2
<b>RMA Federal Crop Insurance Corporation Program Fund</b>		X		2
<b>FNS Child and Adult Care Food Program</b>	X			4
<b>FNS National School Lunch Program</b>			X	4
<b>FNS School Breakfast Program</b>		X	X	4
<b>FNS Supplemental Assistance Program for Women, Infants and Children</b>		X		4
<b>FSA Direct and Counter-Cyclical Payments Program</b>		X		4

## Exhibit D: Impact of Six Programs Not Meeting Annual Reduction Targets

Exhibit D provides a list of the six high-risk programs that accounted for \$508 million in reported improper payments that could have been avoided if their reduction targets were met.

Program	Annual Reduction Target Rate %	FY 2014 Reported Outlays \$ in Millions	FY 2014 Improper Payment Rate %	Improper Payments \$ in Millions	Difference between Target and Actual Rate %	Reported Improper Payments that could have been avoided \$ in Millions
1. School Breakfast Program, FNS	24.43%	3,605	25.61%	923	1.18%	\$43
2. Supplemental Assistance Program for Women, Infants and Children, FNS	4.28%	4,517	4.55%	206	0.27%	\$12
3. Loan Deficiency Payments Program, FSA	0.40%	0.2	18.80%	0.04	18.40%	\$.04
4. Direct and Counter-Cyclical Payments Program, FSA	0.33%	4,619	0.71%	33	0.38%	\$18
5. Federal Crop Insurance Corporation Program Fund, RMA	5.15%	17,430	5.58%	972	0.43%	\$75
6. Farm Security and Rural Investment Act Programs, NRCS	6.70%	2,200	23.08%	508	16.38%	\$360
					<b>USDA's Average</b>	<b>USDA's Total</b>
					<b>6.17%</b>	<b>\$508</b>

## **Exhibit E: Sampling Methodology for USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements**

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### *Objectives*

The sampling methodology for our assessment of USDA's compliance with the improper payment requirements for FY 2014 was designed to help support our audit objectives.<sup>74</sup> Specifically, the audit objectives related to reviewing USDA's FY 2014 AFR and accompanying information to determine compliance with improper payment requirements,<sup>75</sup> and evaluating USDA's accuracy and completeness of reporting. We performed two non-statistical samplings selected to test the adequacy and completeness of USDA's risk assessment of programs and activities subject to IPIA. Another non-statistical sample was selected to evaluate the accuracy of the improper payment estimates for one high-risk program.

### *Audit Universe and Sample Design*

#### Risk Assessment Selection and Sample

Of the 149 programs and activities listed in USDA's inventory of programs or activities, we non-statistically, but randomly, selected 10 programs and activities risk assessed in FY 2014 using computer assisted auditing techniques (CAATs). Our 10 selected programs captured various types of risk assessments. We reviewed these assessments to determine whether the level of risk determination was reasonable, and in accordance with IPIA, OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and OCFO's Final USDA FY 2014 Risk Assessment Guidance.

#### High-Risk Program Selection and Sample

USDA's FY 2014 AFR reported improper payment information for 20 programs or program categories it deemed "high-risk," or susceptible to significant improper payments. Because programs that received funding from the Disaster Relief Appropriations Act of 2013 (Hurricane Sandy Act) were automatically considered high-risk, we decided to select one of the six USDA Hurricane Sandy funded programs. We non-statistically selected the FSA's Hurricane Sandy-Emergency Conservation Program. To determine the FY 2014 improper payment rate for the Hurricane Sandy-Emergency Conservation Program, FSA statistically selected and reviewed 50 samples. Because our sample analysis was conducted to test internal controls by FSA for identifying and reporting improper payments (and not used to provide a statistical projection), we decided to randomly select 20 of the 50 samples FSA reviewed. To remain unbiased, our 20 samples were randomly selected using CAATs.

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<sup>74</sup> We are referring to OIG requirements under IPERA.

<sup>75</sup> We are referring to agency requirements under IPERA. IPERA requires OIG to determine compliance with the six requirements outlined in Exhibit B of this report.

## **Exhibit E: Sampling Methodology for USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements**

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### *Results*

To support the audit objectives, we reviewed the supporting documentation provided for the samples selected. We noted 1 exception within the 10 samples selected for USDA's risk assessment. We discussed our finding related to the incompleteness of the one risk assessment under Finding 4 of this report. We noted no reportable exceptions for the 20 random samples selected to evaluate the accuracy of the improper payment rate for FSA's Hurricane Sandy-Emergency Conservation Program.

**USDA'S  
FISCAL YEAR 2014 COMPLIANCE WITH  
IMPROPER PAYMENT REQUIREMENTS  
RESPONSES TO AUDIT REPORT**





DATE: May 14, 2015

**United States  
Department of  
Agriculture**

AUDIT  
NUMBER: 50024-0008-11

Food and  
Nutrition  
Service

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

3101 Park  
Center Drive  
Room 712

FROM: /s/ <Jeffrey J. Tribiano> (for): Audrey Rowe  
Administrator

Alexandria, VA  
22302-1500

SUBJECT: USDA's Fiscal Year 2014 Compliance with Improper Payment  
Requirements

This letter responds to the official draft report for audit report number 50024-0008-11, USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements. Specifically, the Food and Nutrition Service (FNS) is responding to the general content and the five FNS recommendations in the report.

In the section titled 'USDA Did Not Meet Its Annual Reduction Targets', and as listed in Exhibit D of the report, OIG states that six of 20 USDA high-risk programs missed their improper payment reduction targets, resulting in the reporting of \$508 million in improper payments that could have been avoided. While the report does not detail how these improper payments in programs could have been avoided under current statutory authority, and does not fully portray the range of integrity efforts underway at USDA, we agree that levels of improper payments are unacceptably high.

It's worth noting that more recent data on improper payments in school meals has become available since the 2014 USDA Financial Report was prepared. On May 4, 2015, USDA released the second iteration of the *Access, Participation, Eligibility and Certification (APEC)* study, which uses nationally-representative data from schools and school food authorities to estimate improper payment rates and amounts in three key areas: aggregation, certification, and meal claiming errors. The new study, with data collected during SY 2012-13 shows that while the overall level of program error remains unacceptably high, there have been notable areas of improvement. The overall error rate has been reduced, with significant declines in the frequency of aggregation errors. Findings from this new study also demonstrate that direct certification and the Community Eligibility Provision (CEP) are substantially more accurate than certifications based on paper applications. FNS is actively working on efforts to move more certifications to these low-error processes. FNS will report data based on this new study in the Fiscal Year 2015 Agency Financial Report.

**Recommendation 1:**

Resubmit the CACFP alternative sampling method to OMB for approval and identify the year a comprehensive rate for the family day care homes category will be available. This comprehensive rate should include the meal claims component.

**FNS Response:** As noted in OIG's report, in FY 2006 FNS requested \$20 million to develop a comprehensive improper payment error measurement for CACFP which would meet the precision required by IPIA. This amount has not been provided. In lieu of the necessary funding for a program-wide measurement, FNS developed an alternative methodology which identified the FDCH component of this program as high risk and began development of new approaches to estimate the accuracy of both tiering decisions and meal counting and claiming. OMB approved the alternative methodology for tiering decisions in FY 2007. FNS will resubmit our alternative sampling method to OMB for approval as part of our FY 2015 Annual Financial Report (AFR) submission to the Department and OMB.

The development of a dependable method for estimating improper payments for the meal claims component has remained elusive. FNS has spent \$2.4 million conducting feasibility studies to do so, but to date have not been successful. Most recently, we had determined that using parent recall interviews was unreliable for estimating improper meal claim reimbursements. In September 2014, FNS awarded a contract to conduct a new CACFP study to look at alternative methodologies for developing a reliable measurement. This study is ongoing.

This type of integrated, research-based approach is the clearest path forward for bringing CACFP as a whole into compliance with the provisions of IPERA. FNS will continue to consider seeking resources for this or similar work in future budgets, contingent upon budgetary guidance and the fiscal environment.

**Estimated Completion Date: Feasibility study complete** September 30, 2016.  
Implementation of new method will be determined based on the results of the feasibility study.

**Recommendation 2:**

Request that the Secretary submit proposed statutory changes to Congress for CACFP, NSLP, and SBP.

**FNS Response:** As discussed with the OIG audit team, FNS has limited opportunities to offer up statutory or legislative proposals over the course of program operations. In general, the two opportunities come at the time of program reauthorization, which occurs every five or six years, or as part of our annual Budget submission.



Last year FNS submitted a number of proposals as part of our FY 2016 President's Budget request to address our non-compliances in NSLP and SBP. FNS will continue to submit budgetary proposals to strengthen integrity issues and address improper payments in NSLP and SBP each year as part of the Budget process. Once proposals are submitted, specific proposals approved by the Secretary will then go to OMB, generally in September of each year. Proposals accepted by OMB will then be published in the President's Budget which normally is due out in February. FNS's implementation plan for these proposals will therefore be contingent upon which proposals move forward with the President's Budget, and what action Congress subsequently takes.

Legislative change is not necessary to continue progress toward an error measurement in CACFP. Further, proposing legislative changes to the program to reduce improper payments in the absence of at least an initial error measurement would be premature. FNS remains committed to working with our State partners to improve the effectiveness of the program and to improve payment accuracy.

**Estimated Completion Date:** September 30, 2015

**Recommendation 3:**

Request that the Secretary submit a reauthorization proposal to Congress for WIC.

**FNS Response:** FNS is currently involved in reauthorization discussions with the Department concerning potential proposals for WIC in general. Integrity issues are high on the list of priorities and concerns. However, as pointed out to the audit team, a detailing of specific proposals is not possible at this time due to the pre-decisional nature of such discussions. FNS will continue to move forward, in collaboration with our state partners, to address issues of integrity and improper payments in WIC.

**Estimated Completion Date:** December 31, 2015

**Recommendation 6:**

Establish a process to assist the accountable official and accountable senior officials with monitoring the progress and ensuring mandated actions, such as submitting proposals to Congress, are completed and on time.

**FNS Response:** FNS will establish a process to assist the accountable official and senior officials with monitoring the progress and ensuring that mandated actions are completed and on time. This process will include annual submissions of Corrective Action Plans and Measurement Plans for our high-risk programs as part of our submission to the Department's AFR. An Accountable Official report is prepared each year to address improper payments in programs which have been designated by OMB as High Priority programs. In addition, weekly meetings are held with senior officials and the

Accountable Official to discuss items of interest and importance. Integrity issues and improper payments efforts are generally discussed, including meeting timeframes for required actions.

**Estimated Completion Date:** June 30, 2015

**Recommendation 8:**

Implement a process to identify, collect, and report overpayment information on FNS high-risk and high-priority programs from available sources.

**FNS Response:** FNS will begin reporting recoveries of overpayments in SNAP to the Department on a quarterly basis, beginning with the third quarter of FY 2015.

**Estimated Completion Date:** July 1, 2015



United States  
Department of  
Agriculture

Office of the Chief  
Financial Officer

1400 Independence  
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Washington, D.C.  
20250

TO: Steven H. Rickrode  
Deputy Assistant General for Audit

May 14, 2015

FROM: Jon M. Holladay  
Chief Financial Officer

John G. Brewer For

SUBJECT: Management Response to *Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2014*, Audit No. 50024-0008-11

This responds to your request for management's response to Recommendations 4, 7, and 9-10 for Audit Report No. 50024-0008-11.

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

Attachment

**Improper Payments Elimination and Recovery Act of 2010,  
Fiscal Year 2014 Report, Audit No. 50024-0008-11**

**Recommendation 4**

Revise the established follow-up and escalation process to include Accountable Officials and/or senior officials to ensure mandated actions are completed.

**Management Response:** OCFO is fully engaged in escalation procedures and several actions within OCFO have been discussed and endorsed by the Associate CFO (ACFO) and the Deputy CFO (DCFO). OCFO, specifically Fiscal Policy Division (FPD) has escalation procedures. Missed deadlines are elevated to the Director of FPD and the Agency CFO is notified. This action usually resolves the agency submission. If not, the ACFO and the DCFO will be notified. A meeting was held in the beginning of this year with the DCFO and ACFO on timely escalation of required deliverables from the agencies. The ACFO for Financial Policy and Planning is also receiving a calendar of items relating to agency compliance for reporting and she will announce/present them monthly at the CFO council. This calendar shows deliverables that are 60 to 90 days coming due by the agencies.

**Date Corrective Action will be completed:** September 30, 2015

**Responsible Organization:** Fiscal Policy Division (FPD), OCFO

**Recommendation 7**

Coordinate with the Office of the Secretary, Food and Nutrition Service (FNS), and other relevant officials to issue a policy to clearly delineate which office or component agency is responsible for meeting high-priority requirements, and reporting required high-priority program information in the AFR.

**Management Response:** Now that two agencies have high priority programs, Fiscal Policy Division will coordinate with the Office of the Secretary, FNS, and other relevant officials to clearly designate USDA's Accountable Official(s) and who will be responsible for performing high-priority requirements. OCFO will issue guidance for reporting high-priority program information in the AFR.

**Date Corrective Action will be completed:** December 31, 2015

**Responsible Organization:** Fiscal Policy Division (FPD), OCFO

**Recommendation 9**

Include the dollar amount associated with the cause categories of improper payments.

**Management Response:** OCFO will instruct USDA agencies with high risk programs to include the dollar amount associated with the cause categories of improper payments for reporting in the FY 2015 AFR.

**Date Corrective Action will be completed:** December 31, 2015

**Responsible Organization:** FPD, OCFO

**Improper Payments Elimination and Recovery Act of 2010,  
Fiscal Year 2014 Report, Audit No. 50024-0008-11**

**Recommendation 10**

Direct RD to re-assess the Water and Waste Disposal Systems Loans for Rural Communities in accordance with OCFO's guidance.

**Management Response:** OCFO revised its risk assessment guidance to more closely align with government-wide standards. The guidance now clearly states that USDA performs qualitative risk assessments that may be supplemented by testing to prevent future misunderstandings related to quantitative risk assessments. OCFO revised the guidance to allow alternative testing methodologies if approved by OCFO so that USDA's low risk programs won't be held to a higher standard of testing than its high risk programs. Finally, OCFO revised the risk assessment guidance to direct the Water and Waste Disposal Systems Loans for Rural Communities to perform a risk assessment with supplemental testing in the fiscal year 2016 risk assessment cycle. In March, 2015, OCFO met with RD officials who agreed to provide needed statistical support to the Water and Waste Disposal Systems Loans for Rural Communities program staff to assist them in pulling a statistical sample.

The Water and Waste Disposal Systems Loans for Rural Communities program is at very low risk for improper payments. This program conducted a detailed risk assessment outlining its effective internal controls and assessing the risk for improper payments. This assessment was supplemented by testing that found zero improper payments. This risk assessment met all the requirements for a qualitative risk assessment under government-wide standards and it was accepted by OCFO for the fiscal year 2015 risk assessment cycle.

**Actual Completion Date:** April 28, 2015

**Responsible Organization:** FPD, OCFO





Farm and Foreign Agricultural Services


Farm Service Agency

Operations Review and Analysis Staff  
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**DATE:** May 13, 2015

**TO:** Steve Rickrode  
Deputy Assistant Inspector General  
Office of Inspector General

**FROM:** Philip Sharp, Director   
Operations Review and Analysis Staff

**SUBJECT:** Response to Audit 50024-0008-11, USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements

The Farm Service Agency (FSA) is providing information to reach management decision for Recommendation 5 of the subject audit.

### **Recommendation 5**

FSA's Office of Budget and Finance (OBF) Managerial Reporting Office serves as the Project Management team for all aspects of IPIA, IPERA, and IPERIA. Based on Office of Management and Budget Circular A-123, Appendix C, as well as guidance and due dates related to all deliverables issued by the USDA Office of the Chief Financial Officer (OCFO), the FSA Chief Financial Officer (CFO) is responsible for ensuring that all actions are completed on time.

Effective with the FY 2015 Review Cycle, OBF will be setting up monthly meetings to address key deliverables to help ensure that all necessary programmatic actions are completed in advance of due dates established by the OCFO. A deliverable schedule established by the OCFO will be shared with Program Managers as well as the Deputy Administrator for Farm Programs. Progress/status reports will be provided by the FSA CFO on a weekly basis to senior staff officials. This will ensure that due dates will be met and adequately address all reporting requirements

This review process began in May 2015.

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