



United States Department of Agriculture
Office of Inspector General





Executive Order 13520, Reducing Improper Payments—Fiscal Year 2012 High-Dollar Overpayment Report Reviews

Audit Report 50024-0003-11

What Were OIG's Objectives

Our objectives were to review USDA's quarterly high-dollar reports to assess the level of risk associated with the applicable programs, determine the extent of oversight warranted, and provide the agency head with recommendations, if any, for modifying the agency's recovery and corrective action plans.

What OIG Reviewed

We reviewed USDA's fiscal year 2012 quarterly reports on high-dollar overpayments, interviewed USDA officials, including officials with the 7 component agencies administering USDA's 16 high-risk programs, and evaluated supporting documents they provided.

What OIG Recommends

Provide additional oversight over component agencies' processes to ensure component agencies' high-dollar overpayment reports comply with Departmental high-dollar reporting guidance.

OIG reviewed information from USDA's fiscal year 2012 quarterly reports on high-dollar overpayments made by programs susceptible to significant improper payments.

What OIG Found

To intensify efforts to eliminate payment error, waste, fraud, and abuse in Federal programs, the President issued Executive Order 13520, "Reducing Improper Payments." The Executive Order requires the Office of Inspector General (OIG) to review the Department of Agriculture's (USDA) quarterly high-dollar overpayment reports and make recommendations, as necessary, to agencies' plans to recover and prevent high-dollar overpayments.

We found that in the third year of reporting, USDA reported more comprehensive information about high-dollar overpayments than it did in previous years. Specifically, due to improved reporting oversight and processes, USDA reported 239 overpayments, totaling approximately \$20.3 million in fiscal year 2012. This represents an increase of 67 percent over the number of overpayments reported the previous year. However, we determined that the quarterly reports included errors and were published up to 102 days after the due date. This occurred because, although agency chief financial officers certified that information was accurate and met applicable criteria, component agencies' submissions required substantive review by the Office of the Chief Financial Officer to ensure USDA followed the high-dollar reporting guidance appropriately and that only payments that were supposed to be reported were included. Without accurate and timely reporting, the effects of USDA's actions or strategies to eliminate the errors causing high-dollar overpayments are not fully known.

USDA's Office of the Chief Financial Officer agreed with our recommendation.



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



DATE: August 22, 2013

AUDIT
NUMBER: 50024-0003-11

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

ATTN: Kathy Donaldson
Audit Liaison Officer
Planning and Accountability Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Executive Order 13520, Reducing Improper Payments—Fiscal Year 2012
High-Dollar Report Review

This report presents the results of the subject audit. Your written response to the official draft report, dated August 15, 2013, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant sections of the report.

Based on your response, we accept management decision for the recommendation in the report, and no further response to us is necessary. In accordance with Departmental Regulation 1720-1, all final actions need to be completed within 1 year of each management decision to preclude them being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in reporting final action.

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

Background

Executive Order 13520 (Executive Order) is intended to assist Federal agencies in reducing improper payments.¹ It provides a comprehensive set of policies and a focus on identifying and eliminating the highest improper payments through increased transparency and improved agency accountability. The Office of Management and Budget (OMB) issued implementing guidance to agencies for reporting high-dollar overpayments.² Agencies must report quarterly on any high-dollar overpayments identified in programs that are susceptible to significant improper payments (“high-risk” programs).³ Agencies are to submit the quarterly reports to their respective Office of Inspector General (OIG) and the Council of the Inspectors General on Integrity and Efficiency. OIG is to review them and make recommendations, as necessary, to agencies’ plans to recover and prevent high-dollar overpayments.

In fiscal year 2012, the Department of Agriculture (USDA) administered 16 programs OMB identified as high risk. Currently, seven component agencies administer these programs: Farm Service Agency (FSA), Commodity Credit Corporation, Food and Nutrition Service (FNS), Forest Service, Natural Resources Conservation Service (NRCS), Risk Management Agency (RMA), and Rural Development. Exhibit A provides a list of the relevant programs by agency. Exhibit B lists the number and sum of fiscal year 2012 high-dollar overpayments for each applicable program and agency. USDA reported a total of 239 high-dollar overpayments, totaling approximately \$20.3 million, made through these programs, which is an increase from the 143 high-dollar overpayments, totaling approximately \$11.7 million, USDA reported for the previous year.

To be reportable as a high-dollar overpayment, an overpayment is identified as being made for at least 50 percent more than the correct amount, and as exceeding a certain threshold. The Executive Order defines the threshold for a reportable overpayment as more than \$5,000 in total to an individual for the quarter and as more than \$25,000 in total to an entity for the quarter. Reportable overpayments can be made as a single payment or in cumulative payments for the quarter.⁴

The Secretary of Agriculture has delegated responsibility for coordinating and submitting USDA’s high-dollar overpayment reports to the Office of the Chief Financial Officer (OCFO). To assist OCFO in meeting reporting requirements, the seven component agencies administering USDA’s high-risk programs must submit high-dollar overpayments data, in accordance with OMB guidance, for inclusion in the Department-level quarterly reports. In addition to submitting the quarterly reports to OIG and to the Council of the Inspectors General on Integrity

¹ 74 Federal Register 62201, Executive Order 13520, *Reducing Improper Payments* (November 20, 2009).

² OMB Memo M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123* (April 14, 2011).

³ A high-risk program is any program susceptible to significant improper payments based on the criteria outlined in OMB Circular A-123, Parts I and II, Appendix C (April 14, 2011).

⁴ OMB Circular A-123, Parts I and II, Appendix C (April 14, 2011).

and Efficiency, the Department publishes its quarterly high-dollar reports on its website at http://www.ocfo.usda.gov/qhd_reporting.html.

Objectives

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

Section 1: Compliance with High-Dollar Overpayment Reporting Requirements

Finding 1: USDA Needs to Take Further Actions to Improve Reporting on High-Dollar Overpayments

Although USDA's fiscal year 2012 reporting delivered more comprehensive information about high-dollar overpayments than it did in its first 2 years of reporting, we found that USDA can take further steps to improve transparency and agency accountability for identifying and eliminating the highest payment errors. We noted that USDA's fiscal year 2012 quarterly reports on high-dollar overpayments and related actions did not always provide accurate and timely information; the reports included errors and were published up to 102 days after the due date. This occurred because, although agency chief financial officers certified that information was accurate and met applicable criteria, component agencies' submissions required substantive review by OCFO to ensure USDA followed the high-dollar reporting guidance appropriately and that only payments that were supposed to be reported were included in the Department's report. Without accurate and timely reporting, neither the Department nor OMB can measure the effectiveness of USDA component agencies' actions or strategies to eliminate the errors causing high-dollar overpayments.

The Executive Order requires agencies to report on high-dollar overpayments by submitting reports on identified overpayments to OIG within 30 days of the quarter's end.⁵ OMB set specific thresholds for reportable high-dollar overpayments. OMB also requires that the quarterly reports: list all high-dollar overpayments the agency identified during the quarter; and include information on overall agency actions and strategies to recover and prevent the overpayments, along with other specific information.⁶ OCFO provides Departmental guidance to agencies on preparing and submitting the quarterly high-dollar overpayment report.

Our review identified that component agencies provided OCFO with inaccurate information related to high-dollar overpayments and that USDA published inaccurate information from four component agencies: FSA, NRCS, Rural Development, and RMA. Further, six out of the seven component agencies continued to struggle with report timeliness. The following sections provide further details.

USDA Reported Incorrect Information About High-Dollar Overpayments

OCFO's review, comment, and response process significantly minimized the amount of inaccurate information that USDA published. However, OCFO cannot identify and prevent all errors that arise in component agencies' administrative processes. USDA ultimately published inaccurate information related to some overpayments because the administrative processes of four component agencies (FSA, NRCS, Rural Development, and RMA) did not always ensure that the agencies applied OCFO guidance correctly and

⁵ 74 Federal Regulation 62201, Executive Order 13520, *Reducing Improper Payments* (November 20, 2009).

⁶ OMB Circular A-123, Appendix C, Part III, *Requirements for Implementing Executive Order 13520: Reducing Improper Payments*, M-10-13 (March 22, 2010).

adequately reviewed information for accuracy before officials certified agency submissions.

For instance, FSA did not adequately review information, including its supporting documentation, before submitting its certified reports to OCFO. Our review of documents related to OCFO's review process disclosed that in at least 16 instances, FSA submitted inaccurate information related to overpayments. For example, FSA submitted payments that did not meet the criteria, payments individually that should have been reported cumulatively, and reports with calculation errors. OCFO and FSA addressed these issues during the review process and did not publish these errors. However, when OIG reviewed a sample of documents supporting FSA's reported overpayments, we found that at least ten were published inaccurately.⁷ For eight of these reported overpayments, personnel at field offices entered information into the accounting system that indicated to headquarters personnel that FSA had made overpayments to both entities and associated individuals. However, FSA had not made overpayments to the individuals and should not have included them on the high-dollar report. Additionally, FSA inaccurately reported 2 overpayments of \$45,096 each. For these two, the Departmental report indicated that the payments should not have been made, when in fact, the recipients should each have been paid \$2,048. FSA stated that, with the revised and robust internal controls process in place, FSA's administrative review process should mitigate these types of incidents in the future.

Also, NRCS did not adequately review its supporting documentation related to high-dollar overpayments. Our review of NRCS' supporting documents disclosed that NRCS did not always apply OCFO high-dollar overpayment reporting guidance correctly.⁸ For example, NRCS did not combine three overpayments (of \$176,883, \$176,883, and \$109,558) made to the same entity as cumulative payments of \$463,324. Further, in at least two instances, NRCS did not accurately report its actions. In one instance, although NRCS had granted a cost recovery waiver to a recipient in the amount of \$8,658, NRCS proceeded to report that it had sent the recipient a demand letter. In another instance, NRCS reported the same overpayment of \$11,172 twice. This occurred because NRCS' internal reviews did not adequately validate information before submitting it to OCFO.

Additionally, we noted issues related to Rural Development's reporting on high-dollar overpayments. For example, we noted that in one instance, Rural Development submitted an item that should not have been reported. OCFO informed Rural Development that the item did not meet the high-dollar threshold. Also, during our review of supporting documents, we identified that in two instances the overpayment amounts that Rural Development reported did not correspond with supporting documentation.⁹ These errors occurred because Rural Development did not yet have formal processes fully in place for its high-dollar overpayment reporting during the period of our review. As identified in our audit of fiscal year 2011 high-dollar reporting, Rural Development had not established a process for reporting high-dollar overpayments

⁷ We reviewed a non-statistical sample of 49 out of FSA's 95 total reported high-dollar overpayments.

⁸ We reviewed a non-statistical sample of 26 out of NRCS' 53 total reported high-dollar overpayments.

⁹ We reviewed a non-statistical sample of 9 out of Rural Development's 18 total reported high-dollar overpayments.

because it had considered the payments to individual participants to fall below the high-dollar threshold.¹⁰ Rural Development concurred with our conclusion that it should establish a process, and began reporting high-dollar overpayments during fiscal year 2012. Rural Development stated that it was refining its process to identify and report high-dollar overpayments and noted that the decentralized nature of Rural Development's administrative structure impacts the complexity of the process.

Finally, we noted an inaccuracy in RMA's high-dollar overpayment reporting. Our review of supporting documents identified that USDA's report included a \$70,560 overpayment that was not, in fact, made.¹¹ At the time RMA initially pulled data used to identify the high-dollar overpayment amount, there was a compliance reporting system data entry error that the responsible staff subsequently corrected in the database. RMA emphasizes that it routinely reminds its offices of the importance of data accuracy, and has allocated resources to try to preclude as many of these kinds of errors as possible.

USDA Continued to Struggle with Report Timeliness

As in fiscal years 2010 and 2011, although required to submit reports to OIG within 30 days after the end of the quarter, USDA did not submit its fiscal year 2012 quarterly reports on high-dollar overpayments timely. We received the reports from 24 to 102 days after the required due date: specifically, 24 days for the first quarter, 52 days for the second, 102 days for the third, and 94 days for the fourth. This occurred because six of the component agencies submitted reports to OCFO late. With agencies submitting up to 164 days after the OCFO-required due date, and, given that submissions then required substantive OCFO reviews, USDA overpayments were not reported during the appropriate quarters.

When we discussed report timeliness with agencies, officials in the component agencies generally stated that budget constraints, resource limitations, and the demands of other improper payment and financial statement reporting requirements impacted their reporting on high-dollar overpayments. We emphasize that untimely reporting may not fully reflect USDA's intensified efforts to eliminate the highest improper payments in its programs through increased accountability and transparency over high-dollar overpayments.

Overall, we generally attributed USDA's inaccurate and untimely reporting to issues related to the inherent challenges of managing technical reporting processes that involve different levels of personnel across different and decentralized reporting structures, or to maintaining accurate data across a large and diverse organization. In fiscal year 2013, OCFO revised Departmental guidance to provide additional clarification on reporting cumulative payments, provided training on reporting high-dollar overpayments, and requested agencies to provide their documented high-dollar reporting process to OCFO for review. OCFO stated it plans to review and provide feedback to agencies on their reporting processes, and that it plans to formulate a strategy to

¹⁰ Audit report 50024-0002-11, *Executive Order 13520, Reducing Improper Payments – Fiscal Year 2011 High-Dollar Report Review* (September 28, 2012).

¹¹ We reviewed a non-statistical sample of 10 out of RMA's 70 total reported high-dollar overpayments.

meet the report requirements timely. We are not, therefore, making recommendations to individual agencies on the accuracy and timeliness of reporting. OCFO stated that, in addition to these changes, it can work with agency chief financial officers to reduce the need for extensive OCFO reviews. To improve the accuracy and timeliness of reporting, OCFO should also work with agencies to document their reporting processes and identify areas for improvement.

Recommendation 1

Provide additional oversight over component agencies' processes to ensure component agencies' high-dollar overpayment reports comply with Departmental high-dollar reporting guidance.

Agency Response

OCFO officials concurred with this recommendation and stated that OCFO sent a memorandum to the agency chief financial officers with high risk programs requesting each agency to document and certify its process for identifying and reporting high-dollar overpayments, and provide the documented process to OCFO for review and approval.

OIG Position

We accept OCFO's management decision.

Scope and Methodology

Our review was for the limited purpose described in the objectives and would not necessarily identify all deficiencies in internal controls for determining high-dollar overpayments. We reviewed USDA's fiscal year 2012 quarterly reports on high-dollar overpayments. To accomplish our objectives, we met with OCFO officials in Washington, D.C., and held teleconferences with officials from the 7 component agencies administering the 16 high-risk programs responsible for reporting high-dollar overpayments. We interviewed these officials and evaluated a non-statistical sample of supporting documentation they provided. Fieldwork for this review was performed between December 2012 and June 2013. We followed applicable, generally accepted government auditing standards in performing this review, and we believe the evidence obtained provides a reasonable basis for our conclusions, based on our objectives.

Abbreviations

Executive Order	Executive Order 13520
FNS	Food and Nutrition Service
FSA	Farm Service Agency
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMA	Risk Management Agency
USDA	Department of Agriculture

Exhibit A: USDA’s Programs Susceptible to Significant Improper Payments

USDA’s 16 current high-risk programs, by the 7 component agencies that administer them.

USDA Component Agency	High-Risk Program
FSA	Conservation Reserve Program is a voluntary program available to agricultural producers to help them use environmentally sensitive land for conservation benefits.
	Direct and Counter-Cyclical Program provides payments based on yields and market prices to eligible producers on farms.
	Loan Deficiency Payments Service is available to eligible participants who do not want to participate in the MAL Marketing Assistance Loan Program.
	Milk Income Loss Contract Program compensates dairy producers when domestic milk prices fall below a specified level.
	Miscellaneous Disaster Programs provide assistance through various programs to participants when there are disasters.
	Noninsured Assistance Program provides financial assistance to producers of non-insurable crops when low yields, loss of inventory, or prevented planting occur due to a natural disaster.
FNS	Child and Adult Care Food Program provides nutritious meals to participants in day care facilities, such as child care centers, day care homes, and adult day care centers.
	National School Lunch Program provides cash subsidies and donated foods from USDA for each meal schools serve.
	School Breakfast Program is a federally assisted meal program where participating school districts receive cash subsidies for each breakfast they serve.
	Special Supplemental Nutrition Program for Women, Infants, and Children provides supplemental foods and other health services to low-income participating women and children up to the age of 5 years.
	Supplemental Nutrition Assistance Program provides low income families benefits to purchase food from approved retailers.
Forest Service	Wildland Fire Suppression Management protects life, property, and natural resources on National Forest System, State, and private lands.
FSA and Commodity Credit Corporation	Marketing Assistance Loan Program provides an influx of cash when market prices are low, which allows the producer to delay the sale of the commodity until more favorable market conditions emerge.
NRCS	Farm Security and Rural Investment Act Programs provide products and services that enable people to be good stewards of the Nation’s soil, water, and related natural resources on non-Federal lands.
RMA	Federal Crop Insurance Corporation Program Fund provides insurance and risk management strategies to American producers.
Rural Development	Rental Assistance Program provides an additional source of support for households in rural areas with income too low to pay the basic rent from their own resources.

Exhibit B: Summary of USDA's Reported Fiscal Year 2012 High-Dollar Overpayments

Exhibit B lists the number and sum of high-dollar overpayments reported in fiscal year 2012, by component agency and high-risk program.

USDA Agency	High-Risk Program(s)	Number of Reported High-Dollar Overpayments	Sum of Reported High-Dollar Overpayments
1. Forest Service	Wildland Fire Suppression Management Program	3	\$174,809
2. FSA	Direct and Counter-Cyclical Program	17	\$335,939
3. FSA	Miscellaneous Disaster Programs	46	\$1,187,109
4. FSA	Noninsured Assistance Program	24	\$584,481
5. FSA/Commodity Credit Corporation	Marketing Assistance Loan Program	8	\$434,964
6. FNS ¹²	Five total programs, including Child and Adult Care Food Program; National School Lunch Program; School Breakfast Program; Special Supplemental Nutrition Program for Women, Infants, and Children; and Supplemental Nutrition Assistance Program	0	\$0
7. NRCS	Farm Security and Rural Investment Programs	53	\$2,787,032
8. RMA	Federal Crop Insurance Corporation Program Fund	70	\$14,651,081
9. Rural Development	Rental Assistance Program	18	\$138,196
TOTAL		239	\$20,293,611

¹² FNS submitted statements certifying that it did not identify any high-dollar overpayments meeting the criteria outlined in the Quarterly High Dollar Overpayments Report Guidance and was therefore providing a negative report.

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



August 15, 2013

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, D.C.
20250

TO: Gil H. Harden
Assistant Inspector General
for Audit

FROM: Jon M. Holladay
Deputy Chief Financial Officer

-S- Jon M. Holladay -

SUBJECT: Management Response to *Executive Order 13520, Reducing Improper Payments-
Fiscal Year 2012 High-Dollar Report Review*, Audit No. 50024-0003-11

This responds to your request for management's response to the draft report audit recommendations in Audit Report No. 50024-0003-11. The management response is attached.

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

Attachment

**Executive Order 13520, Reducing Improper Payments,
Fiscal Year 2012 High-Dollar Report, Audit No. 50024-0003-11**

Recommendation 1

Provide additional oversight over component agencies' processes to ensure component agencies' high-dollar overpayment reports comply with Departmental high-dollar reporting guidance.

Management Response: The Office of the Chief Financial Officer (OCFO) concurs with the Office of the Inspector General's finding that agencies misinterpreted or deviated from the requirement of the Office of Management and Budget and OCFO guidance which resulted in omission and/or errors in agencies submissions.

OCFO sent a memorandum to the agency chief financial officers with high risk programs requesting each agency to document and certify its process for identifying and reporting high-dollar overpayments; and provide the documented process to OCFO for review and approval. A template was provided to the agencies requesting information on:

1. The steps and their sequence for the identification, verification, and reporting of high-dollar overpayments;
2. Agency organizational units and geographical locations involved in identifying, verifying, and reporting high-dollar overpayments;
3. Agency's key controls to ensure the accuracy and completeness of:
 - a. The formula used for calculating high-dollar overpayments;
 - b. Identifying and reporting overpayments;
 - c. Reasons for overpayments;
 - d. Actions to recover overpayments; and
 - e. Actions and strategies to prevent overpayments.
4. How the information obtained from the high-dollar identification and reporting benefits the agency;
5. Agency issues, problems and/or barriers in identifying and reporting high-dollar overpayments; and
6. Copies of the agency's internal procedures, guidance and instructions for identifying and reporting on high-dollar overpayments.

Date Corrective Action will be Completed: August 31, 2013

Responsible Organization: Fiscal Policy Division, OCFO

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

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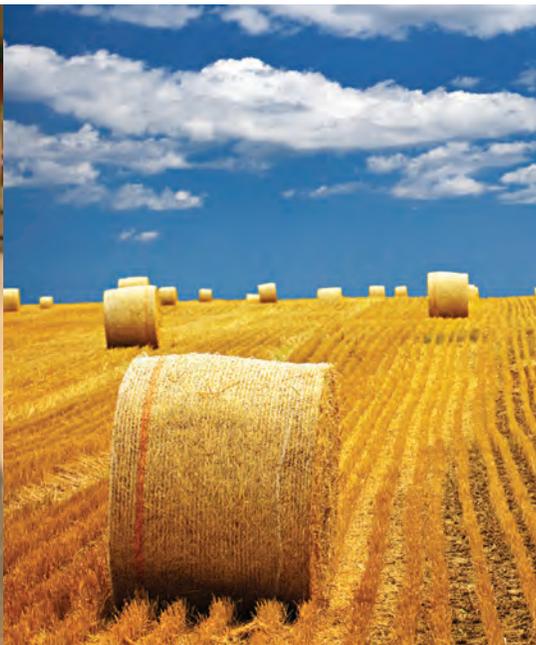
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