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Office of Inspector General
Financial Audit Operations

Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report Review

Report 50024-2-FM
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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL



Washington D.C. 20250

DATE: March 23, 2011

AUDIT

NUMBER: 50024-2-FM

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

Kevin Concannon
Under Secretary
Food and Nutrition Service

ATTN: Kathy Donaldson
Audit Liaison Officer

Katherine Day
Director, Office of Internal Controls, Audits and Investigations

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

SUBJECT: Calendar Year 2010 Executive Order 13520, Reducing Improper Payments,
Accountable Official Report Review

This report represents the results of our review of the Department's Accountable Official's report on high-priority programs for improper payments. The report contains three recommendations, for which we have reached management decision based on your response to the audit. Your response is included in its entirety as exhibit A. 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.

If you have any questions, please contact me at (202) 720-6945 or have a member of your staff contact Lynette K. Cockrell, Director, Financial Audit Operations, at (816) 816-3860.

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Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report Review (Audit Report 50024-2-FM)

Executive Summary

Executive Order 13520 (EO), *Reducing Improper Payments*, signed on November 20, 2009, charges Federal agencies with reducing and preventing improper payments¹ through increased transparency and improved agency accountability. The EO mandates that Federal agencies with high-priority or risk-susceptible programs name Accountable Officials (AO) for improper payments, and that those officials submit an annual AO report to their respective Office of Inspector General (OIG).

Annually, the Office of Management and Budget (OMB) determines which Federal programs are considered high-priority based on improper payment data reported in agencies' annual Performance and Accountability Report (PAR). The fiscal year 2010 threshold was \$750 million in improper payments. OMB determined that the Department of Agriculture's (USDA) Food and Nutrition Service's Supplemental Nutrition Assistance Program (SNAP) and National School Lunch Program (NSLP) were high-priority programs. According to USDA's corrective action plans, in fiscal year 2009, SNAP and NSLP improper payments cost taxpayers an estimated \$2.195 billion (4.36 percent of total SNAP outlays) and \$1.453 billion (16.28 percent of total NSLP outlays), respectively.

The EO and supporting OMB guidance² require that all AO reports contain: (1) a description of the agency's program error measurement methodology, sample size, related calculations, and results of annual measurements; (2) the agency's plans and supporting analysis for meeting the reduction targets for improper payments; and (3) the agency's plan, together with supporting analysis, for ensuring that the initiative undertaken to implement this order do not unduly burden program access and participation by eligible beneficiaries.

The EO directs OIG to review USDA's AO Report for SNAP and NSLP and 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 methodology, improper payment reduction plans, program access and participation plans, or corrective action plans. Our review was for the limited purpose described and would not necessarily identify all deficiencies in internal controls.

Our review disclosed that, in general, USDA included all elements required by the EO in its report for SNAP and NSLP. We determined that SNAP and NSLP's level of risk was high and that continued oversight by USDA over the State agencies responsible for administering these

¹ An improper payment is any payment that was made to an ineligible recipient, a payment that is for an incorrect amount, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

² OMB Circular A-123, Appendix C, Part III, "Requirements for Implementing Executive Order 13520: Reducing Improper Payments," dated March 22, 2010.

programs is necessary in order to reduce program errors. We also concluded that SNAP's methodology for identifying and calculating improper payments was statistically acceptable, and that its corrective action plans were appropriate, reasonable, and in compliance with OMB guidance.³

However, we determined that it was not reasonable to flat line SNAP's reduction targets at 5 percent. USDA reported that the 5 percent target was negotiated with OMB; however, officials could not provide documentation to support that OMB concurred. Subsequent to our review, USDA explained that OMB requested that SNAP's reduction targets be reduced from 5 percent to 4.36 percent or lower. As a result, USDA lowered SNAP's reduction target at 4.36 percent and this was reflected in USDA's fiscal year 2010 PAR. This slight decrease in the SNAP error rate will contribute to the Federal government's goal to reduce Governmentwide improper payments by \$50 billion by 2012. USDA should continue to set aggressive reduction targets to lower improper payments, and document negotiations with OMB.

We concluded that NSLP's corrective action plans were appropriate, reasonable, and in compliance with OMB guidance. OIG statisticians reviewed NSLP's econometric models, which is the methodology used to report NSLP's annual improper payment estimates.⁴ The models are based on criteria identified in a 2007 NSLP School Breakfast Program Access, Participation, Eligibility, and Certification (APEC) study funded by USDA.

The OIG statisticians concluded, however, that the estimates do not include an assessment of precision for the interim estimates of annual improper payment rates.⁵ Without precision associated with NSLP improper payment estimates, we cannot determine whether the estimates are likely to be close to the actual percentages of improper payments; therefore, we do not have any assurance of the accuracy of the estimates.

Recommendation Summary

We recommend that USDA continue work with OMB to set reasonably aggressive reduction targets that align with USDA's goal to continue to improve program integrity and the President's goal to reduce improper payments made by Federal agencies by \$50 billion. In addition, USDA should document negotiations between USDA and OMB regarding reduction target determinations. We also recommend that USDA reassess NSLP's econometric model to evaluate how precision can be determined and to modify the model, as necessary, in order to update annual rates associated with the results from its APEC study.

³ OMB Circular A-123, Appendix C, Part 1, "Requirements for Effective Measurement and Remediation of Improper Payments," dated March 22, 2010.

⁴ Econometric models are used for forecasting or estimating the likely quantitative impact of alternative assumptions, including those of government policies, and for testing various theories about the way the economy works.

⁵ Precision is a measure of the uncertainty associated with an estimate, for a specified confidence level (e.g., a 95 percent confidence level).

Agency Response

Based on its February 28, 2011 response to the official draft report, FNS officials agreed with Recommendations 1, 2, and 3. We have paraphrased FNS' response in the applicable sections of the report, along with OIG's position. FNS' response, in its entirety, is attached to the end of this report.

OIG Position

Based on FNS' responses, we have reached management decision on each of the report's three recommendations.

Background and Objectives

Background

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts can be overpayments and underpayments. An improper payment includes any payment that was made to an ineligible recipient; duplicate payments; and payments that are for an incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.

Executive Order 13520 (EO), *Reducing Improper Payments*, signed on November 20, 2009, assists Federal agencies in reducing and preventing improper payments through increased transparency and improved agency accountability. The EO mandates that Federal agencies with high-priority or risk-susceptible programs name Accountable Officials (AO) for improper payments; monitor any such programs; establish goals for reducing improper payments; report high-dollar improper payments on a quarterly basis; and issue an annual AO report to the appropriate Office of Inspector General (OIG).

The EO and supporting Office of Management and Budget (OMB) guidance⁶ require that all AO reports contain the agencies':

- Methodology for identifying and measuring improper payments in its high-priority programs, including its error measurement methodology, sample size, and related calculations in accordance with OMB sampling guidance;⁷
- Plan with supporting analysis for meeting the reduction targets for improper payments in its high-priority programs, including root causes of error in the program; corrective actions that are being implemented; the types of errors the corrective actions will address and their expected impact; the anticipated costs of the corrective actions and their likely return on investment (e.g., amount of errors prevented or reduced for each dollar spent); and an explanation of the program's performance in meeting its reduction targets; and
- Plan with supporting analysis for ensuring that initiatives undertaken pursuant to the EO do not unduly burden program access and participation by eligible beneficiaries.

Annually, OMB determines which Federal programs are considered high-priority programs based on improper payment data reported in agencies' annual Performance and Accountability Reports (PAR). The fiscal year 2010 threshold was \$750 million in improper payments as reported in each agency's PAR. The Department of Agriculture's (USDA) Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) and National School

⁶ OMB Circular A-123, Appendix C, Part III, "Requirements for Implementing Executive Order 13520: Reducing Improper Payments," dated March 22, 2010.

⁷ OMB Circular A-123, Appendix C, Part 1, "Requirements for Effective Measurement and Remediation of Improper Payments," dated March 22, 2010.

Lunch Program (NSLP) were deemed high-priority by OMB and, therefore, were required to submit an AO report.

FNS is the Federal agency responsible for managing the domestic nutrition assistance programs. Authorized by the Food and Nutrition Act of 2008, SNAP serves as the primary source of nutrition assistance benefit for low-income people. It enables participants to improve their diets, through benefits which increase their food purchasing capabilities. State agencies are responsible for administering the program, by determining whether households meet the program's eligibility requirements, calculating monthly benefits for qualified households, and issuing benefits to participants through an Electronic Benefits Transfer system.⁸ Benefits are 100 percent Federally financed, while administrative costs are shared between the Federal and State Governments. According to USDA's SNAP corrective action plan (CAP), in fiscal year 2009, an estimated \$2.195 billion in improper payments were made.

NSLP is overseen and administered by FNS, State agencies, and local School Food Authorities (SFA). FNS sets nationwide eligibility and program administration criteria and provides reimbursements to States for each meal served that meets Federal menu planning and nutrition requirements and is served to an eligible student. Payments are substantially higher for meals served free or at reduced price to children from low-income families. According to USDA's NSLP CAP, an estimated \$1.453 billion in improper payments were made in fiscal year 2009.

Objectives

Under the EO, we were required to review USDA's AO report for high-priority programs. We were 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 methodology, improper payment reduction plans, program access and participation plans, corrective action plans, or internal controls.

Scope and Methodology

We reviewed USDA's AO report submitted on June 25, 2010. We also reviewed and assessed SNAP's and NSLP's improper payment data reported in USDA's fiscal year 2010 CAPs. To accomplish our objectives, we interviewed FNS officials involved with reporting SNAP and NSLP improper payments, and we evaluated supporting documentation provided by these officials. We performed our review at FNS Headquarters in Alexandria, Virginia. Fieldwork for this assessment was performed in August and September 2010. We followed applicable *Government Auditing Standards* in performing this assessment, and we believe the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

⁸ Title 7, CFR, Chapter II, Subchapter C, "Food Stamp and Food Distribution Program; the Food Stamp Act of 1977," as amended through Public Law 108-269; and the Food and Nutrition Act of 2008, as amended through Public Law 110-246.

Review of SNAP's Improper Payments Measurement, Corrective Action, and Program Access Plans

According to the AO report, SNAP improper payments were primarily attributable to verification and authentication errors. In SNAP, an improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which it is eligible. This can result from a variety of reasons, such as incomplete or inaccurate reporting of income and/or assets by participants at the time of certification; changes subsequent to certification; errors in determining the eligibility or benefits by caseworkers; or delays in action or inaction taken on client-reported changes.

SNAP is monitored and managed by USDA and the States through a quality control (QC) system that determines the accuracy of benefits authorized. This QC system was mandated by the Food Stamp Act of 1977, and amended by the Food and Nutrition Act of 2008. A QC review consists of a detailed examination of household non-financial and financial circumstances, including income, resources, and deductions, to determine whether benefits were accurately authorized for active cases or improperly denied or terminated for negative cases. Due to the efforts of USDA and State agencies, the SNAP national payment error rate has declined over the last 10 years from 8.91 percent in 2000 to 4.36 percent in 2009, as reported in the PAR for fiscal year 2010.

The following paragraphs represent the results of our review as required by the EO.

Determination of the level of risk and extent of oversight warranted for SNAP

For fiscal year 2010, SNAP is classified as a high-priority program. It is estimated that in fiscal year 2009, over \$2 billion in improper payments were made. There are inherent risks related to SNAP because of the large number of participants receiving benefits. Therefore, we determined that the level of risk was high. We also determined that continued oversight by USDA over the State agencies responsible for administering the program is necessary to improve program errors. USDA has designated an AO to oversee agency efforts to reduce improper payments, and agency goals and priorities are incorporated into each manager's performance plan, which includes reducing the SNAP error rate.

Review of SNAP methodology for identifying and measuring improper payments

According to the AO report, SNAP calculates its national improper payment rate through its QC process. State agencies are required to obtain annual sample sizes from SNAP populations. The average is approximately 950 per State ranging from 300 to 1,000. States select a statistically random sample of cases from a universe of all households receiving SNAP benefits for each month. Federal sub-samples are selected systematically by USDA from each State's completed reviews.

These Federal sub-sample sizes range from 150 to 400 per State. The national payment error rate is calculated using a multi-step process: (1) each State agency conducts QC reviews of the monthly sample of cases and is required to report to USDA the findings for each case selected

for review; (2) USDA then sub-samples completed State QC reviews and re-reviews selected individual case findings for accuracy, and based on this sub-sample, USDA determines each State agency's official error rate using a regression formula; and (3) the national payment error rate is then computed by averaging the error rate of the active cases for each State weighted by the amount of issuance in the State.

OIG statisticians concluded that the SNAP's QC sample design was acceptable.

Review of SNAP improper payment reduction plans, CAPs, and internal controls over reducing improper payments

To correct its primary causes of error in SNAP, USDA reported that it provides bonuses or establishes liabilities based on State agencies' performance in reducing improper payments. Each fiscal year, USDA provides bonus payments to States that meet standards for high or most improved performance; and establishes liability payments for States that do not meet established standards for the second subsequent year. In addition, through its regional offices, USDA works directly with States to impart the importance of payment accuracy and correct payments. Lastly, USDA administers the State Exchange Program, which provides funds for States to travel to other States to acquire ideas for improvement, such as helpful technologies.

We determined that USDA's SNAP plans and supporting analysis for meeting the reduction targets for improper payments were in compliance with OMB Guidance,⁹ and were appropriate and reasonable. However, we determined that it was not reasonable to flat line SNAP's reduction targets at 5 percent. USDA reported that the 5 percent target was negotiated with OMB; however, officials could not provide documentation to support that OMB concurred. Subsequent to our review, USDA explained that OMB requested that SNAP's reduction targets be reduced from 5 percent to 4.36 percent or lower. As a result, USDA lowered SNAP's reduction target at 4.36 percent and this was reflected in USDA's fiscal year 2010 PAR. This slight decrease in the SNAP error rate will contribute to the Federal government's goal to reduce improper payments by \$50 billion by 2012. As USDA stated in its AO report, for every one-tenth decrease in the error rate, the issuance decreases by \$50 million, and USDA expects further improvement building on its successes with its payment accuracy corrective action activities.

USDA should continue to work with OMB to set aggressive reduction targets to lower improper payments. In addition, USDA's negotiations should be fully documented.

Review of SNAP access and participation plans

Our review disclosed that USDA uses several tools to provide access for eligible SNAP beneficiaries and maintain enrollment as necessary. These tools include providing grants to States to simplify the application and eligibility determination process. In addition, in May 2010, SNAP updated its access toolkit to assist State agencies and local offices to improve internal processes and procedures to make it easier to apply for benefits, as well as enable

⁹ OMB Circular A-123, Appendix C, Part 1, "Requirements for Effective Measurement and Remediation of Improper Payments," dated March 22, 2010.

eligible people to receive benefits; and to encourage participants to continue receiving SNAP benefits as long as they remain eligible.

However, the AO report did not disclose any existing or planned measures of access, as required. In addition, OMB has not issued supplemental instructions for agencies to use in developing measures of program access and plans for ensuring access and participation by eligible beneficiaries. Because additional guidance has not come from OMB regarding measuring access and participation, we are deferring our review of SNAP access and participation plans to the 2011 AO report review.

Recommendation 1

Work with OMB to continue to set reasonably aggressive reduction targets that align with USDA's goal to continue to improve program integrity and the President's goal to reduce by \$50 billion improper payments made by Federal agencies.

Agency Response

FNS officials concurred with this recommendation. FNS officials stated that it will continue to work with OMB to set reasonably aggressive reduction targets when submitting their targets for USDA's PAR.

OIG Position

We accept FNS' management decision.

Recommendation 2

Document negotiations and agreements between USDA and OMB regarding reduction target determinations.

Agency Response

FNS officials concurred with this recommendation. FNS officials stated that key communications with OMB will be documented in forms, such as, memorandums of conversations, meeting notes and e-mails supporting the reduction target determinations and submissions.

OIG Position

We accept FNS' management decision.

Review of NSLP's Improper Payments Measurement, Corrective Action, and Access Plans

According to the AO report, NSLP improper payments were primarily attributable to certification and non-certification errors. Certification errors are caused by problems in determining the eligibility of children for free and reduced price meals. The majority of these errors result from the misreporting of income by households on their applications. Other certification errors result from administrative errors by school personnel in certifying students based on the information on applications. Non-certification errors, also known as “counting and claiming” errors, are made by cashiers when determining whether a meal is appropriate for Federal reimbursement, and when schools or school districts inaccurately add up the “counts” of reimbursable meals in preparing a claim for payment.

NSLP is monitored through a standardized process known as a coordinated review effort. It includes a comprehensive on site evaluation of SFAs and its objective is to ensure compliance with NSLP regulations.¹⁰

The following paragraphs represent the results of our review as required by the EO.

Determination of the level of risk and extent of oversight warranted for NSLP

For fiscal year 2010, NSLP is classified as a high-priority program. It is estimated that in fiscal year 2009, over \$1.4 billion in improper payments were made. There are inherent risks related to NSLP because of various factors, such as participants’ self-reporting data. Therefore, we determined that the level of risk was high. We also determined that continued oversight by USDA over the State agencies and SFAs responsible for administering the program is necessary to improve program errors. USDA has designated an AO to oversee agency efforts to reduce improper payments, and agency goals and priorities are incorporated into each manager’s performance plan, which includes reducing the NSLP error rate.

Review of NSLP methodology for identifying and measuring improper payments

USDA conducts studies approximately every 5 years to assess the level of error in program payments, as detailed information on the circumstances of NSLP participating households is not collected administratively. The November 2007 NSLP School Breakfast Program Access, Participation, Eligibility and Certification (APEC) study made use of a national probability sample of SFAs’ schools, certified students and their households, and households that applied for and were denied program benefits in School Year 2005. USDA requested funding in fiscal year 2011 to update its APEC study.

To annually update the erroneous payment rate estimates in NSLP without having to conduct another full round of primary data collection, a series of econometric models were developed to capture the relationship between characteristics of the districts that participated in the 2007

¹⁰ 7 CFR 210, National School Lunch Program and the National School Lunch Act (42 U.S.C. 1751).

APEC study and its estimated rates of certification error.¹¹ Estimated coefficients from these models were used in conjunction with updated values of district characteristics obtained from the SFAs' verification summary reports to predict certification error.¹² Certification error rates were then translated into amounts and rates of erroneous payments in each district. Totaling the district level estimates produced a national measure of predicted erroneous payments.

OIG statisticians reviewed NSLP's econometric model for student certification. The statisticians concluded that the estimates do not include an assessment of precision for the interim estimates of annual improper payment rates. Precision is a measure of the uncertainty associated with an estimate, for a specified confidence level (e.g., 95 percent confidence). While precision might be reported in several different ways, the goal is to provide context for interpreting the reported estimate.

One way of expressing precision is to use an interval around that estimate: the interval indicates the range in which the true, but unknown, value is likely to be. The confidence level is the expression of likelihood. For example, the estimate of the improper payment rate might be 16.28 percent. Precision, expressed as an interval around that value, might be 10 percent to 22 percent with a 99 percent confidence level. In this scenario, there is extremely high confidence that the true value is between 10 and 22 percent, but having such a wide range indicates that the estimate of 16.28 percent might not be particularly useful. The interval might be 13 to 19 percent with a 90 percent confidence level. With that information, a potentially more useful range is developed, although at a lower confidence level.

Without having precision associated with NSLP improper payment estimates, we cannot determine whether the estimates are likely to be close to the actual percentages of improper payments; therefore, we do not have any assurance of the accuracy of the estimates.

We recommend that USDA reassess its econometric model to evaluate how precision can be determined and modify the model as necessary.

Review of NSLP improper payment reduction plans, CAPs, and internal controls over reducing improper payments

USDA has reported several actions to improve the deficiencies associated with certification and non-certification errors. Some of USDA's strategies to correct the problems include annual training for schools; a revised eligibility manual to assist the States and SFAs; requiring SNAP direct certification for free meals in all school districts; continuing authority for optional direct certification using data from the *Temporary Assistance for Needy Families* program; and implementing improvements in data reporting systems. USDA reported that it has also launched

¹¹ Econometric models are a set of related equations used to analyze economic data through mathematical and statistical techniques. These models are used for forecasting or estimating the likely quantitative impact of alternative assumptions, including those of government policies, and for testing various theories about the way the economy works.

¹² Verification summary reports summarize the verification results for the sample of approved applications selected by State agencies.

an improved web-based system for States to report the results of verification activity. USDA anticipates that this reporting mechanism will improve the accuracy and timeliness of these data. USDA reported that even very modest reductions in the rate of error can have significant impacts; a reduction in error rates by just two-tenths of 1 percent would roughly cover the \$5.8 million administrative and \$6 million technical assistance costs. USDA's reduction targets for fiscal years 2010, 2011, and 2012 are 15.82 percent, 15.37 percent, and 14.93 percent, respectively.

We determined that USDA's NSLP plans and supporting analysis for meeting the reduction targets for improper payments were in compliance with OMB guidance, and appropriate and reasonable.¹³

Review of NSLP access and participation plans

Our review disclosed that USDA uses several tools to provide access for eligible NSLP beneficiaries and to maintain enrollment as necessary. These tools include providing grants to States to simplify the application and eligibility determination process. In addition, USDA has proposed and supported additional funding for multiple direct certification improvement provisions in the Child Nutrition and Women, Infants, and Children Reauthorization Act in 2010.

However, the AO report did not disclose any existing or planned measures of access, as required. In addition, OMB stated that it would issue supplemental instructions for agencies to use in developing measures of program access and plans for ensuring the access and participation by eligible beneficiaries; however, instructions have not been provided. Because additional guidance has not come from OMB regarding measuring access and participation, we are deferring our review of NSLP access and participation plans to the 2011 AO report review.

Recommendation 3

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.

Agency Response

FNS acknowledged that the interim estimates of annual improper payment rates from the econometric model do not include an assessment of precision. FNS officials stated that they recognize the potential value of a confidence level in providing context for interpreting the reported estimate, and stated that the most effective approach to achieving precision is to conduct a current survey. However, FNS anticipates that its fiscal year 2011 funding request for a study will not be available because of the continue resolution of the budget. For the fiscal year 2012 budget, FNS also requested funding for studies. Finally, FNS assessed the possibility of developing measures of precision for the annual estimates through additional statistical analysis of the existing study data and modeling factors. Officials stated that developing measures of

¹³ OMB Circular A-123, Appendix C, Part 1, "Requirements for Effective Measurement and Remediation of Improper Payments," dated March 22, 2010.

precision for the annual estimates using this approach would require an investment of \$100,000 and take 3 months to complete, but the resources are not budgeted at this time.

OIG Position

We accept FNS' management decision. We acknowledge that current budget constraints affect FNS corrective actions regarding this recommendation. We recognize that FNS has considered various approaches to reassess the model's precision, which included requesting funding for fiscal years 2011 and 2012 to conduct an updated APEC study to achieve reported precision.

Abbreviations

AO	Accountable Official
APEC	Access, Participation, Eligibility and Certification
CAP	Corrective Action Plan
EO	Executive Order 13520
FNS	Food and Nutrition Service
NSLP	National School Lunch Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
QC	Quality Control
SFA	School Food Authority
SNAP	Supplemental Nutrition Assistance Program
USDA	The Department of Agriculture

Food and Nutrition Service's

RESPONSE TO AUDIT REPORT



**United States
Department of
Agriculture**

Food and
Nutrition
Service

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DATE: February 28, 2011

REPLY: 50024-0002-FM

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Julie Paradis /S/
Administrator
Food and Nutrition Service

SUBJECT: Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report

This letter responds to the official draft audit report number 50024-0002-FM, Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report. Specifically, FNS is responding to the three recommendations.

Recommendation 1:

Work with the Office of Management and Budget (OMB) to continue to set reasonably aggressive reduction targets that align with USDA's goal to continue to improve program integrity and the President's goal to reduce by \$50 billion improper payments made by Federal agencies.

Food and Nutrition Service Response:

FNS concurs with OIG's recommendation. FNS will continue to work with the Office of Management and Budget (OMB) to set reasonably aggressive reduction targets. The target determinations are submitted for USDA Performance and Accountability Report (PAR) official reporting, and OMB reviews USDA's submission.

Estimated completion date: November 15, 2011.

Recommendation 2:

Document negotiations between USDA and OMB regarding target determinations.

Food and Nutrition Service Response:

FNS concurs with OIG's recommendation. FNS has an on-going dialogue with OMB throughout the year to arrive at target determinations. FNS will document key

communications with OMB in forms such as memorandums of conversations, meeting notes and e-mails supporting the target determinations and submissions.

Estimated completion date: November 15, 2011.

Recommendation 3:

Reassess NSLP's econometric model to evaluate how precision can be determined and modify as necessary to update annual rates as associated with the results of the APEC study.

Food and Nutrition Service Response:

FNS acknowledges that the estimates drawn from the econometric model do not include an assessment of precision for the interim estimates of annual improper payment rates. FNS also recognizes the *potential* value of a confidence level in providing context for interpreting the reported estimate. We anticipate that the *actual* value of a quantification of this level of precision would be limited.

The sampling in the APEC study, the basis for the modeled estimates, is designed to achieve Office of Management and Budget (OMB) requirements for statistical precision when calculating a national estimate of erroneous payments: 90 percent confidence interval of ± 2.5 percent around the estimate of the rate of erroneous payments. Generally speaking, the modeled estimates are less precise. Further, the precision measures, as recommended by OIG, are unlikely to yield actionable information beyond the recognition that the estimates provide a general indicator of the continuing fact, and the rough magnitude, of the problem. FNS suggests that the most effective approach to achieving precision is to conduct a current study. To that end, funding was requested in the FY 2011 budget but we anticipate the funds will not be available due to the continuing resolution. FNS has requested funds in the FY 2012 President's Budget for research studies.

In response to the OIG recommendation, FNS has assessed the possibility of developing measures of precision for the annual estimates through additional statistical analysis of the existing study data and modeling factors. Developing measures of precision for the annual estimates using such an approach would likely require an investment of roughly \$100,000 and take about 3 months and an outsourced contractor to prepare, and the resources are not budgeted at this time.

Estimated completion date: February 25, 2011