USDA
United States Department of Agriculture

USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements

Audit Report 50024-0011-11

May 2017

OFFICE OF INSPECTOR GENERAL

USDA's Fiscal Year (FY) 2016 Compliance with Improper Payment Requirements
Audit Number 50024-0011-11

OBJECTIVE

We determined USDA's compliance, accuracy, and completeness for reporting, reducing, and recapturing improper payments. We also evaluated agencies' risk assessments for these high-priority programs, the quality of methodologies, and extent of oversight warranted.

REVIEWED

We reviewed related information in the FY 2016 AFR and supporting documentation. We also interviewed the Office of the Chief Financial Officer and component agency officials responsible for administering the 18 high-risk programs and activities. For fiscal year 2016, USDA programs accounted for an estimated $3.3 billion in improper payments, which is an 8.86 percent improper payment rate.

RECOMMENDS

USDA must take steps to ensure its mandated actions are completed to meet improper payment requirements and implement controls to ensure reported improper payments accurately reflect USDA's progress.

OIG reviewed USDA's FY 2016 AFR and accompanying information to determine whether the agency was compliant with improper payment requirements.

WHAT OIG FOUND

USDA did not comply with improper payment requirements as set forth by the Improper Payments Information Act (IPIA) of 2002, as amended, for a sixth consecutive year. USDA reported improper payment information for 18 programs identified as susceptible to significant improper payments (high-risk).

Office of Inspector General (OIG) found that USDA complied with three of the six requirements for handling and reporting improper payments: (1) publishing improper payment information in the fiscal year 2016 Agency Financial Report (AFR), (2) conducting risk assessments for each program or activity, and (3) publishing programmatic corrective action plans in the AFR.

However, 9 of USDA's 18 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.

We also found instances where information related to other improper payment activities was incomplete, or inaccurate.

During this sixth review, we determined it is critical for the Office of the Chief Financial Officer 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.

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

DATE: May 5, 2017

AUDIT NUMBER: 50024-0011-11

TO:

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FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: USDA's Fiscal Year 2016 Compliance with Improper Payments Requirements

This report presents the results of the subject audit. Your written responses, dated May 2, 2017, and May 3, 2017, are included in its entirety at the end of the report. Excerpts from your responses and the Office of Inspector General's position are incorporated in the relevant sections of the report. Based on your written responses, we are accepting management decision for all audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of management decision to prevent being listed in the Department's annual Agency Financial

Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

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

The Department of Agriculture (USDA) delivers approximately $143 billion in public services annually through more than 147 programs. Of these programs, the Department identified 18 programs (see Exhibit A) as susceptible to significant improper payments (high-risk) in fiscal year 2016. Of these 18 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 nine programs as high-risk through its risk-assessment process. Another five programs were identified as high-risk through the Disaster Relief Appropriations Act of 2013 (Hurricane Sandy funding). USDA reported that its 18 high-risk programs collectively made approximately $3.3 billion in improper payments in fiscal year 2016, which is an 8.86 percent improper payment rate.

USDA funds the 18 high-risk programs through 7 component agencies, including the Food and Nutrition Service (FNS), Forest Service, Natural Resources Conservation Service (NRCS), Risk Management Agency (RMA), Rural Development, Farm Service Agency (FSA), and Commodity Credit Corporation (CCC). CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily 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.[1]

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

The Improper Payments Information Act of 2002 (IPIA) requires each agency to annually review all programs and activities that it administers, identify those that are susceptible to significant improper payments, and submit to Congress an estimate of the annual amount of improper payments.[2] The Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amended IPIA, requires each agency to perform the review of its programs at least once every 3 years, in accordance with OMB guidance.[3] IPERA defines significant improper payments as gross annual improper payments (the total of overpayments plus underpayments) exceeding both 1.5 percent of program outlays and $10 million of all program payments made during the fiscal year reported, or $100 million of improper payments regardless of percentage.[4] For each program and activity identified as susceptible to significant improper payments, the agency must

1 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.
2 IPIA, Public Law 107-300 (November 26, 2002).
3 OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).
4 IPERA, Public Law 111-204 (July 22, 2010).

produce a statistically valid estimate, or an alternative sampling and estimation approach that OMB approved, of the improper payments made by each program and activity and include those estimates in the accompanying materials to the agency's Annual Financial Report (AFR).

Compliance with IPERA

Inspectors General are required to assess agencies' compliance with IPERA each fiscal year. Compliance under the law means that agencies have:

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 have 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.

Under IPERA, an agency is not compliant if it does not meet one or more of these six requirements. Section 1 of this report discusses USDA's fiscal year 2016 compliance determination under IPERA.

Compliance with IPERIA

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), which amended IPERA, requires that OMB identify high-risk programs that it deems to be "high-priority."[5] OMB set the threshold for high-priority determinations at $750 million in reported improper payments in a fiscal year. OMB designated four USDA programs to be high-priority in fiscal year 2016:

1. the Supplemental Nutrition Assistance Program (SNAP),
2. the National School Lunch Program (NSLP),
3. the School Breakfast Program (SBP), and
4. the Federal Crop Insurance Corporation (FCIC).

For high-priority programs, the agency is required to report any action it has taken—or plans to take—to recover improper payments, and any action it intends to take to prevent future improper payments. Each fiscal year, Inspectors General are required to assess the level of risk associated with any high-priority program and the quality of the improper payment estimates and methodology; determine the extent of oversight warranted; and provide recommendations, if any, for modifying the agency's methodology, promoting continued program access and participation, or maintaining adequate internal controls. Section 2 of this report discusses the evaluation of USDA's high-priority programs as required by IPERIA.

[5] IPERIA, Public Law 112-248 (January 10, 2013).

OMB Guidance

Both IPERA and IPERIA authorize OMB to issue additional guidance for eliminating and reporting improper payments. OMB combined the Office of Inspector General's (OIG) annual compliance assessment under IPERA with its evaluation of actions implemented for the high-priority programs under IPERIA.[6] 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 improper payments as part of their annual compliance review. Section 3 of this report discusses USDA's performance in reducing and recapturing improper payments. Section 4 of this report discusses USDA's accuracy and completeness of improper payment reporting.

This report provides a broad assessment of USDA's compliance with improper payment requirements.[7] To determine the Department's compliance, we primarily used data from USDA's fiscal year 2016 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.

Objectives

The objectives of our audit were to review USDA's fiscal year 2016 AFR and accompanying information to determine whether the agency is compliant with IPIA, as amended by IPERA, within 180 days of the AFR issuance. In addition, we evaluated USDA's accuracy and completeness of reporting, and performance in reducing and recapturing improper payments.

Finally, for agencies that have high-priority programs we evaluated the agencies' 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, if any, for modifying the agency's methodology, promoting continued program access and participation, or maintaining adequate internal controls.

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[6] OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).
[7] IPIA, Public Law 107-300 (November 26, 2002); IPERA, Public Law 111-204 (July 22, 2010); and IPERIA, Public Law 112-248 (January 10, 2013).

Section 1: USDA's Fiscal Year 2016 Compliance Determination Under IPERA

Finding 1: USDA Has Not Complied with IPERA for a Sixth Consecutive Year

We found that 9 of USDA's 18 high-risk programs did not fully comply with 1 or more IPERA requirements. These programs did not publish an improper payment estimate; meet annual reduction targets; or publish gross improper payment rates of less than 10 percent. This occurred because one program's sampling method was compromised during the error rate determination process, one program has not developed sampling methodologies to report a complete improper payment estimate; other programs' corrective actions have not yielded the desired results; and some programs' policies and procedures were not clear to staff. As a result, USDA is not compliant with IPERA for a sixth consecutive year.

However, USDA officials provided evidence that the Department and its component agencies are making progress towards fully complying with IPERA.[8] For example, we found that NRCS reduced its improper payment rate from 22.04 percent to 2.38 percent and became fully IPERA compliant. The Department also continued to self-assess its compliance with improper payment requirements and reported this in its AFR. Furthermore, we determined that USDA substantially complied with three of the six improper payment requirements by (1) publishing its fiscal year 2016 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.

The specific results for each IPERA requirement are as follows:

1. **Did USDA publish an AFR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website?**

   Yes. On November 15, 2016, OMB granted USDA an extension on submission of its AFR to December 6, 2016. However, the extension did not include the improper payments section of the AFR, which was due to be submitted to OMB on November 15, 2016. USDA submitted the required information, and subsequently the report and accompanying materials required by OMB were posted on the agency website at http://www.ocfo.usda.gov/performancereport.htm.

2. **Did USDA conduct a specific risk assessment for each program or activity?**

   Yes. In accordance with OMB guidance, USDA completed a risk assessment for each of the non-high-risk programs at least once during the last 3 years.[9] Programs that had significant increases in funding levels performed an assessment either in fiscal year 2015 or fiscal year 2016.

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

9 Per OMB Circular A-123, Appendix C, the method of reviewing programs could be a quantitative evaluation based on a statistical sample or a qualitative method such as a questionnaire.

3. **Did USDA publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)?**

No. USDA did not publish an improper payment estimate for 2 of the 18 high-risk programs: FNS' SNAP and Child and Adult Care Food Program (CACFP).

FNS' Supplemental Nutrition Assistance Program (SNAP)

USDA did not report an improper payment estimate for SNAP. In its AFR, USDA stated the reasons for not reporting as required:

> Prior to release of the OIG audit report, FNS initiated an in-depth, systematic review of all 53 State agency quality control (QC) systems.[10] After all reviews had been completed, it was determined that USDA would not release a national SNAP error rate for fiscal year 2015. For 42 of the 53 State agencies, USDA was unable to validate the data provided by the State. There are no statistical procedures that can accurately adjust for this unreliability and allow calculation of a national error rate.[11]

Section 2 of this report further discusses the methodology.

FNS has already taken actions to address the OIG audit recommendations and the results of their State QC process reviews. FNS revised its guidance, which provides procedures for conducting QC reviews of SNAP cases. The agency also issued policy revisions that provided States with guidance that identified prevalent noncompliant measurement practices to avoid, limited the use of error review committees, and reminded States of the requirement to provide Federal reviewers with full access to certification files. Consistent with statute and regulations, if FNS finds that a State's error rate measurement procedure is not compliant with federal requirements, the State will be required to commit to a robust corrective action plan to remedy the problem, in addition to receiving an assigned error rate for the period in question. FNS plans to determine a national improper payment rate based solely on FNS statistical sampling of cases nationwide for the fiscal year 2017 AFR.

FNS' Child and Adult Care Food Program (CACFP)

The Department again reported only a partial improper payment estimate for FNS' CACFP. USDA stated in its AFR that "CACFP currently tests and reports on the Family Day Care Homes category-tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component,[12] and will begin reporting an error rate for this component when a reliable

[10] Audit Report 27601-0002-41, *FNS Quality Control Process for SNAP Error Rate* (September 2015).
[11] USDA Fiscal Year 2016 Agency Financial Report.
[12] The tiering decisions component relates to validating reimbursable rate determinations for FNS CACFP providers. The meal claims component relates to verifying the meal counts of the CACFP participants.

methodology is determined."

CACFP currently does not have a methodology in place for producing yearly estimates of the meal claim component. In 2014, FNS awarded a contract for a new CACFP study to look at alternative methodologies for developing a reliable measurement for the meal claims component. This new study is expected to be completed in 2018. Another study to provide a measure of the erroneous payments to child care centers and center sponsors participating in CACFP is due to be completed in 2019.

This is the sixth consecutive year CACFP was not compliant with improper payment requirements. Recently, the Department has reached final action for our recommendation during the fiscal year 2014 review for FNS to resubmit the CACFP alternative sampling methodology for OMB 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.[13]

4. Did USDA publish programmatic corrective action plans in the AFR (if required)?

Yes. USDA published corrective action plans which describe actions taken and planned for each program that met the statutory threshold requirements of a high-risk program in accordance with OMB Circular A-136, *Financial Reporting Requirements*.

5. Did USDA publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments?

No. We found that 7 of USDA's 18 high-risk programs did not achieve their reduction target by an average of 3.30 percent, ranging from 0.29 percent to 8.79 percent.

FNS' National School Lunch Program (NSLP) and School Breakfast Program (SBP)

FNS did not achieve reduction targets for NSLP and SBP by 0.38 percent and 0.29 percent, respectively. FNS attributed improper payments to administrative or process errors, including certification errors (misclassification of the school meal eligibility status of participating students)[14], and counting and claiming errors (improper meal counting and claiming by school districts).[15] FNS stated in its corrective action plan that it expanded the use of direct certification and increased the number of school food authorities and schools participating in the community eligibility provision. FNS continues to provide training, technical assistance, and updates to manuals and guidance to schools, workers, and school food authorities to correct meal counting and claiming errors. Also, FNS officials stated they made improvements to the application for free and reduced-price lunches that make the application easier to complete, and added training and established professional certification standards for school food service workers.

[13] Audit Report 50024-0008-11, *USDA's Fiscal Year 2014 Compliance with Improper Payments* (May 2015).
[14] Examples of certification errors include inability to verify income and not verifying income when selected for verification.
[15] Examples of meal counting and claiming errors include school lunch cashiers incorrectly tallying the number of reimbursable meals.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

FNS did not achieve its reduction target for WIC by 0.71 percent. WIC's improper payments were primarily attributed to administrative or process errors made by an other party.[16] FNS noted in the supporting documentation to the corrective action plan that while the "aging" of certification error produced a decrease in improper payments, the "aging" of vendor error produced an increase in improper payments that more than offset the reduction found in the certification error. FNS took actions during fiscal year 2016 to reduce certification errors within WIC. FNS awarded a grant to a contractor to identify and test risk factors that could prevent program fraud; conducted certification and eligibility reviews for all 90 State agencies; and developed and implemented uniform indicators to identify State agencies at risk of certification issues. Also, monthly conference calls were conducted with regional office staff to clarify certification and eligibility policy.

FSA's Loan Deficiency Payment (LDP), Livestock Forage Disaster Program (LFP), Livestock Indemnity Program (LIP), and Supplemental Revenue Assistance Payments (SURE)

FSA did not achieve its reduction target for LDP by 2.81 percent. FSA attributed improper payments to administrative or process errors made by the agency, and insufficient documentation to determine eligibility. Specific errors included insufficient documentation, incomplete paperwork, and county offices not following administrative processes as stated in policies. To reduce LDP improper payments, FSA stated in its corrective action plan that it issued amendments to clarify policies and procedures. It also issued notices and checklists to field office staff to reiterate program policies and procedures. Further, FSA plans to provide training to its county office employees on the disbursal and approval of LDPs, and the proper documentation of program eligibility.

FSA did not achieve its reduction target for LFP by 2.24 percent. FSA attributed improper payments to administrative or process errors made by the agency, an inability to authenticate eligibility, and insufficient documentation to determine eligibility. Errors contributing to improper payments included incomplete paperwork, missing reports or certifications, and unacceptable evidence of land ownership. To reduce LFP improper payments, FSA issued notices and checklists to field office staff to reiterate program policies, procedures, and acceptable evidence for documenting program eligibility. FSA will also develop additional internal controls, and provide additional program training where needed.

FSA did not achieve its reduction target for LIP by 7.87 percent. FSA attributed improper payments to administrative or process errors made by the agency, and insufficient documentation to determine eligibility. Specifically, FSA stated that errors contributing to improper payments included unclear policies and procedures, incomplete paperwork, and missing reports or certifications. To reduce LIP improper payments,

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16 OMB defines other party as a participating lender, or any other organization administering Federal dollars.

FSA issued amendments to its policies to clarify those policies and procedures. FSA also issued notices and checklists to field office staff to reiterate program policies and procedures. Further, FSA will provide field staff with training, and FSA will complete and analyze compliance reviews to identify program policies and procedures that need to be reinforced to field offices.

FSA did not achieve its reduction target for SURE by 8.79 percent. FSA attributed improper payments to administrative or process errors made by the agency, and insufficient documentation to determine eligibility. Specifically, FSA stated the errors contributing to improper payments included data input errors and insufficient documentation for payment. SURE was not reauthorized under the Agricultural Act of 2014 and registration for the program ended in 2014.[17] Most appeals and litigation have been completed; therefore, FSA disabled the SURE payment software on April 1, 2017. Since the program is no longer active, we are not making any recommendations.

6. **Did USDA report 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. USDA did not report gross improper payment rates of less than 10 percent for 4 of the 18 high-risk programs: FNS' SBP and NSLP and FSA's LIP and SURE.

FNS' School Breakfast Program (SBP) and National School Lunch Program (NSLP)

FNS reported estimated improper payment rates of 22.48 percent for SBP and 15.17 percent for NSLP. For both SBP and NSLP, FNS attributed improper payments primarily to administrative or process errors which were related to certification errors, and counting and claiming errors. Per the NSLP corrective action plan, FNS believes that supplemental measures for NSLP and SBP (including increased use of direct certification of students)[18] will reduce improper payment rates by reducing the errors made during application processing.

FSA's Livestock Indemnity Program (LIP)

FSA reported an estimated improper payment rate of 12.87 percent for LIP. FSA attributed improper payments to the agency's administrative or process errors, and insufficient documentation. To reduce LIP improper payments, FSA stated in its corrective action plan that it issued amendments to clarify those policies and procedures. FSA also issued notices and checklists to field office staff to reiterate program policies and procedures. Further, FSA will provide field staff with training, and FSA will complete and analyze compliance reviews to identify program policies and procedures that need to be reinforced to field offices.

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[17] The Agricultural Act of 2014, Public Law 113-79 (February 7, 2014).

[18] Students currently participating in other entitlement programs such as SNAP and Temporary Assistance for Needy Families can be considered eligible for NSLP.

FSA's Supplemental Revenue Assistance Payments (SURE)

FSA reported an estimated improper payment rate of 11.53 percent for SURE. FSA attributed improper payments to the agency's administrative or process errors, and insufficient documentation. SURE was not reauthorized under the Agricultural Act of 2014 and registration for the program ended in 2014. Most appeals and litigation have been completed; therefore, FSA disabled the SURE payment software on April 1, 2017.

For programs that are not compliant with IPERA for 1 to 3 consecutive fiscal years, OMB guidance requires agencies to complete several actions. For agencies that are not compliant for 1 year, the agency should submit a plan for corrective actions to OMB and Congressional committees. FSA's two programs, LDP and LIP, fall into this category. For agencies that are not compliant for 2 consecutive years for the same program, the Director of OMB will determine if additional funding would help these programs come into compliance. Since these determinations will occur as part of the development process for the President's annual budget, we are not making formal recommendations for SNAP (FNS) and LFP and SURE (FSA) which have not been compliant for 2 consecutive years. For agencies with programs that are not compliant for 3 consecutive or more years, the agency must submit proposals for statutory changes to Congress. FNS has 4 programs in that category: NSLP, SBP, WIC, and CACFP have not been compliant for 6 consecutive years.

Recommendation 1 to FSA

In accordance with OMB guidance, within 90 days of the determination of non-compliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make LDP and LIP compliant.

Agency Response

In its response dated May 2, 2017, FSA stated it will submit a plan describing the action that the agency will take to make LDP and LIP compliant. FSA estimates that this action will be complete by August 5, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 2 to FNS

In accordance with OMB guidance, within 30 days of the determination of non-compliance, FNS should submit to Congress proposed statutory changes to bring NSLP, SBP, WIC, and CACFP into compliance.

Agency Response

In its response dated May 3, 2017, FNS stated it has drafted a letter to submit to Congress to address the IPERA non-compliance within their programs, which is going through the appropriate clearance process. FNS estimates that this action will be complete by June 5, 2017.

OIG Position

The United States Government Accountability Office (GAO) made the same recommendation in Audit Report GAO-16-554, *Improper Payments CFO Act Agencies Need to Improve Efforts to Address Compliance Issues* (June 2016). GAO's recommendation added to the extent that reauthorization or statutory changes are not considered necessary to bring a program into compliance, the Secretary or designee should state so in the letter. We confirmed with FNS that their response is referring to the same letter recommended by GAO. Therefore, we accept management decision for this recommendation.

Section 2: Evaluation of USDA's High-Priority Programs

We reviewed USDA's reported actions to prevent and recover improper payments and the quality of the improper payment estimates and methodologies used in the Department's high-priority programs.

IPERIA required OMB to annually identify high-risk programs that require greater levels of oversight and review, which are considered high-priority programs. High-priority programs are defined as programs that have more than $750 million in improper payments reported in the AFR.[19] Each agency with programs identified as high-priority is required to annually report to its Inspector General and make available to the public plans to address the problem. These plans should describe any action the agency has taken or plans to take to recover improper payments, and any action the agency intends to take to prevent future improper payments, including tailoring corrective actions specifically to the high-priority programs. Furthermore, OMB guidance requires that agencies with high-priority programs establish annual or semi-annual supplemental measures for reducing improper payments and submit these plans to OMB's improper payment website (paymentaccuracy.gov). Inspectors General are required to annually evaluate the quality of agencies' improper payment estimates and methodology, determine the extent of oversight warranted, and provide agency heads with recommendations, if any, for modifying methodologies or maintaining adequate internal controls.

USDA reported four programs designated by OMB as high-priority in its fiscal year 2016 AFR: RMA's FCIC and FNS' SNAP, NSLP, and SBP. With the exception of SNAP, we determined that RMA and FNS officials' assessment of the level of risk associated with their high-priority programs was reasonable, and both agencies developed corrective action plans and supplemental measures commensurate with OMB requirements. RMA and FNS reported actions taken to recover and prevent future improper payments. Additionally, we determined that RMA and FNS have improper payment estimation methodologies that produce a reasonable and valid estimate for their programs in accordance with OMB guidance.

USDA did not publish an improper payment rate for SNAP for the fiscal year 2016 AFR. An OIG report published in September 2015, identified that the application of the methodology for estimating FNS' SNAP error rate needed improvement.[20] OIG indicated that some States' procedures for measuring error rates are not fully consistent with Federal requirements. OIG found that States weakened the quality control process by using third-party consultants and error review committees to mitigate individual quality control-identified errors, rather than improving eligibility determinations. Also, quality control staff treated error cases non-uniformly.

In June 2016, FNS confirmed this issue during a simultaneous review of the QC processes for all States which began shortly after the commencement of the OIG audit. Both FNS and OIG found that the SNAP two-tier QC process is vulnerable to abuse at the State office level due to conflicting interests between accurately reporting true error rates and incurring penalties or

[19] OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).
[20] Audit Report 27601-0002-41, *FNS Quality Control Process for SNAP Error Rate* (September 2015).

mitigating errors and receiving a bonus for exceeding standards. Thus, FNS determined it could not support a national improper payment rate for the fiscal year 2016 AFR.

FNS has worked with and is continuing to reeducate States on the importance of complying with the FNS' QC process. FNS has discussed sampling methodologies for the fiscal year 2017 and 2018 AFRs with OMB. FNS plans to determine a national rate based solely on FNS statistical sampling of cases nationwide in fiscal year 2017 and plans to return to the historical two-tier methodology in fiscal year 2018.

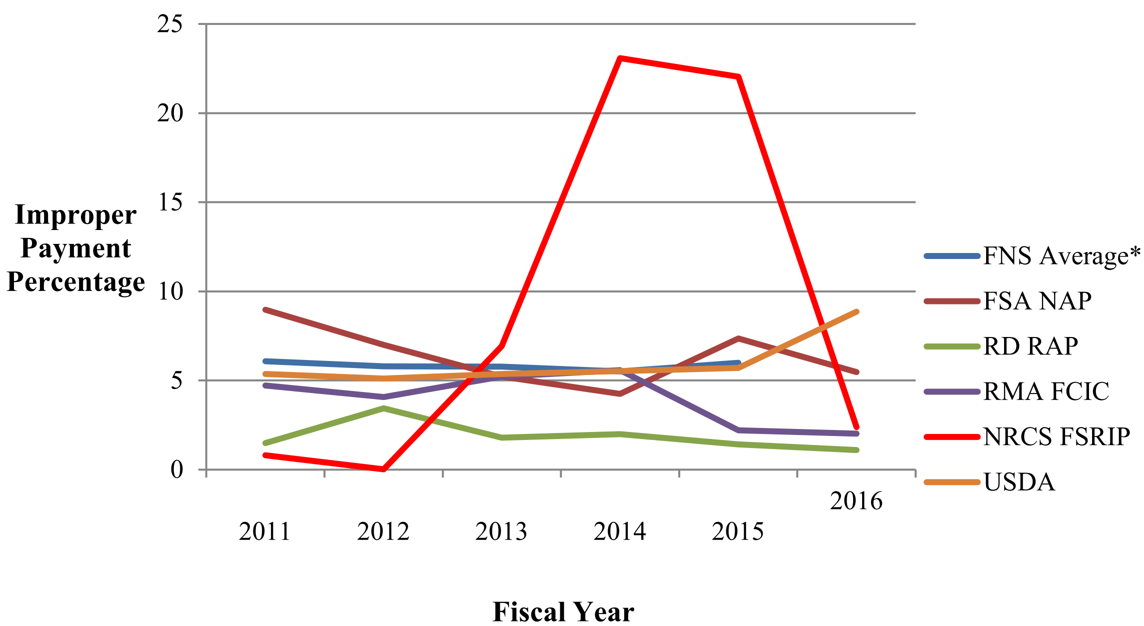
We do not make any formal recommendations in this report regarding the methodologies used. FNS has provided OMB updates to its sampling methodology for the upcoming AFR, and RMA continues to use a sampling methodology approved by OMB to produce improper payment estimates.

Section 3: USDA's Performance in Reducing and Recapturing Improper Payments

Reducing Improper Payments

USDA's efforts to reduce improper payments have produced both favorable and unfavorable results since fiscal year 2011. Improper payment rates have generally trended downward for Rural Development's Rental Assistance Program (RAP), RMA's FCIC, and FSA's Noninsured Crop Disaster Assistance Program (NAP). The average improper payment rate of the four FNS high-risk programs has remained relatively unchanged.[21] Figure 1 shows the trends for these programs from fiscal year 2011 through 2016.

Figure 1: Change in Improper Payment Rates



*This number represents the average of FNS' high-risk programs (total improper payments/total outlays). Note: We included only those programs that have been reporting improper payment rates for each of the 6 fiscal years, as well as USDA's overall improper payment rate as reported in the AFRs.

USDA's overall improper payment rate has trended upward slightly since fiscal year 2011. FNS did not report an improper payment rate for SNAP in fiscal year 2016 (as discussed in Finding 1); therefore, FNS' average rate for fiscal year 2016 is not represented in the chart. The improper payment rate for NRCS' Farm Security and Rural Investment programs (FSRIP) decreased significantly in fiscal year 2016, as a result of ensuring all registrations in the System for Award Management were current and active. To see the actual improper payment rates for fiscal year 2016, see Exhibit A.

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21 CACFP, WIC, NSLP, and SBP.

Recapturing Improper Payments

In fiscal year 2016, USDA reported that it recaptured approximately $0.43 million in improper payments from recovery audit contractors, which represents a substantial decrease from $2 million in recaptured funds from fiscal year 2015. Also, USDA reported $1 billion in recoveries outside of payment recapture audits, which is a significant increase from its reporting of $382 million in fiscal year 2015. OMB guidance encourages agencies to use pilot payment recapture audits with limited scope in areas deemed highest risk to assess the likelihood of cost effective payment recapture audits on a larger scale. USDA's pilot programs revealed many legal and accounting issues, which were not resolved until fiscal year 2016. USDA reported in its fiscal year 2016 AFR that it required all programs with over $1 million in annual expenditures to perform recovery auditing, or provide justification that recovery auditing would not be cost effective.

Section 4: USDA's Accuracy and Completeness of Improper Payment Reporting

Finding 2: USDA Needs to Take Additional Action to Ensure Information on Improper Payment Activities is Complete and Accurate

Although OCFO and USDA have made significant improvements to ensure that the Department's reported improper payment information was accurate and complete, our review revealed several discrepancies between supporting documents and what was reported in the AFR. Specifically, we found that the reported information related to improper payments for one agency was incomplete. We also found that USDA's reported information on improper payment recoveries was inaccurate. These discrepancies occurred as a result of ongoing internal control weaknesses in the quality review process. 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 AFR. OMB guidance states that Inspectors General may evaluate the accuracy and completeness of agency reporting.

We found several instances in which reported information related to improper payment activities was incomplete or inaccurate. For example:

- FSA did not publish its sampling methodology for LDP in the fiscal year 2016 AFR. This occurred because of an oversight by FSA and OCFO personnel. FSA personnel did not review the final version of the AFR before it was published, thus they were unaware that the sampling methodology for LDP was not included in the published AFR.
- USDA reported $2.3 million and $1.7 million in identified and recovered amounts, respectively, for Rural Development's Internal Programs. OCFO and Rural Development officials were not able to provide documentation to support these amounts.
- USDA reported $0.01 million as the amount determined to not be collectable for Rental Assistance. According to OCFO, this amount was submitted by Rural Development. However, documentation provided to OIG during the review did not support this amount.
- USDA unintentionally reported $1.6 million as RMA FCIC's amount outstanding for 6 months to 1 year. Supporting documentation indicates that this amount should have been presented as $0.6 million. According to OCFO, it was accurately presented in an earlier version. During the financial statement audit, OIG requested a change from $0.6 million to $1.7 million, but later requested that the change be reversed. OCFO made the error at this point by changing the $1.7 million to $1.6 million instead of $0.6 million.

OCFO agreed with the noted discrepancies and stated that there will be more follow-up and changes to the quality control process over the AFR in fiscal year 2017.

Accurate reporting is indispensable to convey to Congress, OMB, and the public USDA's actual progress to prevent and recover improper payments. In response to a prior recommendation, OCFO has implemented a quality review process which includes a documented strategy with defined processes that produce an audit trail for verifying accuracy and completeness. The Department should continue to revise the quality control review process to ensure discrepancies are resolved before the AFR is published.

Recommendation 3 to OCFO

Revise the Department's current quality review process to ensure it includes a well-defined process to review, identify, and resolve discrepancies for the final publication.

Agency Response

In its response, dated May 2, 2017, OCFO stated the Sampling and Estimation section of the improper payment appendix will be revised into a numbered bulleted list to match several other sections of the appendix to prevent accidental omission of a program. Changes to the Improper Payment Appendix will be routed through the Fiscal Policy Division of OCFO for approval and final check before publication. Change reversals will be treated as new changes. Also, OCFO will conduct detailed AFR reporting briefings with agency staff. OCFO estimated that this action will be completed by July 31, 2017.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit focused on improper payment information reported in USDA's fiscal year 2016 AFR and additional supporting documentation. We performed our review at OCFO Headquarters in Washington, D.C. We commenced fieldwork in December 2016, and completed our fieldwork in April 2017.

We interviewed OCFO officials and personnel at USDA component agencies who were involved with the 18 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 how sampling was performed, how estimates were calculated and completed, and the 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 IPERA:

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

   We obtained and reviewed the fiscal year 2016 AFR. We also confirmed that the AFR was posted on USDA's website.

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

   Of the 128 low-risk programs and activities listed in USDA's fiscal year 2016 inventory, we selected a non-statistical, random sample of 10 programs and activities. The 10 selected programs used various types of risk assessments, from one-page certifications that events affecting a program have not changed, to full-scale risk assessments, including a test of transactions. We reviewed these assessments to determine if they were performed in accordance with IPERA, OMB Circular A-123, Appendix C *Requirements for Effective Estimation and Remediation of Improper Payments*, and OCFO's Final USDA FY 2016 Risk Assessment Guidance.

3. **Published Improper Payment Estimates for All Programs Identified as High-Risk**

   We reviewed the improper payment results outlook Table 13 in *Section III, Other Information* of the fiscal year 2016 AFR to identify which high-risk programs did not report an improper payment estimate (identified as "NA").

4. **Published Programmatic Corrective Action Plans in the AFR**

   We reviewed the fiscal year 2016 AFR to determine if USDA reported corrective action plans, in compliance 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.

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

   We reviewed the improper payment reduction outlook Table 13 in *Section III, Other Information* of the fiscal year 2016 AFR and compared each program's reduction target to the targets listed in the improper payment reduction outlook Table 13 in *Section III, Other Information* of the fiscal year 2015 AFR.

6. **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 reduction outlook Table 13 in *Section III, Other Information* of the fiscal year 2016 AFR to identify which programs did not report estimates of less than 10 percent.

7. **Reported Information on High-Priority Programs**

   We reviewed the fiscal year 2016 AFR and supporting documentation, and the statistical methodologies were reviewed by our statistician. When warranted, we made inquiries to agency officials.

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 objectives. 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 from any of USDA's electronic information systems as it was not specific to our audit objectives, and make no representation regarding the adequacy of any agency computer system or the information generated from it.

Abbreviations

AFR.........................Agency Financial Report
CACFP....................Child and Adult Care Food Program
CCC.........................Commodity Credit Corporation
FCIC........................Federal Crop Insurance Corporation
FNS ....Food and Nutrition Service
FSA ....Farm Service Agency
FSRIP......................Farm Security and Rural Investment Act Programs
GAO………………United States Government Accountability Office
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 Payment
LFP..........................Livestock Forage Disaster Program
LIP...........................Livestock Indemnity Program
NAP ………………...Noninsured Crop Disaster 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
QC...........................Quality Control
RAP ………………Rental Assistance Program
RMA ....Risk Management Agency
SBP ....School Breakfast Program
SNAP ....Supplemental Nutrition Assistance Program
SURE ....Supplemental Revenue Assistance Payments
USDA......................Department of Agriculture
WIC.........................Special Supplemental Nutrition Program for Women, Infants, and Children

Exhibit A: USDA's 18 High-Risk Programs

Exhibit A provides a list of USDA's 18 current high-risk programs reported in the fiscal year 2016 AFR.

High-Risk Program	FY 2016 Improper Payment Rate	USDA Component Agency
1. Supplemental Nutrition Assistance Program (SNAP) SNAP provides low income households benefits to purchase food from approved retailers.	NA*	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.	15.17%	
3. School Breakfast Program (SBP) SBP assists States in providing a nutritious nonprofit breakfast service for school children, through cash grants and food donations.	22.48%	
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.	0.54%**	
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.	4.79%	
6. Federal Crop Insurance Corporation Program Fund (FCIC) FCIC provides insurance and risk management strategies to American producers.	2.02%	Risk Management Agency
7. Livestock Forage Disaster Program (LFP) LFP provides compensation to eligible livestock producers that have suffered grazing losses for covered livestock on land that is native or improved pasture land with permanent vegetative cover or is planted specifically for grazing.	4.74%	Farm Service Agency and Commodity Credit Corporation
8. Loan Deficiency Payment 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.	3.21%	
9. Livestock Indemnity Program (LIP) LIP provides benefits to eligible owners or contract growers for death of their livestock in excess of normal mortality caused by adverse weather, and attacks by animals reintroduced into the wild by the federal government or protected by federal law.	12.87%	
10. Supplemental Revenue Assistance Payments (SURE) SURE provides financial assistance for farm revenue losses due to natural disaster.	11.53%	
11. Noninsured Crop Disaster 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.	5.47%	
12. 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.	0.18%	
13. 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.	1.43%	

* SNAP did not publish an Improper Payment rate estimate due to issues of bias within the Quality Control process by certain States.
** CACFP does not yet have an OMB approved estimation methodology for the meal claims portion of Family Day Care Homes; published rate is for tiering decisions only. FNS has contracted studies with the goal of determining the feasibility of producing a meal claims rate.

Exhibit A: USDA's 18 High-Risk Programs continued

Exhibit A provides a list of USDA's 18 current high-risk programs reported in the fiscal year 2016 AFR.

High-Risk Program	FY 2016 Improper Payment Rate	USDA Component Agency
14. Rental Assistance Program (RAP) RAP reduces the tenant contribution paid by low-income families occupying eligible housing projects financed by Rural Housing Service.	1.10%	Rural Development
15. Farm Security and Rural Investment Act Programs (FSRIP) 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.	2.38%	Natural Resources Conservation Service
16. Hurricane Sandy – Emergency Watershed Protection Program 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.	0.00%	
17. Hurricane Sandy – Emergency Forest Restoration Program 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.	0.00%	Forest Service
18. Hurricane Sandy – Capital Improvement and Maintenance (CMDF) CMDF funds provide construction and maintenance funding to address emergency infrastructure needs to restore roads, trails, and facilities damaged by natural disaster.	0.00%	

Exhibit B: USDA's Noncompliance by Requirement and Program

Exhibit B provides a list of USDA's 18 high-risk programs' determination of compliance with IPIA, as amended by IPERA. The last column represents the number of consecutive years that the program has not been compliant with one or more of the six requirements of IPERA.

Agency	Program	FY 2016 Overall Compliance	Published a PAR or AFR	Conducted a Risk Assessment	Published IP Estimates	Published CAPs	Published/ Met Reduction Goals	Achieved an IP Rate of Less Than 10 Percent	Consecutive Years of Non-Compliance
Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)	Not Compliant	Yes	Yes	No	Yes	N/A	N/A	2
	National School Lunch Program (NSLP)	Not Compliant	Yes	Yes	Yes	Yes	No	No	6
	School Breakfast Program (SBP)	Not Compliant	Yes	Yes	Yes	Yes	No	No	6
	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Not Compliant	Yes	Yes	Yes	Yes	No	Yes	6
	Child and Adult Care Food Program (CACFP)	Not Compliant	Yes	Yes	No	Yes	N/A	N/A	6
Farm Service Agency (FSA)/ Commodity Credit Corporation (CCC)	Loan Deficiency Payment (LDP)	Not Compliant	Yes	Yes	Yes	N/A	No	Yes	1
	Livestock Forage Disaster Program (LFP)	Not Compliant	Yes	Yes	Yes	Yes	No	Yes	2
	Livestock Indemnity Program (LIP)	Not Compliant	Yes	Yes	Yes	N/A	No	No	1
	Supplemental Revenue Assistance Payments (SURE)	Not Compliant	Yes	Yes	Yes	N/A	No	No	2
	Noninsured Crop Disaster Assistance Program (NAP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0
	Hurricane Sandy – Emergency Conservation Program (ECP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0
	Hurricane Sandy – Emergency Forest Restoration Program (EFRP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0

Exhibit B: USDA's Noncompliance by Requirement and Program continued

Exhibit B provides a list of USDA's 18 high-risk programs' determination of compliance with IPIA, as amended by IPERA. The last column represents the number of consecutive years that the program has not been compliant with one or more of the six requirements of IPERA.

Agency	Program	FY 2016 Overall Compliance	Published a PAR or AFR	Conducted a Risk Assessment	Published IP Estimates	Published CAPs	Published/ Met Reduction Goals	Achieved an IP Rate of Less Than 10 Percent	Consecutive Years of Non-Compliance
Risk Management Agency (RMA)	Federal Crop Insurance Corporation Program Fund (FCIC)	Compliant	Yes	Yes	Yes	Yes	Yes	Yes	0
Rural Development (RD)	Rental Assistance Program (RAP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0
National Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIP)	Compliant	Yes	Yes	Yes	Yes	Yes	Yes	0
	Hurricane Sandy – Emergency Watershed Protection Program (EWPP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0
Forest Service (FS)	Hurricane Sandy – Capital Improvement and Maintenance (CIM)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0
	Hurricane Sandy – Emergency Forest Restoration Program (EFRP)	Compliant	Yes	Yes	Yes	N/A	Yes	Yes	0

Exhibit C: Status of Prior Year Recommendations

Exhibit C identifies the status of the fiscal year 2015 IPERA compliance review audit recommendations. All recommendations from fiscal years 2011 through 2014 have reached final action.

Report Number	Fiscal Year	Recommendation		Status
50024-0009-11	2015	1	In accordance with OMB guidance, within 30 days of the determination of non-compliance, NRCS should submit to Congress proposed statutory changes to bring FSRIP into compliance.	Open
		2	In accordance with OMB guidance, within 90 days of the determination of non-compliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make LFP compliant.	Closed
		3	In accordance with OMB guidance, within 90 days of the determination of non-compliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make SURE compliant.	Closed
		4	In accordance with OMB guidance, within 90 days of the determination of non-compliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make NAP compliant.	Closed
		5	In accordance with OMB guidance, within 90 days of the determination of non-compliance, FNS should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make SNAP compliant.	Closed

Exhibit D: Sampling Methodology for USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements

Objectives

The sampling methodology for our assessment of USDA's compliance with IPERA for fiscal year 2016 was designed to help support our audit objectives related to determining compliance with improper payment requirements, and evaluating USDA's accuracy and completeness of reporting. We used non-statistical sampling selections to test the adequacy and completeness of USDA's risk assessment of programs and activities subject to improper payment reporting, and 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 128 programs and activities deemed "low-risk" in USDA's inventory, we non-statistically, but randomly, selected 10 programs and activities risk assessed in fiscal year 2016 using computer-assisted auditing techniques. Our 10 selected programs captured various types of risk assessments. We reviewed these assessments to determine if they were performed in accordance with IPERA, OMB Circular A-123, Appendix C *Requirements for Effective Estimation and Remediation of Improper Payments*, and OCFO's Final USDA FY 2016 Risk Assessment Guidance.

High-Risk Program Selection and Sample

USDA reported improper payment information for 18 programs it deemed "high-risk," or susceptible to significant improper payments in its fiscal year 2016 AFR. We non-statistically selected NRCS's FSRIP to review based on the significant improper payment rate decrease from 22.04 percent for fiscal year 2015 to 2.38 percent for fiscal year 2016. To determine the fiscal year 2016 improper payment rate for FSRIP, NRCS statistically selected a sample of 506 conservation financial assistance payments. Because our sample analysis was conducted to test NRCS's internal controls for identifying and reporting improper payments (and not used to provide a statistical projection), we decided to randomly select a total of 30 of the samples NRCS reviewed. To remain unbiased, our 30 samples were randomly selected using computer-assisted auditing techniques.

Results

We reviewed the supporting documentation provided for the samples selected. No exceptions were noted within the 10 samples selected for USDA's risk assessment. We noted one exception for the 30 random samples selected to evaluate the accuracy of the improper payment rate for NRCS's FSRIP. That exception was attributable to an internal control weakness. The weakness was subsequently addressed by a policy update; therefore, we are making no recommendation related to this exception.

USDA'S
FISCAL YEAR 2016 COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS RESPONSES TO AUDIT REPORT

Farm and
Foreign
Agricultural
Services

Farm
Service
Agency

Operations Review
and Analysis Staff
1400 Independence
Ave, S.W., Stop 0540
Washington, DC
20250

Voice: 202-690-2532
Fax: 202-690-3354

DATE: May 2, 2017

TO: Steve Rickrode
Deputy Assistant Inspector General for Audit
Office of Inspector General

FROM: Perry Thompson, Director, **/s/ Lisa L. Goree, Acting**
Operations Review and Analysis Staff

SUBJECT: Response to Official Draft – Audit 50024-0011-11: USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements

The Farm Service Agency's (FSA) response to your April 26, 2017, discussion draft requesting comments of the subject audit are listed below.

RECOMMENDATION 1 to FSA

In accordance with the Office of Management and Budget (OMB) guidance, within 90 days of the determination of non-compliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB, describing the actions that the agency will take to make the Loan Deficiency Payment (LDP) and Livestock Indemnity Programs (LIP) compliant.

FSA Response

FSA will submit a plan describing the action that the agency will take to make LDP and LIP compliant by August 5, 2017.

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive
Room 712

Alexandria, VA 22302-1500

DATE: May 3, 2017

AUDIT NUMBER: 50024-0011-11

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

FROM: Jessica Shahin /S/
Acting Administrator

SUBJECT: USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements

This letter responds to the discussion/official draft report for audit report number 50024-0011-11, USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements. Specifically, the Food and Nutrition Service (FNS) is responding to the one FNS recommendation in the report.

Recommendation 2:

In accordance with OMB guidance, within 30 days of the determination of non-compliance, FNS should submit to Congress proposed statutory changes to bring the National School Lunch Program (NSLP), School Breakfast Program (SBP), Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the Child and Adult Care Food Program (CACFP) into compliance.

FNS Response:

FNS drafted a letter to submit to Congress to address the Improper Payments Elimination and Recovery Act of 2010 (IPERA) non-compliance within our programs, which is going through the appropriate clearance process.

Estimated Completion Date: June 5, 2017

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

MAY 2 - 2017

TO: Steven H. Rickrode
Deputy Assistant Inspector General

FROM: Lynn Moaney Lynn Moaney
Acting Chief Financial Officer

SUBJECT: Management Response to *USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements*, Audit No. 50024-0011-11

This responds to your request for management's response to Recommendation 3 for Audit Report No. 50024-0011-11.

If you have any questions or need additional information, please contact Kimberly Chapman at (202) 720-8989 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 2016 Report, Audit No. 50024-0011-11**

Recommendation 3

Revise the Department's current quality review process to ensure it includes a well-defined process to review, identify, and resolve discrepancies for the final publication.

Management Response: OCFO concurs with this recommendation and will complete the following actions to prevent errors in the Agency Financial Report (AFR) process.

- The Sampling and Estimation section of the improper payment appendix will be revised into a numbered bulleted list to match several other sections of the appendix. This will prevent the accidental omission of a program.
- Changes to the Improper Payment Appendix will be routed through the Fiscal Policy Division of OCFO for approval and the improper payment appendix will be provided to the Fiscal Policy Division for a final check before publication.
- Change reversals will be treated as new changes.
- OCFO will conduct detailed AFR reporting briefings with agency staff.

Date Corrective Action will be completed: July 31, 2017

Responsible Organization: Fiscal Policy Division (FPD), OCFO and Transparency and Accountability Reporting Division (TARD)

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