



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL



Fiscal Year 2016 Executive Order 13520, Reducing Improper Payments, High-Dollar Overpayments Reports Review

Audit Report 50024-0012-11

OBJECTIVE

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

REVIEWED

We reviewed USDA's fiscal year 2016 quarterly reports on high-dollar overpayments. Five of the seven component agencies with high-risk programs reported high-dollar overpayments. We selected the only high-dollar overpayment for one component and selected random samples of high-dollar overpayments for the other four. We also interviewed officials from the Office of the Chief Financial Officer and component agencies and evaluated relevant documentation for selected samples.

RECOMMENDS

We do not make any recommendations, but we do stress the need for continued vigilance for accurate, complete, and timely reporting of high-dollar overpayments reports.

OIG reviewed the accuracy, completeness, and timeliness of the Department of Agriculture's high-dollar overpayments reports for fiscal year 2016.

WHAT OIG FOUND

The Office of Inspector General's (OIG) analysis of the Department of Agriculture's (USDA) high-dollar overpayments reports found USDA maintained the quality of its high-dollar overpayments reports for fiscal year 2016. Specifically, we noted no overall declines in the accuracy, completeness, and timeliness of the Department's reporting. Also, the number of component agencies with reporting errors decreased from four last year to two this year. Lastly, the Department improved the timeliness of its reporting to OIG; only one quarterly report of four was delayed compared to three the prior year.

Though overall quality was sustained, OIG found some instances where agencies made reporting errors. The Farm Service Agency and the Commodity Credit Corporation reported an overpayment amount three times when it needed reporting only once and, in another instance, reported incorrect recovery information. Furthermore, the Risk Management Agency reported three overpayments more than a year late.

We considered these reporting errors to be inadvertent and infrequent. As a result, we are not making any recommendations.



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



DATE: September 27, 2017

AUDIT
NUMBER: 50024-0012-11

TO: Lynn Moaney
Acting Deputy Chief Financial Officer
Office of the Chief Financial Officer
ATTN: Annie Walker

Steve Peterson
Acting Administrator
Farm Service Agency
ATTN: Perry Thompson

Roger Glendenning
Chief Financial Officer
Rural Development
ATTN: John Dunsmuir

Brandon Lipps
Administrator
Food and Nutrition Service
ATTN: Mark Porter

Tony Tooke
Chief
Forest Service
ATTN: Antoine Dixon

Heather Manzano
Acting Administrator
Risk Management Agency
ATTN: Nicole Smith-Lees

Leonard Jordan
Acting Chief
Natural Resources Conservation Service
ATTN: Leon Brooks

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Fiscal Year 2016 Executive Order 13520, Reducing Improper Payments,
High-Dollar Overpayments Reports Review

This report presents the results of the subject audit and does not contain recommendations.

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

Table of Contents

Background and Objectives	1
Section 1: Compliance with High-Dollar Overpayments Reporting Requirements	3
Scope and Methodology	6
Abbreviations	7
Exhibit A: USDA’s 18 High-Risk Programs Subject to the Executive Order’s High-Dollar Overpayments Reporting Requirements	8
Exhibit B: Summary of USDA’s High-Dollar Overpayments Reported for Fiscal Years 2015 and 2016.....	10
Exhibit C: Sampling Methodology for Executive Order 13520, Reducing Improper Payments, Fiscal Year 2016 High-Dollar Overpayments Reports Review.....	11

Background and Objectives

Background

Executive Order 13520, “Reducing Improper Payments” (Executive Order), signed on November 20, 2009, assists Federal agencies in reducing and preventing improper payments through increased transparency and improved agency accountability.¹ The Executive Order mandates that Federal agencies submit quarterly reports on any high-dollar improper overpayments identified in high-risk programs to their respective Offices of Inspector General (OIG) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and make this information available to the public.² After reviewing each report, OIG shall assess the level of risk associated with the applicable program, determine the extent of oversight warranted, and provide the agency head with recommendations, if any, for modifying the agency’s plans.

The Office of Management and Budget’s (OMB) implementing guidance for the Executive Order defines a reportable high-dollar overpayment as any overpayment in excess of 50 percent of the correct amount of the intended payment:

- where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or
- where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.³

For fiscal year 2016, the Department of Agriculture (USDA) identified 18 high-risk programs subject to the Executive Order’s high-dollar overpayments reporting requirements. As listed in Exhibit A, these 18 programs are administered by 7 component agencies: the Farm Service Agency (FSA), Commodity Credit Corporation (CCC), Food and Nutrition Service (FNS), Forest Service (FS), Natural Resources Conservation Service (NRCS), Risk Management Agency (RMA), and Rural Development.⁴ USDA reported 56 high-dollar overpayments totaling

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

² A high-risk program is any program susceptible to significant improper payments based on the criteria outlined in Office of Management and Budget (OMB) Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014) (OMB Memorandum M-15-02).

³ After fiscal year 2014 ended, OMB issued Memorandum M-15-02 on Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014). This guidance modified OMB Circular A-123, Appendix C, Parts I and II (which were issued in April 2011, as OMB Memorandum M-11-16) and Part III (which was issued in March 2010, as OMB Memorandum M-10-13) and increased the reporting thresholds from \$5,000 to \$25,000 for individuals and from \$25,000 to \$100,000 for entities.

⁴ CCC has no actual employees; it carries out its programs through the personnel and facilities of FSA and several other agencies. FSA implements CCC-funded programs for income support, disaster assistance, conservation, and international food procurement. Therefore, only one high-dollar overpayments report was submitted each quarter for FSA/CCC combined. However, we are recognizing and counting FSA and CCC as two of the seven component agencies throughout the report.

over \$11.9 million for fiscal year 2016. This count represents a decrease from the 99 overpayments reported for fiscal year 2015. Exhibit B lists the number and sum of high-dollar overpayments reported for fiscal years 2015 and 2016 by component agency and high-risk program.

The Secretary of Agriculture has delegated responsibility for coordinating and submitting USDA's high-dollar overpayments reports to the Office of the Chief Financial Officer (OCFO). To assist OCFO in meeting reporting requirements, the seven component agencies administering USDA's high-risk programs must submit high-dollar overpayments data, in accordance with OMB guidance, for inclusion in the Department-level quarterly reports. Additionally, the Department publishes its quarterly high-dollar reports on OCFO's website, which is available to the public at http://www.ocfo.usda.gov/qhd_reporting.html.

OMB's updated draft guidance⁵ issued in fiscal year 2017 no longer requires the reporting of high-dollar overpayments and the associated OIG review; therefore, we anticipate that this will be the last year this report is issued for USDA.

Objectives

The Executive Order requires OIG to review the agency's quarterly high-dollar overpayments reports. The objectives of our audit were to assess the level of risk associated with the applicable programs; determine the extent of oversight warranted; and provide the Secretary of Agriculture with recommendations, if any, for modifying USDA's recovery and corrective action plans.

⁵ Draft OMB Memorandum M-17-xx, Appendix C, *Requirements for Payment Integrity Reporting and Improvement*, to OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (draft May 2017).

Section 1: Compliance with High-Dollar Overpayments Reporting Requirements

Finding 1: USDA Maintained the Overall Quality of Its High-Dollar Overpayments Reports

In this seventh year of reporting, USDA maintained the quality of its high-dollar overpayments reports. Specifically, we noted no overall declines in the accuracy, completeness, and timeliness of the Department's reporting. Additionally, the number of component agencies with reporting errors decreased from four last year to two this year.⁶ Furthermore, the Department improved the timeliness of its reporting to OIG; only one quarterly report of four was delayed compared to three the prior year.

However, in the sample selections for FSA, CCC, and RMA, we identified instances of duplicate, incorrect, and untimely reporting. Although USDA maintained its overall reporting quality, we stress continued vigilance to prevent and eliminate errors.

OMB guidance for implementing the Executive Order requires that quarterly high-dollar overpayments reports:

- describe the high-dollar overpayments made by the agency,
- describe overall agency actions and strategies to recover and prevent overpayments,⁷ and
- be submitted to OIG within 30 days after the end of each fiscal quarter.⁸

In addition, OCFO internal guidance to further assist USDA component agencies with implementing OMB guidance requires a certification from each component agency's chief financial officer as to the accuracy of the reports.⁹

Errors and Untimeliness Found in the Sample Selections for FSA/CCC and RMA

Out of the seven component agencies with high-risk programs, we reviewed reported high-dollar overpayments for five. Our review included the one high-dollar overpayment reported for Rural Development and random samples of overpayments for the other

⁶ FSA, CCC, NRCS, and RMA had reporting errors for fiscal year 2015 and just FSA and CCC had errors for fiscal year 2016.

⁷ OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (October 20, 2014).

⁸ CIGIE Activities Related to Executive Order 13520 on Reducing Improper Payments (June 17, 2010). This memorandum provided summaries of communications of interest to the Inspector General community with regard to the Council's work with OMB on the implementation of the Executive Order.

⁹ OCFO *Quarterly High-Dollar Overpayments Report Guidance* Version 3.0 (November 2014) and Version 4.0 (January 2016).

four component agencies: FSA, CCC, NRCS, and RMA. The remaining two agencies—FNS and FS—did not report any high-dollar overpayments for fiscal year 2016.

We identified instances of reporting errors in the sample selections for FSA/CCC and instances of untimely reporting in the selections for RMA. Of the five sampled overpayments made by FSA/CCC, we found an instance where FSA/CCC reported an overpayment of \$151,896 three times—twice for fiscal year 2016 and once for fiscal year 2014—when it needed reporting only in 2014, when the overpayment was first identified.¹⁰

In this case, the overpayment debt was moved from a receivable system in 2014 to a promissory note system when FSA realized the debtor could not pay the debt.¹¹ Subsequently, the debtor defaulted on the promissory note and the debt was moved back to the receivable system in 2016. The duplication was not detected by FSA because the system assigned the 2016 debt a new identification number, which differed from the original identification number assigned when the debt was first entered in the receivables system. Also, in 2016, an inexperienced staff member made an error that doubled the amount reported, which caused the amount (\$151,896) to be included a second time in the fiscal year 2016 high-dollar report.

In another instance, FSA/CCC reported incorrect information about an action to recover a sampled overpayment from a farmer. OMB requires that reports on high-dollar overpayments include a description of any actions the agency has taken or plans to take to recover the overpayments. However, FSA did not act to recover the money. Thus, “demand letters sent”¹² to the overpaid farmer as reported did not actually occur. FSA officials indicated this instance was a reporting error and explained that FSA did not send any letters due to the farmer’s bankruptcy. FSA officials attributed this reporting error to data entry error by a county office employee and communicated as corrective action that county office employees will conduct second party reviews to ensure data accuracy and validity prior to reporting.

Furthermore, RMA untimely reported in three instances. Of the eight RMA sampled overpayments, we found instances where RMA reported overpayment dollar amounts of \$240,014, \$299,810, and \$1,850,018 more than a year after identified by RMA. Guidance from OCFO states that agencies must report high-dollar overpayments identified during the fiscal quarter, and the date identified determines the quarterly report in which the overpayment should be included.¹³

In the case of RMA’s three untimely reports, identification of the three overpayments for reporting occurred in the third quarter of 2015, but the overpayments were not reported

¹⁰ According to OCFO’s *Quarterly High-Dollar Overpayments Report Guidance*, Version 2.1 (June 2013), “the date the overpayment was identified as improper will determine what fiscal quarter the overpayment should be included in the report;” therefore, this debt should have only been reported in 2014.

¹¹ A receivable is an amount owed by a debtor. A promissory note includes the debtor’s promise to pay a total amount; an interest rate; and the frequency, due date, and amount of each partial payment.

¹² A letter sent to a debtor requesting payment.

¹³ USDA OCFO, *Quarterly High-Dollar Overpayments Report Guidance*, Version 3.0 (November 2014).

until the fourth quarter of 2016. RMA officials explained that the person responsible for entering the information fell behind due to efforts to reduce a backlog. As corrective action, RMA officials communicated that they plan to resolve this staffing issue by having two separate groups involved. They believe this should provide the checks and balances to make sure information is recorded timely.

We considered these reporting errors to be inadvertent and overall infrequent. Therefore, we are not making any recommendations. However, we stress continued vigilance for accurate, complete, and timely reporting. This ensures the Department and OMB will continuously have the information necessary to appropriately measure the effectiveness of USDA component agencies' actions or strategies to reduce or eliminate the errors causing high-dollar overpayments.

Scope and Methodology

Our review was for the limited purpose described in the objectives and would not necessarily identify all deficiencies in internal controls for determining high-dollar overpayments. We performed fieldwork for this review between February 2017 and July 2017. To accomplish our objective, we performed the following procedures:

- reviewed USDA’s fiscal year 2016 quarterly reports on high-dollar overpayments;
- conducted meetings with and gathered information from OCFO officials at Headquarters in Washington, D.C.;
- interviewed and held meetings with officials from the component agencies that were responsible for administering and reporting the high-dollar overpayments in the 18 high-risk programs;
- out of the seven component agencies with high-risk programs subject to the Executive Order’s reporting requirements, we selected the one reported high-dollar overpayment for Rural Development. We also selected random samples of high-dollar overpayments for four component agencies: FSA, CCC, NRCS, and RMA;^{14, 15} and
- evaluated the supporting documentation provided by the component agencies for the overpayments selected.

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 objective.

¹⁴ FNS and FS, the sixth and seventh agencies, did not report any high-dollar overpayments for fiscal year 2016, and for each fiscal quarter submitted statements certifying that they did not identify any high-dollar overpayments meeting the criteria outlined in OCFO’s Quarterly High-Dollar Overpayments Report Guidance; therefore, they were providing negative reports.

¹⁵ Exhibit C describes the sampling methodology designed to support our audit objective to review information from USDA’s fiscal year 2016 quarterly reports on high-dollar overpayments made by high-risk programs susceptible to significant improper payments.

Abbreviations

CCC.....	Commodity Credit Corporation
CIGIE.....	Council of the Inspectors General on Integrity and Efficiency
Executive Order	Executive Order 13520 of November 20, 2009, Reducing Improper Payments
FSA	Farm Service Agency
FNS	Food and Nutrition Service
FS	Forest Service
NRCS	Natural Resources Conservation Service
OCFO.....	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMA	Risk Management Agency
USDA.....	U.S. Department of Agriculture

Exhibit A: USDA’s 18 High-Risk Programs Subject to the Executive Order’s High-Dollar Overpayments Reporting Requirements

Exhibit A provides a list of USDA’s 18 current high-risk programs or program categories.

High-Risk Program	USDA Component Agency
1. Supplemental Nutrition Assistance Program (SNAP) SNAP provides low-income households benefits to purchase food from authorized retailers.	Food and Nutrition Service
2. National School Lunch Program (NSLP) NSLP assists States, through cash grants and food donations, in providing a nutritious nonprofit lunch service for school children.	
3. School Breakfast Program (SBP) SBP assists States in providing a nutritious nonprofit breakfast service for school children through cash grants and food donations.	
4. Child and Adult Care Food Program (CACFP) CACFP, through grants-in-aid and other means, assists States with maintaining nonprofit food service programs for children and elderly or impaired adults in day care facilities, and for children in afterschool care programs in low-income areas and emergency shelters.	
5. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) WIC provides supplemental nutritious foods and other health services to low-income eligible participating women and children up to the age of 5 years.	
6. Federal Crop Insurance Corporation Program Fund (FCIC) FCIC provides insurance and risk management tools to agricultural producers and rural communities.	Risk Management Agency
7. Loan Deficiency Payments (LDP) LDP’s objective is to improve and stabilize farm income, assist in bringing better balance between supply and demand of commodities and assist farmers in the orderly marketing of their crops.	Farm Service Agency and Commodity Credit Corporation
8. Livestock Forage Disaster Program (LFP) LFP provides compensation to eligible livestock producers who have suffered grazing losses.	
9. Livestock Indemnity Program (LIP) LIP provides benefits to eligible livestock owners or livestock contract growers for livestock deaths in excess of normal mortality caused by weather or certain animals.	
10. Supplemental Revenue Assistance Payments Program (SURE) The objective of the SURE program is to provide financial assistance for farm revenue losses due to natural disaster.	
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.	
12. Hurricane Sandy–Emergency Conservation Program (ECP) 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.	
13. Hurricane Sandy–Emergency Forest Restoration Program (EFRP) 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.	
14. Rental Assistance Program (RAP) RAP provides an additional source of support for households with incomes too low to pay the basic rent from their own resources.	Rural Development
15. Farm Security and Rural Investment Act Programs (FSRIP) FSRIP provides 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 nonindustrial private forest land.	Natural Resources Conservation Service
16. Hurricane Sandy–Emergency Watershed Protection Program (EWPP) 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.	

Exhibit A: USDA’s 18 High-Risk Programs Subject to the Executive Order’s High-Dollar Overpayments Reporting Requirements

High-Risk Program	USDA Component Agency
17. Hurricane Sandy–Emergency Forest Restoration Program (EFRP) 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.	Forest Service
18. Hurricane Sandy–Capital Improvement and Maintenance (CMDI) CMDI funds provide construction and maintenance funding to address emergency infrastructure needs to restore roads, trails, and facilities damaged by natural disaster.	

Exhibit B: Summary of USDA's High-Dollar Overpayments Reported for Fiscal Years 2015 and 2016

Exhibit B lists the number and sum of high-dollar overpayments reported for fiscal years 2015 and 2016, by component agency and high-risk program.

USDA Agency	High-Risk Program	Number Reported FY 2015	Sum Reported FY 2015	Number Reported FY 2016	Sum Reported FY 2016
FSA/CCC	Direct and Counter-Cyclical Payments Program	20	\$1,190,391	0	\$0
	Noninsured Assistance Program	11	\$712,516	6	\$549,748
	Miscellaneous Disaster Programs, including:				
	Miscellaneous Disaster Program	11	\$512,827	0	\$0
	Livestock Forage Disaster Program	15	\$1,727,558	2	\$367,680
	Livestock Indemnity Program	0	\$0	1	\$115,875
	Supplemental Revenue Assistance Payments Program	6	\$299,109	5	\$413,554
NRCS	Farm Security and Rural Investment Act Programs	5	\$255,910	0	\$0
	Agricultural Water Enhancement Program	1	\$42,153	0	\$0
	Conservation Stewardship Program	5	\$310,435	7	\$271,483
	Environmental Quality Incentives Program	8	\$1,069,988	4	\$225,718
	Farm and Ranch Lands Protection Program	1	\$422,500	1	\$1,500,000
	Farm Bill Financial Assistance	6	\$536,741	0	\$0
	Watershed Rehabilitation Program	3	\$30,592,307	0	\$0
	Conservation Security Program	0	\$0	1	\$34,719
	Wetland Reserve Program	0	\$0	2	\$905,608
Wildlife Habitat Incentive Program	0	\$0	2	\$95,626	
RMA	Federal Crop Insurance Corporation Program Fund	6	\$4,359,800	24	\$7,255,525
Rural Development	Rental Assistance Program	1	\$55,212	1	\$209,863
		99	\$42,087,447	56	\$11,945,399

Note: FNS and FS did not report any high-dollar overpayments for fiscal year 2016 and for each fiscal quarter submitted statements certifying that they did not identify any high-dollar overpayments meeting the criteria outlined in the OCFO Quarterly High-Dollar Overpayments Report Guidance and were therefore providing negative reports.

Exhibit C: Sampling Methodology for Executive Order 13520, Reducing Improper Payments, Fiscal Year 2016 High-Dollar Overpayments Reports Review

Objective

This sampling methodology was designed to support our audit objective to review information from the USDA's fiscal year 2016 quarterly reports on high-dollar overpayments made by high-risk programs susceptible to significant improper payments. OMB's implementing guidance for Executive Order 13520 defines a reportable high-dollar overpayment as any overpayment that is in excess of 50 percent of the correct amount of the intended payment:

- where the total payment to an individual exceeds \$25,000 as a single payment or in cumulative payments for the quarter; or
- where the total payment to an entity exceeds \$100,000 as a single payment or in cumulative payments for the quarter.

We randomly selected reported overpayments for four agencies and selected the one overpayment for one agency for review, to verify the information for the selected overpayments was accurately and properly reported on the quarterly reports. Our selections covered overpayments reported by five agencies: FSA, CCC, NRCS, RMA, and Rural Development.¹⁶

Audit Universe and Sample Design

We obtained our sampling universe from the OCFO website for Quarterly High-Dollar Reporting, which consisted of 56 overpayments totaling \$11.9 million. From this universe, we selected 20 overpayments totaling \$7.3 million for review. We grouped overpayments into sampling universes by agency by quarter. We then selected random samples of overpayments by grouping for FSA/CCC, NRCS, RMA, and the one overpayment for Rural Development for review.¹⁷ Next, we selected a random sub-sample from one of RMA's overpayments because it was comprised of multiple, cumulative overpayments, affording us audit efficiencies. We did not plan to make statistical projections from our samples. Therefore, the sample sizes were based on our judgment regarding evidence to support our objective, not on statistical calculations. We randomly selected overpayments within each grouping for FSA/CCC, NRCS, and RMA to ensure our review was fair and objective.

¹⁶ FNS and FS did not report any high-dollar overpayments for fiscal year 2016 and for each fiscal quarter submitted statements certifying that they did not identify any high-dollar overpayments meeting the criteria outlined in the OCFO Quarterly High-Dollar Overpayments Report Guidance and were therefore providing negative reports.

¹⁷ Monetary Unit Sampling (MUS) was the method used in making the non-statistical random sample selections. MUS is a specific type of Probability-Proportional-to-Size sampling; each monetary unit (dollar/penny) is a sampling unit. Each sampling unit has an equal chance of selection. Higher-dollar overpayments are more likely to be selected for the sample, because they include larger numbers of sampling units (dollars/pennies) than lower-dollar overpayments.

Exhibit C: Sampling Methodology for Executive Order 13520, Reducing Improper Payments, Fiscal Year 2016 High-Dollar Overpayments Reports Review

The following table lists universe counts and sample sizes in total and by agency.

USDA Agency	First Stage Universe		First Stage Samples	
	Number of Reported High-Dollar Overpayments	Sum of Reported High-Dollar Overpayments	Number of Sampled Overpayments	Sum of Sampled Overpayments
FSA/CCC	14	\$1,446,857	5	\$638,825
FNS	0	\$0	0	\$0
FS	0	\$0	0	\$0
NRCS	17	\$3,033,154	6	\$2,144,866
RMA	24	\$7,255,525	8	\$4,379,659
Rural Development	1	\$209,863	1	\$209,863
TOTAL	56	\$11,945,399	20	\$7,373,213

Results

To support the audit objectives, we reviewed the quarterly reports and the supporting documentation provided for the samples selected. We noted no exceptions for the NRCS and Rural Development samples. Within the five samples selected for FSA/CCC, we noted an exception for the accuracy of an overpayment amount reported and another for the accuracy of a recovery action reported. Within the eight overpayments for RMA, we noted three exceptions in the timeliness of reporting. We discussed these exceptions under the finding section of this report.

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