



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Cooperative State Research, Education, and Extension Service Compliance with the Improper Payments Information Act of 2002

Report No. 13601-0002-At
January 2005



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



DATE: January 7, 2005

REPLY TO
ATTN OF: 13601-0002-At

SUBJECT: Cooperative State Research, Education, and Extension Service Compliance
With the Improper Payments Information Act of 2002

TO: Colien Hefferan
Administrator
Cooperative State Research, Education and Extension Service

ATTN: Louise Ebaugh
Deputy Administrator
Office of Extramural Programs

This report presents the results of our audit of the Cooperative State Research, Education, and Extension Service's (CSREES) compliance with the Improper Payments Information Act (IPIA) of 2002,¹ and the requirements and implementing guidance issued by the Office of Management and Budget (OMB) and the Office of the Chief Financial Officer (OCFO). The audit was conducted as part of a Department-wide audit of USDA's implementation of the IPIA. We found that CSREES had not performed individual risk assessments for programs with outlays in excess of \$10 million and thus was not in compliance with the provisions set forth by OMB and OCFO.

BACKGROUND

The IPIA requires the head of each agency to annually review all programs and activities the agency administers to identify those that may be susceptible to significant improper payments. OMB issued guidance for implementing the IPIA on May 21, 2003. This guidance required each agency to report the results of its estimates for improper payments and corrective actions in the Management Discussion and Analysis (MD&A) section of USDA's Performance and Accountability Report for fiscal years ending on or after September 30, 2004. OMB also defined significant improper payments² and specified that if programs or activities exceeded this threshold, agencies must develop a statistically valid estimate to report to Congress. Finally, OMB required agencies to submit their implementation plans by November 30, 2003.

¹ Public Law (P.L.) 107-300, November 26, 2002.

² OMB defined significant improper payments as annual erroneous payments exceeding both 2.5 percent of program payments and \$10 million. See OMB Memorandum M-03-13, dated May 21, 2003.

The OCFO, designated as the lead agency for coordinating and reporting the Department's efforts to implement the IPIA, provided instructions to agencies in August and October 2003. The August memorandum transmitted Departmental policy and instructions for implementing program reviews to identify erroneous payments. The instructions included the detailed guidance from OMB regarding implementation and requirements for the IPIA.³ The guidance from OMB provided that agencies examine the risk of erroneous payments in all programs and activities they administer. In a memorandum dated October 9, 2003, OCFO provided additional guidance to CSREES on implementing the requirements of the IPIA and requested that all agencies provide an IPIA implementation status report.⁴ The memorandum required that all programs with outlays of \$10 million or more annually must undergo a risk assessment to determine if there is significant risk of erroneous payments. The memorandum also requested: (1) A chart detailing dates for risk assessments that have been completed; (2) planned dates for completion of remediation plans for programs with significant erroneous payments; and (3) planned dates when the agency will have determined its baseline plus improvement targets for the next 3 fiscal years (FY).

CSREES reported 15 programs with outlays of \$841 million that met OCFO's threshold for performing risk assessments. These included the Smith-Lever and Hatch Formula Grants, Natural Research Initiative Competitive Grants, and Research and Education Activities at Land Grant Universities.

OBJECTIVE

The objective of the audit was to evaluate the actions taken by CSREES to assess the susceptibility of its programs to improper payments in accordance with the IPIA and the implementing guidance issued by OMB and OCFO.

SCOPE AND METHODOLOGY

We performed our audit at CSREES' Headquarters in Washington, D.C. We conducted our audit from May through September 2004.

To complete our audit objective, we:

- Reviewed OMB's and OCFO's requirements and guidance for reporting and estimating improper payments;
- Interviewed CSREES' officials and program managers and examined documentation to determine what they had done to implement the IPIA;

³ OCFO Guidance, Requirements for Implementing IPIA, August 11, 2003.

⁴ OCFO Guidance, Update on Requirements for Implementing the IPIA, Public Law 107-300, dated October 9, 2003.

- Reviewed the U.S. Government Accountability Office (GAO); OMB Circular A-133 (hereafter referred to as A-133); and Office of Inspector General (OIG) audit reports of CSREES' programs and operations (three reports issued between 1998 and 2002); and
- Reviewed CSREES' FMFIA reports for 2002-2003.

The audit was performed in accordance with Government Auditing Standards.

FINDING AND RECOMMENDATION

CSREES Was Not in Compliance With the Improper Payments Information Act

CSREES identified 15 programs in which outlays exceeded the OCFO \$10 million threshold for which it should have performed individual risk assessments. CSREES did not perform the necessary risks assessments, however, in accordance with the implementing guidance issued to them by OCFO. CSREES' process was limited to a mathematical calculation; specifically, program outlays were multiplied by 2.5 percent, and if less than \$10 million, CSREES' officials concluded that the individual risk assessments were not required and thus they did not have to determine if controls were in place to mitigate the risk that improper payments occurred. The 2.5 percent criterion represented, however, the "floor" of the tolerable error rate established by OMB. The individual agencies were required to estimate its potential error rate through the risk assessment process, and then fulfill the remaining requirements, if applicable.

For example, the largest CSREES' program was reported to be the Smith-Lever "3 b and c" Extension Activity (with \$272 million in annual outlays). However, if for example, CSREES' risk assessment disclosed a potential error of even 5 percent, improper payments would have been \$13.6 million. In this example, provided for illustration purposes only, since both the quantitative level of improper payments and the error rate exceeded the OMB criteria, CSREES would be required next to statistically estimate the improper payment amount and develop corrective action plans, et al. A potential error rate below 10 percent would require similar actions for at least three additional programs. Nonetheless, CSREES was required to establish the error rate of each of the 15 programs and then compute the potential improper payment account for each.

The extent of CSREES' assessment was limited to a review of prior GAO, OIG, and A-133 audit reports, an internal review of South Carolina State University, and their working knowledge of the programs. The insights garnered from reviews of these types may lend assurance regarding the functionality of selected controls at varying points in time and locations but should not be relied on in lieu of a risk assessment process geared towards evaluation of the overall internal control structure. Regardless, CSREES reported to OCFO on November 20, 2003, that an assessment had been done on the 15 programs but that none were susceptible to significant improper payments.

In conclusion, CSREES had not employed the proper process to assess programs individually to identify where risk of improper payments might occur, determined if controls were in place to mitigate these risks, rated the extent of the risks, and documented the rationale for its conclusion as to the susceptibility to improper payments, as applicable. Because of the manner in which programs were assessed, there is no assurance that improper payments were identified and the requirements of the IPIA met.

At the exit conference, CSREES officials informed us that they take the improper payment initiative very seriously but had misinterpreted the guidance regarding what they needed to do. As a result of our evaluation of the implementation of the OCFO guidance by CSREES and the other agencies included within our overall scope, we concluded that the requirements and instructions issued by the Department need to be made more prescriptive, detailed, and clarified. We have made a recommendation to that effect to OCFO in our rollup report to the Department.

RECOMMENDATION

Perform individual risk assessments for all programs and activities with outlays of \$10 million or more. Determine the specific error rate in each program and perform subsequent improper payment analyses accordingly. Establish controls to ensure the timely and accurate completion of the assessments.

AGENCY POSITION

CSREES is participating, along with other USDA agencies, in the IPIA Work Group organized by OCFO. In addition, CSREES stated the completion date for meeting the FY 2005 IPIA requirements would be November 15, 2005 (see Exhibit A).

OIG POSITION

Based on the information contained in the response, dated December 14, 2004, we cannot accept management decision. CSREES' proposed implementation date of November 15, 2005, far exceeds the completion date of April 30, 2005, when completed risk assessments are required to be submitted to the OCFO. Further, CSREES did not formally agree to implement the recommendation but only alluded to the IPIA Work Group. In order to reach management decision, therefore, we need to know the specific actions to be taken in response to the recommendation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation. Please note that the regulation requires management decision to be reached on the finding and recommendation within a maximum of 6 months from report issuance, and final action be taken within 1 year of management decision.

We appreciate the courtesies and cooperation extended to our staff during this review.

/S/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Attachment

EXHIBIT A- AGENCY RESPONSE



United States
Department of
Agriculture



Cooperative State
Research, Education,
and Extension Service

Washington, DC
20250

DEC 14 2004

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: Louise Ebaugh *Louise Ebaugh*
Deputy Administrator
Office of Extramural Programs

SUBJECT: Official Draft Audit Report No. 13601-2-At - Cooperative State Research,
Education, and Extension Service (CSREES) Compliance with the Improper
Payments Act of 2002 (IPIA)

This is in response to your November 8, 2004, memorandum requesting our written response to the official draft of the subject audit, specifying corrective action(s) taken or planned on the audit recommendation and proposed completion date(s) for implementing such actions. Your office found that the Cooperative State Research, Education, and Extension Service (CSREES) had not performed individual risk assessments for programs with outlays in excess of \$10 million in accordance with the guidance provided by the U. S. Office of Management and Budget (OMB) and the Department's Office of the Chief Financial Officer (OCFO). Consequently, CSREES was not in compliance with the Improper Payments Information Act (IPIA) for fiscal year (FY) 2004. Our response to the audit recommendation is below.

Recommendation No. 1

Perform individual risk assessments for all programs and activities with outlays of \$10 million or more. Determine the specific error rate in each program and perform subsequent improper payment analyses accordingly. Establish controls to ensure the timely and accurate completion of the assessments.

Using the guidance provided by OMB and OCFO, CSREES performed a review of all Agency programs to determine the risk of erroneous payments. According to CSREES' interpretation of the guidelines, the Agency reported that none were susceptible to significant improper payments. As a result of the subject audit, the OIG concluded that the requirements and instructions issued by the Department need to be more prescriptive, detailed, and clarified and has made this recommendation to the OCFO. To help rectify this situation in future reports, CSREES is participating in the IPIA Work Group led by the OCFO to successfully comply with IPIA for FY 2005.

CSREES is meeting with other USDA agencies once a month from September 2004 to August 31, 2005 (See Attachment 1). The IPIA Work Group members are responsible for fully implementing the IPIA. OCFO is leading the effort by 1) developing and reporting departmental plans; 2) establishing and communicating timelines and key milestones; 3) developing templates and training agency staff on the requirements; and 4) informing senior USDA management if milestones and goals are not being met and working with management in implementing corrective action. The work group is charged with 1) identifying specific risk factors of each individual program; 2) establishing internal controls that mitigate identified risks; 3) developing and communicating proposals for additional resources and the removal of implementation barriers; 4) procuring statistical and/or auditing services, as necessary; and 5) developing plans/reports and reporting progress to OCFO while adhering to OCFO and OMB guidance/requirements.

See Attachment 2 for the inventory of the FY 2005 CSREES Programs, and the supporting documentation that CSREES is complying with the IPIA requirements for FY 2005 (attachment 3). The proposed completion date for meeting the FY 2005 IPIA requirements is November 15, 2005.

If you have any questions, please contact Ellen Danus at (202) 401-4325 or Jon Kavalasuskas at (202) 401-4313.

Attachments