
APPENDIX B—ERRONEOUS PAYMENTS AND RECOVERY AUDITING DETAILS

Since 2000, agencies have reported efforts to reduce erroneous payments through the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission and Execution of the Budget." This document provides guidance on preparing the FY 2006 budget submission, including instructions on budget execution. Section 57 of A-11 lists approximately 40 Government programs on which agencies were required to report (e.g., the Food Stamp Program, the National School Lunch Program, Medicaid, Medicare).

Under the Improper Payments Information Act (IPIA), executive agencies must identify any of its programs that may be susceptible to significant improper payments. IPIA also calls for agencies to estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act of 2002 requires recovery auditing. In this process, agencies that enter into contracts worth more than \$500 million in a fiscal year must execute a cost-effective program for identifying errors made in paying contractors and recovering amounts erroneously paid to the contractors. FY 2004 marked the first full year of implementation for both IPIA and recovery auditing.

USDA is taking steps to implement IPIA. The Department worked to ensure that all programs were identified and risk assessments completed to identify those considered high-risk. However, risk assessments of the Farm Service Agency programs were not fully completed in FY 2004. Developing a good risk-assessment process in the first year also will assist in meeting the annual requirement. USDA is working with OMB to determine how best to complete statistical samples of the programs identified as high risk. Due to budget and program constraints, this can be a complicated and expensive process. For the programs that cannot become fully compliant with IPIA in FY 2005, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages. The Department plans to have all high-risk programs either fully compliant or interim methods for FY 2005 reporting. These methodologies include aging analysis of available data to determine erroneous payment trends, and performing component studies. The specific sampling methodologies used for the high-risk programs and plans to become fully compliant are discussed fully in sections III-V below.

Additionally, USDA is taking steps to implement recovery auditing. Most USDA agencies implemented in-house auditing of a limited number of contracts. Two agencies, Forest Service and Departmental Administration, agreed to use a recovery auditing contractor as a USDA pilot. Most audits will be completed during the first half of FY 2005. Then USDA will determine the best methodology to be used for a cost-effective recovery auditing program. As this is the first year of recovery auditing, it is expected that future administrative costs of the program will be lower as USDA gains proficiency.

USDA completed the following OMB-provided template for IPIA reporting:

I. Describe your agency’s risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory. List the risk-susceptible programs identified through your risk assessments. Include the programs previously identified in the former Section 57 of OMB Circular A-11.

USDA agencies evaluated all program activities using the OMB guidance definition for high-risk (>2.5 percent and \$10 million). The information used to assess risk included:

- Management information, such as program-evaluation reviews, surveys and studies of specific programs, and administrative data collected through routine reporting;
- Office of Inspector General (OIG) & Government Accountability Office reports, including audits, inspections, reviews and investigations;
- Internal reviews of the existing processes and controls; and
- Management knowledge of daily program and financial operations.

After risk assessments were completed, OIG audited a sample of them to determine if improvements could be implemented.

Selection Methodology	Agency	Program
Section 57 of OMB Circular A-11	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program
	Food Nutrition Service (FNS)	Food Stamp Program
		School Programs
		Special Supplemental Nutrition Program for Woman, Infants and Children
USDA Identified as Risk-Susceptible	Food Nutrition Service (FNS)	Child and Adult Care Food Program
	Forest Service (FS)	Wildland Fire Suppression Management
	Rural Development (RD)	Rental Assistance Program
	Risk Management Agency (RMA)	Federal Crop Insurance Corporation Program Fund
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Programs

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Agency	Program	Sampling Process
FSA/CCC	Marketing Assistance Loan Program (MAL)	FSA hired a contractor to develop an approach for completing the statistical-sampling process. The contractor is collecting data from the field offices where it originates to improve the quality of the sampling and review process, and obtain MAL application information unavailable in the Kansas City or the Washington offices. The sampling process begins with data provided by the producer and ends with disbursement. The sampling work and related analysis are projected for completion by December 2004.
FNS	Food Stamp Program (FSP)	The FSP payment-error rate is developed from a long-standing program integrity process called Quality Control (QC). The QC system reviews and measures the accuracy of household certifications using a statistical-sampling process initially established in 1970. The system is mandated by the Food Stamp Act and further defined in program regulations and agency guidance. Specific procedures are established in three handbooks: <i>Sampling Methodology</i> , <i>State Review Procedures</i> and <i>Federal Validation Reviews</i> . This well-designed and controlled process yields quality data with a confidence level for accuracy that complies with IPIA.

Agency	Program	Sampling Process
FNS	FSP (cont'd)	<p>During the process:</p> <ul style="list-style-type: none"> ■ States select a statistical sample from all participating households. This occurs after the monthly issuance amount for households has been determined. It follows the Federally pre-approved sampling plan devised for that fiscal year; ■ State personnel conduct QC reviews on the cases selected; ■ States report the findings of all QC reviews to FNS; ■ FNS conducts validation reviews of a statistical sample of the completed State reviews; ■ The results of the Federal validation and State findings are used to calculate a final error rate for each State agency. These individual rates have been used previously to assess penalties against States with high rates and award incentives to those with low rates; and ■ Official State error rates are weighted annually to determine a national average error rate for the Food Stamp Program.
FNS	School Programs	<p>"School Programs" includes three components: National School Lunch Program (NSLP), School Breakfast Program (SBP) and Special Milk Program. School Programs were unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FNS	Woman, Infants and Children (WIC)	<p>WIC was unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FNS	Child and Adult Care Food Program (CACFP)	<p>CACFP was unable to estimate an improper payment rate for FY 2004. Section IV discusses the difficulties in estimating a rate and includes detailed plans to calculate the rate in the future.</p>
FS	Wildland Fire Suppression Management	<p>FS entered into a contract with a recovery audit contractor. This will result in fulfilling the requirements of both IPIA and the recovery audit initiative. The risk for erroneous payments in the Wildland Fire Suppression Management program is through the procurement contracts. The recovery auditors also will have access to disbursement data in FS to find possible disbursing errors in addition to the procurement contracts. The number of erroneous payments detected through the recovery audit work will determine the erroneous-payment rate for this program. The FS will work with OMB and OCFO to ensure that the program is tested fully and meets the goals of IPIA.</p>
RD	Rental Assistance Program	<p>The statistical sample for this review was based on the universe of multifamily properties in the Rural Housing Service multifamily portfolio that receive rental assistance. From the universe of properties that receive rental assistance (13,186), a statistically valid sample of 2 percent of the properties was selected to achieve a 95-percent confidence level. RD conducted the audit program in July and collected and analyzed data from the field in August and September.</p>
RMA	Federal Crop Insurance Corporation Program Fund	<p>Under the terms of the Standard Reinsurance Agreement, the companies are provided a random sample of indemnity payments to review at the completion of each crop year. RMA selects the policies from the entire population of indemnities paid. The companies then are required to complete a full review of the payments, correct errors according to procedure and report the results to RMA. For the current cycle, the companies reviewed 1,575 policies with \$44,346,567 in indemnities. RMA will use this interim process for the 2003 and 2004 reinsurance year. Starting with the 2005 reinsurance year, RMA will begin using random policy selections from company operations reviews to develop a rolling Program Error Rate. RMA will complete a review of all participating companies once every three years. Accordingly, the first full review cycle will be complete by the end of 2007.</p>
NRCS	Farm Security and Rural Investment Programs	<p>NRCS is developing plans to perform the first statistical sample in FY 2005. The sample may be performed in house or by a contractor. Potential areas of risk for erroneous payments include ineligible participants receiving benefits, a participant exceeding program limits for total assistance and errors in cost-sharing calculations. In coordination with OCFO and OMB, NRCS will develop an action plan to achieve IPIA compliance by November 30, 2004. The plan will include a timeline and be structured to meet the goals of the new President's Management Agenda criteria.</p>

III. Explain the corrective action plan(s) your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

Agency	Program	Corrective Actions Planned
FSA	Marketing Assistance Loan Program (MAL)	<p>FSA has completed its risk assessment of MAL and, while it was determined that the program has a low risk for improper payments, the statistical-sampling process will confirm the actual level of erroneous payments. The sampling contractor also has been requested to provide information concerning the cause of erroneous payments and recommendations on how Commodity Credit Corporation (CCC) can reduce or eliminate those causes. The primary source for errors that result in erroneous payments relate to the information that is provided by the producer concerning the collateral being offered for the loan. CCC has introduced new technology to assist in the confirmation of the type of commodities grown by the producer and assist in determining whether the quantity being offered is reasonable.</p>
FNS	Food Stamp Program (FSP)	<p>Program regulations require State agencies to analyze data to develop corrective-action plans to reduce or eliminate program deficiencies. A State must develop a QC corrective-action plan addressing the causes of errors detected through the original process. This plan should be in place when the State's combined payment-error rate is, equals or exceeds 6 percent, or its negative-case error rate is more than 1 percent. Corrective action also is required whenever underpayments result from State agency rules, practices or procedures. Most States have developed corrective actions to address deficiencies revealed in their FY 2002 QC data.</p> <p>FNS regional offices work directly with States to assist them in developing effective corrective-action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as:</p> <ul style="list-style-type: none"> ▪ Analyzing data; ▪ Reviewing and monitoring corrective-action plans; ▪ Developing strategies for error reduction and corrective action; ▪ Participating on boards and in work groups; and ▪ Hosting, attending and supporting payment-accuracy conferences. <p>FNS also administers a State Exchange Program whereby funds are provided to States to facilitate travel to obtain, observe and share information on best practices and most effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange and collaborative efforts, which address mutual concerns and support development of effective corrective action.</p> <p>While the above strategies are designed to help States stop erroneous payments, a claims-collection process to recover overpayments also is an important mechanism for correcting errors. Although FSP regulations provide States with flexibility in their claims operation, one of the requirements is that a claim be pursued if an overpayment is discovered during a QC review.</p> <p>The above activities have been determined to be both cost efficient and effective toward reducing FSP payment errors. The FSP will continue to build upon and refine its activities in small increments absent a significant increase in funding for payment accuracy.</p>
FNS	School Programs	<p>In the NSLP and SBP, erroneous payments potentially can occur when ineligible households misreport income at application, are approved for free or reduced-price meals, and then receive them. Such payments also can occur when a school incorrectly certifies a student as eligible for meal benefits, or submits inaccurate claims for meals that were misclassified, not served or failed to meet program requirements.</p>

Agency	Program	Corrective Actions Planned
FNS	School Programs (cont'd)	<p>In recent years, there has been growing evidence of errors in certifying students for subsidized school meals. While certification errors alone do not result in a loss to the Government – loss occurs when ineligible students actually receive meals – these errors represent a significant risk for erroneous payments. In response, FNS has taken such actions as participating in several demonstration projects to understand the extent and nature of the problem better. FNS also is working with program partners to improve certification in the context of current regulations, and exploring alternatives to and/or improvements in the process.</p> <p>One such effort is the collection of data on eligibility determination and verification efforts at the school food authority (SFA) level. States will be expected to identify and resolve problems with the certification and verification processes based on these data. A number of key data elements also will be reported to FNS. These elements include certification type (direct certification or application), verifications conducted and their results. These will be used over time to explore regulatory, policy and training efforts to improve the accuracy and reliability of the income eligibility-determination process. Initial reporting for School Year 2003-04 is optional. Reports from all SFAs are required first on School Year 2004-05 and due to FNS in March 2005.</p> <p>Planned Actions to Measure Erroneous Payments: FNS has secured resources and entered into a contract in September to conduct a nationally representative study of the NSLP eligibility determination process and establish the first erroneous-payments rate. FNS currently projects completion of an erroneous payments rate for School Year 2005-2006 in FY 2007. Because of the scope and cost of this study, it is more prudent to repeat it on a multi-year cycle. With appropriate funding approval, FNS will repeat this type of study and produce an erroneous payment measurement every five years. Also, as part of the current project, FNS intends to develop a methodology that uses data available from other sources to measure erroneous payments on a component of the NSLP on an annual basis.</p> <p>In the interim (before the nationally representative erroneous payments rate is available in FY 2007), FNS is planning to monitor/assess two components of the program:</p> <ul style="list-style-type: none"> ■ Conducting annual on-site reviews focused on the certification and verification process. One important source of certification error that FNS has identified is SFA errors in certifying and verifying applications. In 2002, FNS conducted on-site reviews at 14 SFAs. It determined that 6 percent of the SFAs' eligibility determinations were incorrect due to administrative errors. Training and technical assistance is being developed to help SFAs improve the accuracy of these processes. FNS plans to repeat this review process annually using a statistical sample of SFA eligibility determinations. It will be used to measure changes in administrative error rates. Beginning in 2007, this component also will be associated with an estimate of dollars in error. This will allow FNS to assess the impact of its corrective action, and target and focus future activities; and ■ Comparing annual demographic data on the number of children eligible for school meals with the number of children actually certified. One of the sources of data originally used to assess the extent of the problem of certification error was a comparison of national survey data on household income with administrative data on NSLP certification. FNS plans to resume the use and publication of this analysis annually. Data from the Survey on Income and Program Participation (SIPP) will be compared with State-reported administrative data on the number of free and reduced price certifications. SIPP is administered by the U.S. Census Bureau. While this comparison has some methodological weaknesses and cannot substitute for the payment error estimate required under IPIA, the comparison does provide an annual error indicator that will help gauge changes in the rate of certification error. It also will determine the effectiveness of administrative initiatives intended to improve certification accuracy. Reporting of this data will resume in 2006 using FY 2005 data.

Agency	Program	Corrective Actions Planned
FNS	Woman, Infants and Children (WIC)	<p>Erroneous WIC payments potentially can occur at the participant level (ineligible persons receive benefits) and/or the vendor level (WIC food instruments redeemed for foods not received, provided at excess prices or for unauthorized items). FNS periodically has constructed estimates relating to these types of errors:</p> <ul style="list-style-type: none"> ▪ Certification error: The 1988 WIC Income Verification Study found that 5.7 percent of program participants actually were income ineligible. The 1998 National Survey of WIC Participants yielded an estimate of 4.5 percent. The estimate was lower – 2.9 percent – in the subset of States that had income-documentation requirements at application (Both estimates only considered income eligibility. Although nutritional risk also is required to be eligible for WIC, a recent review by the National Academies’ Institute of Medicine found that the great majority of those otherwise eligible for WIC also have one or more nutritional risks); ▪ Vendor error: The 1998 WIC Vendor Management Study estimates that vendor overcharges represent between 0.9 and 1.6 percent of total program payments. Undercharges are estimated at between 0.4 and 0.6 percent. These rates are very similar to those found in a 1988 study. <p>Recent studies show that both participant and vendor error in the WIC Program have remained fairly stable despite major program growth from 1988-1998. Further, since these most recent measurements were made, FNS has taken substantial actions to reduce error, including:</p> <ul style="list-style-type: none"> ▪ Changing program rules so that WIC applicants now are required to document income; ▪ Publishing a final rule in December 2000 on food-delivery systems that strengthened retail vendor management by establishing mandatory vendor-selection criteria, vendor-training requirements, criteria to be used to identify high-risk vendors and such vendor-monitoring requirements as compliance investigations; and ▪ Supporting the development of WIC electronic benefit transfer (EBT) systems. EBT is an electronic system that allows a recipient to authorize the transfer of his or Government benefits from a Federal account to a retailer account to pay for products received. Because these systems require a personal identification number entry prior to retail transactions and the validation of WIC-authorized foods by Universal Product Codes, participant and vendor error should be minimized. An evaluation of operational WIC EBT systems thus far indicates that participant and vendor error related to the retail transaction process is virtually eliminated. <p>Planned Actions to Measure Erroneous Payments: FNS plans to continue periodic examinations of certification and vendor error in WIC.</p> <p>Certification Error: The next decennial national study to measure certification error in the WIC Program is scheduled for 2008. This study will include a first measurement of the amount of erroneous payments associated with certification error. While previous studies did not include any determination of erroneous payments, FNS has collected and continues to collect selected demographic, income and other characteristics on a near census of WIC program participants every two years. From this, data that most strongly correlate with error, along with other administrative data and data from the 1998 study were used to develop aged estimates of the WIC certification error rate since 1998. When the data from the 1998 decennial study is applied to the demographic, it provides a trend in the error rate over a six-year period. This error rate remains constant at 2.6-percent. A similar method or an improved alternative (conditional upon funding for its development) will be used to develop estimates for the years following the 2008 study.</p>

Agency	Program	Corrective Actions Planned
FNS	WIC (cont'd)	<p>Vendor Error: The vendor-management study currently underway will provide a national erroneous payments estimate of vendor charges. This information, for FY 2005 activity, will be available in 2006. Subsequently, FNS will generate an annual update for the improper payment measurement of this vendor component using statistical techniques. FNS is exploring options for aging this estimate for the years following this study using existing administrative data. Although FNS has not determined a specific approach, the agency is continuing to explore other options. These options include focusing on information on high-risk vendors and information from States which might serve as "sentinel sites." If an acceptable method for aging cannot be developed using existing data, FNS could develop a regulatory proposal requiring limited new data collection and reporting by the States on not more than 1 percent of WIC vendors.</p>
FNS	Child and Adult Care Food Program (CACFP)	<p>Because payments and claim information must be transferred between FNS, State agencies, program sponsors and program sites, and requirements vary between different types of program sponsors and sites, a full and rigorous assessment of the rate of erroneous payments in CACFP is extremely complex. Despite this, FNS has undertaken significant action recently to improve program management in an effort to reduce erroneous payment risks.</p> <p>Based on recommendations from FNS, USDA's Office of the Inspector General (OIG) initiated a series of audits beginning in 1996 of CACFP's family daycare home (FDCH) component—a part of the program that is particularly vulnerable to erroneous payment risks. Problems which resulted in erroneous payments were areas attributed to:</p> <ul style="list-style-type: none"> ▪ A lack of operational record keeping; ▪ Unsupported claims; ▪ The claiming of unallowable costs; ▪ A lack of the required provider training and monitoring; ▪ Health and safety violations; and ▪ Money laundering. <p>Because of the program's structure, claiming unallowable costs and money laundering only occurred at the sponsoring organization level, while health and safety violations were limited to the daycare homes level. The remaining errors occurred at both the sponsoring organization and the daycare homes. Some of these errors were attributed to a lack of effective oversight by the sponsoring organization.</p> <p>As these problems were identified, FNS initiated a series of actions to address the problems, including:</p> <ul style="list-style-type: none"> ▪ Working with Congress to enact legislation to improve CACFP oversight and accountability. Interim regulations implementing these laws have been published; ▪ Developing new management-improvement guidance for program cooperators; ▪ Training all State agencies on implementing statutory and regulatory changes and providing new management-improvement guidance materials; ▪ Proposing additional discretionary changes designed to improve management and accountability. An interim rule implementing changes is planned for 2004; ▪ Revising monitoring tools to evaluate State agencies' and institutions' implementation of CACFP better and support State agency oversight efforts; and ▪ Initiating an FY 2005 budget request to fund the development of methods and data to produce a measure of erroneous payments in CACFP and other programs. The request ultimately was not included in the President's Budget. <p>Planned Actions to Measure Erroneous Payments: As noted above, FNS does not have the resources to develop a measurement approach for erroneous payments in CACFP. FNS will renew a request for resources in the FY 2006 budget process. This will enable FNS to pursue the development of a measurement methodology that would yield the nationally representative estimate required under the Improper Payments Information Act (IPIA). FNS projects that a measurement for FY 2009 would be available in 2010. In the interim, FNS has designed two activities to improve the integrity of CACFP family daycare homes.</p>

Agency	Program	Corrective Actions Planned
FNS	CACFP (cont'd)	<ul style="list-style-type: none"> ▪ Tiering Error—Beginning in 2005 and implemented annually thereafter, FNS will measure the level of erroneous payments due to sponsor error in the classification of FDCHs for Tier 1 or Tier 2 program reimbursement. Tiering determination error can result in both over and underpayments. An annual review of a statistical sample of sponsor tiering determinations will be used along with payment records to determine the percent and amount of error for this component. ▪ Child Care Assessment Project—Currently, FNS measures the effectiveness of the series of actions mentioned above. Over a four-year period, starting in the spring of 2004, FNS will conduct comprehensive on-site assessments of a sample of participating family day care home sponsors. These assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance in the areas of vulnerability identified by OIG. Key program elements that will be reviewed include: <ul style="list-style-type: none"> – Compliance with record keeping requirements; – Supportability of claims for meal reimbursement at FDCH, including: – Claiming meals not served; – Claiming meals served to ineligible participants; – Claiming meals to nonparticipants; – Claiming meals not meeting meal pattern requirements; – Claiming meals to absent, but eligible, participants; and – Claiming meals in excess of per participant per day maximum. ▪ Unsupported claims for meal reimbursement by sponsoring organization, including: <ul style="list-style-type: none"> – Incorrect consolidation of FDCH meal counts; – Misclassification of meals by eligibility category; and – Inadequate editing of FDCH meal claims (i.e., failure to identify ineligible meal claims by FDCHs). <p>Data on these elements will be collected from a selected number of program sponsors annually. Review and collection of data on the prevalence of these program problems will help FNS assess which aspects of its management-improvement efforts are most effective and which areas require additional attention or focus. It also will offer additional insights on the control points in the claiming and reimbursement process that cause or contribute to improper payments most frequently. This information also will help to support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA.</p>
FS	Wildland Fire Suppression Management	The recovery auditing contract includes recommendations for control improvements to mitigate future overpayments. Management improvement plans will be developed based on the type and number of erroneous payments found and the control improvements recommended by the recovery auditor. Data-mining activity is expected to begin in November with preliminary results available by December 31, 2004. The first recoveries are expected to occur in the second quarter of FY 2005.
RD	Rental Assistance Program	RD began the study in July. It collected and analyzed the data in August and September. Final results of the study, with findings and recommendations for corrective action, will be available for publication in December.
RMA	Federal Crop Insurance Corporation Program Fund	RMA is implementing revised procedures to determine the program error rate in the future. OIG has questioned the results of the current process. Thus, RMA has renegotiated a new standard reinsurance agreement that will redirect company reviews to targeted anomalous policies. The agency has completed the first of the company program reviews that include its staff reviewing a random sample of policies. RMA then will compile the results of these reviews on an ongoing basis to identify the program-error rate in the future. Current plans call for the review cycle to be completed at least triennially.
NRCS	Farm Security and Rural Investment Programs	The statistical sampling planned for FY 2005 will determine the exact causes and rates of erroneous payments. NRCS will use the results of the sample to develop a corrective action plan. Potential areas of risk for erroneous payments include ineligible participants receiving benefits, a participant exceeding program limits for total assistance and errors in cost-sharing calculations.

IV. The table below is required for each reporting agency:

Improper Payment Reduction Outlook FY 2003 – FY 2007

Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.

Currently, the Food Stamp Program (FSP) is the only USDA high-risk program that can calculate over and underpayments. Additionally, several programs have yet to calculate a baseline erroneous-payment rate. Below is a detailed table for the FSP and a summary-level table for all high-risk programs. When a number cannot be provided, it is noted when the agency plans to provide.

Food Stamp Program (\$ in millions)									
	2002 Actual		2003 Actual		2004 Actual		2005 Target	2006 Target	2007 Target
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	\$18.244		\$21.371		\$24.298				
Underpayments		2.10%		1.59%		Note #1	1.88%	1.88%	1.88%
Overpayments		6.16%		5.05%		Note #1	5.52%	5.52%	5.52%

Summary of High-Risk Programs (\$ in millions)						
Program	FY 04 Outlays	IP%	IP \$	IP % Target 2005	IP % Target 2006	IP % Target 2007
Marketing Assistance Loan Program, CCC	8,768	Note #2	Note #2	Note #2	Note #2	Note #2
Food Stamp Program, FNS	24,298	Note #1	Note #1	7.4%	7.4%	7.4%
School Programs, FNS	8,390	Note #3	Note #3	Note #3	Note #3	Note #3
Women, Infants and Children, FNS	4,764	Note #3	Note #3	Note #3	Note #3	Note #3
Child and Adult Care Food Program, FNS	1,989	Note #3	Note #3	Note #3	Note #3	Note #3
Wildland Fire Suppression Management, FS	625	Note #4	Note #4	Note #4	Note #4	Note #4
Rental Assistance Program, RD	710	Note #5	Note #5	Note #5	Note #5	Note #5
Federal Crop Insurance Corporation Program Fund, RMA (Note #7)	2,500	5.0	125	4.9	4.8	4.7
Farm Security and Rural Investment Programs, NRCS	1,027	Note #6	Note #6	Note #6	Note #6	Note #6

Note #1 Actual figures will be available June 2005. The latest error rate of 6.64 percent was calculated in June 2004 for FY 2003 activity. Based on USDA exceeding expected performance in reducing errors in the Food Stamp Program, USDA is working to update future year improper payment estimates as new information becomes available.

Note #2 FY 2004 statistical testing will be completed in March 2005. Target rates then will be established once the baseline is calculated.

Note #3 FNS has worked with OCFO and OMB to develop plans to calculate an error rate fully compliant with IPIA. Currently, it is estimated that FNS will be able to calculate these errors rate in FY 2007 for School Programs, FY 2008 for WIC and FY 2010 for CACFP. Starting in FY 2005, FNS will be reporting interim error rates using the methodologies described in Section IV of this report.

Note #4 This number will be the result of the recovery auditing efforts. The contract results will be available for the FY 2005 PAR.

Note #5 RD's results and recommendations were finalized after this report was published.

Note #6 The first statistical sample is planned to be for FY 2005. Improper payment target rates will be developed in coordination with OMB after the sample has been completed, the causes of improper payments identified and a corrective action plan developed.

Note #7 Improper payment amounts are based on the FY 2003 crop year (February 2003 through January 2004). The results presented in this report will not be comparable to the results presented in future reports due to substantial changes and improvements planned for the sampling methodology.

V. Discuss your Agency's Recovery Auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. (This reporting replaces the original legislative requirement for reporting not later than 12/31/04.)

Description and Evaluation of the Recovery Auditing Program

USDA has implemented its recovery auditing program at the agency level. Eight Departmental components with more than \$25 million in contracts developed their own recovery auditing programs. These agencies reviewed their contracts, determined which should be exempted and performed recovery audits with agency staff. These eight agencies are:

- Agriculture Marketing Service (AMS);
- Animal and Plant Health Inspection Service (APHIS);
- Agriculture Research Service (ARS);
- Food and Nutrition Service (FNS);
- Farm Service Agency (FSA);
- Food Safety and Inspection Service (FSIS);
- Natural Resources Conservation Service (NRCS); and
- Rural Development (RD).

The other two departmental components, Forest Service (FS) and Departmental Administration (DA), contracted with a recovery auditing firm. In July, USDA awarded a contracted to a recovery audit firm. Most of the work will be performed during the first two quarters of 2005. The contractors also will review 2004 contracts for 2005 reporting during this period.

To date, FY 2004 recovery auditing program costs greatly exceed the value of the total errors identified. While most agency programs still are auditing their contracts and have not finalized their results, the end resulting recoveries likely will not equal the costs.

In FY 2005, OCFO will assist DA and FS with their recovery auditing contracts. OCFO then will evaluate the success of the contracts. If successful, all agencies will be added to the Departmental recovery auditing contract.

Classes of Contracts Excluded from Recovery Auditing Program

USDA established basic criteria for exemptions. These exemptions included:

- All purchase card transactions because they are tracked and reconciled by cardholders nationwide through USDA's Purchase Card Management System;
- Simplified-acquisition actions less than \$100,000; and
- Agencies that do not contract for more than \$25 million a year.

In developing their recovery auditing programs, some agencies further restricted the number of contracts audited.

- **APHIS**—Sampled 20 contracts out of 161.
- **ARS**—All contracts were exempted due to the extensive reviews already performed.

- **FNS**—All contracts were exempted due to the extensive reviews already performed.
- **FSA**—Contracts funded via interim contract payments based on performance, milestone payments based upon the completion of tasks and contracts with review processes independent of the procurement office.
- **FSIS**—Firm fixed-price contracts were exempted.
- **NRCS**—Selected a 10-percent sample of contracts meeting the basic USDA criteria listed above.

Total Cost of Recovery Auditing Program

Cost Item (shown in dollars)	Direct Cost	Contractor Cost	Total Cost
Administration of Recovery Audit Program	27,206	0	27,206
Recovery Auditing	12,366	0	12,366
Recovery of Funds	90	0	90
Management Improvement Plan	70	0	70
Total Cost:	39,732	0	39,732

Total Errors Identified

Collection Status	Dollars
Payment errors deemed not collectable	0
Total errors recovered	0
Total errors pending final Resolution	2,249
Total Payment Errors Identified:	2,249

Management Improvement Plan

Type of Payment Error (shown in dollars)	Number	Dollars
Contractor overpaid in the base years (Incorrect unit prices)	7	2,248
Incorrect amount listed on the contractor's invoice amount	1	1

The errors identified will be offset against contractors' invoices submitted at the end of the fourth quarter. Identifying the cause of errors and developing recommendations to prevent future errors is part of the recovery auditing contract. This process will assist USDA in developing management improvement plans.

VI. Describe of the steps (including time line) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

FARM SERVICE AGENCY (FSA)

FSA has developed a Strategic Plan Framework, which is the foundation for the development of the Agency's FY 2005 – 2010 Strategic Plan. The framework is designed to link FSA's budget with its performance measures. It also will strengthen the agency's performance-oriented business decisions.

Incorporated within this framework is a set of major management-crosscutting areas. These areas include a performance measure for reducing improper payments. FSA managers' (i.e., grades 14, 15 and Senior Executives) performance plans were linked to the framework in June.

FOOD AND NUTRITION SERVICE (FNS)

FNS already has a corporate priority to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high risk for erroneous payments. The goals are:

- To continue reducing the FSP error rate;
- To improve the accuracy of National School Lunch Program (NSLP) certifications; and
- To continue Child and Adult Care Food Program management improvements.

The agency goals and priorities are incorporated into each manager's performance plan.

RISK MANAGEMENT AGENCY (RMA)

RMA has added a performance element to management's standards that ties performance to the agency's strategic objectives. Strategic objective 4 is "program integrity." This holds managers accountable for reducing program fraud, waste and abuse.

RURAL DEVELOPMENT (RD)

Within the Multifamily Program, the national office establishes and ensures implementation of policy, which includes loan-servicing goals. The State offices oversee area offices, which monitor the performance of the multifamily portfolio. Area office staff makes property inspections, performs supervisory-site visits, approves the amount of subsidy or rental assistance requests and generally oversees all the activity at these properties. The servicing goals have been modified to include a State office goal to reduce the error rate by property managers in the calculation and documentation support of rental assistance. Servicing goal achievement is monitored quarterly and reported back to the States, the Rural Housing Service Administrator and the Under Secretary for Rural Development.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

After the statistical sample determines the rate of erroneous payments, NRCS will develop a corrective-action plan. The plan will be completed by May 31, 2005, and include steps to ensure that NRCS managers reduce any erroneous payments.

VII. A. A statement of whether the agency has the information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted.

USDA has identified nine high-risk programs in six of its agencies. The issues of information systems and other infrastructure are determined at the agency level. USDA is working to complete statistical analyses of many high-risk programs. After baseline rates are established and the causes of erroneous payments are identified fully, more system and infrastructure needs may be developed. Currently, two agencies have identified information and infrastructure improvements needed to reduce improper payments.

FOOD AND NUTRITION SERVICE (FNS)

While the infrastructure already exists for the Food Stamp Program, there is nothing in place for the other FNS programs. Until such time as baseline erroneous payment estimates are produced for School Programs, WIC and Adult Care Food Programs, reduction targets cannot be established.

RISK MANAGEMENT AGENCY (RMA)

RMA has targeted replacement of the current information technology (IT) infrastructure to address identified payment vulnerabilities better. Improved automated processes can limit these vulnerabilities. Under existing and anticipated budget allocations, RMA believes it will be difficult to obtain the funds necessary to improve the program-accounting systems. The agency will continue to maintain and improve the existing system as much as possible pending additional funding to replace the IT infrastructure.

VII. B. If the agency does not have such systems and infrastructure, a description of the resources the agency has requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.

FOOD AND NUTRITION SERVICE (FNS)

As a part of its FY 2005 budget submission, FNS sought resources to enhance integrity in the Food Stamp and Child Nutrition Programs, and implement the President's Management Agenda.

An annual increase of \$7 million and 77 staff years was requested to enable FNS to augment technical assistance and training to States. FNS would provide increased assistance to States to foster significant improvements in program operations. Such improvements would include:

- Better identification of Federal and State cost-saving opportunities;
- Increased accuracy and delivery of program benefits;
- More accurate eligibility determinations; and
- Enhanced State accounting and financial management practices.

An increase in staffing levels also would allow FNS to address criticism aimed at the management of the nutrition-assistance programs better. A number of Government Accountability Office and Office of Inspector General audit reports have indicated that FNS has inadequate staff resources to correct certain key deficiencies. Likewise, the need for oversight has increased only with the attention placed on financial accountability. The move resulted in Federal agency goals for reducing erroneous payments and meeting management challenges. Increased staffing capacity will enable FNS to provide this critical oversight in the effort to reduce erroneous payments.

Risk Management Agency (RMA)

RMA has requested funds to replace its IT systems and add staff to implement company program reviews fully. These funds were requested for FY 2005.

VIII. A description of any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments

Farm Service Agency (FSA)—The Department of Agriculture Reorganization Act of 1994, Section 281, provides that, "Each decision of a State, county or area committee or an employee of such a committee..., made in good faith in the absence of misrepresentation, false statement, fraud or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This restriction places a constraint on FSA that does not exist in other programs or for other agencies.

Food and Nutrition Service (FNS)—Recent Child Nutrition reauthorization legislation includes some of the changes requested by the Administration to improve accountability, it also limits the agency's ability to act in this area because of concerns about potential barriers to participation by eligible people.

Risk Management Agency (RMA)—The Federal Crop Insurance Act contains a three-year statutory limitation on identifying and collecting improper payments from crop insurance providers, except for improper payments where intentional fraud or other criminal conduct is involved. This restriction places constraints on RMA that may not exist in other programs.