

APPENDIX B—IMPROPER PAYMENT 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. Under the Improper Payments Information Act (IPIA), executive agencies must identify any programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act for FY 2002 requires recovery auditing. In this process, agencies that enter into contracts with a total value of more than \$500 million in a fiscal year must execute a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. In FY 2005, Eliminating Improper Payments became a President's Management Agenda (PMA) initiative. Under this guidance, USDA has four programs required to report under Section 57 of A-11 and has identified an additional seven programs at risk of significant improper payments through the risk assessment process.

USDA is taking steps to implement IPIA fully and achieve a "green" rating for the Eliminating Improper Payments PMA initiative. During FY 2005 USDA achieved "yellow" status by completing the following items:

- Completed assessments of risk for all programs;
- Developed plans to measure improper payments for all high risk programs and received OMB approval;
- Developed corrective action plans to reduce improper payments and established both reduction and recovery targets for all high-risk programs; and
- Fully complied with reporting standards.

USDA will be able to move to "green" status when error rates are available for all programs and it can demonstrate that reduction and recovery goals are being met. Due to budget and program constraints, this upgrade can be complicated. For the programs that have not yet estimated an error rate, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages.

Additionally, USDA is implementing recovery auditing fully. The Department completed a pilot recovery auditing project at the Forest Service. Using an independent recovery audit contractor working on contingency, USDA identified \$333,000 worth of improper payments. The Department has recovered \$189,000 to date. These numbers represent a dramatic improvement in findings and collections from FY 2004. Based on these results, USDA is expanding the use of independent recovery audit contractors working on contingency to the entire Department. A second dramatic increase in findings and collections is expected in FY 2006.

On August 23, 2005, OMB provided a reporting template for IPIA in OMB Circular A-136. The template requires responses to specific issues. USDA's response to these issues follows.

I. Describe your agency’s risk assessments, performed subsequent to compiling your full program inventory. List the risk-susceptible programs identified through your risk assessments.

OCFO issued detailed guidance for the risk assessment premise and processes including templates and extensive reviews of drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs. For USDA’s largest programs, the risk-assessment process required the following:

- The number of improper payments needed to meet the reporting standards;
- A description of the program including purpose, basic eligibility requirements and how fund were disbursed;
- Improper Payments were defined specifically for the program;
- Program vulnerabilities to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Testing of the internal controls;
- A listing of significant reviews and audits;
- A final determination of risk;
- Planned future enhancements (optional); and
- A description of how improper payments are recovered (optional).

The Office of Inspector General is in the process of reviewing the FY 2005 risk assessments and will make recommendations to USDA agencies for additional improvements to be used in the FY 2006 risk assessment process.

USDA has identified the following 11 programs as susceptible to improper payments.

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 Lunch and Breakfast Woman, Infants and Children
USDA Identified as Risk-Susceptible	Farm Service Agency (FSA)	Milk Income Loss Contract Program Loan Deficiency Payments
	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	Federal Crop Insurance Corporation Program Fund
	Natural Resource 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	<p>The Marketing Assistance Loan (MAL) Program is composed of an application, review and payment phase. The application phase (Phase I) is the most complex of the three phases. It requires the demonstration of the applicant eligibility, the commodity (crop) eligibility and financial compliance with the terms of the program.</p> <p>In Phase II, the application then is reviewed by the FSA representative (county field office) and county committee to validate the application information. Phase III includes the authorization of the application, which then initiates the loan payment to the applicant.</p> <p>Statistical program sampling occurs today during Phase I, at the completion of Phase II and at the completion of Phase III as follows:</p> <ul style="list-style-type: none"> • Phase I Statistical Sampling: During Phase I, the county field offices completed random spot checks on 2.5 percent of all loan value originating in the county office. The county requested additional background and supporting information to validate the application. Validation may include additional documentation, Geological Information System information on the farm acreage or viewing of the commodity and storage arrangements on the production site. • Phase II Statistical Sampling: Random statistical sampling was conducted by an outside contractor on all commodity loans granted within a selected crop year. The statistical analysis included reviewing randomly-selected loans approved during Phase II from all the loans made in the same crop year. The number of sample files chosen satisfied the OMB requirements for statistically significant sampling process. The files then were reviewed against USDA/FSA requirements for loan approval to determine whether the loan was compliant or a potential erroneous payment. • Phase III Sampling: The approved loan applications were reviewed for correct payment information as part of the contractor sampling process. The sampling included review of the loan dollar value, address and recipient name.
FNS	Food Stamp Program (FSP)	<p>The FSP payment-error rate is developed from a long-standing program-integrity process called Quality Control (QC). QC 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.</p> <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, and 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 Lunch and Breakfast	<p>The School Lunch and Breakfast erroneous payments rate for School Year 2005-2006 is anticipated to be reported in the <i>FY 2007 Performance and Accountability Report</i>. The next section discusses estimating this rate and includes detailed, OMB-approved plans to calculate the rate as well as component rates in the future.</p>

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Agency	Program	Sampling Process
FNS	Women, Infants and Children (WIC)	A measurement of the dollar amount of erroneous payments associated with certification error in WIC is scheduled to be reported in the <i>FY 2008 Performance and Accountability Report</i> . The vendor management study currently underway will provide a dollar amount estimate for erroneous payments involving vendor charges. The next section discusses estimating these rates and includes detailed, OMB-approved plans to calculate these rates in the future.
FNS	Child and Adult Care Food Program (CACFP)	The measurement of the dollar amount of erroneous payments in CACFP is anticipated to be reported in the <i>FY 2010 Performance and Accountability Report</i> . The next section discusses estimating this rate and includes detailed, OMB-approved plans to calculate a component rate in the future. Congress denied funding for this activity in FY 2006.
FSA	Milk Income Loss Contract Program (MILC)	<p>MILC is composed of the application, market-rate evaluation and payment phases. The application phase (Phase I) occurs where producer eligibility and evidence of production is determined. The market rate evaluation phase (Phase II) occurs where the Boston Class I price for milk during any month falls below the \$16.94 per hundredweight target. The payment phase (Phase III) occurs when the payment is calculated and payment limitation imposed.</p> <p>Four requirements were determined to be conclusive as to whether or not an improper payment was made. These four criteria can be grouped into one of the three phases as follows:</p> <ul style="list-style-type: none"> • Phase I for consistent eligibility determination of "dairy operation" and quantity per operation based on evidence of production provided by the producer;
FSA	Milk Income Loss Contract Program (MILC) [cont'd]	<ul style="list-style-type: none"> • Phase II for MILC Rate Accuracy; and • Phase III for MILC Payment Accuracy and to ensure that the maximum quantity payment was not exceeded.
FSA	Loan Deficiency Payments	<p>The Loan Deficiency Payment (LDP) Program is composed of an application, review and payment phase. The application phase (Phase I) is the most complex of the three phases and requires the demonstration of the applicant eligibility, the commodity (crop) eligibility, and financial compliance with the terms of the program.</p> <p>In Phase II, the application then was reviewed by the FSA representative (county field office) and the county committee to validate and approve the application information.</p> <p>In Phase III the producer determines the day the LDP request will be made. The decision initiates the LDP payment to the applicant. The producer has to provide evidence of production to support the quantity. The payment is calculated by multiplying the quantity by the difference between the loan rate and posted county price.</p> <p>Statistical program sampling occurs as follows:</p> <ul style="list-style-type: none"> • Phase I Statistical Sampling: During Phase I, the county field offices complete an automated spot check process on 2.5 percent of all LDPs originating in the county office each month. The county requests additional background and supporting information to validate the application. Validation may include additional documentation, Geological Information System information on the farm acreage or viewing of the commodity and storage arrangements on the production site. • Phase II Statistical Sampling: Random statistical sampling was conducted by an outside contractor on all LDP payments made within a selected crop year. The statistical analysis included reviewing randomly-selected payments approved during Phase II from all the payments made in the same crop year. The number of sample files chosen satisfied the OMB requirements for statistically significant sampling process. The program files were reviewed against USDA/FSA requirements for LDP approval. This process was designed to determine if there is sufficient evidence of production and beneficial interest in the commodity. Such evidence would ensure that the request for the program payment either was compliant or a potential erroneous payment. • Phase III Sampling: The approved LDP payments also were reviewed for correct payment information as part of the contractor sampling process. The sampling included review of the LDP rate used to calculate the payment, dollar value calculated, the recipient name and address, and banking information if the payment was electronic.

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FS	Wildland Fire Suppression Management	<p>A service need is identified and requested through the requisition process. After the services are performed and invoice received, the payment is completed.</p> <p>The FY 2005 statistical sample wild fire suppression payments was reviewed and evaluated against payment criteria. Documentation to support the review was gathered from the requisition through the payment process.</p>
RD	Rental Assistance Program	<p>USDA provides rental assistance subsidies to more than a quarter-million households. To qualify for assistance, a household must submit an application to a multifamily borrower or his or her property management agent. The application process requires that the individual or family provide information on the amount and source(s) of income. A property agent will verify this information. This income determination is the primary determinant of a family's rent charge and, in turn, the amount of housing subsidy provided. The source of errors studied in the IPIA Report on Section 521 Rental Assistance was the borrowers' analysis and computation of the housing subsidy amount.</p> <p>The Rural Housing Service conducted a sample audit from March through May 2005. Agency staff conducted the sample and input data to an on-line questionnaire. The questionnaire was monitored electronically for timely completion and automatic data calculation. Sample size was sufficient to achieve a 90-percent confidence level.</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 review 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 2004 and 2005 reporting. Starting with the 2006 reporting cycle, RMA will begin using random policy selections from company operations reviews to develop a rolling program error rate. RMA will review all participating companies triennially. Accordingly, the first full review cycle will be completed for the <i>FY 2008 Performance and Accountability Report</i>.</p>
NRCS	Farm Security and Rural Investment Programs	<p>The Farm Security and Rural Investment Programs were treated as eight different programs following the apportionment schedule (FRPP, WRP, CSP, EQIP-Base, EQIP-GSWC, EQIP-Klamath, WHIP, and GRP). The statistical sample was identified separately based upon input from individual program managers. Improper payment criteria were identified. This identification incorporated statutory items common to all the programs and added causes unique to each specific program.</p> <p>Each national program manager was interviewed to determine potential areas of risk of Improper Payments. Statutory requirements and program rules were reviewed further for internal control measures to mitigate risks.</p> <p>Statistical samples were selected based upon a baseline estimate of rate of occurrence, a confidence level of 95 percent and precision range provided by the program managers. Payments then were reviewed for program, contract and statutory compliance.</p>

III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause 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/CCC	Marketing Assistance Loan program	<p>Causes of Improper Payments</p> <p>Loan Rate Validity Essential Requirement: The correct loan rate must be applied for loan payment calculations. The loan rate must be for the correct commodity, county and crop year. It also should agree with the loan rate information contained on form CCC-677. Otherwise, the payment is considered improper. The statistical sample results indicate a .60-percent error rate for this requirement.</p> <p>Evidence of Production: A producer can certify or provide acceptable production evidence of the commodities pledged as collateral for a MAL. Within the file, form CCC-666 (Farm Stored Loan Quantity Certification), CCC-677-1 or warehouse receipt must be completed to FSA minimum standards. The analysis team reviewed forms to verify the</p>

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FSA/CCC (cont'd)	Marketing Assistance Loan program	<p>commodity, type and quantity disclosed on the form. The form also requires the producer's signature and date of certification. Commodities must meet the minimum United States Grain Standards to be eligible for a MAL. Production evidence must coincide with the form FSA-578 values for production quantities. If not, the calculation of the loan amount would be incorrect and the payment would be considered improper. The statistical sample results indicate a .60-percent error rate for this requirement.</p> <p>Corrective Action Plans</p> <p>The agency will remind State and county offices through notices and policy handbooks of the necessary policy requirements for receiving loan benefits. The agency also is developing new software and databases that will automate several manual processes to validate producer eligibility requirements. The centralized databases will help to alleviate manual data entry errors. Applicant eligibility "flags" would be set and read in "real time" to verify when eligibility. The new eligibility process will read such information as AD-1026 and crop acreage files.</p> <p>The new automated process also will include a centralized loan rates table. Loan rates and other types of program payment data will be obtained directly from the loan rates table instead of entering loan rates manually.</p>
FNS	Food Stamp Program	<p>Causes of Improper Payments</p> <p>An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which they are eligible. This can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification. It also can occur from changes subsequent to certification or errors in determining eligibility or benefits by caseworkers. Eligibility worker delays in action or inaction taken on client reported changes also are a cause of improper payments.</p> <p>An analysis of the FY 2004 completed statistical sample revealed that approximately 69 percent of all variances occurred before or at the most recent certification/recertification. Additionally, 42 percent of the errors were client-caused. The majority of errors (50 percent) were income related and caused by the client misreporting or the agency misapplying the reported income. Misreporting or misapplying deductions was the second largest source of errors at 31 percent.</p> <p>Corrective Action Plans</p> <p>Program regulations require State agencies to analyze data. The agencies use this analysis to develop corrective action plans for reducing or eliminating program deficiencies. A State with a high error rate must develop a QC corrective action plan to address deficiencies revealed through an analysis of its own quality control data. A State with an excessive error rate will be required to invest a specified amount (depending on its error rate and size) designated specifically to correct and lower its error rate. The State also will face further fiscal penalties if it fails to lower its error rate in a future fiscal year.</p> <p>Specific strategies already exist which are designed to help States prevent erroneous payments. FSP builds upon and refines its activities in small increments absent a significant increase in funding for payment accuracy. Additionally, examples of activities determined to be both cost efficient and effective toward reducing payment errors are:</p> <ul style="list-style-type: none"> • FNS, through its regional offices, informs States of the importance of payment accuracy and correct payments to its leadership. The agency also assists States in developing effective corrective action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as: <ul style="list-style-type: none"> Data analysis; Reviewing and monitoring corrective action plans; Developing error-reduction and corrective action strategies; Participating on boards and in work groups; and Hosting, attending and supporting payment accuracy conferences. • FNS administers a State Exchange Program. The program provides funds to States to facilitate travel to obtain, observe and share information on best practices and effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange and collaborative efforts. These efforts address mutual concerns and support the development of effective corrective action.

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FNS	School Lunch and Breakfast	<p>Causes of Improper Payments</p> <p>In the National School Lunch and School Breakfast Programs, 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> <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 participated 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>Corrective Action Plans</p> <p>FNS has collected data on eligibility determination and verification efforts at the school food authority (SFA) level. States are expected to identify and resolve problems with the certification and verification processes based on these data. A number of key data elements are reported to FNS. These elements include certification type (direct certification or application), verifications conducted and results of verification activity. These efforts will be used to explore regulatory, policy and training efforts to improve the accuracy and reliability of the eligibility-determination process. The first required reports from all SFAs for School Year 2004-05 were due to FNS in April 2005. Some States experienced significant difficulties in implementing the new reporting requirements. FNS is working with these States to assist them in completing their reports.</p> <p>FNS also has secured resources and entered into a contract to conduct a nationally representative study of the NSLP/SBP eligibility determination process and establish the first erroneous-payments rate. An erroneous payments rate for School Year 2005-2006 is anticipated to be available 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. FNS also will develop a methodology that uses data available from other sources. This methodology will measure erroneous payments on a component of the National School Lunch Program annually.</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> <p>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 of the application verification process at 14 SFAs. It determined that 6 percent of the SFAs' verification determinations were incorrect due to administrative errors. Training and technical assistance are being developed to help SFAs improve the accuracy of these processes. Beginning in FY 2005, FNS will review a statistical sample of SFA application eligibility determinations annually. This review will be used to measure changes in administrative error rates, allowing FNS to assess the impact of its corrective action, and target and focus future activities. Beginning in 2007, it is anticipated that this component also will become part of the formula used to develop the annual payment error estimate.</p> <p>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 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. The U.S. Census Bureau administers SIPP. While this comparison has some methodological weaknesses and cannot substitute for the payment error estimate required under IPIA, the comparison does provide an</p>

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Agency	Program	Corrective Actions Planned
FNS (cont'd)	School Lunch and Breakfast	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. Results from analysis of 2001 and 2002 data will be reported in FY 2005. Information based on 2003 data will be reported in FY 2006.
FNS	Special Supplemental Program for Women, Infants and Children (WIC)	<p>Causes of Improper Payments</p> <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> <p>Corrective Action Plans</p> <p>FNS plans to continue periodic examinations of certification and vendor error in WIC.</p> <ul style="list-style-type: none"> • Certification Error: The next decennial national study to measure WIC certification error is scheduled for 2008. This study will include a first measurement of the amount of erroneous payments associated with certification error. Previous studies did not include any value determination of erroneous payments. Selected demographic, income and other characteristic data were and continue to be collected on a near census of WIC participants biannually. From this, data that correlate most strongly 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 demographics, 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. • 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>Since the 1998 measurements were made, FNS has taken substantial actions aimed at improving program operations and reducing improper payments, 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, price limitations on the amounts paid to vendors, 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 benefits transfer (EBT) systems. EBT is an electronic system that allows a recipient to authorize the transfer of his WIC benefits from a State account to a retailer account to pay for supplemental foods 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 are minimized. An evaluation of several WIC EBT pilot projects thus far indicates that participant and vendor error related to the retail transaction process virtually are eliminated.
FNS	Child and Adult Care Food Program (CACFP)	<p>Causes of Improper Payments</p> <p>Payments and claim information in this program are transferred among FNS, State agencies, program sponsors and program sites. Each such transaction represents a risk for erroneous payments. Because requirements vary for each different type of program sponsor and site, a full and rigorous assessment of the rate of erroneous payments is extremely complex.</p>

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Agency	Program	Corrective Actions Planned
FNS (cont'd)	Child and Adult Care Food Program (CACFP)	<p>Corrective Action Plans</p> <p>As the problems in the CACFP were identified, FNS initiated actions to address them, including:</p> <ul style="list-style-type: none"> • Working with Congress to enact legislation to improve 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 new management improvement guidance materials; • Revising monitoring tools to evaluate State agencies' and institutions' implementation of CACFP better and support State agency oversight efforts; • Developing additional discretionary changes designed to improve management and accountability; and <p>In July 2002 and September, 2004, published an interim rule implementing such changes. FNS has initiated the Child Care Assessment Project to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes. Over a four-year period, begun 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. 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. Additionally, this information will help support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA.</p>
FSA	Milk Income Loss Contract Program (MILC)	<p>Causes of Improper Payments</p> <p>The statistical sample data specifically identified 2 erroneous payments out of 594 contracts examined by the contractor. Both of these erroneous payments were caused by errors in the MILC payment calculation. They also occurred in the same office. Other causes identified through separate reviews of the program included input errors in recording production and not confirming that the maximum payment amount had not been exceeded.</p> <p>Corrective Action Plans</p> <p>FY 2005 is the last year of the program. No payments will be made in FY 2006 unless there is legislation to extend the program and funding authorized by the Office of Management and Budget. No additional corrective actions or statistical samples currently are possible.</p>
FSA	Loan Deficiency Payments (LDP)	<p>Causes of Improper Payments</p> <p>The statistical sample data specifically identified three potential areas that contribute to erroneous payments. They are:</p> <p>1. Production Evidence (Quantity)</p> <p>A producer who receives an LDP must provide production evidence in accordance to the Commodity Credit Corporation (CCC) requirements. Production evidence includes:</p> <ul style="list-style-type: none"> • Evidence of sales; • Warehouse receipts; • Load summary; and • Assembly sheets. <p>Eligible commodities include: Barley, Small Chickpeas, Corn, Grain Sorghum, Honey, Lentils, Mohair, Oats, Dry Peas, Peanuts, Rice, Soybeans, Upland Cotton, Wheat, Wool and Other Oilseeds</p> <p>If the quantity reflected on form CCC 700 did not agree with the evidence of production presented, the quantity was considered inaccurate. Therefore, the payment was considered improper.</p>

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Agency	Program	Corrective Actions Planned
FSA (cont'd)	Loan Deficiency Payments (LDP)	<p>2. Loan Deficiency Payment Rate (Price) The CCC determines the local county market price on either daily or weekly for commodities eligible for Loan Deficiency Payment. This is referred to as the posted county price.</p> <p>The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the alternative loan repayment rate for the respective commodity. The loan rate must be for the correct commodity, county and crop year. The loan rate information contained on form CCC 700 should agree with the prevailing rate published at the time of payment on the USDA/FSA Price Support Web site. Otherwise, the payment is improper.</p> <p>3. Loan Deficiency Payment Amount (Price) The LDP amount equals the rate multiplied by the quantity of the commodity for which the payment is requested. If this was calculated incorrectly, then the payment was considered improper.</p> <p>Corrective Action Plans The agency will continue to remind State and county offices through notices and policy handbooks of the necessary requirements for receiving LDP benefits. The agency has developed a new electronic loan deficiency payment process. The process has eliminated manual processes and validates producer eligibility and commodity reasonableness online. A customer profile is created based on the applicant's eligibility, which includes the necessary eligibility requirements for receiving LDP benefits. The electronic loan deficiency payment (eLDP) process calculates the LDP rate and the LDP amount based on the information entered by the producer. The LDP rates are selected from a centralized rate table.</p> <p>The agency will continue to promote such Web-based programs as eLDP fully. These types of processes reduced the number of errors caused by manually entered data. The eLDP process validates the data entered against a customer profile that reads "real time" eligibility files.</p>
FS	Wildland Fire Suppression Management	<p>Causes of Improper Payments There are three basic causes of improper payments listed below.</p> <ul style="list-style-type: none"> • Payment for services not authorized under contract. • Invoice had wrong rate for services and error was not identified during field office review. • Failure to take early-payment discount. <p>Corrective Action Plans A memo will be issued to all field offices, emphasizing the importance of comparing invoice rates to contract rates to ensure invoice accuracy. The memo also will emphasize the importance of taking early-payment discounts when advantageous to do so. All fire incident payments were consolidated in four centers Nationwide, effective May 15, 2005. Payment processing for invoices related to fire incidents will be consolidated in the Albuquerque Service Center (ASC) in the second quarter of FY 2006.</p>
RD	Rental Assistance Program	<p>Causes of Improper Payments The statistical sample showed that insufficient file documentation was the most common source of all errors (36 percent of instances assigning fault did so for this reason), followed by management agent error, "other" and mathematical or transcription errors. The lack of documentation did not permit the analyzer to determine the accuracy of the tenant certification. File documentation is a requirement of the Sections 515, 514 and 516 loan and grant programs. Failure to obtain and maintain such documentation is the fault of the borrower and his management agent.</p> <p>Corrective Action Plans After reviewing the most recent survey and determining the error findings, the national office will compile a list of these errors. The office then will submit the list to States that reported having either insufficient documentation to support the income reported on the tenant certification or management agent error in calculating the tenant's income. As part of the agency's follow-up, the field staff will review the list of errors and provide a report as to corrections that may or may not have been taken to correctly identify the errors. This report will be due back to the national office by December 31, 2005, for tabulation.</p>

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Agency	Program	Corrective Actions Planned
RD (cont'd)	Rental Assistance Program	<p>The agency implemented a number of recommendations from the prior report. Its oversight of borrowers and management agents was improved through implementation of the 7 CFR 3560, the new Multi-Family Housing regulation. Borrowers and agents are responsible for ensuring tenant incomes are verified with sufficient supporting documentation. The new regulation took effect February 24, 2005. Specifically, the two recommendations that were implemented were:</p> <ol style="list-style-type: none"> 1. HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6, Section 2: "Calculating Income and Initial Certification," provides extensive guidance regarding the procedures that borrowers should follow to assure that proper verification and income calculations are done. 2. HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 9, Section 9.14 provides guidance to the State offices regarding the use of wage and benefit matching with State Departments of Labor or similar agencies. <p>Because of the regulation's newness, the agency has not yet seen results of this improved guidance.</p> <p>While the agency responded to the prior report's findings by implementing a corrective action plan, the timing of those actions and the FY 2005 survey overlapped to some degree. Thus, the results of the corrective actions are not reflected in this report and may have impacted the error rate positively.</p> <p>The agency trained field staff as partial implementation of the prior report's training recommendation. It revised the survey instrument from the initial study to capture more responsive information. Quality assurance issues appeared to be less of a problem with this re-designed instrument. Consequently, the data reported in the FY 2005 report may be more reliable.</p> <p>Recommendations for the FY 2005 report will include the following:</p> <ol style="list-style-type: none"> 1. State offices must train field staff, borrowers and property managers in appropriate and required documentation. They also must follow-up with tenants and income-verifiers. 2. The national office will continue to pursue access to the HSS New Hires data to be shared with State Offices. This legislation currently is being prepared for OMB review. 3. Recognizing that the New Hires data access process may take some time, State offices must participate with available wage matching programs and make such data available to borrowers if permitted. Office staff must ensure that this shared data is used by borrowers and property managers. The new regulation, 7 CFR 3560, requires State offices to report quarterly on their efforts to participate in wage matching, where available. 4. The national office must complete its evaluation and restructuring of the supervisory visit procedure. These moves strengthen and provide more focus when reviewing tenant files. 5. The national office should employ an independent contractor to undertake this study in the future. An independent contractor will provide objective and impartial analysis. 6. The national office will add to the Multi-Family Housing Program's Servicing Goals. This move is a requirement for the State offices to be more aggressive in educating and training borrowers/management agents on calculating and documenting tenant's incomes.
RMA	Federal Crop Insurance Corporation Program Fund	<p>Causes of Improper Payments</p> <p>While the majority of improper payments are caused by simple error, some are related to program abuse and fraud.</p> <p>RMA renegotiated the 2005 Standard Reinsurance Agreement (SRA) to include an entirely new process. This process requires companies to review policies identified as anomalous by data mining in accordance with the Agricultural Risk Protection Act of 2000. The 2003 random sample conducted by the insurance companies required by the old SRA produced an error rate result smaller than anticipated, and therefore questioned. RMA will calculate the error rate in the FY 2006 reporting cycle. Performing the sample with RMA staff will provide more detailed information on the causes and magnitude of improper payments.</p>

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Agency	Program	Corrective Actions Planned
RMA (cont'd)	Federal Crop Insurance Corporation Program Fund	<p>Corrective Action Plans</p> <p>For 2005, RMA negotiated and entered into a new SRA with the companies who deliver crop insurance on behalf of the Federal Crop Insurance Corporation. The new SRA contains a range of new controls and requirements to improve program integrity and reduce program errors. The majority of the changes are found in Appendix III and Appendix IV to the SRA. Appendix III provides the submission requirements to the companies for the policies they write to be reinsured by FCIC. Appendix IV provides requirements and the authority for FCIC to have the companies review policies under a quality-control environment driven largely by data mining and the identification of anomalous financial behavior.</p>
NRCS	Farm Security and Rural Investment Programs	<p>Causes of Improper Payments</p> <p>A total of 1,193 payments were sampled statistically. Thirty-nine were determined to be improper. These improper payments resulted from:</p> <ul style="list-style-type: none"> • Incomplete documentation, causing 20 improper payments; • Payment share miscalculations, causing 9 of the errors; and • Procedural errors accounting for the rest. <p>Corrective Action Plans</p> <p>NRCS has developed a software feeder system as a tool to automate the contracting and payment process for many of the FSRIA 2002 programs. This tool incorporates automated edits that prevent many of the improper payment errors identified in the statistical sample.</p> <p>Beginning October 1, 2004, all contracts and payment processing for the Environmental Quality Incentives Program (Base, Klamath, and GSWC) were transferred from the Farm Service Agency (FSA) to NRCS. Of the improper payments found in the sample, 26 payments (65 percent) would not have occurred if they were processed through our feeder system.</p> <p>Currently, NRCS is in the final stages of updating the Conservation Program Contracting Manual for programs using ProTracts. The procedures outlined in the manual include information specifically addressing IPIA and the need for preventing improper payments. The Financial Management Division's (FMD) efforts to educate NRCS staff of the IPIA initiative will continue. Additionally, FMD is developing plans focused on improving the timing of field sampling and the amount of time given to return sample requests. These moves are designed to minimize the impact on NRCS field personnel.</p> <p>This was the first year IPIA sampling was performed by NRCS field offices. NRCS' FMD has engaged senior agency and program managers in every step of the process. It is committed to continuing its efforts to educate NRCS employees of the entire improper payment issues. This education and communication initiative already has resulted in an increased sensitivity to the issues and ramifications of improper payments throughout the agency.</p>

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

Improper Payment Reduction Outlook FY 2004 – FY 2007

Below is a summary-level table for all high-risk programs outlining improper payment rates for the last two years and future reduction targets. When a number cannot be provided, an explanation is provided in the notes below. Amounts represent when the sampling results are reported. USDA programs report results the year following sampling activity. For example, results reported during FY 2005 represent measures of FY 2004 outlays and program activity. This change from FY 2004 reporting was implemented to comply with OMB Circular A-136 revised August 23, 2005.

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Improper Payment Sampling Results (\$ in millions)						
Program	FY 2003 Results Reported in FY 2004			FY 2004 Results Reported in FY 2005		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Marketing Assistance Loan Program, FSA/CCC	8,768	B	B	6,400	0.70%	45
Food Stamp Program, FNS	21,371	6.64%	1,400	24,358	5.88%	1,432
School Lunch and Breakfast, FNS	8,390	C	C	8,187	C	C
Women, Infants and Children, FNS	4,764	C	C	4,812	C	C
Child and Adult Care Food Program, FNS	1,989	C	C	2,061	C	C
Milk Income Loss Contract Program, FSA	1,859	B	B	245	0.09%	0.2
Loan Deficiency Payments, FSA	650	B	B	453	1.00%	5
Wildland Fire Suppression Management, FS	625	B	B	1,980	3.70%	73
Rental Assistance Program, RD	710.3	2.59%	20	846	3.19%	27
Federal Crop Insurance Corporation Program Fund, RMA (Note A)	2,500	5.0%	125	3,170	0.89%	28
Farm Security and Rural Investment Programs, NRCS	50	B	B	1,027	1.55%	16

The following table is a detailed breakout of the FY 2004 error rates (reported in FY 2005) by type of improper payment.

Detailed Breakout of FY 2004 Improper Payment Rates reported in FY 2005 (\$ in millions)														
Program	Marketing Assistance Loan Program		Food Stamps		Milk Income Loss Contract		Loan Deficiency Payments		Wildland Fire Suppression		Rental Assistance Program		Farm Security and Rural Investment Programs	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Total Payments	6,400		24,358		245		453		1,980		846		1,027	
Total Improper Payments		0.70		5.88		0.09		1.00		3.70		3.19		1.55
Overpayments		0.70		4.48		0.09		1.00		2.79		2.07		1.44
Underpayments		0.00		1.41		0.00		0.00		0.91		1.12		0.10
Other		0.00		0.00		0.00		0.00		0.00		0.00		0.01

Improper Payment Reduction Outlook (\$ in millions)										
Program	FY 2006 Reporting FY 2005 Targets			FY 2007 Reporting FY 2006 Targets			FY 2008 Reporting FY 2007 Targets			
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$	
Marketing Assistance Loan Program, FSA/CCC	10,132	0.69%	70	10,041	0.65%	65	9,743	0.60%	58	
Food Stamp Program, FNS	29,721	6.50%	1,932	33,079	6.20%	2,051	D	E		
School Lunch and Breakfast, FNS	9,073	C		7,253	C		D	C		
Women, Infants and Children, FNS	5,070	C		5,394	C		D	C		
Child and Adult Care Food Program, FNS	2,065	C		2,161	C		D	C		
Milk Income Loss Contract Program, FSA	20	F	F	0	F	F	0	F	F	
Loan Deficiency Payments, FSA	5,124	0.95%	49	4,444	0.90%	40	3,567	0.80%	29	
Wildland Fire Suppression Management, FS	1,782	3.00%	53	1,508	2.90%	44	700	2.80%	20	
Rental Assistance Program, RD	838	2.99%	25	855	2.79%	24	836	2.59%	22	

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Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2006 Reporting FY 2005 Targets			FY 2007 Reporting FY 2006 Targets			FY 2008 Reporting FY 2007 Targets		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Federal Crop Insurance Corporation Program Fund, RMA (Note A)	2,883	4.90%	141	3,358	4.80%	161	3,321	4.70%	156
Farm Security and Rural Investment Programs, NRCS	1375	1.00%	14	1452	0.80%	12	1558	0.60%	9

NOTE A: The amount reported for FY 2004 PAR for Federal Crop Insurance Corporation Program Fund was based on an internal RMA estimation methodology and is not comparable to other numbers. The amount reported in FY 2005 is based on an industry compliance program conducted the insurance companies. While this methodology has been criticized by both RMA and the Office of the Inspector General, it is comparable to other years. The comparable FY 2004 improper payment rate was 0.52 percent. RMA is developing a new compliance testing program that will begin reporting next fiscal year. RMA's target rates are based on the expected results of this new compliance program.

NOTE B: FY 2004 was the first year of implementing the Improper Payments Information Act. Marketing Assistance Loan, Wildland Fire Suppression Management and Farm Security and Rural Investment Programs did not complete a statistical sample in FY 2004. Milk Income Loss Contract Program and Loan Deficiency Payments first were determined to be high risk in FY 2005. The FY 2005 statistical sample created the baseline error rate for all of these programs.

NOTE C: Due to the program complexity and cost of sampling, a comprehensive error rate has not been developed for School Lunch and Breakfast, WIC and CACFP. OMB has approved plans for these programs to develop an error rate to be used in the future.

NOTE D: While OMB's reporting template requires the reporting of three years of estimated outlays from the most recent President's Budget, that budget only reports two years of estimated outlays. Internal USDA estimates have been provided where available. FY 2007 estimated outlays will be updated when the FY 2007 President's Budget is issued.

NOTE E: Food Stamp targets are developed during the budget process. The FY 2007 President's Budget has not been issued.

NOTE F: The Milk Income Loss Contract Program is scheduled to end with FY 2005. FY 2004 was the last year with significant disbursements for this program. Because the program is ending, no additional statistical samples will be completed and there is no need for future targets.

V. Discussion of your Agency's Recovery Auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete the table below.

USDA conducted a recovery audit pilot program as the Forest Service using an independent recovery audit firm. USDA exempted all contracts except those in the Forest Service because the agency-developed recovery audit programs in FY 2004 were not cost effective. Additionally, the effectiveness of independent firms had yet to be proven.

Using the independent recovery audit firm, USDA has been able to increase its findings and collections dramatically in FY 2005 while reducing the cost of administering the program. This trend is expected to continue in FY 2006. Due to the success of the Forest Service pilot, USDA will expand the use of independent recovery audit firms to the entire Department in FY 2006.

Specific types of payment errors found during the course of the recovery audit process include:

- Duplicate payments;
- Unposted credit memos resulting from returned merchandise to vendors;
- Overpayment of various contractual charges, such as incorrect per diem rates;
- Improper rates charged for meals provided during fire suppression; and
- General and administrative expense recovery not provided by contract.

Additional overpayment errors included the payment of both sales tax on tangible personal property purchased and a previously voided invoice. All recovery audit information and the underlying transactions will be communicated to all Forest Service employees to reduce future errors.

FY 2005 Recovery Auditing Results (\$ in Million)						
Agency Component	Amount Subject to Review for FY 2004 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified / Actual Amount Reviewed	FY 2004 Amounts Recovered	FY 2003 Amounts Recovered
Forest Service	2,428	2,428	0.333	0.0137%	0.189	0
All Others	2,538	0	0	N/A	0	0
USDA Total	4,965	2,428	0.333	0.0137%	0.189	0

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

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. Each program’s goals and priorities are incorporated into each manager’s performance plan.

- The goal for the Food Stamp Program is to continue reducing the error rate.
- The goal for NSLP is to improve the accuracy of NSLP certifications;
- The goals for WIC are to maintain certification accuracy and continue to improve vendor management; and
- The goal for CACFP is to continue management improvements.

Forest Service (FS)

To ensure that FS management holds itself accountable for reducing and recovering improper payments, the agency has taken several steps:

- Hold accountable the entire Albuquerque Service Center (ASC) management team for compliance with IPIA through performance metrics in their performance elements;
- Issue specific policy guidance throughout the agency, emphasizing corrective actions to mitigate the causes of improper payments;
- Consolidate payment processing at ASC for more consistency; and
- Reduce future improper payments by communicating all information related to improper payment recoveries and the underlying transactions to all FS employees.

Farm Service Agency (FSA)

FSA has included performance based rating measures in each employee’s performance standards and appraisals. Managers are held accountable for program administration.

Natural Resource and Conservation Service (NRCS)

NRCS is updating performance plans that would tie back to the strategic goals of the agency. This includes measuring performance against results for all applicable elements of the President's Management Agenda. The Financial Management Division of NRCS will continue to emphasize the education of NRCS staff on the importance of internal controls and eliminating improper payments.

Rural Development (RD)

Within the Multi-Family Program, the national office establishes and ensures implementation of policy, including the achievement of certain loan servicing goals. The State offices oversee area offices, whose responsibility it is to monitor the performance of the multi-family portfolio. Area office staff makes property inspections, performs supervisory site visits, approves the amount of subsidy (RA) request and generally oversees all activity at the properties. The servicing goals have been modified to include as a State office goal a reduction in the error rate by property managers in the calculation and documentation support of RA. Servicing goal achievement is monitored quarterly and reported back to the States, the Rural Housing Service administrator and the Undersecretary for Rural Development. State directors report directly to the Undersecretary.

Risk Management Agency (RMA)

RMA has revised its strategic plan to provide results intended to enhance accountability. These results also ensure that procedures are in place to ensure future corrective actions are taken to address program vulnerabilities. Additionally, a strategic objective element has been placed into every employee's performance plan agreement for FY 2005.

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

USDA has identified 11 high-risk programs in 6 USDA agencies. The issues of information systems and other infrastructure are determined at the agency level. USDA is working to complete or revise the statistical analysis of four high-risk programs. More system and infrastructure needs may be developed as more programs complete the statistical analysis. Currently, three agencies have identified information and infrastructure improvements needed to reduce improper payments.

Farm Service Agency (FSA)

Currently, the agency is reviewing business processes and automated systems associated with programs and program delivery. This project, entitled "MIDAS," is scheduled to be implemented fully by the beginning of FY 2009. The completion date is subject to the business case being approved and funding availability to support the implementation. As part of this project, the agency reviewed current business practices and the associated software.

- Infrastructure improvements needed to reduce improper payments associated specifically with loan deficiency payments included additional funding to support the existing electronic loan deficiency payments (eLDP) software and the anticipated future enhancements. If additional funds are provided to support the eLDP Web-based software, the necessary enhancements can be made to ensure better compliance reviews and enhanced eligibility validation through mainframe centralized databases. Public and field office employees have praised eLDPs. The time savings have allowed field office

employees to review other program-related issues in more detail. This benefit has resulted in decrease in errors associated with other programs; and

- Web-based software (e-MILC) has been developed to validate eligibility entries and monthly payment rates. This software is designed to reduce the occurrence of improper payments to MILC applicants.

Systems also are needed to improve the collection of data-identifying improper payments. Currently the best measure the Agency has is reviewing the receivable activity and the statistical samples.

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 NSLP, WIC and CACFP, reduction targets cannot be established.

Risk Management Agency (RMA)

RMA recently has initiated work on a planned information technology (IT) architecture that will replace USDA's current system. The new system is expected to have far more extensive and reliable edits and other controls to assist RMA in reducing errors.

VII.B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.

Farm Service Agency (FSA)

FSA has requested \$2.6 million in the FY 2006 President's Budget to continue MIDAS.

Food and Nutrition Service (FNS)

In the President's Budget for FY 2005, FNS requested \$7 million and 77 staff years to enhance integrity in the Food Stamp and Child Nutrition Programs. Congress did not appropriate funds for this purpose at that time. Because the FY 2005 appropriation was not signed into law until well into FY 2005, FNS did not request additional resources in the budget for FY 2006, thinking that Congress would approve the new assets for FY 2005. The resources for this activity are linked to the President's Management Agenda item #3, "Improved Financial Performance," and remain a critical factor in lowering erroneous payments. Until necessary funding is received, FNS will request resources to improve integrity in Food Stamps, School Lunch/Breakfast, WIC and CACFP.

Risk Management Agency (RMA)

RMA has requested \$83 million the FY 2006 President's Budget for system improvements.

VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

Farm Service Agency (FSA)

Recoveries of improper payments are limited by the “Finality Rule.” The Department of Agriculture Reorganization Act of 1994, Section 281 provides that “[E]ach 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.”

The Farm Security and Rural Investment Act of 2002, Section 1502(d)(2), provides that the Secretary shall apply the same standards as were applied in implementing the dairy program under Section 805 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. This provision precludes the agency from developing a definition of a single unit dairy operation that can be applied consistently among States.

Food and Nutrition Service (FNS)

In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. Provisions that improve access can increase the risk of improper payments. While the risks involved vary by program, some general characterizations can be made:

a. Program administration is highly decentralized and can involve a myriad of Governmental and non-Governmental organizations. For example, there are approximately 48,000 child and adult care centers, almost 1,000 family day care home sponsoring organizations and 158,000 family home day care providers through which benefits are distributed. Many of these simply do not have the capacity to develop robust accountability processes. This puts a special burden on Federal and State oversight and technical assistance systems.

b. States and localities tend to focus on managing local funds, rather than Federal funds. One hundred percent of benefit costs and a significant portion of administrative expenses incurred by State agencies are funded by Federal appropriations. Although this distribution of costs has contributed to the strength of the nutrition safety net with national eligibility standards and program access, States and localities may be expected to put a higher priority on managing programs funded with local revenues than those subsidized by the Federal Government.

c. Proper implementation of nutrition assistance programs requires a high degree of accuracy. This accuracy helps to ensure that benefits generally are well-targeted to those most in need, uniformity of access across the country and that benefits only can be used for food. Despite the standards, their exacting nature creates a significant number of opportunities for error.

Rural Development (RD)

The Rural Housing Service (RHS) is seeking legislation similar to that of the U.S. Housing and Urban Development. The legislation would permit access to the U.S. Health and Human Services’ “New Hires” data. RHS also wants the legislation to allow borrowers and their management agents to have access to the data. Borrowers and agents collect and verify the tenant’s income documentation.