

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 of its 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 entering 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 for recovering amounts erroneously paid to the contractors. In FY 2005, Eliminating Improper Payments became a President’s Management Agenda (PMA) initiative. On August 10, 2006, government-wide guidance was consolidated into OMB Circular A-123, Management’s Responsibility for Internal Control, Appendix C. Under this guidance, USDA has 4 programs required to report under Section 57 of A-11 and has identified an additional 11 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 2006, USDA maintained “yellow” status by:

- Completing risk assessments for all programs;
- Developing plans to measure improper payments for all high risk programs and receiving OMB approval;
- Developing corrective action plans to reduce improper payments and establishing both reduction and recovery targets for all high risk programs;
- Fully complying with reporting standards;
- Reporting component error rates for two Food Nutrition Service programs for the first time; and
- Reporting statistical error rates for four newly declared high risk programs.

The Farm Service Agency (FSA) made improvements to the quality of its risk assessments and statistical sampling. Unfortunately, these improvements resulted in significant increases in improper payment rates for programs already designated as high risk, and four additional programs being declared susceptible to improper payments. The improved statistical sampling focused on verifying program eligibility and uncovered administrative weaknesses that prevent FSA from determining if payments are proper. Thus, the Commodity Credit Corporation (CCC) is reporting an increase of \$3.5 billion in estimated potential improper payments in this report. Aggressive corrective action plans are being developed to improve the quality of documentation for program eligibility.

USDA will be able to move to “green” status when error rates are available for all programs and it demonstrates that reduction and recovery goals are being met. Due to budget and program constraints, this process can be complicated. For the programs without an estimated error rate, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages.

Additionally, USDA is taking steps to implement recovery auditing fully. Using an independent recovery audit contractor working on contingency, USDA identified \$379,000-worth of potentially recoverable improper payments. The Department has recovered \$538,000 in FY 2006 from amounts identified during FY 2005 and 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 process 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 amount of improper payments needed to meet the reporting standards;
- A description of the program including purpose and basic eligibility requirements;
- Definition of improper payments specific to the program;
- Program vulnerabilities linked to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Internal controls testing;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements (optional); and
- Description of how improper payments are recovered (optional).

USDA has identified the following 15 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 (MAL)	
	Food Nutrition Service (FNS)	Food Stamp Program	
		National School Lunch & School Breakfast Programs (NSLP-SBP)	
		Special Supplemental Nutrition Program for Woman, Infants and Children	
USDA Identified as Susceptible to Significant Improper Payments	Farm Service Agency (FSA) Commodity Credit Corporation (CCC)	Milk Income Loss Contract Program	
		Loan Deficiency Payments	
		Direct and Counter-Cyclical Payments	
		Conservation Reserve Program	
		Disaster Programs	
	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)	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p> <p>That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.</p>
FNS	Food Stamp Program (FSP)	<p><u>Statistical sampling</u></p> <p>Each month, States select a statistically random sample of cases from a universe of all households receiving FSP benefits for that given month. Most States draw the samples using a constant sampling interval. There are some which employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State agencies with small FSP populations to more than 1,000 for larger States. The average is approximately 950 per State. States are required to complete at least 98 percent of selected cases deemed to be part of the desired FSP universe. Federal sub-samples are selected systematically by FNS from each State's completed reviews. These sample sizes range from 150 to 400 per State.</p> <p><u>Error Rate Calculation</u></p> <p>The National payment error rate is calculated using a multi-step process: Each State agency conducts quality control (QC) reviews of the monthly sample of cases. The QC review measures the accuracy of eligibility and benefit determinations for each sampled case against FSP standards. State agencies are required to report to FNS the findings for each case selected for review. FNS then sub-samples completed State QC reviews and re-reviews selected individual case findings for accuracy. Based on this sub-sample, FNS determines each State agency's official error rate using a regression formula. The national payment error rate then is computed by averaging the error rate of the active cases for each State weighted by the amount of issuance in the State.</p>
FNS	National School Lunch & School Breakfast Programs (NSLP-SBP)	<p>The results of a large national study of improper payments in NSLP and SBP, for School Year 2005-2006, are anticipated to be reported next year. Because of the scope and cost of this kind of 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 improper payment measurement estimate every five years. Additionally, as part of the current project, FNS intends to develop a methodology that uses data available from extant sources to estimate improper payments annually on a NSLP component.</p> <p>The sampling plan for the large national study involves the selection of a national probability sample of school food authorities (SFA), schools, certified students and their households, and households that applied for and were denied benefits. In the first stage of sampling, a stratified random sample of 80 SFAs was selected. Stratification variables included geographic region, prevalence of schools with SBP and those using Provision 2/3 and a poverty indicator. In the second stage of sampling, three schools, on average, were selected from SFAs that do not have Provision 2/3 schools. Schools were stratified</p>

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Agency	Program	Sampling Process
FNS (Cont'd)		<p>into two groups: (1) elementary schools and (2) middle and high schools. A total of 264 schools were selected for the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, households were selected in 240 of these schools. This process was designed to yield completed interviews for 3,600 students certified for free and reduced-price meals, and 400 denied applicant households. The sample of approved and denied applicant households was augmented by sampling applications from Provision 2/3 schools in which household surveys were not conducted. The study design includes approximately 4,500 application reviews to estimate a case-error rate due to administrative error. All schools selected for application reviews also would include data collection for counting and claiming errors.</p> <p>In the interim (before the nationally representative improper payments rate is available), FNS is reporting a component measure drawn from annual on-site reviews focused on the certification and verification process. One important source of certification error is (SFA errors in certifying and verifying applications. In 2002, on-site reviews were conducted of the application verification process at 14 SFAs. This activity determined that 6 percent of the SFAs' verification determinations were incorrect due to administrative errors. USDA worked with Congress to develop and adopt legislative changes to address certification accuracy. These changes included mandating direct certification, year-long certifications and household applications. FNS has worked with States and local education agencies to implement these improvements rapidly. Beginning in FY 2005, FNS has conducted an annual review of a statistical sample of SFA application eligibility determinations. This sample will be used to measure changes in administrative error rates, assess the impact of its corrective action, and target and focus future activities. The national benefit status error rate on applications for school year 2004-05 is 4.3 percent (± 0.95, 90 percent confidence interval based on 2,766 applications). 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>
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	<p>FNS plans to continue periodic examinations of WIC certification and vendor error.</p> <ul style="list-style-type: none"> • Certification Error—The next decennial national study to measure certification error in WIC is scheduled for 2008. This study will, for the first time, include a measurement of the amount of improper payments associated with certification error. Previous studies preceded IPIA and did not include any value determination of improper payments. • Vendor Error—A study of WIC vendor management recently has been completed. A national improper payments estimate of vendor charges, for FY 2005 activity, is reported in Section IV. For the next few years, FNS will generate an annual update of this improper payment measurement using statistical techniques. Options to accomplish this using existing administrative and other data are being examined. <p>The “bookend” study data will be aged by data reported annually by all WIC State agencies to produce estimates for FY 2006 and annually until the next bookend study. State WIC agencies are required to investigate at least 5 percent of their authorized vendor population each year. Some States investigate more than the minimum. In FY 2004, approximately 10 percent of all vendors were investigated, although there is substantial variation across States. These data are collected into The Integrity Profile Report and database on a fiscal-year basis. The investigations check for vendor violations including overcharging and charging for foods not received by the recipient. While States primarily select vendors for investigation through purposive sampling from their presumed high risk vendors, some include a random component in their sampling. Moreover, the state-of-the-art in identifying “high risk” vendors is imperfect and there is a semi-random aspect to the samples. Thus, FNS can generate an improper payment amount by using post-stratified sampling techniques to adjust for the purposive aspects of the samples. The Food Stamp Program pioneered the use of post-stratified sampling methods to estimate food-stamp trafficking. FNS believes it can adapt the food stamp methodology for the WIC vendor estimates. The agency will develop and test the methodology. 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>

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Agency	Program	Sampling Process
FNS	Child and Adult Care Food Program (CACFP)	<p>Two measures of the Family Day Care Home component of the program are planned. The methods for determining these measures are:</p> <ul style="list-style-type: none"> • Sponsor Tiering Error—National study of a representative sample of sponsor files for 3,150 family day care homes (FDCHs) in 95 distinct sponsors in 14 States. Data collectors went to each sampled sponsor with randomly drawn lists of 30 to 90 FDCHs. They extracted the necessary documents to establish eligibility for reimbursements from the sponsors' files. The FY 2005 results are reported in Section IV below. • Meal Claiming Error—Two methods of estimating the risk of claiming error will be tested for feasibility. Both approaches compare the number of participants observed during the monitoring visit to the average number of meals claimed for reimbursement for the meal or snack closest to the time of the visit. Each approach a) provides an estimate of the risk of claiming error among FDCH providers; b) involves a different set of problems (which may or may not be surmountable); and c) requires very different resource implications. <p>FNS will pilot both approaches in conjunction with the 11 Child Care Assessment Project (CCAP) reviews scheduled for FY 2007. A sample size (for the pilot) of 200 FDCHs is anticipated. Data collection forms already have been developed for each approach to facilitate standardized collection and data entry.</p>
FSA/CCC	Milk Income Loss Contract Program (MILC)	<p>MILC only disbursed approximately \$9 million in FY 2005. USDA suspended improper payment sampling because of the low level of outlays since the program expired as of September 30, 2005. The program was reauthorized for two years in February 2006 and sign up for the new MILC ended in May 2006. Outlays for FY 2006 were \$351 million, exclusive of accruals. There will be a statistical sampling of the FY 2006 activity using the same approach as defined for Marketing Assistance Loan and Loan Deficiency Payment program activity.</p>
FSA/CCC	Loan Deficiency Payments	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p> <p>That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.</p>
FSA/CCC	Direct and Counter-Cyclical Payments (DCP)	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p> <p>That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative</p>

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Agency	Program	Sampling Process
FSA/CCC (Cont'd)		<p>guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.</p>
FSA/CCC	Conservation Reserve Program (CRP)	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program being tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p> <p>That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria that is drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to the CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by CORP staff that visited the county offices and completed the actual reviews of documents.</p>
FSA/CCC	Disaster Programs (CDP)	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's (FSA) County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p> <p>That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division administrative criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.</p>
FSA/CCC	Noninsured Assistance Program (NAP)	<p>Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS).</p> <p>Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level.</p> <p>Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.</p>

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Agency	Program	Sampling Process
FSA/CCC (Cont'd)		That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FS	Wildland Fire Suppression Management	Wildland Fire Management – Suppression has been deemed a high risk account and as such, the sample had to be a statistically based sample. For FY 2006, the fund had 13,553 payments made. Accordingly, a sample size of 166 was selected using a random number generator. The sample was selected using a 90-percent confidence level, anticipated rate of occurrence of 2.9 percent and a desired precision range of 5 percent.
RD	Rental Assistance Program	<p>The agency reviewed the sampling plan developed by the U.S. Department of Housing and Urban Development for its studies. It engaged an Rural Development (RD) statistician to prepare a similar plan for this report. This report is based on a review of tenants receiving RA during their occupancy beginning September 1, 2005, to May 31, 2006. This period was selected since the actual rental assistance payment is made one month following the occupancy date. Thus, the universe covers the fiscal year to date. RD plans another review in November/December 2006 that will cover the full FY 2006 period. The sampling plan consisted of 665 rental assistance (RA) payments from a universe of 2,330,334 or .029 percent. The methodology produced a sample with a 99-percent confidence level. The study required field staff to evaluate tenant files and income calculations. The agency did not test if RD's deputy chief finance office paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and the implementation of an automation enhancement to improve data entry.</p> <p>The universe of rental assistance payments during the period of September 1, 2005, to May 31, 2006, was 2,330,334. The only parameter used to determine the eligible universe was the RA payment. No other data element, such as location, size of property, number of units and availability of other rental assistance (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS). The extract contained a list of all tenants receiving RA who occupied the unit as of September 1, 2006, for payment as of October 1, 2006. The data included month of payment, project name, project identifier (case number/project number) and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. Once the sample was identified, an unnumbered letter dated July 11, 2006, was issued to RD field staff that explained the process (including detailed instructions), provided the list of tenant payments to be reviewed and provided the data currently maintained in MFIS. These data were used as the baseline review of the tenant data comparison between the Agency records and the management agent's tenant files. The survey instrument was revised this year and reduced from a two-page to a one-page questionnaire. The study asked State office staff to complete the survey for the selected tenant payments. There was to be no substitution of the selected payment and, if the management agent was unable to submit the file, the payment would be considered unauthorized assistance.</p>
RMA	Federal Crop Insurance Corporation Program Fund	RMA drew 300 random 2004 crop year indemnities to review during 2005. It will repeat this process for three years to compile 900 random indemnity reviews that will be used to identify the RMA program-error rate. Limited resources make it impractical to conduct a statistically valid program review each year. Despite these limits, in combination with the National Operations Reviews conducted by RMA compliance personnel, these random reviews of paid indemnities should provide the program with sufficient data to establish an acceptable error rate for the purposes of the IPIA.
NRCS	Farm Security and Rural Investment Programs	<p>The Farm Security and Rural Investment Program was treated as six individual programs following the apportionment schedule:</p> <ul style="list-style-type: none"> • Environmental Quality Incentive Program; • Wildlife Habitat Incentive Program; • Wetland Reserve Program; • Grassland Reserve Program; • Farm and Ranch Land Protection Program; and • Conservation Security Program (CSP).

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Agency	Program	Sampling Process
NRCS (Cont'd)		<p>As shown in section IV, the Farm Security and Rural Investment Program has reported an improper payment rate of less than 2.5 percent for the last 2 years. The Farm Security and Rural Investment Program also met its FY 2006 reduction and recovery targets. As a result of this demonstrated ability to reduce improper payments, we anticipate that OMB will authorize the removal of all but CSP from the high risk list. Starting in FY 2007, USDA anticipates that only CSP will be sampled statistically and reported in the PAR.</p> <p>Risk assessments were developed for each program with the Financial Management Division and the National Program Managers. Using last year's risk assessments and corrective action plans, NRCS identified any new risks and internal controls to test. It reviewed internal and external reviews and audits to eliminate duplication of effort and incorporated testing of any new internal controls implemented as a result of the reviews and audits. Statutory and program changes as they related to IPIA were considered.</p> <p>Individual program samples were statistically selected from the universe of payments made to participants during FY 2005. Anticipated error rates were based on the actual ones determined from the results of last year's sampling and anticipated impact of ProTracts. NRCS used a rigorous confidence level of 95 percent and precision range of 5 percent to select the number of samples. A total of 765 samples were selected.</p> <p>Questionnaires unique for each program were developed with the program managers. Sample payment data were merged into the questionnaires. These questionnaires were sent to State and field offices to complete and return with supporting documentation. The questionnaires are a tool for re-enforcing program rules and a means to obtain verification of items which would not be readily available in a contract file.</p> <p>NRCS started the implementation of individual program review checklists. They were created by the Financial Management Division based on the risk assessments and internal controls selected for testing. As samples were returned, the agency used the review checklist to test the effectiveness of the selected internal controls. This ensured testing consistency by the review team. We also tested payment calculations, contracting policy adherence, and issues from last year's sampling.</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 (MAL)	<p>A large percentage of the improper payments was caused by noncompliance with administrative procedures. While failure to follow administrative procedures may not have caused the payment to be disbursed in error, it is not possible to determine whether the payment was appropriate without the documentation. For example, it was determined that a producer who did not certify whether it had a delinquent Federal non-tax debt but still received a payment was considered an improper one. In such cases, while the producer may have been a legitimate recipient, because he or she failed to indicate his or her status this was considered an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate. The State and county offices involved in the statistical sample have been notified of the findings and the necessary corrective actions.</p> <p>FSA corrective action plans for reducing improper payments include:</p> <ul style="list-style-type: none"> • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample's findings and overall MAL program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address MAL policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal control procedures to avoid these types of errors;

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Agency	Program	Corrective Actions Planned
FSA/CCC (Cont'd)		<ul style="list-style-type: none"> • Enhancing existing software and/or developing automated programs that verify program eligibility and compliance, subject to funding; • Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the MAL approval process without compromising program integrity; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating. • Leveraging the Treasury Offset Program System (TOP) to verify Debt Collection Improvement Act (DCIA) compliance. This, in turn, may eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP for the purpose of verifying DCIA compliance for producers requested LDP benefits; and • Amending existing regulations to eliminate inadequate program compliance controls. A final rule amending regulatory language requiring lien searches and filing of financing statements on loan amount \$25,000 or less is going through Departmental clearance and will be published in the <i>Federal Register</i> upon final signature.
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 can 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, 56.7 percent of the errors were agency caused. A little more than 50 percent of the errors (50.4 percent) were income related and caused by client misreporting or the agency misapplying the reported income. Misreporting or misapplying deductions was the second largest source of errors at 31.6 percent.</p> <p>The analysis of the FY 2005 data is scheduled for release in early 2007.</p> <p>Steps that are (or will be) taken to address specific findings in the last statistical sample:</p> <p>Program regulations require State agencies to analyze data to develop corrective action plans to reduce or eliminate 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 QC 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>Steps that are (or will be) taken to improve the overall control environment and improper payments:</p> <p>FNS, through its regional offices, works directly with States to impart the importance of payment accuracy and correct payments to State leadership. The agency also helps those leaders develop 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.

OTHER ACCOMPANYING INFORMATION

Agency	Program	Corrective Actions Planned
FNS (Cont'd)		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 development of effective corrective action.
FNS	National School Lunch & School Breakfast Programs (NSLP-SBP)	<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 annually. 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. In June 2006, FNS published the results of the certification and verification reporting for school year 2004-05. The report indicates that approximately three quarters of certified students were subject to verification, with the remainder directly certified. Among all verified applications, the majority were found to be consistent with their certification status. Thirty-three percent of verifications resulted in a change in certification status, with 21 percent of those resulting from non-response to the verification request. For school year FY 2004-05, SFAs were permitted to choose among three methods for selecting applications for verification. Results varied substantially by method. Verification results for school year 2005-06 currently are being reported and analyzed. As a result of a legislative change designed to better target error-prone applications, these data will reflect changes in verification sampling procedures by SFAs. They will not be directly comparable to the school year 2004-05 data.</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. It also has established the first improper payments rate. An improper payments rate for school year 2005-06 is anticipated to be available by August 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 improper payment measurement every five years. Additionally, as part of the current project, FNS intends to develop a methodology that uses data available from other sources to measure improper payments on a component of the NSLP annually.</p>
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	The data from the study of vendors in 2005 indicating a very low level of WIC vendor improper payments are reported in Section IV below. Corrective action plans and reduction targets will be developed in FY 2007 and submitted to OMB for approval.
FNS	Child and Adult Care Food Program (CACFP)	The data from the new FDCH teiring accuracy determination and the Child Care Assessment Project (CCAP) are being analyzed. Corrective action plans and reduction targets will be developed in FY 2007 and submitted to OMB for approval.
FSA/CCC	Milk Income Loss Contract Program (MILC)	<p>While statistical sampling of MILC was not required due to limited activity in FY 2005, FSA has concluded that that this program will benefit from many of the corrective actions targeted for CCC programs delivered through the field office structure. As with the other programs, it should be noted that compliance with the administrative procedures may have prevented the improper payment from being disbursed. For example, it was determined that a producer who did not certify whether he or she had a delinquent Federal non-tax debt but still received a payment was considered an improper payment. In such cases, while the producer may not have been a delinquent debtor and was entitled to receive the applicable payment, he or she failed to indicate his or her status, making it an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate.</p> <p>FSA corrective action plans for reducing improper payments include:</p> <ul style="list-style-type: none"> • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample findings and overall program compliance concerns in the various programs. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address MILC policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal-control procedures to avoid these types of errors; • Enhancing existing software and/or develop automated programs that verify program eligibility and compliance, subject to funding;

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Agency	Program	Corrective Actions Planned
FSA/CCC (Cont'd)		<ul style="list-style-type: none"> • Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating. • Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the MILC approval process without compromising program integrity; and • Leveraging the Treasury Offset Program System (TOP) to verify Debt Collection Improvement Act (DCIA) compliance. This, in turn, may eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP to verify DCIA compliance for producers requesting MILC benefits.
FSA/CCC	Loan Deficiency Payments (LDP)	<p>A large percentage of the improper payments were caused by noncompliance with administrative procedures. It should be noted that compliance with these procedures may have prevented the improper payment from being disbursed. For example, it was determined that a producer who did not certify whether they had a delinquent Federal non-tax debt but still received a payment was considered an improper payment. In such cases, while the producer may not have been a delinquent debtor and was entitled to receive the applicable payment, he or she failed to indicate his or her status, making it an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate. The State and county offices involved in the statistical sample have been notified of the findings and the necessary corrective actions.</p> <p>FSA corrective action plans for reducing improper payments include:</p> <ul style="list-style-type: none"> • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample findings and overall LDP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address LDP policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal control procedures to avoid these types of errors; • Enhancing existing software and/or developing automated programs that verify program eligibility and compliance, subject to funding; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating. • Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls in an effort to simplify the LDP approval process without compromising program integrity; and • Leveraging the Treasury Offset Program System (TOP) ability to verify Debt Collection Improvement Act (DCIA) compliance. This may in turn eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP for the purpose of verifying DCIA compliance for producers requested LDP benefits.
FSA/CCC	Direct and Counter-Cyclical Payments (DCP)	<p>A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, while a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file, he or she is paid DCP benefits. It has been determined that the producer's DCP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer then files the form. In this instance, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure.</p> <p>The Office of Management and Budget Circular A-123, Appendix A identifies administrative compliance as a key internal control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of potential improper payments. Administrative procedures include obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.</p>

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Agency	Program	Corrective Actions Planned
FSA/CCC (Cont'd)		<ul style="list-style-type: none"> • FSA's corrective action plan for reducing improper payments includes the following actions developed under. <p>A-123's plan:</p> <ul style="list-style-type: none"> • Provide training on key controls to field personnel and educate them on the importance of control procedures and the potential noncompliance risks. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning management system. Then, and the training will be followed by communications and job aids to help facilitate compliance to controls; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director; and • Integrate the employee's individual results into his/her annual performance rating. <p>In addition to the A-123 corrective action plans, FSA's plans for reducing improper payments include:</p> <ul style="list-style-type: none"> • Developing a Power Point training presentation addressing the statistical sample findings and overall DCP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office personnel; and • Reiterating current program policies regarding program compliance through the issuances of National notices to State and County office personnel.
FSA/CCC	Conservation Reserve Program (CRP)	<p>A large percentage of the improper payments was caused by noncompliance with administrative procedures. The internal controls in place to support compliance with these procedures likely would have prevented the improper payment from being disbursed. For example, a producer who certified performance of the practice on the AD-245, page 2, after the practice expiration date but still received a cost-share payment was considered an improper payment. However, the producer may not have certified after the practice expiration date, the expiration date may have been extended but not indicated on the form or entered into the system. Because the extension was not updated on the form or in the system, this was considered an improper payment. The State and county offices involved in the statistical sample will be notified of the findings and the necessary corrective actions. FSA is requiring that all necessary corrective actions be completed no later than October 27, 2006, unless noted otherwise.</p> <p>FSA's corrective action plans for reducing improper payments include:</p> <ul style="list-style-type: none"> • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing an AgLearn training presentation addressing the statistical sample findings, overall CRP program compliance concerns and the program in general. This AgLearn presentation will be made available to all State executive directors and office employees to assist when training county office employees. FSA will investigate required training using AgLearn as a pre-condition of using CRP software. Training presentations will be prioritized based on the findings of this plan; • Requiring State executive directors to resolve compliance issues that resulted in an improper payment; • Enhancing existing Web-based software and retiring legacy systems to tie all program payments more closely to a single contract file. This migration will reduce the potential that contract payment documents and records will contain inconsistent or out-of-date information; • Reviewing existing policy and procedure to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the CRP payment process without compromising program integrity; and • Requiring county offices with potential improper payments identified to review the payment and determine if it was proper had the procedures been followed. If not, the county office must establish a receivable, and take action to recover the overpayment and afford appropriate appeal rights.

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Agency	Program	Corrective Actions Planned
FSA/CCC	Disaster Programs (CDP)	<p>A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file. However, the producer is paid CDP benefits. It has been determined that the producer's CDP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer files the AD-1026. In such a case, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure.</p> <p>OMB's Circular A-123, Appendix A, identifies administrative compliance as a key internal control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of potential improper payments. Administrative procedure includes obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.</p> <p>FSA's corrective action plan for reducing improper payments includes the following actions developed under A-123's plans:</p> <ul style="list-style-type: none"> • Training field personnel on key controls and teaching the importance of control procedures and the potential risks of noncompliance. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning-management system. Communications and job aids then will follow to help facilitate compliance to controls; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program-related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive directors; and • Integrate the employee's individual results into his/her annual performance rating. <p>Additionally, FSA's corrective action plan for reducing improper payments includes:</p> <ul style="list-style-type: none"> • Developing a Power Point training presentation addressing the statistical sample findings and overall CDP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office (CO) employees; and • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel.
FSA/CCC	Noninsured Assistance Program (NAP)	<p>A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file. However, the producer was paid NAP benefits. It has been determined that the producer's NAP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer files the form. In such a case, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure.</p> <p>OMB Circular A-123, Appendix A, identifies administrative compliance as a key internal-control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of improper payments. Administrative procedure includes obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.</p> <p>FSA's corrective action plan for reducing improper payments includes the following actions developed under the A-123 Review Team's plan:</p> <ul style="list-style-type: none"> • Training field personnel on key controls and teach the importance of control procedures and the potential risks of noncompliance. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning management system. Communications and job aids then will follow to help facilitate compliance to controls; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program-related payment transactions. A sample of five producer payments will be selected for each employee for quarterly testing. The results from these tests will be included as part of the employee's annual performance plans for the county, district and State executive directors; and • Integrate the employee's individual results into his or her annual performance rating. • Additionally, FSA's corrective action plan for reducing improper payments includes: Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel.

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Agency	Program	Corrective Actions Planned
FS	Wildland Fire Suppression Management	<p>The first part of the corrective action plan has been implemented. The centralization of finance and budget to a central location has allowed standardization of the payment process. Additionally, the Internal Quality Assurance organization is enacting the requirements of OMB's A-123 Appendix A. Thus, the internal controls relating to payments have been evaluated. Efforts also are underway to remediate any processes where controls have failed. Finally, improper payment patterns found from reviewing the results of IPIA and Recovery Auditing will result in recommendations to agency leaders for improvement in specific areas.</p>
RD	Rental Assistance Program	<p>The agency now is implementing a corrective action plan because of the report's findings. Thus, the results of the corrective actions are not reflected in this report and may have impacted the error rate positively. The error rate increase is attributed to a change in the sampling plan and the revision to the survey form which captured more responsive information. Quality assurance issues appeared to be less of a problem with this re-designed instrument. Consequently, the data reported in this report may be more reliable. RD notes that, although the error rate increased, the dollar impact of the errors fell from \$27 million in FY 2005 to \$22.4 million in FY 2006. Recommendations for the FY 2006 report are the following:</p> <ul style="list-style-type: none"> • Errors found in this report must be followed up by Loan Servicers within the next three months and achieve resolution; • State offices must train field staff, borrowers and property managers in appropriate required documentation and follow-up with tenants and income-verifiers; • The national office will continue to pursue access to the U.S. Department of Health and Human Services new hires data to be shared with State offices. This legislation currently is being prepared for review by OMB; • 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. State office staff must ensure that such shared data are used by borrowers and property managers. The new regulation, 7 CFR part 3560, requires State offices to report quarterly on their efforts to participate in wage matching, where available; • The national office must complete its evaluation and restructuring of the supervisory visit procedure to strengthen and provide more focus when reviewing tenant files; • The national office should employ an independent contractor to undertake this study in the future. An independent contractor will provide objective and impartial analysis; • The national office will add to the Multi-Family Housing Program's Servicing Goals a requirement for State offices to be more aggressive in educating and training borrowers/management agents on calculating and documenting tenant's incomes; • Add to HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6 – Project Occupancy, a check sheet for property management agents to review when verifying assets, income and adjustments to income; • Add to HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6 – Project Occupancy, a check list of required tenant file documentation; and • Develop a "Fact Sheet" for MFH tenants explaining their responsibilities and rights regarding income disclosure and verification.
RMA	Federal Crop Insurance Corporation Program Fund	<p>RMA is in the second year of the three-year review cycle established to determine the improper payment rate for the Federal Crop Insurance Program. The agency identified a lower-than-expected rate in the first round of random sampling, 1.90 percent absolute error. Despite this finding, the agency will not have a completed benchmark established until the review of 2006 crop year indemnities has been completed and reported in 2008. RMA negotiated and executed a new Standard Reinsurance Agreement starting in 2005. That agreement emphasizes improved quality controls and enhanced penalties that together should encourage participating companies who sell and service Federal crop insurance policies to improve the improper payments rate.</p>
NRCS	Farm Security and Rural Investment Programs	<p>Causes of improper payments identified in NRCS' risk assessments for Farm Bill programs can be categorized into four areas; statutory compliance, program compliance, eligibility and payment calculation. Each of the six programs the agency sampled had their own unique program rules which were incorporated into its testing. Three external audits on programs and one on its contracting tool, ProTracts, were in various stages of finalization during the planning and conducting of NRCS' IPIA work. As initial findings of these audits as they applied to IPIA were incorporated into its review, NRCS tried to not duplicate work and testing already performed. At the time of the review, no audit finding indicated an improper payment was determined by an audit. Specific internal controls resulting from these audits would not have been in effect for its sample period but will be tested once implemented.</p> <p>After reviewing the 765 samples NRCS found 24 improper payments. Starting with FY 2005, EQIP payments were made through the agency's new contracting tool, ProTracts. Business rules and internal controls built into ProTracts helped eliminate many of the types of improper payments we found last year. This year, the</p>

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Agency	Program	Corrective Actions Planned
NRCS (Cont'd)		<p>agency tested the internal controls that relate to program documentation, eligibility and payment calculation. NRCS found no instances of errors made by the software for program documentation and eligibility. It did find minor payment calculation errors due to a rounding routine under certain conditions and included these in the error rate. This error previously was known to exist and was corrected when discovered during the fiscal year. Our sampling of ProTracts originated payments (more than half of all samples) produced 5 of these errors. None were found after the rounding routine was corrected.</p> <p>Two manually calculated payment errors were found on program payments made outside of ProTracts. One was a transposition while the other was a typing error.</p> <p>Documentation issues for program compliance continue to be a source of improper payments. In all cases, the errors were on manually generated contracts and not related to ProTracts. NRCS found 11 improper payments where documents were not completed according to program rules or were missing entirely. These will be included in its report to leadership. NRCS is planning to convert all open manual contracts in the WHIP program to ProTracts in the next year. This would have eliminated 20 percent of the errors found in this program. The agency plans on strengthening its quality assurance testing and updating its contracting manual to address these issues.</p> <p>The potential for a participant to receive payment from more than one program for the same practice was found in two samples as the field offices completed the questionnaires. The Farm Bill prohibits payments for the same practice from different programs on the same tract of land in the same fiscal year. An April 26, 2006, external audit issued by the General Accounting Office on CSP highlighted this issue. A management decision will be made when that audit is final and NRCS is developing plans to implement the appropriate corrective action. Meantime, field offices have corrected the contracts to prevent the duplication of payments. NRCS is working on a way to uncover these cross over payments.</p> <p>Participant eligibility was a target area for this year's testing. Specifically, NRCS tested for Highly Erodible Land compliance, Wetland compliance and Adjusted Gross Income determinations. ProTracts has automated eligibility determinations for contracts and payments made through that tool. Field personnel would need to manually verify eligibility before making payments for programs outside of ProTracts. NRCS found four instances where eligibility determinations were not made prior to the payment. Two were manual transactions made outside of ProTracts. During the review, NRCS determined that the participant was in compliance when these two payments were made. Another error involved the adjusted gross income determination on a payment to an entity. This was a contract converted into ProTracts and not reconciled properly by the field at conversion. There is no record of receiving the AGI certification. The fourth error was a payment for a structural practice where the file did not support claims the participant had control of the land.</p> <p>Three errors were found in the calculation of easement purchase prices. One of our programs, the Wetland Reserve Program, underwent an OIG audit last year. The audit recommended improvements. NRCS has modified its conservation easement appraisal process to adopt procedures and processes for real estate acquisition consistent with Uniform Standards of Professional Appraisals and the Uniform Appraisals Standards for Federal Land Acquisition (aka "Yellow Book). NRCS has hired a chief appraiser who will review all administrative reviews of appraisals and conduct a technical review on all appraisals exceeding \$1 million. In February 2006, NRCS issued a national bulletin to address the remaining recommendation. These modifications to NRCS' easement acquisition process shall prevent improper payments. Recovery of the improper amounts found in its sample will be attempted.</p> <p>NRCS found one occurrence of a payment charged to Farm and Ranch Land Protection (FRPP) in error. FRPP only permits payments to co-operating entities to supplement the purchase of easements. All other costs are to be borne by the partnering co-operating entity. In this instance the payment was attributed to human error in entering the fund code. The transaction was corrected to the appropriate fund.</p> <p>The results of this years sampling will be reported to leadership. This information will be passed down to all State offices so that all may benefit from weaknesses found or where improvements can be made. Where specific action is needed to correct an error or where recovery is warranted, the State conservationist will be contacted.</p>

IV. Based on the Rate(s) Obtained in Step III, Set Annual Improvement Targets through FY 2007.

Improper Payment Reduction Outlook FY 2005 – FY 2008

The following tables contain summary level information 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.

Improper Payment Sampling Results (\$ in millions)						
Program	Reported in FY 2005			Reported in FY 2006		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Marketing Assistance Loan Program, FSA/CCC	6,400	0.70%	45	7,950	20.26%	1,611
Food Stamp Program, FNS	24,358	5.88%	1,432	28,160	5.84%	1,645
National School Lunch & School Breakfast Programs, FNS [Note #1]	6,407	N/A	N/A	6,506	N/A	N/A
Women, Infants and Children, FNS [Note #2]						
Total Program	3,422	N/A	N/A	3,525	N/A	N/A
Certification Error Component	3,422	N/A	N/A	3,525	N/A	N/A
Vendor Error Component	3,422	N/A	N/A	3,525	0.60%	21
Child and Adult Care Food Program, FNS [Note #2]						
Total Program	2,061	N/A	N/A	2,065	N/A	N/A
FDC Homes – Tiering Decisions	888	N/A	N/A	864	1.80%	16
FDC Homes – Meal Claims	888	N/A	N/A	864	N/A	N/A
Milk Income Loss Contract Program, FSA/CCC [Note #3]	245	0.09%	0.2	9	N/A	N/A
Loan Deficiency Payments, FSA	453	1.00%	5	4,790	9.25%	443
Direct and Counter-Cyclical Payments, FSA/CCC [Note #4]	N/A	N/A	N/A	8,546	4.96%	424
Conservation Reserve Program, FSA/CCC [Note #4]	N/A	N/A	N/A	1,815	3.53%	64
FSA Disaster Programs, FSA/CCC [Note #4]	N/A	N/A	N/A	2,365	12.30%	291
Noninsured Assistance Program, FSA/CCC [Note #4]	N/A	N/A	N/A	109	22.94%	25
Wildland Fire Suppression Management, FS [Notes #2 & #5]						
Total Program	1,980	N/A	NA	725	N/A	N/A
Component Sampled	497	3.70%	18	285	2.49%	7
Rental Assistance Program, RD [Note #6]	846	3.19%	27	569	3.49%	22
Federal Crop Insurance Corporation Program Fund, RMA [Note #7]	3,170	0.89%	28	3,206	1.92%	62
Farm Security and Rural Investment Programs	1,027	1.55%	16	1,375	0.22%	3

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Detailed Breakout of Improper Payment Rates Reported in FY 2006 (\$ in millions)

	2006 Outlays	2006 Rate	2006 Improper Payments	Incorrect Disbursements (Dollars)	Incorrect Disbursements (Percentage)	Incomplete Paperwork (Dollars)	Incomplete Paperwork (Percentage)
Marketing Assistance Loan (FSA)	\$7,950	20.26%	\$1,611	\$17	0.21%	\$1,594	20.05%
Loan Deficiency Payments (FSA)	\$4,790	9.25%	\$443	\$53	1.11%	\$390	8.14%
Direct and Counter-Cyclical (FSA)	\$8,546	4.96%	\$424	\$67	0.78%	\$357	4.18%
Conservation Reserve Program (FSA)	\$1,815	3.53%	\$64	\$10	0.55%	\$54	2.98%
FSA Disaster (FSA)	\$2,365	12.30%	\$291	\$56	2.37%	\$235	9.94%
Nonissured Assistance (FSA)	\$109	22.94%	\$25	\$3	2.75%	\$22	20.18%
Food Stamp (FNS)	\$28,160	5.84%	\$1,645	\$1,645	5.84%	\$0	0.00%
Women, Infants, and Children (FNS)	\$3,525	0.60%	\$21	\$21	0.60%	\$0	0.00%
Child and Adult Care Food (FNS)	\$2,065	1.80%	\$16	\$16	0.77%	\$0	0.00%
Wildland Fire Suppression Management (FS)	\$725	2.49%	\$7	\$0	0.10%	\$7	2.39%
Rental Assistance (RD)	\$569	3.49%	\$22	\$22	3.87%	\$0	0.00%
Federal Crop Insurance Corporation (RMA)	\$3,206	1.92%	\$62	\$62	1.93%	\$0	0.00%
Farm Security and Rural Investment/ Conservation Security	\$2,695	0.22%	\$3	\$2	0.09%	\$1	0.02%
Total	\$66,520	6.97%	\$4,634	\$1,975	2.97%	\$2,659	4.00%

Future Reduction Targets for Improper Payments (\$ in millions)

Program	FY 2007 Estimates			FY 2008 Estimates			FY 2009 Estimates		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Marketing Assistance Loan Program, FSA/CCC	4,565	18.00%	685	3,205	14%	256	10,050	10.00%	251
Food Stamp Program, FNS [Note #8]	30,588	6.20%	1,896	32,168	5.8%	1,866	TBD	5.7%	TBD
National School Lunch & School Breakfast Programs, FNS [Note #8]	7,623	TBD	TBD	7,777	TBD	TBD	TBD	TBD	TBD
Women, Infants and Children, FNS [Note #8]	5,170	TBD	TBD	5,185	TBD	TBD	TBD	TBD	TBD
Child and Adult Care Food Program, FNS [Note #8]	2,074	N/A	N/A	2,074	N/A	N/A	TBD	TBD	TBD
Milk Income Loss Contract Program, FSA/CCC	351	16.00%	56	330	9.00%	30	N/A	N/A	N/A
Loan Deficiency Payments, FSA/CCC	4,839	9.00%	436	4,258	6.00%	255	5,257	4.00%	131
Direct and Counter-Cyclical Payments, FSA	8,962	6.00%	538	7,317	5.00%	439	6,483	4.00%	259
Conservation Reserve Program, FSA/CCC	1,973	8.20%	158	2,100	6.00%	168	2,236	4.00%	56
Disaster Programs, FSA [Note #9]	159	17.00%	27	192	18.00%	33	N/A	N/A	N/A
Noninsured Assistance Program, FSA/CCC	102	26.00%		312			309	17.00%	
Wildland Fire Suppression Management, FS	407	1.00%	4	410	0.80%	3	406	0.60%	2
Rental Assistance Program, RD	769	3.44%	26	781	2.94%	23	793	2.44%	19
Federal Crop Insurance Corporation Program Fund, RMA [Note #10]	3,321	4.70%	156	3,300	4.60%	152	3,300	4.50%	149
Farm Security and Rural Investment Programs	291	0.80%	2	482	0.60%	2	556	0.50%	2

Note #1: The NSLP-SBP programs plan to report error rates for the 2005-2006 school year in the FY 2007 report. The national benefit status error rate reported in FY 2006 on applications for school year 2004-2005 is 4.3 percent.

Note #2: WIC, CACFP and the Wildland Fire Suppression Management all tested components of their total program. WIC tested a component of the payment process on a sample of all outlays. CACFP tested a component of the payment process of a component of the total outlays. Wildland Fire Suppression Management tested all of the payment process on a component of the total outlays. While Wildland Fire Suppression Management tested the higher risk vendor payments, it did not test the lower risk outlays related to salaries.

Note #3: MILC was not tested in FY 2006 due to very low outlays during FY 2005. Testing will resume in FY 2007 reviewing outlays during FY 2006. MILC expires, September 30, 2007. Thus, no outlays are expected beyond FY 2007.

Note #4: The DCP, CRP, CDP and NAP programs were declared high risk in FY 2006. No testing was performed or required in FY 2005.

Note #5: USDA is revising the FY 2005 results for the Wildland Fire Suppression Management program. Only the portion of the program related vendor payments was sampled and the 3.7-percent error rate should be applied only to that component of the program. The remaining component of the program, salaries, was not considered susceptible to improper payments and not sampled. The entire program will be sampled for FY 2007 reporting.

Note #6: FY 2005 and FY 2006 results were based on partial samples of the current fiscal year. Starting with FY 2007 reporting, the statistical sample will be based on the entire prior fiscal year. This will result in both the FY 2006 and FY 2007 reporting results being based on FY 2006 outlays.

Note #7: Both the FY 2005 and FY 2006 reports show results of the 2004 crop year. The FY 2005 report was from a industry compliance review performed by the insurance companies. The FY 2006 report is based on an internal review performed by government staff.

Note #8: FNS programs will develop FY 2008 estimated outlay projections and reduction targets as part of the FY 2008 budget process. Currently, only the Food Stamp reduction target is available.

Note #9: The program currently is not authorized in FY 2008 and does not have any estimated outlays.

Note #10: RMA has completed the first third of a three year testing cycle. Until all three years are complete, RMA cannot statistically project an error rate.

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 expanded its recovery audit program to seven additional agencies in FY 2006. The remaining smaller programs were excluded from the review. All agencies used an independent recovery audit firm working on contingency.

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

- Open credits identified on vendor statements - \$373,860.53; and

■ Duplicate payments \$5,556.10

Steps taken to reduce future errors include strengthening internal controls by providing information related to all recovered monies and the underlying transactions to management. Additionally, training that indicates the causes of improper payments made is provided to various Forest Service employees.

The most successful method of identifying funds to be recovered has been the review of vendor statements. Vendor statement reviews for FY 2006 were delayed until August 2006. USDA anticipates that these reviews will result in significant recoveries during FY 2007. Most amounts identified during FY 2006 were due to the vendor statements reviews started in FY 2005.

FY 2006 Recovery Auditing Results (\$ in Million)						
Agency Component	Amount Subject to Review for FY 2006 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified /Actual Amount Reviewed	FY 2006 Amounts Recovered [Note #12]	FY 2005 Amounts Recovered
Forest Service	2,385.313	2,385.313	0.005	0.00%	0.164	0.189
Natural Resources Conservation Service	1,745.703	1,745.703	0.000	0.00%	0.000	N/A
Agricultural Research Service	484.787	484.787	0.000	0.00%	0.000	N/A
Animal Plant Health Inspection Service	815.532	815.532	0.374	0.05%	0.374	N/A
Farm Service Agency	178.361	178.361	0.000	0.00%	0.000	N/A
Food Safety and Inspection Service	89.636	89.636	0.000	0.00%	0.000	N/A
Rural Development	152.272	152.272	0.000	0.00%	0.000	N/A
Agricultural Marketing Service	93.061	93.061	0.000	0.00%	0.000	N/A
All Others	1,604.000	0.000	N/A	N/A	N/A	N/A
USDA Total	7,548.665	5,944.665	0.379	0.01%	0.538	0.189

Note #12 Amounts recovered in FY 2006 include some recoveries identified in FY 2005.

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.

FSA

The following steps have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- The A-123 Project Team's corrective action plan requires compliance testing as part of performance review criteria. To enhance the importance of compliance at the individual employee level, a sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance review and rating. Moreover, these results will be rolled up into the performance plans for the county, district and State executive directors;

- National and State office Federal managers must ensure that program policies and procedures are provided to State and county office employees accurately and on time. Federal managers also responsible, as reflected in the performance based rating measures, for overall program administration at the national level;
- All county office employees are charged with paying producers and following all administrative steps in doing so. When program payments are made improperly, the tool of disciplinary action is available; and
- The Deputy Administrator for Field Operations (DAFO) will facilitate necessary meetings among the respective program areas. These meetings organized by DAFO would discuss additional action necessary for senior management to address accountability.

FNS

FNS 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 goal for the Food Stamp Program is to continue to reduce the error rate. The agency goals and priorities are incorporated into each manager's performance plan.

FS

The entire Albuquerque Service Center management team is held accountable by performance metrics that include compliance with the Improper Payments Information Act. Additionally, the agency chief financial officer will provide disbursement performance information to the agency head as part of the performance appraisals for senior leadership.

RD

RD has incorporated all the goals and objectives of the President's Management Agenda (PMA) including IPIA in the performance standards for all senior executive service positions. Additionally, the field offices will incorporate a new servicing goal to implement reduction actions as part of their servicing goal compliance requirements.

RMA

RMA has revised its strategic plan to provide results to enhance accountability. It also has established procedures to ensure RMA management takes future corrective actions to address program vulnerabilities. Additionally, a strategic objective element was placed into every employee's performance plan agreement beginning in FY 2005.

NRCS

NRCS has incorporated all of PMA's goals and objectives, including IPIA, in the performance standards for all senior executive service positions. These also are planned to be included in the regional assistant chiefs and state conservationist performance plans this year.

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.

VII B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2007 budget submission to Congress to obtain the necessary information systems and infrastructure.

While USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. USDA has worked closely

with OMB to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

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.

FSA/CCC

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.” This statute commonly is referred to the “Finality Rule.”

FNS

The 2002 Farm Bill restricts the liability levels States can be sanctioned due to high error rates. It also restricts the amount of bonus funding available to States that do a good job reducing and maintaining a low error rate. Additionally, in many instances the goal of providing easy access to benefits must be balanced with the goal of reducing improper and erroneous payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is decentralized and can involve a myriad of governmental and non-governmental organizations;
- States and localities tend to focus on managing local funds, rather than Federal funds; and
- Proper implementation of nutrition-assistance programs requires a high accuracy rate.

IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges as a result of IPIA implementation.

USDA has no additional comments.