



U.S. Department of Agriculture

Office of Inspector General  
Midwest Region



# **Audit Report**

## **Cooperative State Research, Education and Extension Service's Progress to Implement the Improper Payments Information Act of 2002**

Report No. 13601-0001-Ch  
February 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: February 8, 2006

REPLY TO

ATTN. OF: 13601-0001-Ch

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

THROUGH: Ellen Danus  
Chief  
Policy, Oversight, and Funds Management Branch  
Office of Extramural Programs

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Cooperative State Research, Education and Extension Service's Progress  
to Implement the Improper Payments Information Act of 2002

This report presents the results of our audit of the Cooperative State Research, Education and Extension Service's (CSREES) fiscal year (FY) 2005 efforts to implement the Improper Payments Information Act (IPIA) of 2002.<sup>1</sup> Our audit of CSREES was conducted as part of a Departmentwide effort to evaluate the progress to implement the IPIA, focusing on the most recent guidance issued by the Office of the Chief Financial Officer (OCFO). Our review of the risk assessment completed for extension activities funded under the Smith-Lever Act—one of four CSREES programs with estimated outlays of \$50 million or more—disclosed that sufficient evidence had not been compiled to support CSREES' conclusion that the program was at low risk for improper payments. As a result, we were unable to verify that the agency's ranking of the program was appropriate.

## **BACKGROUND**

In November 2002, the President signed the IPIA, Public Law (P.L.) 107-300, which requires the head of each agency to annually review all programs and activities the agency administers to identify those that may be susceptible to significant improper

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<sup>1</sup> Public Law (P.L.) 107-300, November 26, 2002.

payments. For each program or activity identified, the agency is required to estimate the annual amount of improper payments. If the estimate is over \$10 million, the agency must also report the estimate to Congress along with the actions the agency is taking to reduce those improper payments. In May 2003, the Office of Management and Budget (OMB) issued guidance to agencies for estimating and reporting improper payments. As the lead agency for coordinating and reporting the Department's efforts to implement the IPIA, OCFO provided additional instructions to USDA agencies in August and October 2003.

In FY 2004, we performed audits of six agencies, including CSREES,<sup>2</sup> to determine whether the agencies performed risk assessments in compliance with the OMB and OCFO guidance for implementing the IPIA. Our review of CSREES' risk assessments disclosed that, rather than conducting a risk assessment for each program as a basis for determining the programs level of risk to improper payments, the agency inappropriately limited their process to a mathematical calculation. CSREES officials multiplied program outlays by 2.5 percent, and if less than \$10 million, they concluded that individual risk assessments were not required and thus they did not have to determine if controls were in place to mitigate the risk that improper payments occurred.<sup>3</sup> We also performed an audit of OCFO<sup>4</sup> in FY 2004, to evaluate its actions to implement the IPIA—specifically, its efforts to assess the Department's programs for the risk of improper payments. Based on the results of that audit and the conditions reported in the agency audit reports, we recommended that OCFO strengthen its guidance to agencies for performing risk assessments.

OCFO issued more prescriptive guidance in November and December 2004. The revised OCFO guidance included specific instructions for agencies to follow in order to meet IPIA requirements, focusing on those programs most likely to be at significant risk for improper payments. The guidance divided programs into six categories, ranging from programs with less than \$10 million in program outlays to programs exceeding \$400 million in program outlays. As part of the guidance, OCFO issued instructions for performing tests of transactions in each program to determine the effectiveness of internal controls in preventing improper payments. To support their conclusions regarding programs' susceptibility to improper payments, agencies were to include the results of these tests in each program's risk assessment. The guidance also included key milestones for agencies to submit information, allowing OCFO and OMB to assess the agencies' progress in completing all risk assessments by the established deadline of April 30, 2005.

## **OBJECTIVE**

The objective of the audit was to assess the adequacy of CSREES' implementation of OCFO's revised guidance regarding improper payment reporting requirements, including

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<sup>2</sup> CSREES Compliance with the Improper Payments Information Act of 2002, Audit No. 13601-2-At, dated January 2005.

<sup>3</sup> OMB defined significant improper payments, when additional actions to quantify the amount of improper payments and develop corrective actions are required, as annual improper payments exceeding both 2.5 percent of program outlays and \$10 million. See OMB Memorandum M-03-13, dated May 21, 2003.

<sup>4</sup> USDA Compliance with the Improper Payments Information Act of 2002, Audit No. 50601-8-Ch, dated January 2005.

(1) agency actions to conduct risk assessments of selected programs and report results to OCFO, and (2) agency conclusions that programs were at low risk for improper payments.

### **SCOPE AND METHODOLOGY**

We performed our audit of CSREES compliance with the IPIA at CSREES headquarters in Washington, D.C. We conducted our fieldwork from July through August 2005. The audit was performed in accordance with *Government Auditing Standards*.

We reviewed the risk assessments submitted to OCFO as of April 30, 2005, and judgmentally selected CSREES' extension activities which are funded under the Smith-Lever Act, with an estimated outlay totaling \$275.9 million for FY 2005. We based our selection on our preliminary analysis of vulnerability criteria, outlay dollars, and the extent and adequacy of the risk assessment documentation provided to OCFO. This program represented 40 percent of the estimated outlays for the 4 CSREES programs that fell into OCFO's top 3 categories for program outlays.

To accomplish our audit objectives, we interviewed the appropriate officials and reviewed the following documents:

- the IPIA, OMB guidance, and OCFO directives,
- regulations, program procedures, and handbooks,
- prior Government Accountability Office (GAO) and Office of Inspector General (OIG) reports,
- FY 2005 budget summaries, and
- agency risk assessments.

### **FINDING AND RECOMMENDATION**

#### **CSREES DID NOT PERFORM ADEQUATE TESTS OF TRANSACTIONS**

Since our FY 2004 audit, CSREES had improved its process for performing risk assessments by identifying major vulnerabilities to improper payments and the internal control measures needed to mitigate those risks. However, our review disclosed that the agency had not compiled and analyzed sufficient information to support the low risk ranking it assigned this program in the FY 2005, risk assessment. Specifically, the agency had not developed a thorough test of transactions to evaluate the program's controls over improper payments, as required by OCFO guidance. While CSREES officials had performed a test of transactions for the award phase of the grant process, they had not developed a test of transactions to address the effectiveness of the controls in the post award phase of the grant process. CSREES officials stated that the process

had not been staffed properly. We concluded that controls were not in place, as evidenced by inadequate staffing and incomplete tests of transactions, to provide reasonable assurance that the risk assessment process adhered to OCFO's guidance. As a result, the conclusions CSREES reached and submitted to OCFO in the annual risk assessment may not be correct.

According to OCFO guidance,<sup>5</sup> agencies must, as part of their program risk assessments, test a judgmentally selected sample of transactions "to determine the effectiveness of program design and internal controls in the prevention of improper payments."

CSREES reported in its risk assessment that improper payments in the Smith-Lever Program can occur in either the award or post-award phase of grant funding. However, the objectives of the detailed testing set forth in the risk assessment was limited to determining if funds were released to the proper recipient, for the correct amount, and whether the grantees met matching fund requirements prior to the release of funds by the agency. The critical program vulnerability of grant funds being improperly spent (for purposes not in accord with the grant agreement) was therefore not addressed as an objective of the testing.

CSREES did not visit the institutions or conduct any other tests to verify that the grant recipients spent the Federal funds appropriately in the post award-phase. The risk assessment identified controls in the post award phase as consisting of reviewing progress reports, communicating with key university personnel, and making site visits to grantees. The purpose of the tests of transaction in the risk assessment process, in part, is to evaluate the adequacy of the design of the control structure and its functionality. If the tests are not performed, no assurances can be garnered.

CSREES officials, therefore, did not have sufficient information to support their conclusion that the Smith-Lever Program was at low risk for improper payments.

The Chief of the Policy Oversight and Funds Management Branch explained the lack of staff, specifically the difficulty in recruiting a senior staff accountant, contributed to their inability to properly assess the program. However, she stated that CSREES intends to develop a test of transactions to better evaluate the effectiveness of internal controls over improper payments for FY 2006. In addition, she stated they anticipate having a senior accountant by the end of FY 2005, to assist in meeting OCFO requirements and to better evaluate the effectiveness of internal controls in FY 2006.

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<sup>5</sup> USDA FY 2005 Tests of Transactions Guidance, dated December 8, 2004.

**RECOMMENDATION**

Strengthen internal controls over the risk assessment process to provide for adequate staffing and oversight designed to identify and correct areas where OCFO's guidance was not met.

**AGENCY POSITION**

CSREES concurred with the recommendation in its response, dated December 13, 2005, (see exhibit A). To improve oversight, CSREES hired a senior staff accountant on October 17, 2005, and will now perform transaction testing for the post award phase of the grant process at six land-grant institutions each year as part of its annual vulnerability assessments. CSREES will complete its risk assessment process, including onsite post award transaction testing, by February 28, 2006, which is in agreement with OCFO requirements.

**OIG POSITION**

We concur with the management decision. For final action, CSREES needs to follow its internal procedures and provide OCFO a copy of CSREES' risk assessment process for conducting annual vulnerability assessments including onsite post award transaction testing.

Final action on management decision should be completed within 1 year of the date of management decision to preclude being listed in the Department's annual Performance and Accountability Report.

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

# Exhibit A – Agency Response

Exhibit A – Page 1 of 2



United States  
Department of  
Agriculture



Cooperative State  
Research, Education,  
and Extension Service

Washington, DC  
20250-2200

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ATTN OF: 13601-0001-Ch

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

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

FROM: Colien Hefferan *Colien Hefferan*  
Administrator

SUBJECT: Cooperative State Research, Education, and Extension Service's Progress  
to Implement the Improper Payments Information Act of 2002

This is in response to your November 7, 2005, memorandum elevating the discussion draft report to the official draft report of the subject audit which specifies corrective action(s) taken or planned on the audit recommendation and proposed completion date(s) for implementing such actions. Your objective was to assess the adequacy of the Cooperative State Research, Education, and Extension Service's (CSREES) implementation of the Office of the Chief Financial Officer's (OCFO) revised guidance regarding improper payment reporting requirements, including (1) agency actions to conduct risk assessments of selected programs and report results to OCFO, and (2) agency conclusions that programs were at low risk for improper payments. Your office found that CSREES had not compiled sufficient evidence to validate its conclusion that extension activities funded under the Smith-Lever Act were at low risk for improper payments. As a result, the Office of Inspector General (OIG) was unable to verify that CSREES' ranking of the program was appropriate. Our response to the audit recommendation is below.

## RECOMMENDATION

*Strengthen internal controls over the risk assessment process to provide for adequate staffing and oversight designed to identify and correct areas where OCFO's guidance was not met.*

Using the guidance provided by OCFO, CSREES performed a test of transactions for the award phase of Smith-Lever Act grant funds. Thirty awards were sampled accounting for 45.5 percent

## **Exhibit A – Agency Response**

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Exhibit A – Page 2 of 2

of the program funds. No exceptions were found that would indicate that internal controls would not prevent improper payments and no improper payments were found.

CSREES listed six reasons for possible post-award improper payments by the recipients but did not perform a test of transactions. Independent public accountants audit these reasons for concern and report on the financial statements, the scope and results of testing internal controls, and compliance with the laws, regulations, and provisions of contracts and grant agreements. They also express an opinion concerning financial statements and compliance. CSREES monitors the audit reports of the independent public accountants and follows-up on any findings of inadequacy and the recipients' proposed or established corrective actions to ensure proper use of Federal funds. Until now, due to a lack of oversight staffing at the time, CSREES primarily relied on these independent audit reports to be apprised of exposure to program vulnerabilities in the post award phase. With the hire of a Senior Staff Accountant, on October 17, 2005, we will test transactions for the post-award phase. Beginning in fiscal year 2006, CSREES has planned to conduct at least six site visits each year (i.e., one 1862 land-grant institution in each of the four regions, one 1890 land-grant institution, and one 1994 land-grant institution) as part of the post-award component of its annual vulnerability assessments. The scope of each site visit (approximately two days) will be to sample transactions for the purposes of determining that grant expenditures are allowable and support the approved project efforts.

CSREES is continuing to meet on a regular basis with other USDA agencies participating in the IPIA Work Group under the auspices of OCFO to successfully comply with IPIA for FY 2006. The IPIA Work Group members are responsible for fully implementing the IPIA. OCFO is leading the effort by (1) developing and reporting departmental plans; (2) establishing and communicating timelines and key milestones; (3) developing templates and training agency staff on the requirements; and (4) informing senior USDA management if milestones and goals are not being met and working with management in implementing corrective action. The work group is charged with (1) identifying specific risk factors of each individual program; (2) establishing internal controls that mitigate identified risks; (3) developing and communicating proposals for additional resources and the removal of implementation barriers; (4) procuring statistical and/or auditing services, as necessary; and (5) developing plans/reports and reporting progress to OCFO while adhering to OCFO and OMB guidance/requirements. CSREES is in agreement with the OCFO schedule to complete its FY 2006 IPIA risk assessments by February 28, 2006. All transaction testing, including on-site post-award transaction testing, also will be completed by February 28, 2006.

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



Informational copies of this report have been distributed to:

Administrator, Cooperative State Research, Education and Extension Service	
Through: Chief, Oversight, and Funds Management Branch	5
U.S. Government Accountability Office	1
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	1
Office of Management and Budget	