



United States Department of Agriculture
Office of Inspector General





United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: May 18, 2012

AUDIT
NUMBER: 10024-0001-11

TO: David White
Chief
Natural Resources Conservation Service

ATTN: Lesia Reed
Deputy Chief
Strategic Planning and Accountability

FROM: Gil H. Harden
Assistant Inspector General
for Audit

SUBJECT: Fiscal Year 2011 Natural Resources Conservation Service Improper Payment
Review

This report presents the results of the subject audit. Your written response to the official draft report, dated April 12, 2012, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your response, we were able to accept management decision on all recommendations in the report, and no further response to us is necessary.

In accordance with Departmental Regulation 1720-1, final action is required to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your agency's internal procedures in forwarding documentation for final action correspondence to the Office of the Chief Financial Officer, Director, Planning and Accountability Division.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

Table of Contents

Executive Summary	1
Background and Objectives	3
Section 1: NRCS Internal Controls to Identify, Report, and Recover Improper Payments under IPERA	5
Finding 1: NRCS’ Annual Improper Payment Estimate May Be Understated	5
Recommendation 1	8
Recommendation 2	9
Finding 2: NRCS Did Not Adequately Track and Monitor Improper Payments.....	10
Recommendation 3	11
Section 2: NRCS Compliance with Executive Order 13520, Reducing Improper Payments	12
Finding 3: NRCS Did Not Have a Process to Identify and Report High- Dollar Overpayments	12
Scope and Methodology.....	14
Abbreviations	15
Agency’s Response	17

Fiscal Year 2011 Natural Resources Conservation Service Improper Payment Review

Executive Summary

The Natural Resources Conservation Service (NRCS) provides financial and technical assistance to private landowners and producers to help them conserve, maintain, and improve their natural resources. NRCS determined that financial assistance payments under its Farm Security and Rural Investment Act (FSRI) programs are at a high-risk for improper payments.^{1,2} NRCS must annually estimate and report its improper payments under the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and quarterly report high-dollar overpayments associated with these programs under an Executive Order.³ We reviewed NRCS' management controls to identify and report improper payments as required.

Eleven of the 17 payments we selected did not have sufficient documentation to support the participant's eligibility, and the remaining 6 had inconsistent documentation reviews. In particular, seven were subject to no eligibility review. Under the Office of Management and Budget guidance, a payment should be considered improper if there is insufficient documentation to support it. This occurred because, apart from developing a general IPERA review form, NRCS had not developed formal guidance for the IPERA review process. Further, the review form was used for all FSRI programs, yet it did not reflect the unique document requirements of each. Therefore, we questioned the accuracy of NRCS' fiscal year 2011 improper payment estimate of \$11 million, and believe that it is understated by at least \$9 million which represents the 7 payments that were not subject to eligibility review.

NRCS said that all these issues stemmed from its lack of resources, as the division responsible for tracking improper payments had two full-time staffers and did not have time to review the work done by State offices and contracted IPERA evaluators. NRCS officials stated that they did not plan on developing a review form for each program due to resource constraints, but they are working to enhance the general review form to include specific eligibility criteria and documentation requirements. NRCS officials also stated that, in fiscal year 2012, NRCS will test each payment sample to verify that the recipient was eligible.

We also found that NRCS did not develop a dependable and centralized method for recording, tracking, and monitoring improper payments. Instead, it used multiple manual methods; such as

¹ NRCS' FSRI programs include the Farm and Ranch Lands Protection Program, Wildlife Habitat Incentive Program, Wetlands Reserve Program, Environmental Quality Incentives Program, Grassland Reserve Program, Conservation Security Program (which was succeeded by the Conservation Stewardship Program under the Food, Conservation, and Energy Act of 2008), Agricultural Maintenance Assistance, Healthy Forest Reserve Program, Chesapeake Bay Watershed Program (which was authorized by the Food, Conservation, and Energy Act of 2008), and Agricultural Water Enhancement Program.

² In general, an improper payment is any payment that should not have been made or that was made in an incorrect amount. An improper payment also includes any payment made to an ineligible recipient or for an ineligible good or service. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, the payment must be considered improper.

³ Executive Order 13520, *Reducing Improper Payments*, November 20, 2009.

creating spreadsheets, monitoring open account logs, and following up on untimely payments to identify and report improper payments. As a result, NRCS' national office could not effectively monitor improper payments to ensure accurate reporting and tracking.

Similarly, NRCS did not have an effective system in place to track its high-dollar overpayments, as required by the Executive Order. Even though a previous audit identified high-dollar overpayments as an issue in a FSRI program, NRCS did not report any high-dollar overpayments in fiscal year 2010 and the first quarter of fiscal year 2011.⁴ NRCS was developing, but had not yet completed, a formal process to identify and report high-dollar overpayments by the time it was required to report such information. As a result, NRCS management was unaware of the magnitude of high-dollar overpayments and could not take actions to reduce whatever overpayments may have occurred.

During our fieldwork, NRCS developed a new process to track improper payments, requiring States to use a standard spreadsheet template to report on all improper payments, regardless of amount. However, NRCS did not promulgate its new process in agency procedure or policy, and did not require continuous reporting of these tracking efforts. Creating a permanent process will ensure that field staff are continuously aware of the need for timely, accurate information on improper payments.

Recommendation Summary

NRCS should develop and implement formal guidance for the annual IPERA review process, encompassing all phases of payment and the unique characteristics of each program. In addition, NRCS should develop and implement a quality assurance process to review State office document submissions and contractors' work. Finally, NRCS should implement permanent processes for identifying, tracking, and reporting improper payments. We noted during the course of this review that NRCS took effective measures to correct its high-dollar overpayment reporting issues; therefore, we do not make any recommendations related to high-dollar reporting at this time.

Agency Response

In its written response, dated April 12, 2012, NRCS concurred with the audit findings and recommendations. Excerpts from the response and the Office of Inspector General's (OIG) position have been incorporated in the relevant sections. The written response is included in its entirety at the end of the report.

OIG Position

Based on NRCS' written response, OIG accepts management decision on all three recommendations.

⁴ *Natural Resources Conservation Service Conservation Security Program* (10601-0004-KC, June 25, 2009).

Background and Objectives

Background

The Natural Resources Conservation Service (NRCS) is the primary Federal agency that works with private landowners and producers to help them conserve, maintain, and improve their natural resources by providing financial and technical assistance through various programs. NRCS determined that payments to participants who implement conservation measures under its Farm Security and Rural Investment Act (FSRI) programs, known as financial assistance payments, were at a high-risk for improper payments.⁵ According to the Department of Agriculture's (USDA) fiscal year 2011 Performance and Accountability Report (PAR), NRCS estimated that it made \$11 million in improper payments (a .80 percent error rate) in fiscal year 2010, in total for all FSRI programs.

In general, an improper payment is any payment that should not have been made or that was made in an incorrect amount. Incorrect amounts are overpayments or underpayments made to eligible recipients. An improper payment also includes any payment made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, the payment must be considered improper.

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 amended the Improper Payments Information Act of 2002 (IPIA).⁶ Both IPERA and IPIA require agencies to conduct annual risk assessments to identify programs susceptible to significant improper payments (high-risk programs), and annually measure and report improper payment estimates for those high-risk programs. IPERA expands agencies' use of recovery audits that look for overpayments, outlines actions that non-compliant agencies must implement, and requires the Office of Inspector General (OIG) to conduct compliance reviews.

A 2009 Executive Order on reducing improper payments requires Federal agencies with high-risk programs to report high-dollar overpayments on a quarterly basis to its OIG.⁷ The Office of Management and Budget (OMB) defines a high-dollar overpayment as any in excess of 50 percent of the correct amount of the intended payment, with different thresholds for individuals and entities.^{8,9}

⁵ NRCS' FSRI programs include the Farm and Ranch Lands Protection Program (FRPP), Wildlife Habitat Incentive Program (WHIP), Wetlands Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), Grassland Reserve Program (GRP), Conservation Security Program (CSP) (which was succeeded by the Conservation Stewardship Program (CStP) under the Food, Conservation, and Energy Act of 2008), Agricultural Maintenance Assistance (AMA), Healthy Forest Reserve Program (HRFP), Chesapeake Bay Watershed Program (CBWP) (which was authorized under the Food, Conservation, and Energy Act of 2008), and Agricultural Water Enhancement Program (AWEP).

⁶ IPERA: Public Law 111-204, July 22, 2010; IPIA: Public Law 107-300, November 26, 2002.

⁷ Executive Order 13520, *Reducing Improper Payments*, November 20, 2009.

⁸ OMB Circular A-123, Appendix C, Part III, *Requirements for Implementing Executive Order 13520: Reducing Improper Payments*, March 22, 2010.

⁹ The definition applies when the total payment to an individual exceeds \$5,000, or to an entity exceeds \$25,000, whether as a single payment, or in cumulative payments for the quarter.

NRCS is a decentralized agency where the responsibility for identifying, reporting, and recovering improper payments involves various divisions. We did not perform site visits at the State offices; therefore, we do not provide conclusions or specific recommendations related to the State offices' ability to identify and report improper payments. At NRCS Headquarters, the Quality Assurance Division (hereinafter referred to as Quality Assurance) is responsible for ensuring that NRCS' improper payment reporting complies with Federal requirements. Quality Assurance then shares the data with USDA's Office of the Chief Financial Officer (OCFO), which is responsible for reporting USDA's overall improper payment data.

For fiscal year 2011, NRCS used a contractor to perform its IPERA review. The contracted evaluators statistically selected 350 payments and relied on a review form developed by Quality Assurance to conduct their analysis.¹⁰ NRCS developed this review form to facilitate its annual IPERA review; the form listed various documents the evaluators should obtain from State offices to support that a payment was valid.

Objectives

Our objectives were to evaluate the adequacy of management controls established by NRCS to ensure program integrity and prevent improper payments; and to evaluate NRCS actions for reducing improper payments, as mandated by the Executive Order. This report focuses on NRCS' national level management controls associated with identifying and reporting improper payments in accordance with IPERA and the Executive Order.

¹⁰ NRCS called this form a Selected Sample Record Lead Sheet.

Section 1: NRCS Internal Controls to Identify, Report, and Recover Improper Payments under IPERA

Finding 1: NRCS' Annual Improper Payment Estimate May Be Understated

We found that 11 of the 17 payments reviewed did not have sufficient documentation to support the determination that the participant was eligible. For 7 of these payments, NRCS did not review eligibility as part of the IPERA review.¹¹ For the 4 payments where it did review eligibility, NRCS did not review adequate documents to support its determination. For 6 of the 17, NRCS recorded that certain documents were not applicable to the program in question, even when it used those same documents to evaluate other payments in the same program. This occurred because, apart from the review form, NRCS had not developed formal guidance for the IPERA review process. It did not provide adequate instructions to its evaluators, who had not previously performed an IPERA review for NRCS, and it created a single review form for all FSRI programs that did not reflect the unique document requirements of each. As a result, we questioned the accuracy of NRCS' fiscal year 2011 improper payment estimate of \$11 million. Because NRCS' documentation did not justify eligibility for the seven payments we identified, we believe this estimate is understated by at least \$9 million.

If an agency review is unable to discern whether a payment was proper as a result of insufficient documentation or no documentation, OMB guidance states that the payment should be considered improper and included in the agency's estimate of improper payments. Based on the OMB guidance, agencies should review the entire lifecycle of the payment from eligibility to the recipient receiving a payment.^{12,13} Finally, OMB emphasizes consistency in applying internal control standards, and NRCS stated that its standard review form would foster consistency during the review.^{14,15}

In 2006, we assessed NRCS' compliance with the IPIA and determined that; overall, NRCS was in compliance and reviewed payments for their entire lifecycle.¹⁶ However, during our current review, we learned that the individuals who had previously performed NRCS' reviews were no longer doing so, and that NRCS had not sufficiently documented its process from previous years. Thus, NRCS officials and contracted evaluators conducted the fiscal year 2011 review without adequate knowledge of previous practices. They also experienced some difficulties determining which documents were and were not relevant for certain programs.

¹¹ The 11 payments included 1 FRPP payment, 1 HFRP payment, 1 AWEP payment, 2 CSP payments, 3 WRP payments, and 3 EQIP payments.

¹² OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (M-11-16), April 14, 2011.

¹³ OMB allows agencies to focus their review on individual components in areas posing the highest risk of improper payments; however, this option must be documented by agencies in the Performance and Accountability Report (PAR) and approved by OMB prior to implementation.

¹⁴ OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

¹⁵ NRCS Fiscal Year 2011 *Measurement Plan*, October 20, 2010.

¹⁶ *Improper Payments – Monitoring the Progress of Corrective Actions for High Risk Programs in Natural Resources Conservation Service* (10601-0003-Ch, June 12, 2006).

OCFO requires USDA agencies to describe the steps they will take to test sampled payments through each phase of the payment lifecycle. Prior to performing an IPERA review, USDA agencies must submit a plan that explains sampling methodology, how they will test each phase of the payment lifecycle, and when the review will be complete.¹⁷ NRCS' 2011 plan stated that its IPERA review would test each sample using a review form designed for each FSRI program, as each has its own rules. However, the form NRCS ultimately created was not designed for specific programs, and instead provided a list of documents that may or may not be applicable to a particular program.

Of the 350 payments NRCS sampled for its IPERA review, we selected a non-statistical sample of 17 payments for 6 FSRI programs. We assessed whether NRCS reviewed each payment through the lifecycle. Though NRCS fully and adequately documented its sample selection process, it did not adequately document its evaluation process, especially when validating eligibility. NRCS' IPERA review focused on validating payments after a contract or agreement was issued. Though the form did include a step to validate eligibility, officials acknowledged that eligibility was not "specifically tested" in all payment samples.

By taking this approach, NRCS did not fully address one of the highest risk areas for improper payments, as noted by the Department in its risk assessment guidance.¹⁸ We also note that NRCS has a history of making payments to ineligible participants. For example, in response to our 2009 audit that identified ineligible CSP participants, NRCS determined that it paid at least \$2.2 million in such payments.¹⁹ Thus, we believe that eligibility is a key factor in any improper payment assessment.

Reviewers Did Not Adequately Validate Eligibility

State offices did not submit eligibility support for 7 of the 17 sample payments we selected. Thus, although the review form required a review of "any documentation that validates eligibility," the evaluators had no such documents to review.²⁰ We also saw no evidence that the evaluators contacted the State offices to obtain the eligibility documentation. These seven payments totaled over \$9 million.

The remaining 10 payments in our sample did have documentation to support eligibility. However, for 4 of the 10, we question whether the documents were sufficient for NRCS to conclude that participants and their land were eligible for payments. For example, according to NRCS' Environmental Quality Incentives Program (EQIP) policy, participants and their land are eligible if they: (1) meet producer eligibility requirements, including adjusted gross income eligibility and interest in agricultural operations;

¹⁷ A measurement plan is a document USDA component agencies must submit to OCFO for OMB's approval prior to performing their IPERA reviews.

¹⁸ USDA Fiscal Year 2011 Risk Assessment Guidance, "Program Templates," November 22, 2010.

¹⁹ *Natural Resources Conservation Service Conservation Security Program* (10601-0004-KC, June 25, 2009).

²⁰ The seven payments included three WRP payments, one FRPP payment, one CSP payment, one HFRP payment, and one AWEP payment.

(2) meet land eligibility requirements; and (3) do not exceed maximum payments for the program.²¹

Three of the four sampled items came from EQIP. The evaluators reviewed a document that supported only one element of eligibility. These documents varied and did not fully demonstrate the eligibility of the participant or land. For example, one document reviewed showed that the participant owned the land in question, which fulfilled one eligibility criteria for payments. This document did not contain information to support income eligibility. Therefore, by looking at this document alone, the evaluators would not have been able to conclusively determine that the participant was eligible. The fourth payment was from CSP, and evaluators again only reviewed one document to support its eligibility. These 4 payments totaled over \$200,000.

Several factors contributed to NRCS' inadequate review of eligibility. First, NRCS staff did not take steps to review either the documents submitted by the State offices, or the evaluators' determinations based on those documents. Therefore, Quality Assurance staff did not detect these issues until we brought them to their attention. Second, the general review form did not prescribe which documents the evaluator should obtain and review to validate eligibility for each FSRI program, although eligibility requirements may vary between programs.

NRCS said that all these issues stemmed from its lack of resources, as Quality Assurance had two full-time staffers and did not have time to review State office submissions or evaluators' work. NRCS officials stated that they relied on the initial eligibility determinations being appropriate. NRCS officials stated that NRCS did not plan on developing a review form for each program due to resource constraints, but are working with NRCS' conservation program divisions to enhance eligibility criteria and documentation requirements on the general review form. Finally, in its fiscal year 2012 measurement plan, NRCS specifically stated that it will test each payment sample to verify that the recipient was eligible.

Insufficient Document Reviews

For areas other than eligibility, State offices did not provide evaluators with needed documents such as applications and conservation certificates. Subsequently, because these documents were not in the files submitted to them, the evaluators marked that the document was "not applicable," without an explanation as to why it was not. At the same time, we found that these same types of documents were submitted and reviewed as applicable for other payment samples under the same programs. This situation occurred for 6 of the 17 payments.²²

For example, 3 of the 17 payments came from FRPP. Evaluators recorded that the highly erodible land and wetland conservation service form was not applicable for one of the

²¹ NRCS' Conservation Programs Manual Title 440, Part 515- EQIP.

²² These six payments included one EQIP, WRP, CSP, and AWEPP payment; and two FRPP payments.

three reviewed payments. However, for the two other payments, evaluators reviewed the same document, as completed by the applicant, and considered it applicable.

Because we could not determine why these documents were not applicable for these six payments, we question whether evaluators made correct determinations in these cases. According to the evaluators' records, they did not contact State offices to obtain additional documents. These six payments totaled over \$7 million.

The evaluators, because they had not previously conducted NRCS IPERA reviews, were not always aware of the particular document requirements for each program. Because there was no formal guidance in place, the evaluators had to work with NRCS officials to determine which documents applied to which program. NRCS officials stated that they relied on the evaluators to perform the review, and that resource limitations prevented them from performing their own quality assurance review.

We believe that creating formal guidance for the IPERA review process, as well as creating a review form that reflects the unique requirements of each program, would help solve these deficiencies. Though resource constraints affected its ability to provide oversight, it is ultimately NRCS' responsibility to accurately report its improper payment estimates. Taking into account its current constraints, NRCS should create a process to help ensure quality submissions from State offices and quality work from contractors. Finally, because of the risk of staff turnover, NRCS should fully document its IPERA evaluation process to preserve institutional knowledge.

Recommendation 1

Develop and implement formal guidance for the annual IPERA review process, encompassing all steps from sample selection to payment evaluation. This guidance should expand the current review form to reflect unique characteristics for each FSRI program. In addition, the guidance should require brief explanations for "not applicable" remarks on the lead sheet.

Agency Response

NRCS concurred with this recommendation. NRCS stated that it issued guidance to the State offices regarding its IPERA review process, and added staff to the Quality Assurance Division to improve NRCS's quality assurance review process of its improper payments. NRCS will update its general manual to address NRCS' entire improper payment program, including annual improper payment testing. NRCS will complete this action by March 2013.

OIG Position

We accept management decision on this recommendation.

Recommendation 2

Develop and implement a quality assurance review process to ensure that the State offices submit all required documentation and the reviewers are evaluating sufficient documentation to determine the propriety of NRCS payments.

Agency Response

NRCS concurred with this recommendation. NRCS stated that it enhanced checklists to assist State offices in submitting supporting documentation; and detailed test plans were developed to assist NRCS staff and contractors performing the reviews. NRCS will implement a “spot check” process to ensure that improper payment conclusions reached are correct per the supporting documentation. A sample of payments reviewed will be reviewed again by a different staff member to ensure accuracy. NRCS will complete this action by June 2012.

OIG Position

We accept management decision on this recommendation.

Finding 2: NRCS Did Not Adequately Track and Monitor Improper Payments

NRCS did not develop a dependable and centralized method for recording, tracking, and monitoring identified improper payments. This occurred because State offices and Quality Assurance track improper payments inconsistently using manual means, such as creating spreadsheets, monitoring open account logs, and following up on untimely payments. As a result, NRCS officials stated that they have identified past instances where the national office was not aware of improper payments until State offices notified them that payments were recovered. Therefore, NRCS' national office could not effectively monitor improper payments to ensure accurate reporting and tracking.

OMB guidance states that agencies should track improper payments through various means, including their annual improper payment reviews, internal reviews, and OIG reviews.²³ When NRCS discovers an overpayment, NRCS has the authority to recover or waive the overpayment amount.²⁴ If officials decide to pursue an overpayment, they send a demand letter to the recipient explaining the improper payment, requesting that the recipient return the funds to NRCS, and notifying the recipient of his/her appeal rights. In addition, NRCS establishes a receivable in the financial management system.

Quality Assurance staff monitored the receivables within this system as one of their methods for tracking improper payments. However, we found that the receivable accounts for improper payments also include reimbursable rents and discounts received from vendors. The system did not flag which receivables resulted from improper payments and which receivables did not. Therefore, Quality Assurance would not have been able to identify the improper payment data without requesting documentation from State offices. Because NRCS used these ad hoc methods to obtain information on improper payments, we believe there was a substantial risk of misreported or omitted improper payments.

During our fieldwork, a Quality Assurance official stated that NRCS was developing a process to capture improper payments from initial reporting to resolution. Beginning April 2011, NRCS started implementing a new process to track improper payments.²⁵ This process required State offices to submit improper payments, regardless of amount, using a spreadsheet template including information on the program involved, amounts, causes, and corrective actions. Later, in November 2011, NRCS added new requirements for reporting recoveries. However, the methods that NRCS used to communicate its new process were not formal policies, and did not

²³ OMB Circular A-123, Appendix C, Part III, M-10-13, March 22, 2010.

²⁴ NRCS may grant equitable relief to a recipient if an NRCS representative has provided erroneous information or acted erroneously, or if a participant has failed to comply fully with Conservation Program Contracting requirements due to a hardship that prevented contract compliance. If granted equitable relief, the recipient does not have to repay the overpayment, in full or in part.

²⁵ National Bulletin 250-11-8, *Instructions on How to Report Improper Payments*, April 29, 2011.

require continuous reporting of these tracking efforts. The new process technically expired in November 2011.²⁶

We believe that if permanently implemented, this new process should address the weaknesses identified in this finding. Under IPERA and the Executive Order, NRCS must annually report its efforts to reduce improper payments. Therefore, creating a permanent process will ensure that field staffs are continuously aware of the need for timely, accurate information on improper payments.

Recommendation 3

Implement a continuous, centralized process for tracking and monitoring improper payments from identification to resolution.

Agency Response

NRCS concurred with this recommendation. NRCS stated that it requires State offices to submit improper payments and improper payments quarterly through a shared website for the Quality Assurance Division to track. NRCS will update its general manual to address NRCS' entire improper payment program, including quarterly reporting. NRCS will complete this action by March 2013.

OIG Position

We accept management decision on this recommendation.

²⁶ NRCS communicated its new process through a National Bulletin that first expired in September 2011. The second communication was even less formal, in the form of an emailed FM-COMM, which expired in November 2011. A FM-COMM is a notification tool (usually an email) that NRCS' Office of the Chief Financial Officer uses to provide information quickly to its State offices regarding various financial management activities, including data requests.

Section 2: NRCS Compliance with Executive Order 13520, Reducing Improper Payments

Finding 3: NRCS Did Not Have a Process to Identify and Report High-Dollar Overpayments

NRCS did not report any high-dollar overpayments in fiscal year 2010 and the first quarter of fiscal year 2011, as required by the Executive Order. NRCS did not have a formal process to identify and report high-dollar overpayments in its high-risk programs, as prior to fiscal year 2010 it was not required to report such information. NRCS had been working to develop a process, but did not have it in place when the Executive Order took effect. As a result, NRCS management was unaware of the magnitude of high-dollar overpayments, and could not take actions to reduce whatever overpayments may have occurred.

Beginning with the second quarter of fiscal year 2010, the Executive Order required high-risk programs to report high-dollar overpayments on a quarterly basis, as well as to include strategies to recover and prevent future overpayments.^{27,28} OMB requires that agencies use several sources of information to identify high-dollar overpayment reporting. These include internal agency reviews, recovery audits, samples conducted under IPIA, OIG reports, and reports from the public. USDA's OCFO is responsible for combining agencies' high-dollar overpayments data and reporting them to OMB, OIG, and the public.

In July 2011, we issued our first report assessing USDA's compliance with the high-dollar overpayments reporting requirements for the second, third, and fourth quarters of fiscal year 2010.²⁹ During this time period, NRCS was one of the component agencies that did not report high-dollar overpayments.³⁰ Our concerns about NRCS' reporting capabilities stemmed from a 2009 OIG audit report that highlighted overpayments in one of NRCS' FSRI programs that we considered high-dollar.³¹ Because of the weaknesses identified in this audit report, we expected NRCS to disclose high-dollar overpayments in fiscal year 2010.

After four quarters without reporting any high-dollar overpayments, NRCS did report \$2,150,339 in high-dollar overpayments for the second quarter of fiscal year 2011. The overpayments reported were identified in our 2009 OIG audit, and we noted that NRCS did not identify any additional overpayments on its own.³² During our fieldwork, we discovered that Quality

²⁷ OMB considers high-dollar overpayments to be payments that are 50 percent over the correct amount and greater than \$5,000 for an individual or \$25,000 for an entity.

²⁸ OMB Circular A-123, Appendix C, Part III, M-10-13, March 22, 2010.

²⁹ Calendar Year 2010 Executive Order 13520, *Reducing Improper Payments, High-Dollar Report Review* (50024-0001-FM, July 15, 2011).

³⁰ There are seven component agencies of USDA with high-risk programs. These seven agencies are NRCS, Commodity Credit Corporation, Farm Service Agency, Food and Nutrition Service, Risk Management Agency, Forest Service, and Rural Development.

³¹ *Natural Resources Conservation Service Conservation Security Program* (10601-0004-KC, June 25, 2009).

³² Although these payments were identified by OIG as improper in 2009, NRCS' formal decisions were issued to the participants in the second quarter of fiscal year 2011.

Assurance did not establish a process to identify and report high-dollar overpayments from other sources, such as NRCS internal review findings at its State offices.

As described in Finding 2, NRCS' new requirements for State offices' improper payment reporting helped Quality Assurance identify high-dollar overpayments. Also, NRCS used this and other sources, such as data obtained from OIG reports, financial statement audit results, and other testing, to identify and report high-dollar overpayments. As a result of these new initiatives, in the third quarter of fiscal year 2011, NRCS began complying with the new high-dollar reporting requirements. We believe NRCS' new process for identifying and reporting its high-dollar overpayments complies with the Executive Order. Accordingly we are making no recommendations in this report.

Scope and Methodology

Our audit focused on the identification, reduction, recovery, and reporting of improper payments during fiscal years 2009, 2010, and 2011. We chose this time period because NRCS reports improper payment rates a year following sampling activity (i.e., the fiscal year 2010 improper payment rate is reported in fiscal year 2011). We started fieldwork in May 2011 at NRCS Headquarters and completed fieldwork in January 2012.

Out of a total of 350 payments NRCS reviewed under IPERA for fiscal year 2011, we non-statistically selected 17 payments by choosing those that originated in diverse State offices. We interviewed NRCS' Chief Financial Officer, Quality Assurance staff, and other personnel involved with improper payments and the implementation of IPERA and Executive Order 13520, such as the contracted evaluators. We obtained and reviewed all applicable laws, rules, and regulations pertaining to improper payments, as well as NRCS' policies and procedures. We also reviewed records of the data analysis and testing NRCS performed to evaluate its compliance with policies and procedures.

To accomplish our objectives, we performed the following audit steps:

- Analyzed high-dollar overpayment reporting for the first, second, and third quarters of fiscal year 2011.
- Assessed NRCS' statistical sampling methodology for IPERA, the documentation reviewed to support the samples, and NRCS' determination of its annual improper payment rate.
- Evaluated NRCS' oversight of its IPERA review.
- Assessed tracking and disposing of improper payments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

AMA	Agricultural Maintenance Assistance
AWEP	Agricultural Water Enhancement Program
CBWP	Chesapeake Bay Watershed Program
CSP	Conservation Security Program
CStP	Conservation Stewardship Program
EQIP	Environmental Quality Incentives Program
FRPP	Farm and Ranch Lands Protection Program
FSRI	Farm Security and Rural Investment Act
GRP	Grassland Reserve Program
HRFP	Healthy Forest Reserve Program
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
USDA	Department of Agriculture
WHIP	Wildlife Habitat Incentive Program
WRP	Wetlands Reserve Program

**NATURAL RESOURCES CONSERVATION
SERVICE
RESPONSE TO AUDIT REPORT**

United States Department of Agriculture



Natural Resources Conservation Service
P.O. Box 2890
Washington, D.C. 20013

April 12, 2012

SUBJECT: SPA - Natural Resources Conservation Service (NRCS) Agency Responses for the Office of Inspector General (OIG) Audit Report 10024-0001-11 2011, NRCS Improper Payment Review

TO: Gil H. Harden File Code: 340
Assistant Inspector General for Audit
Office of Inspector General

Attached are agency responses to Audit Report 10024-0001-11 – 2011, NRCS Improper Payment Review.

The responses address the actions taken and planned on each audit recommendation and the proposed completion dates.

If you have questions, please contact Leon Brooks, Director, Compliance Division, at (301) 504-2190, or email at leon.brooks@wdc.udsa.gov.

/s/

Dave White
Chief

Attachment

cc: (w/attachment)

Homer L. Wilkes, Acting, Associate Chief, NRCS, Washington, D.C.

Ron Alvarado, Acting Deputy Chief, Management, NRCS, Washington, D.C.

Lesia A. Reed, Deputy Chief, Strategic Planning and Accountability, NRCS, Beltsville, Maryland

Stephen Kunze, Chief Financial Officer, NRCS, Washington, D.C.

Anthony J. Kramer, Deputy Chief, Programs, Washington, D.C.

Leon Brooks, Director, Compliance Division, NRCS, Washington, D.C.

Ava Lee, Director, Planning and Accountability Division, Office of Chief Financial Officer, Washington, D.C.

Agency Response for Audit Report 10024-0001-11 – 2011 NRCS Improper Payment Review

Finding 1: NRCS' Annual Improper Payment Estimate May Be Understated

Recommendation 1

Develop and implement formal guidance for the annual Improper Payments Elimination Recovery Act (IPERA) review process, encompassing all steps from sample selection to payment evaluation. This guidance should expand the current review form to reflect unique characteristics for each farm Security and Rural Investment (FSRI) program. In addition, the guidance should require brief explanations for “not applicable” remarks on the lead sheet.

Agency Response:

NRCS concurs with this recommendation and implemented the following corrective actions:

1. NRCS issued guidance via the Financial Management Communication (FM COMM) system 2012-12 Improper Payment Improvement Act Annual Review. The guidance informed states that the Chief Financial Officer's (CFOS) organization would be testing a sample of (FY) 2011 Farm Bill program and Watershed program payments to determine if improper payments had been made. The guidance included background information, reporting requirements, actions required, and additional information including a list of examples of improper payments. The communication included attachments with samples selected and program specific checklists. NRCS adjusted the checklist to include a requirement to explain answers listed as “not applicable.” Completed March 2012.
2. NRCS has added additional staff to the Quality Assurance Division, and is actively recruiting to fill the remaining Quality Assurance vacancies. The increase in staff will facilitate the improvement of NRCS's quality assurance review process of NRCS's improper payments. Completed March 2012.

Additionally, NRCS will implement the following corrective action:

1. NRCS will update Title 250 of the General Manual to address NRCS's entire improper payment program. Policies will include quarterly improper payment reporting and annual improper payment testing. This will include necessary supporting documentation as well as NRCS's process for reviewing the supporting documentation to determine the propriety of the payment. To be completed March 2013.

Recommendation 2

Develop and implement a quality assurance review process to ensure that the State office submit all required documentation and the reviewers are evaluating sufficient documentation to determine the propriety of NRCS payments

Agency Response:

NRCS concurs with this recommendation and implemented the following corrective action:

1. Eligibility requirements have been obtained from program personnel for Farm Bill programs and Watershed programs that will be tested in 2012. Based on these discussions, enhanced checklists have been developed to assist States in submitting supporting documentation. Additionally, detailed test plans have been developed to assist NRCS staff and contracting in performing the reviews. Completed March 2012.

Additionally, NRCS will implement the following corrective action:

1. NRCS will implement a “spot check” process to ensure that improper payment conclusions reached are correct per the supporting documentation. A sample of payments reviewed will be reviewed again by a different staff member to ensure accuracy. To be completed June 2012.

Finding 2: NRCS Did Not Adequately Track and Monitor Improper Payments

Recommendation 3

Implement a continuous, centralized process for tracking and monitoring improper payments from identification to resolution.

NRCS concurs with this recommendation and has implemented the following corrective action:

1. On a quarterly basis, all States/Divisions report all improper payments and improper payment recoveries to the Quality Assurance Division. Information is uploaded onto the Financial Management sharepoint drive. Quality Assurance then consolidates the information and tracks the information on a State-by-State basis. Quality Assurance analyzes the information, ensures that the supporting documentation is accurate, follows-up with States that did not report, etc. A FM-COMM is distributed to State personnel on a quarterly basis with detailed instructions and guidance on what constitutes an improper payment. Completed June 2011.

Additionally, NRCS will implement the following corrective action:

1. NRCS will update Title 250 of the General Manual to address NRCS's entire improper payment program. Policies will include quarterly improper payment reporting and annual improper payment testing. To be completed March 2013.

Finding 3: NRCS Did Not Have a Process to Identify and Report High-Dollar Overpayments

OIG believes NRCS' new process for identifying and reporting its high-dollar overpayments complies with the Executive Order. Accordingly, OIG makes no recommendations in this report for this finding.

Agency Response: NRCS will continue to use its current process to identify and track high dollar overpayments.

Estimated Completion Date: N/A

Informational copies of this report have been distributed to:

Natural Resources Conservation Service	
Agency Liaison, NRCS	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Government Accountability Office	(1)
Office of Management and Budget	(1)

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse

In Washington, DC 202-690-1622

Outside DC 800-424-9121

TDD (Call Collect) 202-690-1202

Bribes or Gratuities

202-720-7257 (Monday–Friday, 9:00 a.m.– 3 p.m. ET)



The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex (including gender identity and expression), marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). USDA is an equal opportunity provider and employer.