



U.S. Department of Agriculture

Office of Inspector General



American Recovery and Reinvestment Act Spending for Farm Service Agency Information Technology

Audit Report 03703-01-IT
March 2011



U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: March 31, 2011

REPLY TO
ATTN OF: 03703-01-IT

TO: Val Dolcini
Acting Administrator
Farm Service Agency

ATTN: Philip Sharp
Acting Director
Operations Review and Analysis Staff

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: American Recovery and Reinvestment Act Spending for Farm Service
Agency Information Technology

Summary

This report presents the results of our audit of the Farm Service Agency's (FSA) use of \$50 million, authorized by the American Recovery and Reinvestment Act of 2009 (Recovery Act), for the purpose of maintaining and modernizing information technology systems. Specifically, FSA used the funding for two projects: (1) Information Technology (IT) Stabilization; and (2) Modernize and Innovate the Delivery of Agricultural Systems (MIDAS).

The Office of Inspector General's (OIG) role, as mandated by the Recovery Act, is to oversee agency activities and to ensure that funds were expended in a manner that minimized the risk of improper use. We conducted our audit to determine whether FSA officials had properly obligated and spent Recovery Act funds for IT Stabilization and MIDAS in accordance with Recovery Act requirements.

FSA obligated the \$50 million provided by the Recovery Act for information technology by the end of September 2010. We examined the hardware, software, and services procured with Recovery Act funds and found they met Recovery Act requirements.

We also found FSA was properly adhering to Office of Management and Budget (OMB) guidance¹ for Recovery Act obligations, outlays, and reporting with the following exceptions:

- Two of the seven contracts that we reviewed did not include the Federal Acquisition Regulation (FAR)² required language³ for Recovery Act contracts. This language requires recipients to report quarterly to FederalReporting.gov.⁴
- Recovery Act funds spent by FSA were overstated on five weekly reports because FSA reported the dollars as spent when it received the invoice instead of reporting when the payment was actually made. This occurred because FSA's policy required that outlays were to be reported when the invoice was received, rather than when the actual payment was made as required in OMB's Recovery Act guidance.⁵
- Three of the 17 recipients did not submit information to FederalReporting.gov for the quarter ending March 31, 2010; this was the awarding agency's responsibility. FSA, the funding agency, was not aware that the awarding agency did not track all recipients to ensure they adhered to the reporting requirements.
- Supporting documentation was unavailable for 3 of 25 transactions tested in a total population of 106 Recovery Act transactions. FSA had not obtained proper support for Recovery Act expenditures made by other Federal agencies on FSA's behalf.⁶ FSA thought its documentation requirements ended once the reimbursable agreement was established. As a result, we could not verify three Recovery Act transactions made by another agency on FSA's behalf were in accordance with Recovery Act spending guidelines.

FSA submitted a written response to our audit findings on March 24, 2011. As a result of the information included within the response, OIG concurs with the actions to be implemented by FSA and will issue a management decision concurrence, effective upon report issuance.

¹ For a list of OMB Guidance issued for the Recovery Act, please refer to *Exhibit A: Office of Management and Budget American Recovery and Reinvestment Act Guidance*.

² The FAR is the primary regulation governing the activities of all Federal Executive agencies in their acquisition of supplies and services with appropriated funds. It became effective on April 1, 1984.

³ Clauses 52.203-15, "Whistleblower Protections Under the American Recovery and Reinvestment Act of 2009" and 52.204-11, "American Recovery and Reinvestment Act—Reporting Requirements," were added to the FAR and are required language for Recovery Act contracts.

⁴ The information reported by all prime recipients (and those sub-recipients to which the prime recipient has delegated reporting responsibility) must be submitted through www.FederalReporting.gov. This web portal is the Governmentwide data collection system that is used to collect all Recovery Act recipient reports. Once data have been submitted to FederalReporting.gov and reviewed by the Department of Agriculture (USDA), the information is available to the public via the web portal www.Recovery.gov.

⁵ OMB M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Section 2.4).

⁶ A funding agency is a Federal agency which received Recovery Act funds. An awarding agency may award a grant, loan, or contract on behalf of the funding agency. Sometimes the funding and awarding agencies are the same agency.

Background

In response to the economic downturn, Congress passed the Recovery Act, which the President signed into law on February 17, 2009. It provided FSA \$50 million for salaries and expenses to assist in maintaining and modernizing information technology.

FSA is responsible for the implementation and administration of farm commodity, credit, conservation, and emergency assistance programs throughout the United States. Beginning in 1984, FSA started implementing computer-based processing for its programs. The systems were a means to provide expedited payments to farmers by increasing the agency's automation capability. These systems are still in operation at FSA offices throughout the nation and have been operating past their End-of-Life⁷ for a number of years. In March 2004, a project titled *Modernize and Innovate the Delivery of Agricultural Systems*, MIDAS, was initiated in an effort to identify a permanent solution for electronically delivering FSA programs to consumers. As a temporary solution, FSA began migrating certain FSA programs to a web-based environment to alleviate some of the strain placed on FSA's antiquated systems. In late 2006, the first web-based programs were implemented across FSA. However, the strain placed on FSA's IT infrastructure by the technology resulted in a system crash in January 2007. After some optimization of the existing system, FSA was once again operational, about 10 days later. FSA received \$50 million from the Recovery Act to help facilitate the modernization of the information systems through the IT Stabilization project and continue to identify a permanent, stable solution to deliver FSA programs via the MIDAS project.

Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of the funds. OMB issued guidance (Exhibit A) to clarify requirements and establish steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act.

Objectives

Our audit objectives were to determine if FSA had established adequate controls over the use and reporting of the \$50 million of Recovery Act funds received. Specifically, our objectives included evaluating the Agency's efforts to ensure (1) programs are timely implemented, (2) proper internal control procedures are established, and (3) participants properly comply with program requirements.

Scope and Methodology

FSA received funding through the Recovery Act that was designated "for the purpose of maintaining and modernizing the information technology system." FSA received funding totaling \$50 million and split the funding between two projects, IT Stabilization and MIDAS. Based on FSA's internal tracking report, as of June 16, 2010, we found 7 contracts with non-

⁷ End-of-Life refers to hardware and software that is no longer manufactured or supported. An End-of-Life announcement by a vendor stipulates when the manufacturing will end or, if already ended, how far into the future support for the product will be provided.

Government entities and 17 reimbursable agreements with other federal agencies, for a total of 24 obligations funded with Recovery Act monies. These 24 obligations had a total of 106 payment transactions recorded in the agency's accounting system.

Our audit period was February 2009 through July 2010. We examined contracts and reimbursable agreements FSA entered into with third-party contractors and other Federal agencies. We also analyzed financial transactions recorded by FSA relating to purchases made with Recovery Act funding. For purchases where a tangible product was purchased, we physically observed that the product existed. Testing was conducted at FSA offices in Kansas City, Missouri, and Washington, D.C.

Tests were devised to assess FSA policies, procedures, and internal controls regarding Recovery Act spending for the IT Stabilization and MIDAS projects and to ensure that these policies, procedures, and internal controls complied with OMB guidelines.

Of the 106 payment transactions processed through June 16, 2010, we judgmentally selected a sample of 25 transactions, totaling \$4.6 million, from FSA's internal tracking reports. We selected transactions to ensure each contract and reimbursable agreement was represented, focusing on larger dollar amounts. We traced these transactions through the accounting system to ensure proper accounting and supporting documentation. We also reviewed recipient reporting requirements to ensure that Recovery Act recipients were reporting correctly. Testing included verification of job creation data, weekly financial reports,⁸ and recipient quarterly reports. We also assessed both the IT Stabilization and MIDAS projects to determine if the percentage of completion for the projects was accurately reported and whether the funds were spent in accordance with Recovery Act requirements.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives.

Finding 1: Reporting Requirements

We examined FSA contracts funded with Recovery Act dollars, FSA's weekly report submissions to Recovery.gov, and quarterly reporting by recipients to FederalReporting.gov. We found that the required FAR language was not included in some contracts, FSA submitted incorrect reports for some weeks, and some recipients failed to submit quarterly reports to FederalReporting.gov. FSA's comments were incorporated into the findings.

⁸ Financial Activity Report, found in Recovery.gov, provides the obligations and outlays (or payments) made by the Federal agency that received Recovery Act funding.

Contract Disclosures

Volume I of the FAR was established to provide uniform policies and procedures for acquisitions executed by all executive agencies.⁹ When the Recovery Act was passed, two clauses (52.203-15 and 52.204-11)¹⁰ were added to the FAR to address Recovery Act contractual obligations.

We found that FSA did not modify two previously issued contracts to include the required Recovery Act contractual reporting requirements. Recovery Act funds totaling approximately \$2.5 million were added to these contracts. Despite the missing Recovery Act language, the contractors submitted the quarterly Recovery Act report in a timely manner.

Because the contracts cited have all been completed and FSA has obligated all of its Recovery Act funding, OIG is not making a recommendation for this finding.

Weekly Reporting Submissions

FSA's accounting system did not support what was recorded on Recovery.gov weekly activity reports. Expenditures were reported on Recovery.gov prior to the funds actually being expended. FSA reported expenditures at the time invoices were forwarded for payment, rather than waiting, as required by OMB, until the transactions were processed and paid. For consistent reporting on Recovery.gov, OMB M-09-21 requires Recovery Act expenditures to be reported when payment actually occurs. An obligation is not considered "paid" until it is processed and paid in the Agency's accounting system.¹¹ The amounts FSA reported in weekly submissions to Recovery.gov were overstated for certain weeks between January 22, 2010 and April 23, 2010 by amounts ranging from over \$131,000 to over \$357,000. FSA stated, during the exit conference, that they had adjusted their procedures to incorporate the OMB definition of an outlay as documented in M-09-15.

Recipient Reporting

We found 3 of the 17 recipients receiving reimbursable agreements did not complete and file a quarterly report on FederalReporting.gov for the quarter ending March 31, 2010. Another USDA agency had an established contract for services similar to those required by FSA; therefore, FSA (the funding agency) provided \$5.9 million in Recovery Act funding to another USDA agency (the awarding agency) so that it could issue task orders against its contract on FSA's behalf. According to OMB M-09-21, the awarding agency is the entity responsible for monitoring recipient reporting requirements. Even though the awarding agency is responsible for fulfilling the recipient reporting requirements, FSA received the Recovery Act funds and, therefore, should have also ensured all OMB requirements were met. We found that FSA and the awarding agency did not properly track contractors to

⁹ FAR Volume I Subpart 1.101, Purpose.

¹⁰ FAR Volume I, 52.203-15, "Whistleblower Protections Under the American Recovery and Reinvestment Act of 2009" and 52.204-11, "American Recovery and Reinvestment Act—Reporting Requirements."

¹¹ OMB M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009 (Section 2.4).

ensure they met all recipient-reporting requirements on a quarterly basis. As a result, FSA, in conjunction with the awarding agency, and the three contractors did not provide the level of transparency required by the Recovery Act for the three contracts.

FSA stated that they had informed the awarding agency of the requirements for recipient reporting, but were unable to force compliance due to the fact that it was another agency not under the supervision of the FSA Administrator.

Recommendation 1:

FSA needs to properly document Recovery Act reporting policies and procedures.

Agency Response:

FSA acknowledges that there was originally a misunderstanding as to when to submit reported expenditures into Recovery.gov weekly activity reports. FSA corrected the situation in June 2010. In addition, the Office of the Chief Financial Officer has issued Departmental guidance and conducts periodic meetings attended by FSA regarding Recovery Act reporting. FSA has adopted this guidance and therefore feels no formal policies and procedures need to be created by FSA.

OIG Position:

OIG concurs with the management decision for this recommendation.

Recommendation 2:

FSA needs to take appropriate measures to verify that all awarding agencies are monitoring Recovery Act recipients to make sure they meet the quarterly recipient reporting requirements in OMB M-09-21.

Agency Response:

FSA concurs with this recommendation. FSA has resolved this issue and will continue to monitor the situation and contact the awarding agency when deficiencies are noted.

OIG Position:

OIG concurs with the management decision for this recommendation.

Finding 2: Outlay Support

To determine whether FSA had followed OMB guidelines, we selected a judgmental sample of 25 of the 106 total transactions in its accounting system as of June 16, 2010. We reviewed these 25 transactions, which totaled \$4.6 million, to ensure that the outlays recorded in the accounting system were properly supported by approved invoices and executed contracts.

We found that FSA did not maintain documentation to support all Recovery Act expenditures recorded in its accounting system. In our sample of 25, we found 3 transactions totaling \$174,000 for which FSA could not provide supporting documentation. The three transactions were obligations made through a reimbursable agreement to another USDA agency, the awarding agency. Once FSA obligated and disbursed the funds to the awarding agency, FSA thought that it had no further responsibility to document how the funds were used. However, OMB Circular A-123¹² requires that expenditures applicable to agency operations be timely recorded in order to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. Additionally, it states that management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail.

When the awarding agency expended FSA's Recovery Act funds, it did not provide FSA with documentation indicating these funds were spent for Recovery Act purposes. FSA attempted to obtain supporting documentation from the awarding agency, but was unable to do so. As a result, FSA could not provide supporting documentation for these 3 transactions. We discussed this issue with FSA personnel and they generally concurred with our finding.

Recommendation 3:

FSA should develop procedures to ensure it has supporting documentation for all transactions made with its Recovery Act funds.

Agency Response:

FSA concurs with this recommendation. FSA will work with the Servicing Agencies to improve the language in the reimbursable agreements to ensure that FSA is provided with the necessary supporting financial documentation for all transactions executed against these agreements, whether using Recovery Act funding or other funding accounts.

OIG Position:

OIG concurs with the management decision for this recommendation.

¹² OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

Exhibit A: Office of Management and Budget American Recovery and Reinvestment Act Guidance

The following is a list of OMB Memoranda that have been issued to provide guidance on the Recovery Act for agencies and recipients of Recovery Act funds.

- M-10-17, *Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act* (May 4, 2010)
- M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act* (March 22, 2010)
- M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (December 18, 2009)
- M-10-05, *Improving Compliance in Recovery Act Recipient Reporting* (November 30, 2009)
- M-10-03, *Payments to State Grantees for their Administrative Costs for Recovery Act Funding - Alternative Allocation Methodologies* (October 13, 2009)
- *Office of Federal Procurement Policy Memo, Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with FAR Clause 52.204-11* (September 30, 2009)
- M-09-30, *Improving Recovery Act Recipient Reporting* (September 11, 2009)
- M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009)
 - Supplement 1, *List of Programs Subject to Recipient Reporting*
 - Supplement 2, *Recipient Reporting Data Model*
- M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities* (May 11, 2009)
- M-09-16, *Interim Guidance Regarding Communications With Registered Lobbyists About Recovery Act Funds* (April 7, 2009)
- M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (April 3, 2009)
- M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (February 18, 2009)

Agency's Response

USDA'S

FARM SERVICE AGENCY'S

RESPONSE TO AUDIT REPORT



United States
Department of
Agriculture

Farm and
Foreign
Agricultural
Services

Farm
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March 24, 2011

TO: Gil H. Harden
Assistant Inspector General
for Audit

FROM: Philip Sharp, Acting Director
Operations Review and Analysis Staff

SUBJECT: Audit 03703-01-IT: American Recovery and Reinvestment Act
Spending for Farm Service Agency Information Technology

This is the Farm Service Agency's (FSA) response to the official draft report on the subject audit.

General Comment

The Agency would like to make it clear that, while this audit covers American Recovery and Reinvestment Act (ARRA) funding for both the FSA (1) Information Technology (IT) Stabilization and (2) Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiatives, the findings expressed only pertain to the IT Stabilization efforts. There were no findings for MIDAS.

Recommendation 1

FSA needs to properly document Recovery Act reporting policies and procedures.

Agency Response

FSA acknowledges that there was originally a misunderstanding as to when to submit reported expenditures into Recovery.gov weekly activity reports. FSA reported invoices as they were forwarded for payment (when they left the Agency) rather than waiting until the transactions were processed and paid via the National Finance Center. FSA corrected the situation in June 2010. Since that time, the USDA Office of Chief Financial Officer (OCFO) has issued a document titled "USDA American Recovery and Reinvestment Act Section 1512, Recipient Report Information and Guidance". It prescribes activities of both the recipients and agencies throughout the reporting cycle as well as details specific agency reporting requirements. In addition, the OCFO conducts periodic meetings to review and clarify reporting requirements. FSA program representatives are all included in these meetings and have received the guidance issued by OCFO. Because this guidance document is comprehensive and meets the OIG recommendations in Audit 50703-1-DA, FSA does not believe there would be any value added to issuing more guidance with this information.



Furthermore, the total number of individuals utilizing this information would be less than eight, the ARRA funding is not permanent, and the ARRA funding activity is winding down. Given FSA budgetary and staffing constraints, the use of valuable and scarce agency resources removing them from their primary reporting management activity in order to document reporting policies and procedures would be neither beneficial nor prudent.

Recommendation 2

FSA needs to take appropriate measures to verify that all awarding agencies are monitoring Recovery Act recipients to make sure they meet the quarterly recipient reporting requirements in OMB M-09-21.

Agency Response

While the situation has been resolved through strenuous negotiation, FSA would like to add that it, as a funding agency, cannot “ensure” that an awarding agency is properly meeting all Office of Management and Budget ARRA requirements. FSA can and will continue to monitor the situation and contact the awarding agency of deficiencies when noted or when appropriate in an attempt to rectify the situation. However, it must be understood that there is what could be called a “parent/child” relationship between the agencies described in recommendations 2 and 3 on administrative matters. In this relationship definition, the “parent” does not necessarily comply with requests and the “child” has no enforcement capability.

Recommendation 3

FSA should develop procedures to ensure it has supporting documentation for all transactions made with its Recovery Act funds.

Agency Response

All reimbursable agreements that FSA made to other USDA Agencies using Recovery Act Funding have been fully collected and are considered completed/closed. In the future, FSA will work to improve our reimbursable agreement process. In addition, FSA will work with the Servicing Agencies to improve the language in our reimbursable agreements to ensure that FSA is provided with the necessary supporting financial documentation for all transactions executed against these agreements, whether using Recovery Act Funding or other funding accounts. FSA plans to discuss these process improvements with the Servicing Agencies to ensure that all parties understand the level of financial documentation being requested and agree to provide this documentation for all expenditures/collections that are processed against these agreements.