



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL  
Washington D.C. 20250



DATE: October 23, 2009

REPLY TO  
ATTN OF: 11703-1-HQ

TO: Evan J. Segal  
Chief Financial Officer  
Office of the Chief Financial Officer

THROUGH: Kathy Donaldson  
Audit Liaison Officer  
Office of the Chief Financial Officer

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

SUBJECT: American Recovery and Reinvestment Act of 2009 Reporting Oversight

The American Recovery and Reinvestment Act of 2009<sup>1</sup> (Recovery Act) enacted in February 2009 states that the use of Recovery Act funds should be transparent: reported clearly, accurately, and in a timely manner. The U.S. Department of Agriculture (USDA) received \$28 billion in Recovery Act funding in a number of program areas. The Office of Management and Budget (OMB) issued OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act (Recovery Act) of 2009*, dated June 22, 2009. OMB M-09-21 provides Governmentwide guidance for carrying out the reporting requirements included in Section 1512 of the Recovery Act.

This audit focused on the internal controls and policies and procedures for implementing recipient reporting requirements specified in OMB M-09-21 that are the responsibility of USDA when dispersing Recovery Act funds. OMB's M-09-21 Recovery Act recipient reporting guidance called for agencies receiving Recovery Act funds to implement a limited data review process to identify material omissions and/or significant errors<sup>2</sup> and notify the recipients of the need to make complete, accurate, and timely adjustments. Our objective was to determine whether USDA had established a process, including USDA agency responsibilities, for performing limited data quality reviews.

We found that USDA has provided significant information and assistance to its agencies but has not established an internal control structure with formal policies and procedures that provide a clear indication of departmental versus agency responsibility for determining the completeness

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<sup>1</sup> American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115.

<sup>2</sup> Material omissions are instances where required data are not reported or reported information is not otherwise responsive to the data requests, resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. Significant errors are instances where required data are not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

and validity of recipient reporting. We recommended that USDA establish an internal control structure with formal policies and procedures that provide a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting in order to identify material omissions and/or significant errors.

## **Background**

USDA received \$28 billion in funding under the Recovery Act in a number of program areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, construction projects, rural housing, rural business, water and waste disposal, and broadband. The Recovery Act also provided the Office of Inspector General (OIG) with \$22.5 million, which remains available until September 30, 2013, for “oversight and audit of programs, grants, and activities funded by this Act and administered by USDA.” OIG began working immediately with USDA, the Inspector General community, the Government Accountability Office, and the Recovery Accountability and Transparency Board, to conduct our oversight responsibilities. For our audit oversight, we initiated 31 projects to review the development of USDA agency program guidance, internal controls, eligibility criteria, and USDA compliance activities related to Recovery Act requirements. This audit focused on internal controls and policies and procedures for implementing recipient reporting requirements specified in OMB M-09-21 that are the responsibility of USDA when dispersing Recovery Act funds. We anticipate future phases to focus on the validity and completeness of the reported data.

The term “recipient” includes entities, such as States, that receive Recovery Act funds through a grant, loan, or contract. Recipients of Recovery Act funds are required to submit quarterly reports beginning in October 2009. Primary recipients are non-Federal entities that receive Recovery Act funding as Federal awards in the form of grants, loans, or cooperative agreements directly from the Federal Government. A sub-recipient is a non-Federal entity that expends Recovery Act funds received from another entity to carry out a Federal program but does not include an individual who is the beneficiary of the program. Prime recipients may choose to delegate reporting requirements to sub-recipients. Federal agencies are not considered prime or sub-recipients.

The information reported by all prime recipients (and those sub-recipients to which the prime recipient has delegated reporting responsibility) will be submitted through <http://www.federalreporting.gov/>. This web portal is the Governmentwide data collection system that will be used to collect all Recovery Act recipient reports. Once data has been submitted to FederalReporting.gov and reviewed by USDA, the information will be available to the public via [www.Recovery.gov](http://www.Recovery.gov). Recovery.gov is a web portal through which recipient reporting will be made available to the public.

We audited USDA’s implementation of OMB M-09-21 to determine whether the information submitted by recipients would be complete, accurate, and timely. As the owner of the Department’s financial management systems, the Office of the Chief Financial Officer (OCFO) has taken the lead in implementing USDA-wide Recovery Act recipient reporting guidance.

## Scope and Methodology

We interviewed responsible USDA personnel, attended meetings, and reviewed applicable documentation. We conducted the audit from August 2009 through October 2009 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.

## Objective

With respect to OMB's M-09-21 Recovery Act recipient reporting guidance, USDA was to implement a limited data review process to identify material omissions and/or significant errors and notify the recipients of the need to make complete, accurate, and timely adjustments. Our objective was to determine whether USDA had established a process, including USDA agency responsibilities, for performing limited data quality reviews.

## Findings and Recommendations

USDA/OCFO has not established an internal control structure with formal policies and procedures that provides a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting. OCFO has recognized the need to implement a formal USDA control structure and is drafting guidance that it has shared with OIG. However, because of other OMB reporting requirements and/or priorities, OCFO has not had the opportunity to officially implement the guidance. We believe that, once implemented, USDA's guidance will clearly define the limited data quality reviews the Department will perform, as well as additional data quality reviews that the agencies will be required to perform.

With the current absence of official departmental guidance, some USDA agencies have implemented agency-specific guidance for assessing the quality of recipient reporting. As a result, there is a risk of inconsistencies between each agencies' data quality reviews that could impact OCFO's ability to assess the validity and completeness of USDA's aggregated information.

OMB Circular A-123, *Management's Responsibility for Internal Control*, requires that management be responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

We reviewed the policies and procedures OCFO is in the process of drafting. When implemented, USDA will be compliant with the limited data review requirements for information provided by the recipients of Recovery Act funding. It will include "action limits" (e.g., percent of expended funds versus estimated project completion, expenditures that exceed amounts obligated to the project, data anomalies, etc.). It will also include analyses of potential data omissions and/or errors and procedures for requiring recipient adjustments. Guidance will also be provided to agencies for performing additional data quality reviews of their programs.

It is important to recognize that USDA/OCFO has provided significant information and assistance to its agencies. For example, biweekly meetings are conducted to discuss emerging issues. Participation is extensive and the agencies' buy-in to the importance of the success of the Recovery Act is evident. USDA/OCFO implemented a web page using Microsoft's "SharePoint" software to disseminate data and guidance to appropriate USDA users of Recovery Act information. SharePoint contains useful information on data quality reviews, guidance on communications with lobbyists, reporting requirements for Recovery Act contracts, OMB reporting requirements, etc. It also has important links to other USDA and Governmentwide Recovery Act web pages. In addition, various webinars have been sponsored to provide guidance and training.

We recommend the OCFO establish an internal control structure with formal policies and procedures that provide a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting in order to identify material omissions and/or significant errors.

### **OCFO Response**

OCFO's full response is attached. OCFO concurred with OIG's findings and recommendation. Final USDA guidance will be issued by memorandum from the Chief Financial Officer by October 30, 2009. The guidance, which will be posted on USDA's Recovery Act Web site, provides agencies that award Recovery Act funds with guidelines for assessing data quality in accordance with OMB M-09-21. The USDA guidance will ensure that material omissions and significant errors are minimized. OCFO will ensure agency and Departmental management reviews are performed as required by OMB M-09-21. OCFO will also monitor the reporting requirements and test the limited review process annually under OMB Circular A-123, *Management's Responsibility for Internal Control, Appendix A, Internal Control Over Financial Reporting*.

### **OIG Position**

We concur with the management decision. To achieve final action, OCFO should follow its internal procedures for achieving final action and provide evidence that the guidance has been posted on the USDA Recovery Act Web site



UNITED STATES DEPARTMENT OF AGRICULTURE

Office of the Chief Financial Officer  
1400 Independence Avenue, SW  
Washington, D.C. 20250

October 16, 2009

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

FROM: Evan J. Segal - Signed -  
Chief Financial Officer

SUBJECT: Audit Report No: 1173-1-HQ, American Recovery and Reinvestment Act of 2009  
Reporting Oversight

Thank you for the opportunity to address your comments on improvements needed for the reporting oversight under the American Recovery and Reinvestment Recovery Act (Recovery Act) of 2009.

The Office of the Chief Financial Officer (OCFO) issued Data Quality Review procedures via electronic mail, September 30, 2009. These procedures identify Departmental and agency responsibility for determining the completeness and validity of recipient reporting. The guidance is being updated to address the findings and recommendations made by Office of Inspector General (OIG). Agencies will have an opportunity to review and comment on the guidance before the Chief Financial Officer (CFO) sends a memorandum to agency heads with the final Data Quality Review Guidance.

While some United States Department of Agriculture (USDA) agencies may have implemented agency-specific guidance for assessing the quality of recipient reporting, we do not believe there will be a risk of inconsistencies between each agency's data quality reviews. Section 5.3 of the revised guidance will outline internal controls OCFO has established to monitor any agency-specific data quality review processes.

USDA is compliant with the limited data review requirements for information provided by Recovery Act funding recipients. Our current procedures provide thresholds as described in Section 5.4 of the guidance. We have also identified methods to analyze material omissions and/or significant errors and the procedures for requesting recipient adjustments. The guidance also includes requirements for agencies to perform additional data quality reviews of their programs throughout Section 5.

The following addresses the specific recommendation in the audit letter:

Recommendation 1:

We recommend OCFO establish an internal control structure with formal policies and procedures. These policies and procedures should clearly indicate Departmental-verses-agency responsibility for determining the completeness and validity of recipient reporting. This clarification will help identify material omissions and/or significant errors.

OCFO Response:

OCFO concurs with OIG's findings and recommendations. Final USDA guidance will be issued by memorandum from the CFO by October 30, 2009. The guidance, which will be posted on the USDA Recovery Act Web site, provides agencies that award Recovery Act funds with guidelines for assessing data quality in accordance with OMB M-09-21, "Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009," dated June 22, 2009. The USDA guidance will ensure that material omissions and significant errors are minimized. OCFO will also ensure agencies and Departmental management reviews are performed as required by OMB M-09-21. We will also monitor the reporting requirements and test the limited review process annually under Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control Over Financial Reporting.

If you have any questions or need additional information, please contact me at (202) 720-5539 or have a member of your staff contact Kathy Donaldson at (202) 720-1893.