



U.S. Department of Agriculture

Office of Inspector General



**American Recovery and Reinvestment Act -
Review of the Effectiveness of
Department/Agency Data Quality Review
Processes**

Audit Report 50703-1-DA
June 2010



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



June 23, 2010

REPLY TO

ATTN OF: 50703-1-DA

TO: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

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

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

SUBJECT: American Recovery and Reinvestment Act – Review of the Effectiveness of
Department/Agency Data Quality Review Processes

The American Recovery and Reinvestment Act of 2009¹ (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. On December 18, 2009, the Office of Management and Budget (OMB) issued OMB M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*. OMB M-10-08 provides guidance to Federal agencies to improve the quality of data reported by award recipients under the general recipient reporting guidance outlined in Section 1512² of the Recovery Act. As of December 31, 2009, USDA had 3,065 awards that were required to be reported based on the criteria outlined in Section 1512.

This audit focused on USDA's internal controls, policies, and procedures for implementing the OMB M-10-08-specified recipient reporting requirements. It is significant to note that additional guidance by OMB was distributed to the Federal community three weeks prior to the quarter ending December 31 reporting period began. The Recovery Act recipient reporting guidance contained in OMB M-10-08 called for agencies disbursing Recovery Act funds to implement a

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

² Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning with the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter.

limited data review process to identify material omissions³ and/or significant errors⁴ and to notify the recipients of the need to make complete, accurate, and timely adjustments. Our objective was to determine whether USDA had fully implemented an internal control structure that is effective in ensuring recipient data are reported completely, accurately, and in a timely manner, and that any material omissions and/or significant errors are identified and corrected.

We found that the Department has implemented policies and general procedures that follow the guidance outlined in OMB M-10-08; however, the level of effort and the methodologies used by the various USDA agencies to implement this guidance differed significantly from agency to agency, resulting in errors and material omissions not being identified and corrected for USDA as a whole. For example, for USDA's 3,065 awards, we identified 450 instances in which the recipient-reported award numbers on FederalReporting.gov and the agency-reported award numbers on USDA's control list did not match. OMB considers an incorrect award number to be a significant error because the award number is the primary method of identifying awards that are not being reported by recipients on Federalreporting.gov. This occurred because the Office of the Chief Financial Officer (OCFO) has not implemented internal controls to ensure that agencies' monitoring efforts are consistent, effective, and complete. While OCFO has made significant progress by issuing recommended policies and general procedures since the last Office of Inspector General (OIG) audit of recipient reporting (OIG Audit 11703-1-HQ, *American Recovery and Reinvestment Act of 2009 Reporting Oversight*, October 23, 2009), OCFO has only one staff member dedicated to Recovery Act monitoring. OCFO stated that it did not receive any Recovery Act funding to add additional staff, and that additional staffing would be needed for more effective monitoring. We recommend that the OCFO reevaluate its staffing priorities and assign sufficient staff to develop and implement a process to ensure that all awards are reported and that agencies follow an effective and consistent methodology for reviewing recipient data to identify significant errors and material omissions.

Based on OCFO's June 10 response, we were able to reach management decision on the report's recommendation.

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. To ensure that these funds are spent appropriately, the Recovery Act calls for unprecedented levels of transparency and accountability, including recipients reporting on their use of the funds on a quarterly basis. This audit focused on the Department's and agencies' reporting for the quarter ending December 31, 2009. We reviewed the Department and agency efforts to fully implement an internal control structure that is effective in ensuring that recipient data are reported completely, accurately, and in a timely manner, and that any material omissions and/or significant errors are identified and corrected.

³ 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.

⁴ 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.

The term “recipient” includes entities—such as States, municipalities, and businesses—that receive Recovery Act funds through a grant, loan, or contract, referred to as an “award.” At the end of each quarter, each award recipient provides information on the FederalReporting.gov⁵ website about the status of its award(s). Before this information can be released to the public on the Recovery.gov website, the relevant agency is required to perform a data quality review to identify material omissions and significant errors, and to ensure that corrections are made. OMB M-10-08 outlines guidance related to this data quality review. As of December 31, 2009, USDA had 3,065 awards that were required to be reported based on the guidance in OMB M-10-08.

We audited USDA’s implementation of OMB M-10-08 to determine whether the information submitted by recipients was complete, accurate, and timely. As the owner of the Department’s financial management systems, OCFO has taken the lead in implementing Recovery Act recipient reporting guidance across USDA.

Scope and Methodology

We interviewed responsible Department and agency personnel, attended meetings, and analyzed data reported by USDA, USDA agencies, and award recipients for the quarter ending December 31, 2009. We conducted the audit from March 2010 through May 2010 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

Our objective was to determine if USDA and USDA agencies awarding Recovery Act funds have fully implemented an internal control structure that is effective in ensuring that recipient data are reported completely, accurately, and in a timely manner, and that any material omissions and/or significant errors are identified and corrected.

Findings and Recommendations

We found that the Department has implemented policies and general procedures that follow the guidance outlined in OMB M-10-08. However, the level of effort and the methodologies used by the various USDA agencies to implement this guidance differed significantly from agency to agency, resulting in errors and material omissions not being identified and corrected. This occurred because OCFO has not implemented internal controls to ensure that agencies’ monitoring efforts are consistent, effective, and complete. While OCFO has made significant progress by issuing recommended policies and general procedures since OIG’s prior audit of

⁵ The information reported by all prime recipients (and those sub-recipients to which the prime recipient has delegated reporting responsibility) will be submitted through www.FederalReporting.gov. This Web portal is the Government wide data collection system that is 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 the Web portal www.recovery.gov.

recipient reporting, OCFO stated that it did not receive Recovery Act funding for this effort and has only one staff member dedicated to the monitoring effort. We recommend that OCFO reevaluate its staffing priorities and that it develop and implement a process to ensure all awards are reported and agencies follow an effective and consistent methodology for reviewing recipient data to identify significant errors and material omissions.

We performed a review of the USDA recipient-reported data on FederalReporting.gov to identify significant errors and material omissions that were not identified by the respective USDA agencies for the quarter ending December 31, 2009. To perform this review, we compared USDA's list of Recovery Act awards to FederalReporting.gov's recipient-reported awards. We found a number of discrepancies, omissions, and errors, as listed below.

- We found 450 instances in which the recipient-reported award numbers on FederalReporting.gov and the agency-reported award numbers on USDA's control list did not match. Each Recovery Act award has an associated award number, but the numbering system is not uniform across the Department. Instead, each agency determines its own award numbering system. Many of the discrepancies between recipient-reported award numbers and agency-reported award numbers resulted from the recipients' inclusion of superfluous information (such as extra prefixes/suffixes or hyphens) or erroneous data in the award number field in FederalReporting.gov. Such discrepancies made it difficult for agencies and OIG to match the agency-reported award numbers on USDA's control list with the recipient-reported award numbers on FederalReporting.gov.

When agencies were reviewing recipient-reported data on FederalReporting.gov, they should have identified incorrect/non-matching award numbers, notified the award recipients of these errors, and worked with award recipients to correct them. OMB considers an incorrect award number to be a significant error because the award number is the primary method of identifying awards that are not being reported by recipients on FederalReporting.gov. In an effort to reduce the occurrence of such errors, OMB M-10-08 required agencies to supply award recipients with their "key award information,"⁶ including award numbers, by December 24, 2009, prior to the reporting time frame for the quarter ending December 31, 2009.

We found that most agencies—seven out of eight—provided the "key award information" to award recipients; however, errors in the award numbers still occurred that the agencies did not identify during their respective reviews. OIG had to use additional data elements from USDA's control list and FederalReporting.gov to match awards with an incorrect award number. Requiring a uniform, consistent Department wide system for numbering awards would help to remedy incorrect award numbers.

- We found 105 recipient-reported awards on FederalReporting.gov that did not appear on the Department's control list of awards. We were able to determine that 31 of these 105 awards were missing because a single USDA agency had failed to report them. We

⁶ OMB M-10-08 defined key award information as Award Type, Award Number, Order Number, Funding Agency Code, Awarding Agency Code, Government Contracting Office Code, Award Date, Award Amount, Catalogue of Federal Domestic Assistance Number, Activity Code, and Program Source (TAS) Code.

were unable to reconcile the remaining 74 recipient-reported awards or to determine whether USDA agencies were monitoring and reviewing these awards.

- The 31 awards described above were not on the Department's control list because OCFO did not know that the agency had granted the awards. This occurred because OCFO tracks awards only by the recipient-reported Treasury Account Symbol (TAS) code in FederalReporting.gov. The TAS code identifies the funding agency, which is not necessarily the awarding agency. In the case of these 31 awards, the funding and awarding agencies were different. OCFO included only the funding agency on its e-mail list for the distribution of correspondence, guidance updates, and requests for information for OMB data calls. As a result, the awarding agency's awards were not included on USDA's control list, and the awarding agency did not know that it needed to certify to OMB⁷ that it had provided recipients with "key award information," which it did not. Currently, USDA has one "agency code" for the Department and both the "awarding agency code" and the "funding agency code" use this code. This could have been prevented if FederalReporting.gov used an agency level identifier to identify the agency within USDA in the "awarding agency code" field and the "funding agency code" field.
- We found 8 agency-reported awards that were not correspondingly reported by recipients on FederalReporting.gov. USDA agencies should have identified these awards as having been omitted from FederalReporting.gov's list and should have notified the award recipients.

We found other errors that the Department and agencies would have identified if they had performed the OMB-suggested logic checks recommended in OCFO's guidance:

- We identified 16 awards that were erroneously posted under the TAS code for a single USDA agency. This agency has issued only one award during the quarter ending December 31, 2009. The other 15 awards were erroneously attributed to the agency because the award recipients incorrectly reported this agency's TAS code instead of the TAS code for the correct agency. OCFO guidance recommends that each agency monitor recipient-reported data to ensure that all awards attributed to the agency do in fact belong to it. Had the agency been performing such monitoring, it would have identified these errors.
- We identified 10 USDA awards included on FederalReporting.gov that had erroneous non-USDA TAS codes associated with them.
- We identified 20 award recipients that reported creating jobs while at the same time reporting that they had not expended any funds.
- We identified 2 recipients that reported expending more funds than their award amounts.

⁷ This agency did not certify to OMB that they provided the award recipients "key award information" by December 24, 2009. They also missed two OMB data calls of award control totals due December 31, 2009 and February 26, 2010.

- We identified 12 recipients reporting an award date that was either prior to the enactment of the Recovery Act or after the reporting date.
- We identified 9 awards where the recipient identified the project as being complete and therefore they were filing their final report on FederalReporting.gov; however, the recipient also reported on FederalReporting.gov that the “project status” for the same award was less than 100 percent complete.
- We identified 2 recipients that reported an award amount of \$0. One of the recipients, awarded a \$35,000 grant, reported an award amount of \$0 for the specified quarter, and at the same time reported the project as 50% complete. Grantees are required to report the amount of the award even if outlays have not been invoiced. The other recipient received a loan for \$1.271 million in the specified quarter, but reported the award amount as \$0. The agency awarding these two awards has stated that these errors were fixed for the quarter ending March 31, 2010.

For each agency that disbursed Recovery Act funds, we interviewed agency officials to determine if the agency was receiving and distributing OCFO’s guidance on recipient reporting, and to identify how the agency was reviewing recipient-reported data. We found that the distribution of OCFO’s guidance was inconsistent, and that the level of effort and choice of methodology to identify omissions and errors varied from one agency to another. Specifically, we found:

- The agencies used different information systems and methods to validate the amounts of their awards. Some used existing program-specific systems to track and account for Recovery Act funds, while others used USDA’s financial accounting system, Foundation Financial Information System (FFIS). Even among the agencies that used FFIS, we found varying methods of identifying awards in the system. For example, in one agency the individual award number could only be found in the document number field. In another agency, individual order numbers for a single award had to be identified and added together to obtain the total award amount. In all cases, the systems used to track Recovery Act funds and account for them had not been designed with all of the fields and formats required for seamless Recovery Act reporting. The differences among systems make it impossible to develop one consistent award-matching process for all USDA agencies, making it difficult to match agency-reported data with recipient-reported data. Because of the inconsistency of systems, each USDA agency has had to implement its own monitoring methodology.
- The agencies are not using the OMB-suggested logic checks recommended in OCFO’s guidance to identify significant errors in a consistent manner.
- OMB M-08-10 required that USDA certify to OMB that the Department had provided key award information to recipients by December 24, 2009. However, instead of making this certification on behalf of the Department, OCFO delegated the certification requirement to the individual agencies and did not follow up with them to ensure that they had in fact performed the certification.

- OCFO failed to communicate Recovery Act guidance to an agency. OCFO's primary method of communication is an e-mail list of agencies receiving Recovery Act funds. As noted previously, one awarding agency was inadvertently excluded from this list because the awarding agency and the funding agency were different agencies. Because OCFO did not notify this awarding agency that it was required to report its awards, the list of USDA awards that OCFO submitted to OMB was incomplete. Also, although OCFO established websites which included Recovery Act information for USDA agencies as a result of OIG's previous review of recipient reporting, we noted that as of April 2010, OFCO had not updated these websites with the latest guidance for reporting for the quarter ending December 31, 2009. OCFO management stated that a lack of resources had prevented OCFO from updating these websites.
- The numbers of errors and omissions that the agencies self-reported during OMB data calls showed that the levels of effort and monitoring were not consistent among agencies. For example, the agency with the most awards, 1,648 awards, did not identify any significant errors for the reporting period ending December 31, 2009, although our data analysis identified 380 significant errors for this agency for the same time period. The agency did not provide a response to 359 of the 380 errors that were related to non-matching award numbers. However, the agency acknowledged that errors were present for the remaining 21 errors we identified. Meanwhile, an agency with 871 awards identified 111 significant errors in its data and OIG's analysis found an additional 24 errors. This discrepancy suggests that the first agency was not sufficiently monitoring its data for errors.

We recommend that the OCFO reevaluate its staffing priorities and assign sufficient staff to develop and implement a process to ensure that all awards are reported and that agencies follow an effective and consistent methodology for reviewing recipient data to identify material omissions and significant errors. Once material omissions and significant errors are identified, agencies need to work with recipients to ensure that recipients report their information correctly and that omissions are resolved in a timely manner.

OCFO Response

OCFO's full response is attached. OCFO concurred with OIG's findings and recommendation. OCFO received funds in 2010 for recipient reporting oversight and is in the process of creating the Transparency Reporting Team with five positions to improve the Department's transparency oversight capabilities and will work closely with the agencies that have the most errors identified in this report. OCFO is working to update the guidance to further define the process by which all awards are reported. The estimated date of completion for the OCFO actions is August 15, 2010.

OIG Position

We concur with the agency response for this recommendation and have reached management decision.

Agency's Response

USDA'S

OFFICE OF THE CHIEF FINANCIAL OFFICER

RESPONSE TO AUDIT REPORT



United States
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Agriculture

Office of the Chief
Financial Officer

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TO: Gil H. Harden
Assistant Inspector General for Audit
June 10, 2010

FROM: Jon M. Holladay -S-
Acting Chief Financial Officer

SUBJECT: OIG Audit Number 50703-1-DA: American Recovery and
Reinvestment Act – Review of the Effectiveness of
Department/Agency Data Quality Review Processes

Thank you for the opportunity to address your comments on the draft Office of Inspector General (OIG) Report entitled "American Recovery and Reinvestment Act – Review of the Effectiveness of Department/Agency Data Quality Review Processes."

General Comments:

This report found that the Department has implemented policies and procedures that follow the guidance outlined in an Office of Management and Budget (OMB) Memorandum M-10-08. However, the level of effort and the methodologies used by the various USDA agencies to implement this guidance differed significantly from agency to agency, resulting in errors and material omissions not being identified and corrected for USDA as a whole. The report recommends that the Office of the Chief Financial Officer (OCFO) assign sufficient staff to develop and implement a process to ensure that all awards are reported. The agencies also need to follow an effective and consistent methodology for reviewing recipient data to identify significant errors and material omissions.

The Office of Management Budget issued guidance less than three weeks before the fourth quarter reporting period began, requiring new procedures and processes to be implemented by agencies in a short period of time.

The following addresses the recommendation addressed to the OCFO:

Recommendation 1:

We recommend that the OCFO reevaluate its staffing priorities and assign sufficient staff to develop and implement a process to ensure that all awards are reported and that agencies follow an effective and consistent methodology for reviewing recipient data to identify material omissions and significant errors. Once material omissions and significant errors are identified, agencies need to work with recipients to ensure that recipients report their information correctly and that omissions are resolved in a timely manner.

Management Response:

OCFO has addressed this recommendation. It created the Transparency Reporting Team to address the need for additional attention and staffing. OCFO also requested and received funding in the fiscal year 2010 budget to improve the Department's transparency oversight capabilities. The Transparency Reporting Team has five positions. Three are currently filled with full time employees dedicating a significant amount of their time to Recovery Act reporting. For the two remaining positions, OCFO has also advertised one vacancy. A detailee occupies the other vacancy.

OCFO is working on an update to the current recipient reporting guidance which will be discussed with agency contacts on June 15th. This updated guidance further defines the process by which all awards are reported. This will ensure that USDA agencies follow an effective and consistent methodology for reviewing recipient data to identify material omissions and significant errors.

OCFO is working with the agencies and their recipients to ensure that recipients report their information correctly and that omissions are resolved in a timely manner. OCFO is also working closely with the agencies that have the most errors found by OIG to ensure that recipient reporting data will be reviewed and corrected in the first quarter of 2010 and future reporting periods. Recipients are precluded by OMB Memo 10-08 "Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients and Reporting of Job Estimates" from correcting errors and omissions identified in the third and fourth quarters of 2009.

The estimated date to complete final action is August 15, 2010.

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.