



U.S. Department of Agriculture



**Office of Inspector General
Immediate Office of Inspector General**

Office of Inspector General Efforts to Support Effective Implementation of the American Recovery and Reinvestment Act of 2009

**Performed on behalf of the
Council of the Inspectors General on Integrity and Efficiency
July 7, 2010**

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The Honorable Phyllis K. Fong
Chairperson, Council of the Inspectors General
on Integrity and Efficiency
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Ms. Fong:

Enclosed is the Department of Agriculture (USDA) Office of Inspector General (OIG) report entitled, Office of Inspector General Efforts to Support Effective Implementation of the American Recovery and Reinvestment Act of 2009. The USDA OIG performed this work on behalf of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), based on a project plan approved by the Council in June 2009. The final version of the draft was accepted by the Council at its June 15, 2010, meeting.

The study was done to collect information on steps each OIG took in the first 6 months after passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act) to (1) prepare the OIG to provide effective oversight of agency implementation of the Recovery Act and (2) directly support Recovery Act program integrity and prevent fraud in agency Recovery Act program implementation.

The report found that:

- OIGs spent more than \$26 million to support their planning and preventative activities in the first 6 months of the Recovery Act.
- The planning and preventative activities the OIGs most frequently reported performing, identified as among the three most useful, and/or recommended other OIGs consider adopting (with those more frequently mentioned first) are:
- Evaluating agency Recovery Act spending, implementation plans, and performance measures.
- Reviewing and revising the OIG audit plan to put a high priority on issues relevant to Recovery Act implementation.
- Conducting risk analyses to determine where the OIG should focus its future Recovery Act work.
- Setting up a new unit specifically to handle Recovery Act work.

- Developing new reporting formats to more quickly bring information on potential program weaknesses and recommendations for addressing those weaknesses to the attention of agency management.
- Establishing Recovery Act steering committees or otherwise formally partnering with agency officials regarding Recovery Act oversight activities.
- Developing training for external stakeholders.
- Developing written materials providing technical guidance on issues related to Recovery Act implementation.
- Developing new methods of informally sharing information with the agency.

The report contains no formal recommendations and is provided for informational purposes only. We have not independently verified data or narrative information included in this report, but rather are reporting it as provided by the sources cited. After an initial review by the CIGIE Executive Committee, the OIGs participating in Recovery Act oversight and Recovery Accountability and Transparency Board (RATB) staff were given an opportunity to comment on the draft report. The final report includes resolution of their comments.

We would like to thank the staff from across the OIG community and the RATB who contributed to this report.

Sincerely,

/signed/

David R. Gray
Acting Deputy Inspector General

Enclosure

Office of Inspector General Efforts to Support Effective Implementation of the American Recovery and Reinvestment Act of 2009

This report is based on a study done under the auspices of the Council of the Inspectors General for Integrity and Efficiency (CIGIE). The Council voted to undertake the study at its June 2009 meeting. The U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) agreed to lead the study for the Council.

Purpose:

The study was done to collect information on steps each OIG took in the first six months after passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act) to:

1. prepare the OIG to provide effective oversight of agency implementation of the Recovery Act; and
2. directly support Recovery Act program integrity and prevent fraud in agency Recovery Act program implementation.

Methodology:

The information in this report was derived primarily from a survey of the OIGs with responsibilities under the Recovery Act. The survey included a list of possible activities an OIG might have engaged in to either better prepare the OIG to provide effective Recovery Act oversight (“planning” activities) or to directly support Recovery Act program integrity and prevent future fraud in agency Recovery Act program implementation (“preventative” activities).

The list of possible planning and preventative activities include the following:

- reviewed and revised the OIG audit plan to put a high priority on issues relevant to Recovery Act implementation
- set up a new unit specifically to handle Recovery Act work
- developed training for internal staff
- developed training for external stakeholders
- developed written materials providing technical guidance on issues related to Recovery Act implementation (i.e., how to identify and prevent grant or contract fraud)
- established joint investigative task forces on issues relevant to Recovery Act implementation
- coordinated with State/local officials
- coordinated with other OIGs
- coordinated with GAO
- established Recovery Act steering committees or otherwise formally partnered with agency officials regarding Recovery Act oversight activities
- evaluated agency Recovery Act spending, implementation plans, and performance measures

- evaluated agency and program administrator efforts to identify and reduce the risk of fraud, waste, error and misuse of Recovery Act funds
- conducted risk analyses to determine where OIG should focus its future Recovery Act work
- developed new reporting formats to more quickly bring information on potential program weaknesses and recommendations for addressing those weaknesses to the attention of agency management
- developed new methods of informally sharing information with the agency (i.e., regular phone calls with agency management officials)
- other(s)

We asked the OIGs three questions regarding this list.

- Which of these activities did your OIG perform in the first six months after passage of the Recovery Act and what was spent on those efforts?
- Which three of these activities does your OIG leadership consider to have been most useful in preparing for full implementation of the Recovery Act?
- Of the three practices your OIG leadership has identified as most useful, which would you most recommend other OIGs consider adopting (i.e., when other new major program initiatives take place in the future)? We asked the OIGs to then provide us a narrative description of this program initiative.

In determining which OIG activities to highlight in this report, we included:

1. the three activities the largest number of OIGs reported performing;
2. the activities the OIGs selected most often as being among the three activities they considered most useful; and
3. every activity an OIG identified as the one activity on our list they would most recommend other OIGs consider adopting.

The quotations throughout the report are taken from the survey responses submitted to us by the OIGs.

The material in the survey was augmented by review of financial and program information available on Recovery.gov – the website of the Recovery Accountability and Transparency Board (RATB).

We have not independently verified data or narrative information included in this report, but rather are reporting it as provided by the sources cited. After an initial review by the CIGIE Executive Council, the OIGs participating in Recovery Act oversight and the RATB staff were each given an opportunity to comment on the draft report.

In preparing this report, we focused our review on the 29 cognizant, Congressionally-mandated OIGs covering entities provided funds under the Recovery Act and/or included in regular RATB reporting/oversight (27 independent Federal agencies, one

subcomponent of a Federal agency that received funds directly in the Act, and one corporation).

The report is for informational purposes only and contains no recommendations for follow up action.

Background:

The Recovery Act Provides \$787 Billion in Tax Cuts and Expenditures to Stimulate the Economy.

The Recovery Act was signed into law on February 17, 2009. A direct response to the nation's economic crisis, the Recovery Act:

- provides \$288 billion in tax cuts and benefits for millions of working families and businesses;
- increases federal funds for education and health care as well as entitlement programs (such as extending unemployment benefits) by \$224 billion; and
- makes \$275 billion available for federal contracts, grants, and loans.

The Recovery Act Includes \$221 million for OIG Oversight.

The Recovery Act includes a variety of mechanisms designed to bring unprecedented levels of transparency and accountability to oversight of Recovery Act funds. One of these mechanisms was the direct appropriation to various OIGs of \$221 million to be used specifically for oversight of Recovery Act implementation. This was the first time in the 31 year history of the Inspector General Act of 1978 that such a large number of OIGs received temporary funding increases to perform oversight of a new Government-wide initiative. The dollars directly appropriated to the OIGs covered in this report are shown in Appendix One.

Findings:

OIGs Spent More than \$26 Million to Support their Planning and Preventative Activities in the First Six Months of the Recovery Act.

The OIGs drew this investment both from their Recovery Act appropriations and from other accounts available to them (i.e., annual appropriations). (See Appendix Two)

The Planning and Preventative Activities the OIGs Most Frequently Reported Performing, Identified as Among the Three Most Useful, and/or Recommended Other OIGs Consider Adopting (with Those More Frequently Mentioned First) Are:

- ***Evaluating agency Recovery Act spending, implementation plans, and performance measures***

In describing the benefits of this approach, the Small Business Administration (SBA) OIG stated:

IGs (Inspectors General) have experience-based knowledge of why things go wrong, especially in relation to fraud and improper payments that can be invaluable in incorporating controls up front.

The Department of Homeland Security (DHS) OIG also described the benefits of this work in its response to the survey.

Reviewing spending plans for each Recovery Act project was an exercise we considered a best practice early on in the department's process for using Recovery Act funds. Doing so identified potential problems before funds were expended and provided time for the agency to make agreed-upon improvements and thus eliminate potential problems. ... Reviewing spending plans affords Inspectors General the opportunity to recommend improved processes and procedures before funds have been obligated and expended.

- ***Reviewing and revising the OIG audit plan to put a high priority on issues relevant to Recovery Act implementation***

The Department of Education (ED) OIG provided a succinct description of their efforts in this area.

To determine what work to add to the OIG work plan, the OIG went through a process of looking at where Recovery Act dollars were going; evaluating the risk in different programs and states; and coordinating our work plans with the Government Accountability Office to prevent duplication of effort. This has allowed the OIG to devote its limited resources to the areas that we believe will have the most impact. It's most likely that all OIGs do not have the resources to provide sufficient coverage in all areas. Going through the process of evaluating the risk and dollars involved in different locations and

programs will allow them to focus their efforts in areas where their work can have the most impact.

- **Conducting risk analyses to determine where the OIG should focus its future Recovery Act work**

The Department of Defense (DOD) OIG described its risk analyses and their positive impact as follows.

We use predictive analytics as a method to help guide the scope of our work, and target resources as accurately as possible to prevent, detect, and minimize fraud, waste, abuse, and mismanagement. Predictive analytics encompasses a variety of techniques from statistics and data mining that analyze current and historical data to make predictions about future events. Through the use of an analytic model, we will reduce the risk of improper execution of the Recovery Act. ... Considering the limited number of resources to execute these projects this method would greatly reduce the number of Recovery Act projects subject to audit review while highlighting those with high potential risk factors.

The Corporation for National and Community Service (CNCS) OIG reports similar success with the use of risk analysis to target its work.

Using OIG and agency resources, we established a comprehensive list of the high-risk grantees receiving Recovery Act funds. These grantees, among hundreds receiving funding under the act for additional national service positions, will be targeted for spot site visits, Fraud Awareness Briefings, audits and investigations. So far, we are well positioned to prevent and deter waste fraud and abuse involving the agency's riskiest Recovery Act grant recipients.

- **Setting up a new unit specifically to handle Recovery Act work**

The Amtrak OIG cited this as the one activity they would recommend other OIGs adopt.

We would recommend setting up a special unit dedicated exclusively to the handling of Recovery-related work. We have found that Recovery-related activities encompass work that goes beyond the boundaries normally associated with audits and investigations, and requires a special focus in order to be effective. Our office has set up a separate ARRA [Recovery Act] oversight group consisting of separate subject matter experts, such as, auditors and administrative support who are dedicated exclusively to ARRA projects. When an issue arises that is investigative in nature, support from the OIG's investigative arm is brought to bear as the need arises.

This approach accomplishes the following:

- Makes it easy to separate ARRA work from non-ARRA work
- Allows the OIG to place special focus on ARRA-related work and issues
- Allows the non-ARRA areas of the department to focus on traditional OIG tasks
- Helps to build and maintain momentum within the OIG for all things ARRA-related

We find that we are forming a healthy relationship with the various entities within Amtrak, without compromising our professional detachment. We are also finding that our office can move beyond forensic audits to provide a positive impact on the corporation without becoming inappropriately involved in management issues.

- ***Developing new reporting formats to more quickly bring information on potential program weaknesses and recommendations for addressing those weaknesses to the attention of agency management***

The Department of the Interior (DOI) OIG described their efforts as follows.

Our unique approach for ARRA [Recovery Act] oversight involves a collaborative initiative we call the Critical Point Evaluation (CPE). In recovery oversight we are performing a CPE of the Department functions and a separate one for each bureau. The broad goal of a CPE is to review planned and on-going programs, processes, and projects to identify problems that could lead to waste or poor performance before the consequences of such problems are realized. This approach causes us to work with Department offices from the beginning of a new initiative and at various points throughout the effort. With recovery funds, it means we start with each key office to understand their plans for implementation and governance and continue our engagement through time as specific transactions occur. To ensure timely feedback to the Department we provide “real time” feedback for action and ensure transparency in our efforts by issuing a number of products under each CPE, including Recovery Oversight Advisories, Recovery Discrepancy Reports, and Investigative memos and reports.

Our CPE efforts also incorporate the integration of investigative and audit staff into our CPE review teams. Working side by side, our integrated teams have the training and experience to address performance weaknesses as well as vulnerabilities to fraud simultaneously.

We have already issued numerous work products using the CPE approach and the Department has responded quickly and effectively. The products are smaller in scope and shorter in length than many of our other OIG products, so we can provide immediate feedback, which is much needed during the Recovery.

In describing their work in this area, the USDA OIG stated:

We have instituted a new process to timely issue audit reports related to Recovery Act funds. As we perform our audits, if we identify an issue that could/should be addressed quickly by program officials to prevent fraud, waste, or mismanagement, we will produce a report recommending immediate action. These quick turn-around (Fast) reports can then be rolled up into consolidated reports.

The use of Fast Reports has allowed us to quickly bring concerns regarding the implementation of Recovery Act to agency decision makers so they can take corrective actions. Since initiating our Recovery Act work, we have issued 17 Fast Reports (through August 31, 2009) that covered weaknesses regarding housing loans, grants and loans for rural businesses, farm operating loans, grants for aquaculture, renovations of Federal facilities, and the protection of watersheds.

By using Fast Reports, other OIGs will be better able to assist agency heads and congressional oversight committees in carrying out their responsibilities. These reports will also allow them to alert officials in their agencies to program integrity and efficiency problems as quickly as possible to expedite corrective actions, preferably before program funds are released.

- ***Establishing Recovery Act steering committees or otherwise formally partnering with agency officials regarding Recovery Act oversight activities***

The National Science Foundation (NSF) OIG described their work with NSF's Recovery Act Implementation "TIGER" teams [high level agency management teams tasked with implementing specific Recovery Act requirements] as follows.

Participation on the TIGER teams has given OIG staff access into NSF's process of developing policy and a better understanding of its perspective. As a result of this new relationship, NSF provided the OIG with draft ARRA [Recovery Act] policy documents to review and comment on prior to their implementation. This allowed the OIG to raise concerns before potential problems arose. Working together in this way has increased communication and trust between our two staffs and improved relations between NSF and the OIG in general.

The TIGER teams have fostered productive contacts between NSF and the OIG that have had an impact on the administration of Recovery Act funds. For example, NSF developed specific terms and conditions to be incorporated into all ARRA financial assistance awards. Prior to the award of any ARRA funds, the OIG was able to comment on these terms and conditions and provide some suggested improvements. NSF adopted these changes in their final documents, thereby addressing OIG's earlier comments and concerns. We have observed similar impacts from other draft documents for which we have provided comments.

- **Developing training for external stakeholders**

The Office of Investigations within the Department of Transportation (DOT) OIG has taken the training lead for that office.

Our most significant preventative measure is providing training through fraud awareness and prevention briefings with Federal, state, and local officials who oversee and utilize ARRA [Recovery Act] funds. In the first 6-months since the Recovery Act was enacted, we have conducted approximately 390 training and outreach sessions to over 7,000 Federal, state and local individuals and industry representatives in all 50 states, the District of Columbia, and Puerto Rico. The range of our activities include meeting with a state Secretary of Transportation to discuss how DOT OIG and the state can dovetail their oversight activities to meeting with construction workers at a project site to discuss our role in preventing fraud, waste, and abuse. We also currently participate in Recovery Act-related law enforcement task forces in Illinois, Massachusetts, New York and Ohio.

The focus of our outreach efforts are to ensure that stakeholders are aware of who we are and what we can do to help them maintain the integrity of Recovery Act funds. During our briefings we provide examples of common fraud schemes, such as collusive bid rigging, disadvantaged business enterprise (DBE) fraud, product substitution, time and materials overcharging, bribery, kickbacks and conflicts of interest. Briefings are primarily conducted in-person, but we have also conducted webinars, webcasts, and video conferences. Another aspect of our outreach efforts includes presenting to, or coordinating with, law enforcement officials such as U.S. Attorney's Offices, and other OIG's.

Due to our outreach efforts Federal, state, and local officials who oversee and utilize Recovery Act funds are better positioned to detect, prevent, and report fraud, of Recovery Act funds.

The Department of Veterans Affairs (VA) OIG reports similar success with its training efforts.

VA OIG considers its extensive program of proactive fraud awareness seminars and outreach to be a best practice that other OIGs should adopt. The training materials used to facilitate these sessions are posted on the [VA] OIG Website and Recovery.gov. Fraud awareness seminars and outreach with officials responsible for managing and spending Recovery Act funds has heightened their awareness of potential fraud and other prohibited practices, how to identify them, and what actions to take, such as reporting potential fraud to the OIG. These contacts have also established an OIG presence by forming direct lines of communication with responsible Recovery Act officials across the country.

OIGs should be engaging in proactive educational and deterrence activities to help ensure Recovery Act funds are spent appropriately without misuse from fraud or other illegal activities.

- **Developing written materials providing technical guidance on issues related to Recovery Act implementation**

The Department of Justice (DOJ) OIG summarizes its efforts in this area as follows.

The [DOJ] OIG surveyed experienced OIG staff in all its Divisions and reviewed prior reports to identify known grants management issues. Based on this effort, we developed and widely distributed, both within the Department and to other agencies, a document titled “Improving the Grants Management Process.” This document provides recommendations and examples of best practices for the grant management process that DOJ OIG auditors and investigators have identified from our previous grant oversight work. This document is posted to recovery.gov at

<http://www.recovery.gov/Accountability/inspectors/Documents/final.pdf>.

The Office of Justice Programs, the Department’s largest granting agency, has distributed “Improving the Grants Management Process” widely to its staff and is using the document as the basis for enhancing its managerial processes. Summarizing the extensive knowledge and experience of OIG staff and presenting that informally to grant managers can lead to substantial improvement to managerial processes.

- **Developing new methods of informally sharing information with the agency**

The National Endowment for the Arts (NEA) OIG has previously described their work in this area on Recovery.gov.

Methods can include:

- continuous communication with Agency officials
- holding weekly status meetings
- sharing information on recipients such as reporting history, organizational history
- cooperatively working with agency to promote and improve compliance
- establish quick reporting methods to notify agency of potential issues

By sharing information with agency officials we have:

- identified areas of focus in our outreach efforts
- identified areas of potential concern for our audit focus
- improved communication with key Recovery Act Agency officials
- worked effectively with Recovery Act Agency officials on a shared set of priorities

This exercise:

- enables our office to monitor the entire process
- allows our office to disseminate outreach materials
- provides an opportunity to review and comment on Agency documentation prior to dissemination
- enables us to focus our oversight efforts
- In addition, we conduct weekly meeting with cognizant NEA Recovery Act officials which provides updates on continuing Recovery Act activities.
- opens the lines of communication between the key Agency Recovery Act officials and OIG
- promotes efficiency
- could lead to better data reporting
- with better data reporting, could potentially reduce the workload for reviewers

Maintaining open communications with the Agency on Recovery Act Activities can provide more timely notices to OIG when there are unusual trends or patterns.

Appropriations to the OIGs Under the Recovery Act (In Thousands)	
Agency	Funds Appropriated
Agency for International Development	\$ 0
AMTRAK	\$ 5,000
Corporation for National and Community Service	\$ 1,000
Department of Commerce	\$16,000
Department of Defense	\$15,000
Department of Education	\$14,000
Department of Energy	\$15,000
Department of Health and Human Services	\$17,000
Department of Homeland Security	\$5,000
Department of Housing and Urban Development	\$15,000
Department of Justice	\$2,000
Department of Labor	\$6,000
Department of State	\$2,000
Department of the Interior	\$15,000
Department of the Treasury	\$ 0
Department of Transportation	\$20,000
Department of Veteran Affairs	\$1,000
Environmental Protection Agency	\$20,000
Federal Communication Commission	\$ 0
General Services Administration	\$7,000
National Aeronautics and Space Administration	\$2,000
National Endowment for the Arts	\$ 0
National Science Foundation	\$2,000
Railroad Retirement Board	\$ 0
Small Business Administration	\$10,000
Smithsonian Institution	\$ 0
Social Security Administration	\$2,000
Treasury IG for Tax Administration	\$7,000
U.S. Department of Agriculture	\$22,500
TOTALS	\$221,500

Source: Recovery.gov

Funds from All Sources Spent on OIG Recovery Act Planning and Preventative Activities as of August 31, 2009 (In Thousands)	
Agency	Funds Appropriated
Agency for International Development	\$189
AMTRAK	\$241
Corporation for National and Community Service	\$27
Department of Commerce	\$569
Department of Defense	\$1,760
Department of Education	\$1,380
Department of Energy	\$1,186
Department of Health and Human Services	\$4,400
Department of Homeland Security	\$890
Department of Housing and Urban Development	\$1,981
Department of Justice	\$1,048
Department of Labor	\$1,106
Department of State	\$97
Department of the Interior	\$1,983
Department of the Treasury	\$215
Department of Transportation	\$1,375
Department of Veteran Affairs	\$751
Environmental Protection Agency	\$1,305
Federal Communication Commission	\$21
General Services Administration	\$878
National Aeronautics and Space Administration	\$217
National Endowment for the Arts	\$18
National Science Foundation	\$201
Railroad Retirement Board	\$95
Small Business Administration	\$390
Smithsonian Institution	\$27
Social Security Administration	\$323
Treasury IG for Tax Administration	\$622
U.S. Department of Agriculture	\$2,836
TOTALS	\$26,131

Source: Recovery.gov supplemented with OIG survey