



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

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TO: Recovery Accountability and Transparency Board

FROM: Phyllis K. Fong /s/
Inspector General

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 Recovery Act authorized \$787 billion in Federal funds to various Federal Executive Departments/Agencies (hereafter referred to as “agencies”) to jump-start the economy, create or save jobs, and invest in long-term economic growth. To ensure that these funds are spent wisely, the Recovery Act calls for unprecedented levels of transparency and accountability, requiring certain fund recipients—including State and local government agencies and contractors—to provide quarterly reports on their use of funds. These quarterly reports include almost 100 data elements, such as the type, date, and amount of award; project description; and the number of jobs created or retained by each project. 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 1512 of the Recovery Act.² Before reports are made available on the Recovery.gov Web site, Federal agencies are to perform data quality reviews of the information and notify recipients of data errors or omissions that need to be corrected. The Recovery.gov Web site was specifically designed to provide the public with Recovery Act data that are transparent and easily retrievable.

This audit focused on the OMB M-10-08-specified internal controls and policies and procedures for implementing recipient reporting requirements that are the agency’s responsibility when disbursing Recovery Act funds, as of December 31, 2009 (the end of the second reporting quarter).

¹ American Recovery and Reinvestment Act of 2009, P.L. 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 the calendar quarter (beginning with the quarter ending September 30, 2009), and requires that the Federal agency providing those funds make the reports publicly available no later than the 30th day after the end of that quarter.

OMB has issued additional guidance since December 31, 2009, addressing some of the issues raised in this report.

- OMB issued M-10-14 on March 22, 2010. This guidance provided (1) minimum actions Federal agencies must take in conducting data quality reviews during the “continuous corrections” period, (2) categories for describing issues or problems identified during the data quality review process, (3) additional steps Federal agencies should take in calculating control totals for their reviews of noncompliant recipients, (4) circumstances under which a recipient should indicate that its Section 1512 submission is the “final report,” and (5) steps agencies should take to update their agency and program performance information on Recovery.gov.
- OMB issued M-10-17 on May 4, 2010. This guidance addressed actions agencies should take to (1) intensify efforts to improve compliance by newly awarded Recovery Act recipients required to file reports in FederalReporting.gov; (2) obtain compliance by Recovery Act recipients required to file reports in FederalReporting.gov, but who failed to do so in the prior reporting period; (3) track recipient reporting; (4) address noncompliant recipient reporters; and (5) address repeatedly noncompliant recipient reporters. This guidance also provided the tools and sanctions available to agencies to ensure recipient compliance with reporting.

The guidance in OMB M-10-08 called for agencies disbursing Recovery Act funds to implement a limited data review process to identify material omissions³ and/or significant errors⁴ and to notify award recipients of the need to make complete, accurate, and timely adjustments. Our objective was to determine whether the selected Federal agencies have fully implemented internal control structures that were 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. The Offices of Inspectors General (OIGs) of six Federal agencies—the Department of Housing and Urban Development, the Department of Defense, the General Services Administration, the Environmental Protection Agency, the National Science Foundation, and the Department of Agriculture (USDA)—participated in this audit.⁵

We reviewed the policies and procedures developed by agencies and agency subunits in relation to ensuring the quality of data reported by Recovery Act award recipients. We found that the agencies had issued policies and general procedures that follow the guidance outlined in OMB M-10-08. However, the level of effort and the methodologies that the various agencies used to implement this guidance differed significantly from one agency to another and among agency

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.

⁵ Another OIG brought to our attention a report it issued discussing the Department of Energy’s quality assurance process for recipient-reported data—*Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy’s Funding Recipients*, dated April 2010.

subunits. Those agencies included in our review that had good systems of internal controls for reviewing recipient reports (two out of six agencies) did identify and report material omissions and significant errors as required. However, material omissions and significant errors were not identified and/or reported when agencies (four out of six agencies reviewed) had not implemented internal controls to ensure that monitoring efforts were consistent, effective, and complete. For the agencies that had not implemented effective internal controls, agency level reports were issued recommending that these agencies (1) develop and implement a process to ensure that all awards are reported accurately, and (2) follow an effective and consistent methodology for reviewing recipient data to identify material omissions and significant errors.

We also performed reviews of recipient-reported data on FederalReporting.gov and attempted to compare the data with data available in agency-owned systems. We found that because the agency-owned systems were legacy systems, developed prior to the Recovery Act, the data fields and naming conventions were not consistent with the data fields and naming conventions in FederalReporting.gov. As a result, matching the data was difficult and, in some instances, impossible. We found that there was no consistent system of unique identifier codes for Recovery Act awards that would facilitate matching recipient-reported award data. We also found that agencies had not always performed the logic checks for recipient-reported data, as suggested in OMB M-10-08, and there were inconsistencies in the agency's interpretation of which reporting errors were significant and had to be adjusted. We recommend that the Recovery Accountability and Transparency Board (Recovery Board) pursue discussions with the appropriate Government entities concerning the feasibility and cost/benefit of (1) establishing a uniform, consistent Governmentwide award numbering system for all Recovery Act recipients, (2) making the suggested logic checks defined in OMB M-10-08 mandatory, and (3) issuing guidance for identifying significant omissions. These actions would help improve the verification and accuracy of recipient-reported information and the consistency within and across agencies with respect to actions taken relating to reporting errors.

Background

Under the Recovery Act, Federal agencies received about \$787 billion in funding in a number of areas—loans, grants, contracts, entitlement programs, and tax relief. To ensure that these funds are spent appropriately, the Recovery Act requires quarterly reports by recipients on their use of the funds. This audit focused on six agencies' reporting for the quarter ending December 31, 2009. We reviewed agencies' efforts to fully implement internal control structures that are 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.

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.gov⁶

⁶ Prime recipients (and those subrecipients to which the prime recipient has delegated reporting responsibility) submit their information through FederalReporting.gov, the Government-wide data collection system for all Recovery Act recipient reports. Once recipient-reported data have been submitted to FederalReporting.gov and reviewed by the appropriate agency, the information is made available to the public via Recovery.gov.

Web site. Before this information can be released to the public on the Recovery.gov Web site, the relevant agency and/or agency subunit 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.

The six OIGs participating in this review audited their respective agencies' implementation of OMB M-10-08 to determine whether the recipient-submitted information was complete, accurate, and timely.

Scope and Methodology

Six OIGs conducted audits of their respective agencies' implementation of OMB M-10-08, which was OMB's current guidance for the reporting period ending December 31, 2009. To complete this work, the OIGs interviewed responsible agency personnel, attended meetings, and compared agencies' Recovery Act award data for the quarter ending December 31, 2009, with the recipient-submitted data in FederalReporting.gov for that quarter.

All six OIGs conducted their audits from March 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.

This report presents the consolidated findings and conclusions based on the individual audit work performed by these six OIGs and makes recommendations to the Recovery Board. As such, we did not obtain comments regarding the overall findings and recommendations from the agencies whose OIGs participated in the audit.

Objective

Our objective was to determine whether selected agencies awarding Recovery Act funds had fully implemented internal control structures that are 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

We found that all six agencies included in this review had, in accordance with OMB M-10-08, issued and implemented limited policies and procedures in an effort to validate recipient-reported data. However, we found overall that the level of effort and the methodologies used by the various agencies to implement this guidance differed significantly from one agency to another and among the subunits within agencies, resulting in material omissions and significant errors not being identified, reported, and/or corrected. Four of the six OIGs participating in this review have recommended that their agencies reevaluate their priorities and develop and implement a process to ensure that all Recovery Act awards are identified and accurately reviewed through an

effective and consistent methodology to identify material omissions and significant errors. Those agencies generally agreed with the findings and recommendations.

To identify material omissions and significant errors that were not identified by their respective agencies for the quarter ending December 31, 2009, the OIGs performed reviews of the recipient-reported data on FederalReporting.gov and attempted to compare that data with the data available in the agency-owned systems. In general, these systems were legacy systems that had been developed, designed, and implemented prior to the Recovery Act; as a result, data fields, naming conventions, control totals, etc., were not always consistent and at times were nonexistent. Examples of issues found are discussed below.

- **Inconsistency in Award Numbers and Agency/Agency Subunit Identifiers Inhibits Cross-Checking to Identify Errors and Omissions**

- We found that, in general, there was no consistent system of unique identifier codes for Recovery Act awards that would facilitate an easy methodology for matching recipient-reported award data in FederalReporting.gov with data in each agency's system(s). Although each Recovery Act award has an associated award number, the numbering system is not uniform across the subunits within a given agency or across the Federal agencies as a whole. Instead, each Federal agency and, in many cases, each agency subunit determines its own internal award numbering system.

Although two agencies included in our review, dealing mainly with Recovery Act grants, were able to effectively match recipient-reported data to agency records utilizing grant award numbers, we found numerous instances in the other four agencies where the recipient-reported award numbers on FederalReporting.gov and the agency-reported award numbers on the agency's control list did not match. The problem was not that the agencies and recipients were not starting with the same information—the official award number is assigned by the agency or subunit at award and is supposed to be provided to the recipient, and this was generally the case. The disparities were, in many cases, the result of agencies or recipients including superfluous information (such as extra prefixes/suffixes, hyphens, or leading zeros) or erroneous data in the award-number field or embedding the award number in an unrelated field. Such discrepancies made it difficult for agencies and their respective OIGs to cross-check by matching the recipient-reported award numbers on FederalReporting.gov with the agency-reported award numbers on the agencies' control lists. For four agencies, this cross-checking was difficult and additional data fields had to be used in place of, or in conjunction with, the award number to match agency control lists with recipient-reported information on FederalReporting.gov. The inconsistency in award numbers compromised the usefulness of the award number.

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 properly 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,”⁷ including award numbers, by December 24, 2009, prior to the reporting timeframe for the quarter ending December 31, 2009.

- We found 31 awards on FederalReporting.gov that were not included on the relevant agency’s control list because the agency was not aware that the subunit providing Recovery Act funding for the recipient was different from the subunit that made the award. As a result, these 31 awards were not included on several data calls and a certification to OMB.⁸ This occurred because the individual awards were identified at the agency level rather than the agency subunit level where the award was made and funded. Currently, there is a single code assigned that identifies the agency, and both the agency and all of the agency’s subunits use this same code. The code identifies only the agency and not the agency subunit; therefore, the subunit that actually funds the Recovery Act award or the subunit that actually makes the award is not identified. In most cases, the funding subunit and the awarding subunit are the same, but in this case, they were different. This gap in information could have been prevented if FederalReporting.gov used an identifier to identify the subunit in the existing “awarding agency code” field and the “funding agency code” field rather than the agency identifier.

- **Recommended Logic Checks Not Performed**

We found numerous errors that the agencies could have identified if they had performed the logic checks recommended in OMB M-10-08. For example:

- We identified 16 awards that were erroneously posted under the TAS code for an agency subunit. This subunit had issued only one award for the quarter in question. The other 15 awards were erroneously attributed to this subunit because the award recipients incorrectly provided its TAS code instead of the correct agency’s or agency subunit’s TAS code. Had the subunit been monitoring recipient-reported data, it could have identified these errors.
- We identified nine awards where the recipients identified the projects as being complete, and therefore, they were filing their final reports on FederalReporting.gov; however, the recipients also reported on FederalReporting.gov that the “project status” for the same awards was less than 100 percent complete.
- We identified two awards where the recipients reported an award amount of \$0. One of the recipients, awarded a \$35,000 grant, reported an award amount of \$0 for the

⁷ 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 code (the Treasury Account Symbol (TAS) code).

⁸ This agency missed a key award information certification to OMB on December 24, 2009, and two OMB data calls for award control totals due December 31, 2009, and February 26, 2010.

specified quarter and at the same time reported the project as 50 percent 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 \$1.27 million in the specified quarter, but reported the award amount as \$0. The agency subunit that awarded these two awards has stated that these errors were fixed for the subsequent quarter ending March 31, 2010.

- We identified 20 awards where the recipients reported creating jobs, while at the same time, reported that they had not expended any funds.
- We identified two awards where the recipients reported amounts for expenditures of funds that were greater than the amounts of the awards.

- **Inconsistencies in Definitions and Methodologies**

- When the six agencies conducted reviews of recipient-reported information, three identified material omissions and four identified significant errors. However, the agencies did not always ensure that the recipients corrected these omissions and errors in a timely manner. This allowed incorrect information to be presented to the public on Recovery.gov, even after the relevant agency had identified the information as being incorrect. For example, one agency notified its award recipients of the errors, but directed them to make the corrections during the next reporting quarter; OMB, however, requires such corrections during the current reporting cycle.
- We determined that one agency's subunits were using different margins of error as "action levels" to identify discrepancies in the data field for the award amount. These "action levels" are the cutoff points beyond which corrective action is required. One subunit used 2 percent as the "action level," one used an "action level" of 10 percent, and one considered the presence of any incorrect amount (i.e., an error greater than zero percent) to require an action.

OMB provides a broad definition of significant errors, but has left it to each agency subunit to determine what actually constitutes a significant error. For this agency, an incorrect recipient-reported value may or may not constitute a significant error, depending on which subunit gave the award. "Material" and "significant" are both matters of judgment, and they should be assessed both quantitatively and qualitatively. The disparity among subunits in this agency demonstrates that additional OMB guidance is needed for consistent identification and reporting of significant errors.

- We noted that of the six agencies reviewed, three were not taking adequate action against award recipients that did not comply with reporting requirements. For example, at one agency the documented procedures for dealing with such award recipients were incomplete, and the section of the policy discussing two-time non-reporters did not contain sufficient detail to bring these recipients into compliance. Although the agency's recipient-reporting team identified noncompliance, it did not

interpret its role to include *enforcing* compliance. Another agency did not always take action to reduce further noncompliance by noncompliant award recipients. In a judgmental sample of 10 award recipients who had twice failed to report, the agency notified only 5 award recipients of their noncompliance. The goal of such notification is to encourage non-reporters to comply or risk losing their awards. The other five award recipients were not notified because the agency did not provide guidance to contracting officers to establish contact with each non-reporting award recipient.

Recommendations

We recommend that the Recovery Board pursue discussions with the appropriate entities concerning the feasibility and cost/benefit of the following actions, to help ensure more accurate recipient reporting.

1. Establish a uniform, consistent Governmentwide award numbering system,⁹ in conjunction with the agencies, for all Recovery Act recipients. It is difficult to identify errors and omissions in Recovery Act recipient-reported data because of inconsistencies in award numbers.
2. Make the logic checks suggested by OMB M-10-08 mandatory when relevant for the award type. Additional mandatory logic checks should be included when appropriate. Many of the errors and omissions identified in this report could have been identified and corrected if the relevant logic checks had been performed.
3. Issue guidance addressing material omissions and significant error limits. Consistency and uniformity within and across agencies would greatly enhance transparency and accuracy.

We received comments concerning this report from the OIGs represented on the Recovery Board and those OIGs participating in the review, but not on the Board. In general, comments from the various IG staffs were positive concerning the reported findings and recommendations; however, total consensus was not reached for Recommendation Number 1. General concurrence was reached for recommendation numbers 2 and 3.

Five of the thirteen IG offices commenting on the report had concerns with Recommendation Number 1. One IG office believed that Recommendation Number 1 should be less specific and only recommend that the Recovery Board pursue, in conjunction with Federal granting agencies, a Governmentwide numbering system that meets the needs of the granting agencies and improves identification of errors and omissions. The other four IG offices believed that although the establishment of uniform, consistent Governmentwide numbering system may have been a

⁹ Several options could be considered when defining a uniform award number. One example might be an award number consisting of the agency code, a code for the agency subunit, and a sequence number (i.e., an award given by an agency might have the number 06010004, where 06 represents the agency, 01 represents the subunit within the agency, and 0004 represents the fourth award given by the agency or subunit).

good idea when the Recovery Act was first passed, changing the recipient numbering system now would have limited benefit, be costly, and not be practical. They believed that the current recipient numbering system used by their agencies was effective and any changes to the numbering system at this stage of Recovery Act implementation would not be cost beneficial.

We found that agencies with multiple subunits involved in both grants and contracting would be the primary beneficiaries of a uniform and consistent Governmentwide numbering system. Such a system would, in our view, improve the accuracy of recipient reporting by allowing agency staffs to make more effective and efficient reviews of recipient-reported data.

All of the IG offices generally agreed with Recommendation Number 2. With respect to Recommendation Number 3, four of the IG offices believed that the definition of significance should vary by agency (i.e., one size may not fit all). However, we believe that with a single repository of Recovery Act recipient information (Recovery.gov), a basic standard definition for significance is necessary for there to be a consistent interpretation of the recipient-reported data.

USDA OIG appreciates the courtesy and cooperation of the participating OIGs, the Recovery Board staff, and Federal agency staffs during this audit. We provided a draft of the report to the OIGs of the six agencies that participated in the audit and have incorporated their comments as appropriate. If you have any questions concerning this report, please call me at (202) 720-8001, or have a member of your staff contact Robert W. Young, Special Assistant to the Inspector General for the Recovery Act, at (202) 720-6945.