



U.S. Department of Agriculture
Office of Inspector General

Management Challenges



August 2007

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



August 1, 2007

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong */signed/*
Inspector General

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General, to identify and report annually the most serious management challenges USDA and its agencies face.

To identify Departmental challenges, we routinely examine issued audit reports where corrective actions have yet to be taken, assess ongoing investigative and audit work to identify significant vulnerabilities, and analyze new programs and activities that could pose significant challenges due to their range and complexity. We discussed our current challenges with USDA officials and considered all comments received.

Last year we reported six major crosscutting challenges that we believed were the most significant management issues facing USDA. This year we removed one management challenge, as well as specific issues identified under three other challenges in recognition of the progress made or actions taken by the agencies. We found that, generally, USDA's response to the 2005 hurricanes was timely and effective; therefore, we no longer consider it a management challenge. We have also incorporated the challenge relating to genetically engineered organisms into a new global trade challenge and added two additional challenges dealing with food safety and forest management. Unfortunately, because expected progress did not materialize, Civil Rights has again been identified as a challenge for USDA.

In recognition of the actions taken by the agencies, the specific issues that will no longer be highlighted within our challenges are beef exports to Japan (*Interagency Communications*), the need for strengthened program risk assessments (*Improper Payments*), the development of an information system to track specified risk material noncompliance (*Homeland Security*), and security and accountability of explosives and munitions (*Homeland Security*). Further descriptions of actions taken on those issues no longer considered a Departmental challenge are noted on pages 4-5 of this report.

We look forward to working with the Department to address these management challenges. If you have any questions or would like to discuss these issues, please contact me at (202) 720-8001, or have a member of your staff contact either Mr. Robert W. Young, Assistant Inspector General for Audit, at (202) 720-6945 or Ms. Karen Ellis, Assistant Inspector General for Investigations, at (202) 720-3306.

Attachment

cc:

Subcabinet Officials

Agency Administrators

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2007)**

Current Challenges - Synopsis

(1) Interagency Communications, Coordination, and Program Integration Need Improvement

- Integrate the information management systems used to implement the crop insurance, conservation, and farm programs.
- Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.

(2) Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed

- Develop Rural Housing Service controls over administering disaster housing assistance programs to ensure aid is provided to those in need and to avoid duplication of benefits.
- Strengthen quality control, publish sanction procedures, and perform required reconciliation in the Federal Crop Insurance Program.
- Prepare complete, accurate financial statements without extensive manual procedures and adjustments.
- Improve Forest Service internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.
- Capitalize on Farm Service Agency compliance activities to improve program integrity.

(3) Continuing Improvements Needed in Information Technology (IT) Security

Agencies need to:

- Emphasize security program planning and management oversight and monitoring.
- Establish an internal control program throughout a system's lifecycle.
- Identify, test, and mitigate IT security vulnerabilities (risk assessments).
- Improve access controls.
- Implement appropriate application and system software change control.
- Develop disaster contingency (service continuity) plans.
- Address computing problems and mitigate the impact to users.

(4) Implementation of Improper Payments Information Act Requirements Needs Improvement

- Provide management oversight at all levels, programmatically within agencies and operationally at the State offices, in the improper payments elimination process.
- Develop a supportable methodology/process to detect and estimate the extent of improper payments.

- Develop and implement a corrective action plan to reduce the amount of these payments.

(5) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

- Continue vulnerability and risk assessments to determine the adequacy of food safety and security over agricultural commodities that the Department manages, handles, transports, stores, and distributes.
- Continue to strengthen controls over select agents and toxins.
- Continue efforts to coordinate with the Department of Homeland Security in implementing effective control systems to ensure the safety and security of agricultural products entering the country.
- Work with States in preparing for and handling avian influenza occurrences in live bird markets or other “off-farm” environments.
- Ensure animal disease surveillance testing protocols are based on emerging science.
- Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive-9; e.g., develop animal and plant diagnostic and tracking networks.

(6) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

- Develop a plan to process complaints timely and effectively.
- Ensure integrity of complaint data in the system.
- Develop procedures to control and monitor case file documentation and organization.

NOTE: This issue was removed from the 2005 challenge list because a time-phased plan was developed to correct the weaknesses in Civil Rights management and complaint processing. However, expected improvements did not occur and material weaknesses continue to exist.

(7) NEW CHALLENGE: USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

- Continue to strengthen genetically engineered organism field testing controls to prevent inadvertent genetic mixing with agricultural crops for export.
- Develop a global market strategy.
- Strengthen trade promotion operations.

(8) NEW CHALLENGE: Better Forest Service Management and Community Action Needed to Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

- Develop methods to improve forest health.
- Establish criteria to reduce the threat of wildland fires.

(9) ***NEW CHALLENGE: Improved Controls Needed for Food Safety Inspection Systems***

- Complete corrective actions on prior recommendations.
- Develop a time-phased plan to complete assessments of establishment food safety system control plans and production processes, including a review program that includes periodic reassessment.
- Develop a process to accumulate, review, and analyze all data available to assess the adequacy of food safety systems.
- Improve the accuracy of data available in the systems.
- Continue to develop and implement a strategy for hiring and training inspectors.

Challenges Removed From the Fiscal Year 2006 List

One Departmental management challenge reported last year, Challenge 7 on the 2005 hurricane season, was removed from this year's list. Another, Challenge 6 on genetically engineered organisms, was incorporated into the new Global Trade Challenge.

(Last Year's Challenge 6) Departmentwide Efforts and Initiatives on Genetically Engineered Organisms Need To Be Strengthened

In 2006, the United States was still the global leader in the number of acres grown with genetically engineered (GE) crops – 135 million acres or 53 percent of the global biotech area. In 2006, 89 percent of the total soybean acreage in the United States was planted with GE crops; for corn, 61 percent of the total acreage was planted with GE crops. These two agricultural commodities constitute a major part of the American agricultural commodities exported to other nations. One of the significant challenges facing American agriculture is the refusal by many nations to import GE crops due to the perceived health concerns involving the commodities. To add to this dilemma, in the last few years, GE strains not yet approved for commercial production or sale either in the United States or in importing nations were found in U.S. corn and rice crop productions, resulting in returned shipments or lost sales. Because of the challenges posed by GE agricultural commodities on trade and the economic risk of non-GE crops being exposed to GE strains, the Office of Inspector General (OIG) will track the Department's action on genetically engineered organism (GEO) field permits in our new challenge on Global Trade because inadvertent exposure of GE traits to non-GE crops may have significant adverse trade impact. For example, the recent incident of unapproved GE rice strains in seeds for production impacted potential foreign markets worth around \$247 million.

(Last Year's Challenge 7) USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight

Since the hurricanes struck the Gulf Coast in September of 2005, OIG has performed audits and conducted oversight monitoring of USDA's response to the devastation caused by the hurricanes. We have also conducted investigations of Government benefit fraud stemming from these disasters. OIG initiated 15 audits in response to this effort, the first of which began on October 31, 2005. As of August 1, 2007, six audit reports have been issued. The remaining audits and an overall assessment of lessons learned as a result of the 2005 hurricane season are scheduled to be released by the end of fiscal year (FY) 2007. These audits covered a myriad of agency programs providing assistance to those areas impacted by Hurricanes Katrina, Rita, and Wilma. They address housing relief, disaster food stamps, various producer disaster programs, controls over mission assignments, and conservation concerns. We found that, generally, USDA's response to the hurricanes was timely and effective. We did, however, identify areas that can be improved in future disaster responses, such as developing more comprehensive disaster plans, sharing data to avoid duplicate payments, and improving overall coordination among the agencies and departments.

There has also been some significant progress in addressing specific issues identified under the following Departmental management challenges.

**Challenge (1)—Interagency Communications, Coordination, and Program Integration
Need Improvement**

Improve communication and strengthen controls for beef exported to Japan. Both the Agricultural Marketing Service and the Food Safety and Inspection Service (FSIS) formulated and implemented procedures and controls to address the 12 actions announced by the Secretary and the recommendations made in our report to ensure compliance with the Beef Export Verification Program for Japan. The actions taken by the Department resulted in the resumption of trade with Japan.

**Challenge (4)—Implementation of Improper Payments Information Act Requirements
Needs Improvement**

Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling over \$100 billion. During FY 2006, USDA completed risk assessments for all programs. In addition, USDA is developing plans to measure improper payments for all high-risk programs and receive Office of Management and Budget approval. USDA agencies are in agreement with OIG's findings and recommendations and corrective action plans are being developed to reduce improper payments and establish both reduction and recovery targets for all high-risk programs.

**Challenge (5)—Departmental Efforts and Initiatives in Homeland Security Need To Be
Maintained**

Develop an information system to better track noncompliance violations related to specified risk materials. This challenge area was removed based on actions taken by FSIS in response to our review of the controls over specified risk materials (SRM). FSIS developed and implemented an enhancement to its Performance Based Inspection System that records noncompliance related to SRM control requirements. FSIS began analyzing SRM noncompliance data in January 2006.

Improve security and accountability of explosives and munitions. This challenge area was removed based on actions taken by the Forest Service (FS) in response to our followup review of security over explosives and munitions. FS officials concurred with our findings and have initiated actions to address previous open recommendations. FS has designated its Director of Safety and Occupational Health as having responsibility for the overall safety and security of the FS' explosives/munitions program. OIG will continue to monitor FS' progress in completing agreed-upon actions.

CHALLENGE: INTERAGENCY COMMUNICATIONS, COORDINATION, AND PROGRAM INTEGRATION NEED IMPROVEMENT

SUMMARY: USDA’s work crosses jurisdictional lines within the Department and with other Federal agencies. USDA’s challenge is to develop and foster a unified approach to accomplishing the Department’s mission; the various agencies of the Department must understand and appreciate the interrelationships of their programs and work together to create a unified and integrated system of program administration that is greater than a simple totaling of the individual parts. Such an approach would increase organizational communication and information sharing, thus streamlining operations, reducing expenditures, and improving program efficiency, compliance, and integrity. This approach would enable USDA to speak with one cohesive voice and realize its vision of being “recognized as a dynamic organization that is able to efficiently provide the integrated program delivery needed to lead a rapidly evolving food and agriculture system.”

OIG AUDIT/INVESTIGATION ACTIONS:

USDA Could Improve Crop Insurance, Conservation, and Farm Program Integrity and Efficiency Through Integration of the Agencies’ Information Management Systems. The Agricultural Risk Protection Act (ARPA) of 2000 requires the Farm Service Agency (FSA) and the Risk Management Agency (RMA), beginning with the 2000 crop year, to annually reconcile data received by the agencies from producers. In our September 2003 report on the implementation of ARPA, we reported that Departmental data reconciliation efforts on the 2001 crop data were effectively negated by the hundreds of thousands of disparate records that were identified between the two agencies. Differences in the agencies’ definitions of basic terms, such as “producer” vs. “insured” and “farm” vs. “unit,” hamper any data reconciliation as well as data sharing. To date the agencies have been unable to complete the legislatively mandated data reconciliation for a single year.

Since ARPA was enacted, section 10706 of the Farm Security and Rural Investment Act of 2002 directed the Secretary of Agriculture to develop a comprehensive information management system (CIMS) to be used in implementing the programs administered by RMA and FSA. Under section 10706, all current RMA and FSA information is to be combined, reconciled, redefined, and reformatted in such a manner that the agencies can use the information management system. It was the sense of Congress that CIMS would lay valuable groundwork for further modernization of information technology systems of USDA agencies in the future and for the incorporation of those systems into CIMS.

Since 1998, FSA’s ad hoc crop disaster programs (CDP) have been predicated on crop production data that is managed by RMA and downloaded to FSA. OIG’s audits of the 1998-2002 CDPs have shown that FSA and RMA need to reconcile and redefine their data to better meet the needs of FSA in the administration of the CDPs. FSA and RMA are beginning to address inconsistencies in their data in the CIMS project. Specifically, our audits of CDP have disclosed instances in which improper payments occurred because data downloaded from RMA were not properly interpreted or used by FSA. In addition, FSA’s 2005 Hurricane Indemnity

Program (HIP), implemented in FY 2006, relied in part upon data provided by RMA: eligible producers who received a crop insurance indemnity for crop losses suffered due to the 2005 hurricanes were eligible to receive HIP benefits equal to 30 percent of the crop insurance indemnity. (Note: HIP also provided benefits to producers who received FSA Noninsured Crop Disaster Assistance Program payments for production losses due to the hurricanes.) The necessary RMA data files for administering HIP were downloaded weekly to FSA. Since RMA data may change due to updated information, FSA manually generated periodic discrepancy reports to identify RMA data that no longer matched HIP data. The question remains as to how FSA will identify and handle such “mismatches” where RMA changes data after FSA has discontinued the RMA downloads¹. If RMA’s and FSA’s systems were integrated, the downloads of data from RMA to FSA would be unnecessary; data necessary to properly administer the programs would be available in real time and with reduced risk of improper payment. In addition, more than just the crop insurance and disaster programs would benefit from such an integrated system—for example, production data in the system could also be used to determine whether quantities reported by producers for FSA price support program purposes were reasonable.

USDA Could Reduce Improper Payments in Conservation and Farm Programs Through Improved Coordination Between Agencies. The Natural Resources Conservation Service (NRCS) purchases conservation easements on land in association with its conservation programs, while FSA provides farm subsidy payments on crop base acres under its Direct and Counter-Cyclical Payment Program (DCP). Producers are generally prohibited from receiving payments for both DCP and conservation easement on the same piece of ground.

In our August 2005 audit of NRCS’ Wetland Reserve Program (WRP), we found that, even though the law required the owners and operators of land subject to WRP conservation easements to agree to the permanent retirement of any existing crop base acres for such land under any USDA program, NRCS occasionally purchased easements on land with base acres without ensuring that landowners permanently retire that base for FSA’s programs. NRCS had not issued any instructions requiring landowners to notify FSA to retire federally purchased crop base. In addition, we found that NRCS did not consistently notify FSA of conservation easements purchased. In reaching management decision, NRCS and FSA agreed to work together to develop mutually agreeable procedures to overcome these deficiencies. They anticipated achieving final action by September 2005. In an ongoing audit of crop bases on land with conservation easements in California, we continue to find examples where NRCS did not consistently notify FSA of a variety of conservation easements purchased. In 33 of the 53 WRP and Emergency Watershed Protection Program easements reviewed, FSA made \$1.3 million in improper farm subsidy payments for crop bases on easement-encumbered lands. We have discussed this issue with both agencies. Because of weaknesses in interagency communication and program integration, USDA both compensated the producers for the value of the base acres under conservation programs and issued farm program payments on the base acres to the producers under the DCP. The need for a more collaborative approach to the programs and better coordination between NRCS and FSA becomes more critical as Congress enacts more

¹ The last RMA download for HIP was initially scheduled for May 7, 2007, but was subsequently extended to continue indefinitely when, as a result of our audit of HIP, reinsurance companies began reviewing and, in some cases, removing/correcting the causes of loss that made the crops eligible under HIP.

conservation programs in lieu of farm subsidies. Improved interagency communication and understanding of the linkages, interactions, and processes between the agencies and their programs will reduce instances in which one agency's action adversely affects the other's programs.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: RMA and FSA established a working group to develop CIMS, which will combine the agencies' separate program data (e.g., acreage, type of crop, producer, past claims, etc.). In addition to developing an integrated comprehensive information management system, this effort includes redefining data common to, and needed by, both agencies and data unique to each agency and developing a common format for such data. In January 2004, USDA awarded a contract to assist in the development of CIMS. The first component of CIMS to be developed is a database that contains select RMA and FSA data. This component will enable agency management, FSA county offices, RMA compliance and regional offices, approved insurance providers, company approved agents, and loss adjusters to access applicable producer information and crop acreage information from a single source. Users may then generate discrepancy and discovery reports of differences in RMA and FSA crop acreage data. RMA reports that, since July 2006, CIMS weekly has been loading selected RMA and FSA data. According to RMA, the system currently provides RMA and FSA electronic access to a centralized source of some common information and compares and identifies any differences in business entity types and acreage reported by a producer to both RMA and FSA. FSA has provided access to only its national office and a select few State and county offices to test applications. FSA State and county office employees will be granted access once the applications have been tested and a policy has been issued for CIMS. Approved insurance providers will have access to the system once the applicable System of Records is published, and, in the long term, NRCS will be invited to participate in CIMS. The success of this effort critically depends on a unified, integrated approach to program administration, information collection, and systems development.

In response to our WRP audit, NRCS and FSA agreed to correct agency-specific findings and establish a working group to identify and remove all impairments that have prevented them from ensuring that landowners permanently reduce their existing crop base acres where appropriate. All parties agreed that these actions, when completed, along with implementation of the other recommendations, would significantly strengthen the program. NRCS and FSA both reported the working group created a mutually agreeable process, complete with forms and a clear delineation of responsibilities. On February 22, 2006, NRCS issued Circular 31, which, in addition to modifying real estate appraisal instructions, also mandated NRCS staff secure from the landowner a completed FSA form used to reduce crop base. On August 4, 2006, FSA, in consultation with NRCS, issued an amendment to its permanent directives regarding the reduction of base acres and when it was to occur. In addition to the FSA internal distribution, NRCS transmitted the FSA amendment (1-DCP, Amendment 38) to all the NRCS State offices for immediate coordination. Moreover, in a March 2007 conference call that included the FSA and NRCS National and State offices, it was reiterated that each agency should share with the other information about jointly administered programs. During the call, NRCS agreed to provide to the FSA national office NRCS National Bulletins that affect work with FSA. The FSA national office will, in turn, provide the NRCS Bulletins to FSA county offices through FSA Common Management Notices. While issuance and sharing of procedures are positive steps,

both NRCS and FSA need to assure communication and coordination are implemented at their field office locations.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Top Departmental leadership is critical to effecting the cultural changes necessary to the success of a unified approach to USDA program administration. The Department must foster improved interagency communication and data sharing in order to increase efficiency and to preclude the agencies from inadvertently working at odds with one another.

Farm Programs. To preclude errors and irregularities in one program from impacting program payments in another:

- RMA, FSA, and NRCS should implement a comprehensive information management system to better share program data and eliminate duplicate reporting by producers.
- RMA and FSA should implement a more effective data reconciliation process, as mandated by ARPA. Even if a comprehensive information management system is implemented, validity checks, i.e., data reconciliation, should be employed in that system, to the extent practicable, to identify apparent discrepancies in related data; and steps should be taken to resolve such discrepancies.
- RMA, FSA, and NRCS should incorporate data mining techniques up front in the design of software used for program administration to detect data anomalies and potential improper payments. (Through data mining RMA has estimated \$487 million in potential savings from crop year 2001 through crop year 2006. In 2006, to better identify fraud, waste, and abuse in the crop insurance program, FSA began sharing with RMA information on policyholders' ownership interests. However, the agencies temporarily have since stopped sharing this information while issues related to producer privacy are resolved. NRCS could also benefit from data mining in its direct administration of conservation programs.)
- NRCS and FSA should continue to integrate interagency communication and coordination in its program activities to ensure one agency's actions do not adversely affect the other agency's programs.

CHALLENGE: IMPLEMENTATION OF STRONG, INTEGRATED MANAGEMENT CONTROL (INTERNAL CONTROL) SYSTEMS STILL NEEDED

SUMMARY: Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, was revised and became effective in FY 2006. The circular requires that agencies and individual Federal managers take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls. USDA agencies have a history of reacting to individual control issues rather than addressing the overall weaknesses of their internal control systems. Some of the internal control weaknesses identified by OIG and discussed below are specific to individual agencies, while others represent Departmentwide weaknesses.

Rural Housing Service Needs To Improve Controls Over Housing Assistance Provided to Victims of National Disasters. We reviewed the Rural Housing Service's (RHS) response to Hurricanes Katrina and Rita and found that the agency needed to improve controls over the disaster assistance it was providing victims. We reviewed the assistance the agency provided through both its multifamily and single-family housing programs. While the agency should be commended for its quick response to these disasters, we found that the agency lacked internal controls to address the assistance it provides for major disasters. As a result of these weaknesses, we found cases where victims participating in the multifamily housing program received duplicate aid from multiple sources, including other Federal agencies and private charitable organizations. We also found cases in the single-family housing program where Rural Development (RD) was funding repairs to residences that were not related to hurricane damage. Since the funding RD receives for disasters is limited, it is critical RD provide funds to only those victims that were adversely impacted by the disaster. We noted in our audit of funds provided for single-family housing that sufficient funds were not available to fund all victims' requests.

Long-standing Issues Remain Uncorrected in Federal Crop Insurance Programs Regarding Quality Control Issues, Sanctions, and Reconciliation of Data. For the 2006 crop year, indemnity payments totaled approximately \$3.4 billion, and Government subsidies of insurance premiums totaled approximately \$2.7 billion. To ensure quality and integrity in its programs, RMA relies on a number of complementary and/or independent control systems; these include quality control (QC) reviews by the approved insurance companies (AIP) and compliance activities by its own staff. Our audits and investigations have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. We have found through our audits and investigations that there is no reliable QC review system to evaluate private sector delivery of the Federal Crop Insurance Programs. As part of ARPA, RMA was provided expanded sanction authority for program noncompliance and fraud. Sanctions include civil fines; producer disqualification for up to 5 years; and disqualification of other persons (agent, loss adjuster, AIP) for up to 5 years. Although RMA has utilized sanctions to a limited degree, it has not issued a final rule on its expanded sanction authority. (However, RMA did issue a proposed rule on May 18, 2007, and the comment period closed on June 18, 2007.) Also, beginning with the 2001 crop year, ARPA

required that RMA and FSA reconcile producer-derived information at least annually in order to identify and address any discrepancies. RMA has not attempted to performed this reconciliation of RMA and FSA data since crop year 2001. RMA believes that the development of CIMS, jointly with FSA, will meet the reconciliation requirements of ARPA. However, CIMS will not assist RMA in reconciling data from the 2001 crop year until CIMS is fully implemented, which is expected in 2012.

Agencies Need To Improve Their Response to Audit Recommendations. USDA agencies need to improve their timeliness in developing and implementing corrective action plans in response to audit recommendations. As of August 1, 2007, there were 23 audit reports where OIG and the agencies had not reached management decision on the actions necessary to address the recommendations within the required 6-month time period. In addition, there were approximately 120 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Also, as of August 1, 2007, the U.S. Government Accountability Office's (GAO) Website lists 74 audits with open recommendations for USDA. This includes 11 audits released in FY 2007 and 63 in prior years, with the oldest GAO audit being open since FY 2002. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many OIG and GAO findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Processes. Although the Department has obtained unqualified audit opinions for 4 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, OIG identified three reportable conditions, two of which—(1) needed improvements in overall financial management across USDA and (2) needed improvements in information technology security—were significant enough to warrant being reported as material weaknesses for the Department. Furthermore, agency stand alone financial audits identified 6 material weaknesses and 16 reportable conditions. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

Forest Service Needs Improvement in Policy, Process, and Internal Control Issues. Management issues within FS have proven resistant to change. We attribute part of this to the agency's decentralized management structure. The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure policies established by top management are followed. The use and accuracy of performance management information is severely limited. The usefulness of performance measures and the accuracy of reporting processes within FS are often flawed. This lack of timely and accurate information deprives FS management of tools needed to effectively measure the direction and progress of the agency. It also prevents oversight bodies and the public from being able to make informed decisions regarding the agency. These conclusions are based upon findings in OIG and GAO reports with which FS has concurred.

Another internal control issue discovered through OIG work is the need for FS to have better controls to ensure adequate oversight of national firefighting contract crews. Specific issues identified included the lack of adequate controls to monitor and ensure oversight in training

continuity—ensuring adequate training of contract firefighters—and administration of vendors (i.e., vendors using illegal workers on the firefighting crews who may have language barriers), as well as contract crew member qualifications.

FSA Needs To Use the Results of Its Compliance Reviews To Improve Internal Controls.

Our audit of FSA compliance activities showed FSA generally does not capture or analyze the results of its various compliance and internal review activities to identify program weaknesses. Most of FSA's compliance review results were not communicated beyond the individual FSA county offices that performed the reviews. FSA at the national level should collect and analyze the review results to (1) identify program weaknesses that FSA can remedy to preclude future improper payments and (2) identify systemic noncompliance trends and direct its limited compliance resources to known problem areas.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has taken specific actions to assist Departmental agencies in improving the overall management control structure.

- OIG audit work has identified weaknesses in RHS internal controls when the agency is providing assistance during national disasters. Events of this magnitude provide significant challenges for the agency both in providing assistance to victims as well as ensuring only those individuals impacted by the disasters receive the assistance. We are working with RHS to identify internal control processes that can ensure that victims of disasters receive the appropriate level of assistance.
- Our audit work has disclosed that RMA lacks an effective quality control review system to evaluate private sector delivery of the Federal Crop Insurance Program. We have an ongoing audit to evaluate RMA's overall compliance activities. Additionally, through our investigative work, we will continue to address allegations of fraudulent schemes by insurance agents and adjusters.
- OIG continues to work with USDA agencies to reach management decision on actions needed to address our audit recommendations. One of our primary goals is to ensure that the actions that are agreed to by the agency and OIG are achievable within the required 1-year period.
- We continue to focus our audits on the management control structure within FS. OIG audits, along with those from GAO and special reviews from outside contractors, find FS management has not implemented effective corrective action on reported problems. Some of these issues have been reported in multiple reports for over a decade, but their solutions are still in the study and evaluation process by FS. We plan to conduct an audit of the overall structure of FS management control systems. We hope to begin this work in FY 2007, depending on other priorities.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Some of the actions being taken by the Department and USDA agencies to address management control weaknesses include the following.

- RD is actively engaged in discussions with the Federal Emergency Management Agency and other departments to develop working agreements in providing housing assistance to disaster victims to prevent and detect duplicate payments. RD is also developing procedures to monitor field office actions following disasters.
- RMA has begun conducting AIP operations reviews to develop a “rolling” Program Error Rate. RMA plans to complete a review of all participating AIPs once every 3 years. These operational reviews are to assess the company’s compliance with Appendix IV (quality control) and other provisions in the Standard Reinsurance Agreement. The review guide has been developed, and the first round of these national operations reviews has been completed for the 2004 reinsurance year.
- USDA has continued to strengthen its financial management process. The Office of the Chief Financial Officer (OCFO) has worked closely with the agencies to improve control measures to mitigate errors in financial data and to improve the Department’s financial systems.
- FS has reemphasized its management review process to assess its operations and provide management with information on how the agency’s internal controls are operating. The size and complexity of the FS operation will require a long-term commitment by agency management.
- In response to our compliance audit, FSA formed a task force in August 2005 to examine its compliance activities. As part of its duties, the FSA compliance task force will make recommendations on how FSA can use the results of its compliance reviews to strengthen internal controls.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: RD needs to complete working agreements with other agencies that provide disaster response and relief. It also needs to complete new RD procedures to monitor and control assistance in response to disasters. RMA needs to continue its effort to establish a consistent and comprehensive QC process for all reinsured companies, including a system to evaluate the overall effectiveness and reliability of QC reviews performed by the companies. USDA and its agencies need to ensure that their proposed management actions address audit recommendations and are structured so that they can be achieved within reasonable timeframes. USDA agencies need to continue to improve their financial systems with the goal that the financial information produced by these systems will allow them to prepare complete, accurate financial statements without extensive manual procedures and adjustments. FS needs to improve its management controls in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments. FSA needs to implement policies and procedures to analyze its compliance review results and use those results to identify program weaknesses and improve the corresponding systems of internal controls.

CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY

SUMMARY: Like most entities throughout the Federal government, securing USDA's vast array of networks and information technology (IT) resources is a major challenge coupled with significant risk. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. Despite progress, the Department's systems and networks continue to be vulnerable. Furthermore, since FY 2003, the Department has consistently obtained a grade of "F" on the *Report Card on Computer Security at Federal Departments and Agencies* published by the House Committee on Oversight and Government Reform. Audits of the Department's systems have continued to identify weaknesses that could seriously jeopardize operations and compromise the confidentiality, integrity, or availability of sensitive information.

OIG AUDIT/INVESTIGATION ACTIONS: OIG continues to conduct IT security audits to monitor agencies' compliance with Federal mandates as well as perform investigations of IT security breaches involving such activities as IT intrusions and equipment thefts. Our audits of compliance with the Federal Information Security Management Act, lost and stolen computers, and Office of the Chief Information Officer (OCIO) IT General Controls have found that, despite strong guidance provided by the OCIO, agencies' implementation of IT security requirements continues to be problematic. We found inaccurate systems inventories; inadequate security plans, disaster recovery plans, and risk assessments; noncompliance with certification and accreditation requirements; inadequate change and patch management and nonperformance of vulnerability scans. Most recently, Departmental servers containing personal identity information in one agency were compromised through hacker intrusion. Although agencies have accelerated efforts to comply with Federal information security requirements, IT management and security continues to be a material weakness within USDA.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: According to USDA's OCIO, significant accomplishments to address IT security have been implemented. These accomplishments include an increased management focus via a newly implemented security program scorecard, improved information systems and information technology inventories, improved plan of action and milestone processes, automated information systems risk categorization, system and program reviews, and other actions.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Agency-level managers should continue to consider IT security a top priority and display greater commitment and attention to assuring compliance with federally mandated IT security requirements to reduce the level of vulnerability. Specifically, agencies need to ensure that the requirements of OMB Circular No. A-130, *Management of Federal Information Resources*, are fully met.

CHALLENGE: IMPLEMENTATION OF IMPROPER PAYMENTS INFORMATION ACT REQUIREMENTS NEEDS IMPROVEMENT

SUMMARY: USDA still faces many challenges in implementing the Improper Payments Information Act (IPIA) of 2002. The Act requires agency heads to annually review all programs and activities that they administer and identify those that may be susceptible to significant improper payments. If the estimate exceeds \$10 million, agencies are to report the causes of the improper payments and corrective actions taken. In FY 2005, eliminating improper payments became a President's Management Agenda initiative. On August 10, 2006, Governmentwide guidance was consolidated into OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments. Within USDA, OCFO is designated as the lead agency for coordinating and reporting the Department's efforts to implement IPIA. For FY 2007, OCFO has designated compliance with IPIA as a top priority. OIG considers this to be a major challenge for USDA because of the number and complexity of USDA programs and activities that meet the Act's criteria.

OIG AUDIT/INVESTIGATION ACTIONS: During FY 2006, OIG initiated audits of FSA, FS, RHS, and NRCS efforts to quantify improper payment error rates for high-risk programs and establishment of related corrective actions. The audits revealed significant findings relating to compliance with IPIA. For example, OIG determined that valid statistical samples had not been performed and that improper payments reported in FY 2005 were not properly calculated. Similarly, OIG found that estimated improper payments reported in FY 2005 did not always include payments made to ineligible recipients. Furthermore, OIG felt that the corrective actions were too narrow in scope and ineffective in addressing previously reported findings. Lastly, OIG identified one audited agency that did not have a process in place for recovering improper payments. In response to these findings, OIG recommended that agency officials need to develop and implement controls to ensure statistical sampling processes comply with all OMB and OCFO requirements. This includes using the entire universe, reviewing all payments selected, accounting for payment variables, and maintaining documentation to support results reported in the Performance and Accountability Report (PAR). In addition, agencies should include a quality assurance review of its sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs. Such programs include the food stamp, FSA loan, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led to total monetary results of \$635 million, of which \$443 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of our investigations is on specific subjects and specific allegations of criminal violations. Thus, the results achieved in individual investigations pertain directly to individuals, rather than identifying broad agencywide problems in benefit delivery. However, our investigative findings assist in identifying problem areas, such as common schemes used to obtain undeserved payments.

For FY 2007, OIG is conducting an audit of FSA with the objective of evaluating the criteria used to identify improper payments and the statistical process used to select and estimate the extent of improper payments. Additionally, OIG plans to assess FSA's corrective actions for its improper payments.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In FY 2006, USDA consolidated small and similar programs for improved focus in the risk assessment process. This consolidation caused USDA to move from 286 programs in FY 2005 to 146 programs in FY 2006. USDA's FY 2006 sampling identified that the Department had an estimated \$7.05 billion of improper payments. USDA has identified 15 programs susceptible to improper payments, which is an increase from 13 programs identified in FY 2005.

During FY 2006, USDA completed risk assessments for all programs. Also, USDA is in the process of developing plans to measure improper payments for all high risk programs and receiving OMB approval. Corrective action plans are being developed to reduce improper payments and establish both reduction and recovery targets for all high-risk programs. The Department is working towards fully complying with reporting standards, including reporting component error rates for the first time for three Food and Nutrition Service programs (National School Lunch and School Breakfast Programs and the Special Supplemental Nutrition Program for Woman, Infants, and Children) and reporting statistical error rates for four newly declared high-risk programs administered under FSA's Commodity Credit Corporation. These four programs are the Direct and Counter Cyclical Payments Program, Conservation Reserve Program, Disaster Assistance Programs, and Noninsured Crop Disaster Assistance Programs.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Major challenges remain for USDA in meeting the goals of the IPIA and ultimately improving the integrity of payments. USDA agencies need to continue to implement and fully follow the requirements of OMB and OCFO's revised direction. Analyses of the internal control structure of all major programs must be performed, and weaknesses that could create vulnerabilities for improper payments need to be identified and remedied. Due to the breadth and complexity of the undertaking, successful implementation of the IPIA poses a significant management challenge to the Department.

CHALLENGE: DEPARTMENTAL EFFORTS AND INITIATIVES IN HOMELAND SECURITY NEED TO BE MAINTAINED

SUMMARY: Continuing concern about potential terrorist threats have added a new dimension to USDA's missions and priorities—in particular, its missions to ensure the safety and abundance of the Nation's food supply from the farm to the table and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. The National Strategy for Homeland Security provides a framework for prioritizing the use of Federal resources based on the highest threats and risks. Critical mission areas are defined as intelligence and warning, border and transportation security, domestic counterterrorism, protecting critical infrastructure and key assets, defending against catastrophic threats, and emergency preparedness and response.

For FY 2007 the USDA homeland security missions were funded at over \$536 million. The USDA Homeland Security Office (HSO) and agencies concentrate on selected areas called the Food and Agriculture Defense Initiative. For FY 2007, the initiative was funded at \$28.9 million for food defense and \$156.6 million for agriculture defense. Many of these initiatives were mandated under the Public Health and Bioterrorism Preparedness and Response Act of 2002; for example, enhancing the capability to respond in a timely manner to bioterrorist threats to the food and agricultural system and developing an agricultural bioterrorism early warning surveillance system.

USDA agencies must continue to work together to develop a better understanding of changing risks and threats. USDA must continue to foster effective coordination and communication across agency and other Department lines to ensure effective implementation of ongoing and future homeland security initiatives. For example, the Department is coordinating and monitoring efforts to implement the animal and plant disease diagnostic and reporting networks required by Homeland Security Presidential Directive-9.

OIG AUDIT/INVESTIGATION ACTIONS: Building on its earlier progress, USDA must continue its efforts to identify its assets, conduct thorough security risk assessments, and establish appropriate safeguards to prevent or detect deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must continue to address weaknesses in their border inspection activities to guard against the unintentional introduction of pests, diseases, and contaminants on imported products.

Commodity Inventories. In our February 2004 audit of homeland security issues regarding USDA commodity inventories, OIG reported that FSA needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities. We also reported that FSA needs to formulate clear directions on food safety and security for the commodities that it manages, handles, transports, stores, and distributes. Although FSA agreed with our recommendations, preliminary resource and budgetary constraints delayed actions to address this concern.

Select Agents and Toxins. In January 2006, OIG issued an audit of the Animal and Plant Health Inspection Service's (APHIS) implementation of the Agricultural Bioterrorism Protection Act of 2002, which provides for the regulation of agents and toxins that could pose a severe threat to animal and plant health or to animal and plant products. We reported that APHIS had not ensured that entities were fully complying with regulations regarding security plans; restricting access to select agents or toxins; training individuals authorized to possess, use, or transfer select agents or toxins; and maintaining current and accurate inventories.

Agriculture Quarantine Inspection Activities. OIG audits conducted prior to the transfer of APHIS inspection duties to DHS disclosed serious control weaknesses at American borders or ports of entry for agriculture and other food products. Although the inspection function at borders and ports of entry was transferred to DHS, APHIS retains functions such as quarantine, risk analysis, destruction and re-exportation, user fees, and adjudication of violations. USDA-OIG and DHS-OIG issued a report in February 2007, which assessed how well U.S. Customs and Border Protection (CBP) communicated and cooperated with USDA on issues relating to agricultural inspection policies and procedures, complied with established procedures for agricultural inspections of passengers and cargo, and accurately tracked agricultural inspection activities. The audit also reviewed whether CBP had taken corrective action on USDA-OIG issues reported on prior to the transition of the responsibilities to CBP. We were able to resolve many of the prior issues/recommendations; however, we found other issues had not been fully addressed.

In May 2006, GAO reported that CBP and APHIS continue to experience difficulty sharing information such as key policy changes and urgent inspection alerts. GAO recommended that DHS and USDA work together to establish processes and procedures for sharing urgent information, assessing inspection effectiveness, and identifying major risks posed by foreign pests and diseases at ports of entry. GAO also recommended developing and implementing a national staffing model to ensure that agriculture staffing levels at each port are sufficient to meet those risks.

Avian Influenza. In our June 2006 review of APHIS' oversight of avian influenza (AI), we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI.

With regard to its National AI Preparedness and Response Plan (Response Plan), we reported that APHIS needed to provide additional guidance on preparing and responding to highly pathogenic AI (HPAI) or notifiable AI outbreaks in live bird markets or other "off farm" environments. Also, APHIS needed to finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Currently, as stated in the FY 2006 PAR, the Departmental efforts and initiatives in Homeland Security include:

- hosting bi-weekly homeland security discussions with mission area representatives;
- requiring bi-weekly updates on homeland security projects from component agencies and quarterly status reports on Homeland Security Presidential Directive-9 tasks from mission areas;
- conducting risk assessments to determine appropriate levels of security needed for USDA-owned agricultural commodities; and
- analyzing risk assessment findings and identifying changes needed to existing policies and procedures.

In response to our select agent audit, APHIS coordinated with the Department of Health and Human Service's (HHS) Centers for Disease Control and Prevention to develop and implement procedures to share responsibilities for inspecting registered entities handling agents. APHIS established formal procedures for performing security inspections at the registered entities to ensure that the inspections are consistent and thorough. APHIS is requiring that its inspections of registered entities in possession of select agents verify that these entities base their security plans on a site-specific risk analysis and address all critical areas identified in the regulations.

In response to the President's National Strategy for Pandemic Influenza, APHIS developed its Response Plan to address the threat of AI. APHIS has characterized it as a "living document," subject to revision, that establishes a comprehensive approach to the management of an outbreak of HPAI on a large commercial poultry operation. APHIS is also coordinating and establishing AI surveillance networks with other Federal, State, and private entities. APHIS is working with Federal and State cooperators in developing strategies for monitoring migratory birds, as well as working internationally to provide outreach, education, and technical assistance. APHIS clarified actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. APHIS has performed and documented an analysis that identifies gaps in sampling surveillance. APHIS issued the National Avian Influenza Surveillance Plan, dated June 29, 2007, which included goals, objectives, case definitions, data collection and analysis methodologies, reporting of surveillance results, and assessment of surveillance programs.

In response to our review of homeland security issues pertaining to USDA commodity inventories, FSA generally agreed with our recommendations and agreed to work with HSO to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures. However, actions were delayed as FSA initially sought to hire a contractor to guide FSA through the risk assessment process, but was unable to obtain funding. To assist in protecting the Nation's food supply, the Federal Bureau of Investigation (FBI), DHS, USDA, and Food and Drug Administration (FDA) have since developed a joint assessment program, the Strategic Partnership Protection Agroterrorism (SPPA) Initiative. The purpose of this initiative is to conduct a series of assessments of the food and agricultural sector in collaboration with private industry and State volunteers.

Together with the FBI, DHS, FDA, and other USDA agencies, FSA will participate in a summer 2007, SPPA grain facility risk assessment. The assessment will identify vulnerabilities and develop corrective measures for the handling and storage of agricultural commodities. FSA has also tentatively scheduled for the fall of 2007, a second SPPA facility risk assessment that would address certain processed commodities that FSA and the Commodity Credit Corporation purchase and store for the Food and Nutrition Service and the Agricultural Marketing Service. According to FSA, for both SPPA risk assessments, HSO has requested FSA to facilitate and lead the group discussions. Where applicable, FSA plans to use the results of the risk assessments in responding to the audit recommendations.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE:

Commodity Inventories. FSA needs to complete its planned risk and vulnerability assessments of grain and commodity storage facilities and use the results of such assessments to develop guidelines and procedures to protect commodity inventories.

Select Agents and Toxins. APHIS needs to implement its new procedures for inspecting registered entities in possession of select agents and verify that these entities conduct and document annual performance tests of their security plans; and update those plans based on the results of performance tests, drills, or exercises. APHIS also needs to verify that adequate security is maintained over select agent inventories. Registered entities need to be re-inspected to ensure compliance with regulations, using formal written procedures to ensure that the inspections are consistent and thorough.

Agriculture Quarantine and Inspection Activities. USDA and DHS need to work together to strengthen controls and communication, develop the necessary processes and procedures to assess inspection effectiveness, and identify major risks posed by foreign pests and diseases at ports of entry. Also, staffing models need to be developed to address those risks.

AI Surveillance Activities. APHIS needs to revise its Response Plan to include detailed instructions for handling HPAI occurrences in live bird market systems and other “off-farm” environments. In addition, APHIS needs to coordinate with other USDA agencies and States to develop and formalize producer notification and action procedures when an outbreak of AI occurs, to include identification of the roles and responsibilities of personnel involved, specific timeframes for action, and linkage to the Standard Operating Procedures set forth in the Response Plan.

CHALLENGE: MATERIAL WEAKNESSES CONTINUE TO PERSIST IN CIVIL RIGHTS CONTROL STRUCTURE AND ENVIRONMENT
(Reinstated Challenge)

SUMMARY: In 2005, OIG removed the challenge for Civil Rights (CR) from the list of management challenges facing the Department. The premise behind the challenge was that complaints were not timely addressed and there was a backlog of old complaints. Two reports issued in 2005 documented that the Assistant Secretary for Civil Rights (ASCR) had developed 13 initiatives to address these long-standing problems, including the backlog. In a report issued in May 2007, however, we found that although CR's processing time to complete a case has fallen from 3 years in 1997 to slightly under 1.5 years in 2006, its efforts have not been sufficient to ensure that employee civil rights complaints are effectively tracked and timely processed. The risk to employees' rights could reduce the public's confidence in USDA's ability to administer and address civil rights activities.

OIG AUDIT/INVESTIGATION ACTIONS: We found that material weaknesses continued to persist in CR's control structure and environment. Specifically, CR had not (1) established the necessary framework to monitor the processing of complaints and to intervene when established timeframes were not met, (2) sufficiently strengthened its controls over the entry and validation of data in its information system, and (3) established adequate controls to ensure case files could be timely located and the files contained the required documentation. As a result, CR cannot effectively track and timely process employee civil rights complaints.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: We found that in 2006, CR's processing time to complete a case averaged 504 days or just under 1.5 years, a significant improvement over the processing time of 3 years reported in 1997. In February 2005, CR began implementation of the Civil Rights Enterprise System (CRES), a Web-based application that allows USDA agencies and CR to use one automated system for processing and tracking equal employment opportunity (EEO) complaints at both the informal and formal stages. In a report issued in 2000, we had reported that CR had its tracking system and the agencies had their own systems, with CR tracking EEO complaints that were not in the agencies' systems and the agencies having complaints that were not in CR's system. Prior to the implementation of CRES, agencies did not have an enterprise system to track informal EEO complaints.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: CR should develop a detailed formal plan to process employment complaints timely and effectively. CR should also implement a monitoring framework to track the processing of complaints and intervene when timeframes are not being met. To strengthen controls over the entry and validation of data in CRES, CR needs to identify the business rules and implement a plan for testing and applying these rules. In addition, CR needs to implement a process for validating the accuracy of information entered in CRES. CR needs to develop procedures to control and monitor case file documentation and organization, including procedures to document which CR divisions or units are responsible for receiving, transferring, filing, and safeguarding documents in the file folder.

CHALLENGE: USDA NEEDS TO DEVELOP A PROACTIVE, INTEGRATED STRATEGY TO ASSIST AMERICAN PRODUCERS TO MEET THE GLOBAL TRADE CHALLENGE (*New Challenge*)

SUMMARY: The agricultural sector plays a major role in the overall U.S. economy, and the availability of global markets for agricultural products is critical to the long-term economic health and prosperity of the food and agricultural sector. Expanding global markets should increase demand for agricultural products and, therefore, lead to greater economic stability and prosperity for America’s producers. In the Department’s strategic plan for FY 2002-2007 and for FY 2007-2010, increasing export opportunities for U.S. agriculture was listed at the top of the Department’s strategic goals. Between 1990 and 2005, the dollar value of U.S. agricultural exports rose by 39 percent (from \$59.4 billion to \$82.7 billion), but due to larger export gains by foreign competitors, the U.S.’ market share of global exports declined by 32 percent over the same period. In 1990, the U.S. market share was 14.3 percent; by 2005, it had declined to 9.7 percent. In a review conducted by the Department, U.S. market share was described at the lowest level in 30 years, due to “over-reliance on slow growth commodities, mature markets, and rising competition.”

Concurrently, the share of American crop land devoted to cultivating biotechnology derived or genetically engineered (GE) crops has grown significantly. In 2006, American producers had planted around 135 million acres with GE crops; this amounted to 53 percent of the total global biotechnology derived acreage. For agricultural commodities such as soybeans and corn, U.S. production has largely become GE-based: the percentage of GE soybeans planted in the United States increased from 54 percent in 2001 to 89 percent in 2006; during the same period, the percentage of GE corn planted in the United States increased from 25 percent to 61 percent.

Recognizing the importance of American agriculture in trade to foreign markets and the increasing importance of GE crops to the American agricultural sector, the 2002 Farm Bill mandated a number of general and specific trade initiatives in these areas. The 2002 legislation required a long-range agricultural global market strategy building on the policies of the 1996 Farm Bill, which established an “agricultural export promotion strategy” to take into account new market opportunities for agricultural products. Furthermore, under the general trade provisions, the 2002 Farm Bill extended the Export Credit Guarantee Program, encouraged multi-year and multi-country agreements, and extended funding for the Export Enhancement Program. The 2002 Farm Bill also included specific provisions on biotechnology—developing a biotechnology and agricultural trade program, funding biotechnology use in developing countries, and educating consumers about the benefits and safety of these products.

Other countries—especially countries that have long been traditional markets for American agricultural commodities—have not always been eager to import GE crops. Even though the Food and Agriculture Organization of the United Nations has acknowledged the benefits and wholesomeness of GE crops, the European Union has instituted labeling and traceability requirements for biotechnology derived imports, requirements that negatively affect U.S. producers’ ability to compete in European markets and effectively act as trade barriers.

Because of the sensitivity and concern that GE traits, particularly regulated or non-approved traits, inadvertently appear in agricultural commodities sold to these foreign markets, the need for strengthened monitoring and oversight over field trials is critical. Recently, the Department faced a number of legal challenges to its issuance of these field-testing permits; for example, on March 12, 2007, the Federal district court for the Northern District of California ruled that GE alfalfa seed had been approved for commercial release illegally, because there had been no Environmental Impact Statement. Earlier, in August 2006, the Federal district court for Hawaii ruled that the Department had violated the Endangered Species Act as well as the National Environmental Policy Act in allowing drug-producing GE crops to be cultivated without conducting preliminary investigations on the environmental impact prior to approval for planting.

The threat of inadvertent release and incorporation of GE crop traits that are regulated or not approved for human consumption into agricultural commodities can have a potentially devastating impact on American agricultural exports. For example, last summer the discovery of unapproved GE traits in certain rice varieties destabilized U.S. rice exports and resulted in the closing of markets in the European Union and other destinations to U.S. rice. Just this winter, Government tests confirmed the presence of unapproved GE traits in planting seeds for rice production, again resulting in temporary disruptions in the foreign markets for the U.S. rice industry. According to the U.S. Rice Federation, the \$1.2 billion foreign market for U.S. rice exports could be significantly impacted or entirely closed off by such inadvertent releases of GE traits to crop production.

Given the new importance of GE crops to American agriculture, USDA faces significant challenges not only in monitoring and providing oversight to field trials of such crops (to preclude inadvertent release to other crop production), but also in promoting trade of all American agricultural commodities, overcoming trade barriers in well-established markets, educating the public as to the safety concerns and benefits of agricultural biotechnology, and cultivating new markets more receptive to importing biotech crops.

To meet these challenges, USDA must balance several goals, including (1) developing, expanding, and implementing business processes to formulate marketing strategies at a worldwide level, including those of its program participants; (2) maintaining adequate accountability for GE seeds and crops; (3) preserving the integrity of non-GE seeds and crops; and (4) educating the public as to the health and safety of the American food supply, particularly agricultural biotechnology.

OIG AUDIT/INVESTIGATION ACTIONS:

Strengthening Controls Over Field Trials. During our review of USDA's monitoring of GE crops, we evaluated how USDA issues genetically engineered organism (GEO) release notifications and permits, which are required to ship or field test regulated GEOs. We found that the Department needs to strengthen its controls over the entire process, from how it handles permit and notification applications to how it oversees the devitalization of GE crops under approved notifications and permits. Based on the latest response from the Department, we were still unable to reach management decision on 5 of the 28 recommendations reported. These

unresolved recommendations include requiring written protocols for notifications as well as permits prior to approval of the field testing, providing such written protocols to inspectors in conducting inspections of field tests, clarifying the number of field site inspections for permits and notifications, clarifying the term “termination of the field test,” and requiring applicants to provide specific timetables for disposition of GE pharmaceutical and industrial harvests.

Implementation of the Trade Title of the 2002 Farm Bill. During this review, we found that the Department had implemented most of the 2002 Farm Bill amendments relating to trade programs, except that it had not developed a business process to ensure that the Global Market Strategy requirements of the Farm Bill are being met on a global level. Specifically, the Department needed to coordinate its resources and programs with those of other departments to identify opportunities for agricultural exports, and to remove trade barriers. Also, although the Department had reported that it had met the Farm Bill’s mandate to direct at least 35 percent of the agency’s export credit dollars to high-value and processed products, we found that this determination was based on product classifications that were inconsistent with existing definitions.

Strengthening Trade Promotion Operations. This review, which was initiated in response to a request from Congress, examined the extent to which the Department—through its market development programs—fosters expanded trade activities in the exporting of U.S. agricultural products. We found that the Department does not formally track its efforts to expand trade activities in exporting U.S. agricultural commodities or outreach to U.S. exporters. The Department has relied on its traditional industry trade groups and other partners to disseminate the information to foster trade activities.

In our ongoing review of the export of GE crops, we are assessing how the Department has promoted the export of GE crops to remain competitive in the global agricultural market.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OIG and USDA agencies continue to work to reach management decision on our recommendations concerning the oversight of GE crops. To address most of the outstanding recommendations, the Department has stated that it is eliminating the current notification-and-permit system in favor of a multi-tier permit system and that the proposed system needs to be published in the *Federal Register* and commented on before being finalized. APHIS hopes to complete this process by late 2009. However, the Department also needs to clarify policies and procedures involving “termination of the field test” and to require that participants provide timetables for the actual disposition and devitalization of regulated GE crops.

Relating to our report on the implementation of the trade title of the 2002 Farm Bill, the Department stated that it has undertaken several initiatives to support the development, implementation, monitoring, and evaluation of a USDA global strategy. Specifically, the Foreign Agricultural Service (FAS) initiated a comprehensive review and reorganization of its mission and operational structure with an aim to enhance the competitiveness of U.S. agricultural producers and to be in line with USDA’s strategic objectives. Starting in 2006, FAS introduced a process to develop an integrated strategy to synthesize not only priorities from within the agency and the Department, but also from private sector stakeholders and other non-government

entities, other governments, and multilateral organizations. Through such a process, FAS hopes to link the priorities of all stakeholders to USDA goals and objectives, and from there to produce a truly global strategy. The Department has proposed that the 35 percent threshold involving high-value and processed commodities be eliminated with the new farm bill.

In its response to our trade promotion report, the Department stated that it has begun to catalogue the existing information and reporting systems that support the mission to expand U.S. agricultural exports. The Department also stated that it will be reviewing the mechanisms needed to support existing Government Performance and Results Act reporting related to market access issues. The Department hopes to complete its review of other data and reporting mechanisms by the end of calendar year 2007.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: In its response to our Farm Bill Trade Title report, FAS expressed general disagreement with the conclusions reached citing the use of questionable data and “misunderstandings or misrepresentations” of the export strategies used to make funding decisions for market access programs. Regardless of the data used, there is a trend of steadily declining U.S. market share. USDA should—in consultation with Congress—analyze and reassess its strategic goals and marketing strategies as a whole in order to regain, to the extent possible, U.S. competitiveness in global agricultural exports. To better promote the export of agricultural crops, USDA needs to develop a coordinated and consolidated global market strategy, including guidelines and strategies to deal with countries reluctant to import GE crops and to open new markets willing to import American agricultural products, particularly high-value and processed products.

To improve USDA’s oversight of regulated GE crops, the Department needs to provide the specific corrective action plans to address the outstanding audit recommendations, such as clarifying the number of field site inspections for permits and notifications and defining the term “termination of the field test.”

CHALLENGE: BETTER FOREST SERVICE MANAGEMENT AND COMMUNITY ACTION NEEDED TO IMPROVE THE HEALTH OF THE NATIONAL FORESTS AND REDUCE THE COST OF FIGHTING FIRES (*New Challenge*)

SUMMARY: In recent years, the average costs to fight wildfires have exceeded more than \$1 billion per year. In 2006, more than 9.87 million acres of public and private land were burned by wildland fire (15,427 square miles). In 2006, FS spent more than \$1.5 billion for wildland fire suppression. FS efforts to contain firefighting costs are impacted by several issues: climate change, the increase in hazardous fuels occurring on Federal lands, and the population growth in rural communities in the wildland urban interface (WUI). Addressing these key issues is critical if FS is going to be successful in reducing both the severity of wildland fires and the cost of fighting these fires. An additional challenge facing FS is fire safety; as the intensity of fires increases and the agency is called upon to suppress fires in urban areas, the dangers to firefighters has increased.

OIG AUDIT/INVESTIGATION ACTIONS: We completed our audit of large fire suppression costs in November 2006. Our review identified that the major cost driver of suppression costs has been unregulated development in the WUI. Improperly planned and unregulated growth in the WUI significantly increases the risks these communities face from wildfires. Because of the increased risk, FS must spend more money to prevent wildfires from reaching these areas and more money protecting the communities when wildfires do reach them. If not for the threat to the WUI, FS could use less expensive fire suppression tactics or even let the fires burn naturally. It is critical that FS work with local communities to ensure that private landowners take steps to reduce the risk of fire on private property adjacent to Federal land. In addition, we found FS needs to modify its policies that unduly restrict use of fire to reduce hazardous fuels on FS land. We also found that the agency lacked effective cost containment controls: managers' and incident commanders' decisions and oversight were neither tracked nor evaluated, agency performance measures and reporting mechanisms did not allow FS management to assess the effectiveness of its wildfire suppression cost containment efforts, and cost containment reviews had limited effectiveness.

Our audit of FS' implementation of the Healthy Forest Initiative evaluated the agency's efforts in reducing hazardous fuels on Federal land. Deteriorating forest health has resulted in the unnaturally heavy accumulation of hazardous fuels. While FS' 2005 budget for hazardous fuels reduction was \$276 million, it has been estimated that hazardous fuels are accumulating at three times the rate that they can currently be treated. FS has allocated hazardous fuel reduction funds based, in part, on historical funding allocations and accomplishing the most acres of treatment. These factors do not necessarily address areas that may have the most risk of major wildfires. Treatment of high risk areas may cost more for fewer acres, but it may do more to reduce the potential for catastrophic fires than treatment of a large number of acres. FS needs to change its funding approach for fuel reduction projects to recognize the potential risk to forest resources and private property. This will help ensure that the limited funds are better targeted to reduce the potential for catastrophic fires.

Other audits that we have recently completed related to fire suppression activities concluded that FS needed to improve its controls over the use of firefighting contract crews and the use of Emergency Equipment Rental Agreements (EERA). The audit related to contract crews concluded that significant improvements were needed in safety training for these crews. Our review of EERA found that by using a combination of best practices, FS can lower costs for equipment and supplies it obtains through the EERA process.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In response to audit recommendations, FS has implemented policies and procedures designed to contain wildfire suppression expenditures and to increase accountability for suppression operations. FS has developed new strategic performance measures and increased the emphasis on cost accountability. Also, FS has increased the level of management oversight on large fires and initiated significant changes in its wildfire cost containment reviews. The agency has implemented a formal training program for personnel who conduct cost containment reviews with the emphasis focusing on cost drivers and the impact of fire suppression strategies. Incident commanders will have performance standards that include whether the tactics employed represented cost effective use of resources. FS is also placing more emphasis on wildland fire use (WFU). Also, FS practices will allow managers to switch between suppression tactics and WFU as each situation evolves. In the past, once a strategy of suppression was chosen the manager was not allowed to change even if the situation warranted. FS is developing a fire program system to economically allocate resources and a LANDFIRE² system to provide data to use in order to target fire and resource projects more effectively.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Top Department and FS management needs to work with Congress and other land management agencies to find ways to convince State and local governments to enact and vigorously enforce building and zoning codes in areas threatened by wildland fire. FS also needs to work with other land management agencies and State and local governments to conduct hazardous fuels reduction projects in those areas where they will have the greatest impact on reducing risk. FS also needs to continue to improve its internal controls over wildland fire expenditures and the delivery of systems to help managers improve cost containment decisions. FS needs to ensure that it structures its human and physical resources in a manner to meet the changing environment of forest health and the expanding of WUI.

² **LANDFIRE**, also known as the Landscape Fire and Resource Management Planning Tools Project, is a 5-year, multi-partner project producing consistent and comprehensive maps and data describing vegetation, wildland fuel, and fire regimes across the United States. It is a shared project between the wildland fire management programs of the Department of Agriculture's Forest Service and the U.S. Department of the Interior.

CHALLENGE: IMPROVED CONTROLS NEEDED FOR FOOD SAFETY INSPECTION SYSTEMS (*New Challenge*)

SUMMARY: The safety of the Nation's food supply and the adequacy of its Federal inspection systems is a major concern of consumers, Congress, and other stakeholders due to recent food-borne illnesses and food contamination events. FSIS must demonstrate that its information and data systems, management controls, and inspection processes are adequate to support its assessments of the adequacy of slaughter and processing hazard controls and production processes.

The Federal meat and poultry inspection program is operated under the Hazard Analysis and Critical Control Point (HACCP) system (HACCP was implemented in 1998). Under HACCP, each slaughter and processing establishment is responsible for designing a food safety system that complies with sanitation standards and procedures, HACCP requirements, and pathogen reduction requirements. FSIS is responsible for verifying that each establishment's food safety system is operating in compliance with the regulations and in a way that will result in safe and wholesome products. FSIS is moving towards a risk-based inspection system as its next step to modernize the inspection process and has stated that HACCP is the foundation of this risk-based initiative.

Since 2000, OIG has reported that FSIS had not analyzed and/or verified the adequacy of establishment HACCP plans. Also, we reported that FSIS did not have an effective management control structure that would ensure that adequate systems and processes were in place to accumulate, review, and analyze available data to monitor and assess compliance with HACCP and inspection requirements. We recommended that FSIS develop a written time-phased plan for completing its reviews of HACCP plans, to include periodic reassessments, and to establish a strategy for hiring and training staff. We also made numerous recommendations to improve FSIS information technology systems, inspection oversight, and data quality.

OIG AUDIT/INVESTIGATION ACTIONS: OIG issued a series of food safety audits in 2000 that assessed the effectiveness of FSIS' meat and poultry inspection program under HACCP. We concluded that while FSIS had taken positive steps in its implementation of the science-based HACCP program, FSIS needed to have a more aggressive presence in the inspection and verification process. FSIS had, in our assessment, reduced its oversight short of what was prudent and necessary for the protection of the consumer. The conditions noted in our 2003 review of the ConAgra recall (18 million pounds of ground beef and beef products suspected of being contaminated with E. coli O157:H7) again led us to question the adequacy of establishment HACCP plans and FSIS' oversight and verification programs that identify and control hazards in the production process.

In our 2004 audit of application controls for the Performance Based Inspection System (PBIS), we evaluated the adequacy and effectiveness of FSIS' controls over the input, processing, and output of PBIS data. PBIS is a software application designed by FSIS to manage its HACCP inspection assignments, specific inspection procedures, and data reporting. We found that FSIS

had not implemented adequate controls to ensure the integrity of PBIS data and concluded that this ultimately could affect FSIS' ability to adequately manage its inspection activities.

In response to both GAO and OIG audits and recommendations, FSIS developed a management control system to provide assurance that the agency is accomplishing its mission of protecting consumers from unsafe and unwholesome food products. A key component of FSIS' management control system is the In-Plant Performance System (IPPS), which was established to strengthen supervision and improve inspector accountability. Our 2006 audit of IPPS found that FSIS' policies and procedures were generally adequate and that the system improved supervision and inspector accountability. However, we did find that the review process could be strengthened in the areas of written guidance and management oversight; not all inspection activities identified as critical had been assessed.

In 2007, GAO designated three new high-risk areas in its annual high risk report. One of the high-risk areas is Federal oversight of food safety because of its importance to the economy and public health and safety. Any food contamination could undermine consumer confidence in the Government's ability to ensure the safety of the U.S. food supply, as well as cause severe economic consequences. GAO believed the current fragmented Federal system (15 agencies collectively administering at least 30 laws related to food safety) has caused inconsistent oversight, ineffective coordination, and inefficient use of resources.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: FSIS developed and recently implemented a management control system that is to provide multi-layered management oversight of its inspection activities. FSIS has focused on strengthening supervisory oversight of its in-plant inspection personnel through the use of IPPS. FSIS has also recently implemented AssuranceNet, a Web-based system, which will pull inspection data from five databases to facilitate analysis. The goal of AssuranceNet is to allow FSIS to monitor the agency's inspection activities.

ACTION NEEDED TO ADDRESS THE CHALLENGE: Although FSIS agreed to implement corrective actions to address prior audit concerns, some actions are not complete. FSIS needs to fully address prior weaknesses before it can ensure risks to public health from adulterated meat and poultry products processed under the proposed risk-based inspection process are minimized. FSIS must demonstrate that it has adequate information and data systems, controls, and processes in place and operational to support its ongoing assessments of the adequacy of establishment HACCP plans and production processes, and its inspection activities. Most critical, FSIS needs to develop a written, time-phased plan for completing reviews of HACCP plans. The time-phased plan should include a strategy for hiring and training staff. FSIS also needs to develop a review program that includes periodic (1 to 2-year) reassessment of HACCP plans.

ACRONYMS USED IN THIS DOCUMENT

AI	avian influenza
AIP	approved insurance companies
APHIS	Animal and Plant Health Inspection Service
ARPA	Agricultural Risk Protection Act of 2000
ASCR	Assistant Secretary for Civil Rights
CBP	Customs and Border Protection
CDP	crop disaster programs
CIMS	comprehensive information management system
CR	Civil Rights
CRES	Civil Rights Enterprise System
DCP	Direct and Counter-Cyclical Payment Program
DHS	Department of Homeland Security
EEO	equal employment opportunity
EERA	Emergency Equipment Rental Agreements
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigations
FDA	Food and Drug Administration
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FY	fiscal year
GAO	Government Accountability Office
GE	genetically engineered
GEO	genetically engineered organisms
HACCP	Hazard Analysis and Critical Control Point
HHS	Health and Human Services
HIP	Hurricane Indemnity Program
HPAI	highly pathogenic avian influenza
HSO	[USDA] Homeland Security Office
IPIA	Improper Payments Information Act of 2002
IPPS	In-Plant Performance System
IT	information technology
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PBIS	Performance-Based Inspection System
QC	quality control
RD	Rural Development
Response Plan	National Avian Influenza Preparedness and Response Plan
RHS	Rural Housing Service
RMA	Risk Management Agency
SPPA	Strategic Partnership Protection Agroterrorism Initiative
SRM	Specified Risk Materials
USDA	U.S. Department of Agriculture
WFU	wildland fire use
WRP	Wetland Reserve Program
WUI	wildland urban interface