



U.S. Department of Agriculture



**Office of Inspector General
Midwest Region**

Audit Report

Office of Homeland Security Allocation and Use of Homeland Security Funds

**Report No. 50601-0007-Ch
MARCH 2004**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: March 31, 2004

REPLY TO
ATTN OF: 50601-0007-Ch

SUBJECT: Allocation and Use of Homeland Security Funds

TO: Jeremy Stump
Acting Director
Office of Homeland Security

John Surina
Deputy Assistant Secretary for Administration

Stephen B. Dewhurst
Director
Office of Budget & Program Analysis

We evaluated the propriety and timeliness of the U.S. Department of Agriculture's use of supplemental appropriation funds allocated by Congress for Homeland Security purposes and released to the Department at the time of this audit.¹ This review examined the use to which the Department put about \$302 million of those funds.² We reviewed agency budget reports to ensure that Homeland Security funds were being obligated and expended properly, and we reviewed agency monthly status reports to ensure that the funds were used for their intended purposes. We determined that the Department's allocation and use of the supplemental Homeland Security funds, within those areas we tested, met the legislative intent of using the funds to upgrade Homeland Security and other activities in response to terrorist attacks.

The status reports used to track Homeland Security accomplishments, however, did not always reflect the agencies' actual progress in completing the funded projects. Estimated completion dates sometimes remained unchanged several months after they became outdated. Some dates shown as "actual completion" dates were the dates that contracts were signed or security assessments were performed, rather than the dates when the security measures were completed. As a result, Departmental officials had a less accurate picture of the various agencies' progress in completing Homeland Security measures than they could have had. Also, the weaknesses we noted in the reporting process (see Finding No. 1) may result in unforeseen or unreported delays for projects or agencies not included in our sample.

¹ Public Laws 107-117 appropriated \$328 million while Public Law 107-206 appropriated \$226.5 million for a total of \$554.5 million.

² Of the \$554.5 million, \$201.5 has been designated for emergency use only and \$51 million is being reviewed separately under Audit No. 50099-17-KC, leaving \$302 million as the subject of this audit.

We also found that one agency, Animal and Plant Health Inspection Service (APHIS), reported disbursements of Homeland Security funds as obligations on the monthly status reports. This inaccuracy understated the reported obligations by \$26 million as of May 2003, at which time the agency corrected the reporting errors, following discussions with OIG. Prior to this change, officials with neither APHIS nor the Office of Budget and Program Analysis (OBPA) had known that the agency had over-obligated about \$1.1 million in two of the spending categories specified by the Department.

Overall, our discussions with agency officials and review of work plans indicated that except for long-term projects and certain training projects, the security upgrades would be in place by December 2003. The Homeland Security projects we reviewed supported this timeline and also confirmed that long-term expenditures were based on reasonable plans for implementation.

On February 25, 2004, we met with representatives of your respective staffs. Subsequent to the meeting, we provided you with a draft report to provide your written comments. These comments acknowledged that some confusion existed in agencies' compliance with the reporting process, and the issues have been addressed and resolved. We accept the response as sufficient to reach management decision on the recommendations and no further action is necessary. We have incorporated the written comments into the appropriate sections of this report, and have attached the written comments as Exhibit B.

BACKGROUND

In 2002, Congress appropriated \$328 million to the U.S. Department of Agriculture (USDA) under Public Law 107-117 for security upgrades and other activities to anticipate and prevent terrorist attacks (hereafter referred to as Homeland Security purposes). Public Law 107-206, also passed in 2002, gave another supplemental appropriation to USDA of which \$226.5 million was designated for Homeland Security purposes. By the time of our audit, however, only \$25 million of this second appropriation had been released to the Agricultural Research Service (ARS) for a total of \$353 million (\$328 million plus \$25 million). The Office of the Secretary required that each recipient agency provide a spending plan outlining its need for Homeland Security Funds. The plans were reviewed by OBPA and the Department's Homeland Security Council, and were approved by the Office of the Secretary. These reviews were used by the Office of the Secretary to determine how each agency should spend the appropriations by outlining approved spending categories.

In May 2002, OBPA instructed each agency to report both its monthly and cumulative obligations by the 10th of every month. The agencies were also required to use specific and measurable language to describe the progress of approved projects, or milestones. These status reports allowed Departmental and agency managers to review program accomplishments, make decisions and identify major or unanticipated spending needs.

OBJECTIVES

Our objectives were to determine (1) whether Homeland Security funds were used for their intended purpose and (2) whether the monthly status reports accurately reported the status of funds and the progress of security upgrades at select agencies.

SCOPE AND METHODOLOGY

We reviewed Homeland Security allocations at three agencies—APHIS, ARS, and Food Safety and Inspection Service (FSIS)—and at the Office of the Secretary. As of May 31, 2003, these four entities received \$353 million in supplemental Homeland Security funding from the Defense Appropriations Act (Public Law 107-117) and the Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Acts on the United States (Public Law 107-206). We judgmentally sampled allocations from \$301,370,878 of these funds. (The remaining balance of the funds, \$51,629,122 was approved for cooperative agreements with States and universities for Homeland Security purposes.³) We reviewed allocations totaling \$216,788,390 of the \$301,370,878. As of May 31, 2003, \$86,424,469 of the \$216,788,390 had been obligated. We examined supporting documentation for \$54,547,503 of the \$86,424,469. Specifically excluded from the scope of our audit were: (1) non-Homeland Security funds that were made available to the Department under both appropriations Acts; and (2) Homeland Security funds under Public Law 107-206 which have not been made available to the Department.

The period covered by the review included fiscal years 2002 and 2003. We conducted the review at the agencies' Headquarters offices and at sites in Beltsville, Maryland (APHIS National Plant and Germ Plasm Quarantine Center), Gulfport, Mississippi (National Monitoring and Residue Analysis Laboratory), and New Orleans, Louisiana (ARS' Southern Regional Research Center.) At these sites, we verified the purchase and installation of security upgrades. We reviewed agency workplans and agency status reports on the progress of Homeland Security activities and obligation of Homeland Security funds, and we reviewed Departmental records, such as Advice of Allotment, Apportionment and Reapportionment Schedules, Agency Allocation Proposals, Monthly Status Reports, Purchase Orders, and Interdepartmental Agreements. In addition, we interviewed officials of both OBPA and Departmental Administration, and obtained documentation as needed from these officials. We performed this review in accordance with generally accepted Government Auditing Standards.

AUDIT RESULTS

FINDING NO. 1 - STATUS REPORTS DID NOT ALWAYS REFLECT AGENCIES' PROGRESS ON FUNDED HOMELAND SECURITY PROJECTS

The agencies reviewed did not always provide complete or accurate information in their monthly status reports to OBPA. Milestones used to track the completion status of funded projects were not always clear and, in many cases, estimated project completion dates remained unchanged several months after they had become outdated. Target dates reported to OBPA did not always reflect the agencies' actual progress in completing funded Homeland Security projects. Agencies' lack of effective controls over reporting procedures, in part, caused these problems. In addition, neither OBPA nor Departmental Administration effectively reviewed the agencies' reports. As a result, Departmental officials were not always fully informed of the agencies' progress in completing critical and time-sensitive Homeland Security measures.

³ The funds for cooperative agreements are being reviewed separately under Audit No. 50099-17-KC.

The guidance issued to all USDA agencies by the Department on May 9, 2002, required each recipient agency to provide a monthly status report on its project milestones by the 10th of each month. These guidelines required that the milestones used to track the agencies' progress in implementing security measures be specific, measurable descriptions of the agencies' progress. For each project the status reports showed the allocation, total funds obligated, estimated completion dates, the project completion date, and a section for comments on the status of the project.

Our review of the selected agencies' controls over this process showed that the controls were not sufficient to ensure that the status reports clearly and accurately reflected the agencies' month-to-month progress in completing the funded Homeland Security projects. We found that agencies had not established review procedures to verify the monthly status reports, or to ensure that the information they contained was consistent with internal documentation, such as financial records and work plans.

We obtained the monthly status reports prepared by the three agencies that received specific appropriations from Congress (FSIS, APHIS, and ARS) for the period of March through May 2003. In addition, we selected a sample of 5 other agencies out of the 13⁴ that received their Homeland Security funds out of the appropriation given to the Office of the Secretary and administered by Departmental Administration: Rural Development, the Farm Service Agency, the Forest Service, the Natural Resources Conservation Service, and the Office of the Chief Information Officer. The status reports for these five agencies were prepared by Departmental Administration, based on information provided by the agencies on a monthly basis. We also reviewed four projects that were administered directly by Departmental Administration. We reviewed each of the agencies' status reports to determine whether reported milestones for completing funded Homeland Security projects were sufficiently clear and up-to-date.

For 31 projects at APHIS, ARS, FSIS, and Departmental Administration (representing \$217 million out of the \$302 million), we also contacted agency officials and reviewed documentation to determine the accuracy of the reported information. For two of these agencies, APHIS and ARS, we also performed field visits to assess the agencies' actual progress compared with that reported to OBPA.

Except as noted in Finding No. 2, we found that the information reported by the agencies on their allocated and obligated funds was accurate in the March 2003 status reports we received. However, our review disclosed that for four of the sampled agencies, the reported due dates and project status were not always accurate enough to assure OBPA and the Department that funded projects were being completed within the agencies' stated timeframes. During the course of fieldwork, we continued to find similar conditions in subsequent reports through May 2003.

Of 125 milestones reported in APHIS' status report for March 2003, 48 were insufficiently descriptive, out-of-date, or found to be inaccurate when reviewed against the agency's internal data. Of 93 milestones reported by ARS in that same month, 24 were insufficiently descriptive or unsupported by agency data, as were 15 of the 86 milestones reported by FSIS.

⁴ This number includes Departmental Administration itself, which administered the use of some of its appropriated funds directly. It also includes APHIS and FSIS, which received funds from Departmental Administration's appropriation in addition to the funds appropriated to them directly by Congress.

For example, status reports were not always supported by information available at the agencies. Based on information we obtained from the agencies, we determined that dates or other information reported were often incorrect. For two examples:

- One of APHIS' major projects was to upgrade physical and operational security at 18 critical facilities. The March 2003 status report listed the same anticipated completion date of July 2003 for all 18. However, we found through interviews with APHIS officials that the actual projected completion dates for these facilities ranged from September 2003 through January 2004.
- Although ARS' March 2003 status report showed that security upgrades for 13 facilities would be completed in April 2003, the agencies' actual anticipated completion dates for 12 of the 13 ranged between June and December 2003; for the remaining facility, ARS did not even have an estimated start date. The monthly status reports for all 13 indicated that security upgrades had started in October 2002, but project documentation showed that only one actually started prior to January 2003. ARS personnel explained that the initial due dates were carried over from prior month's status reports and were never looked at and revised.

In addition, estimated completion dates were often outdated. Agencies did not always revise the estimated timeframes for completing milestones even after the dates being reported to OBPA had passed. For example:

- Of the 93 milestones reported by ARS for March 2003, the estimated completion dates for 24 passed without being updated. As of May 2003, 13 of these were 1 or more months out of date, with the oldest being 8 months out of date.
- Of the 125 milestones reported by APHIS for March 2003, the estimated completion dates for 13 passed without being updated. For example, one milestone projected the installation of security equipment to restrict access to pesticides, drugs, firearms and explosives by November 2002. However, the May 2003 status report did not contain a revised or actual completion date. The comments section indicated that it was 98 percent complete.

Last, our review revealed that interim milestones were sometimes inaccurately presented as project completion dates in status reports. In some instances, dates appeared to show funded projects were completed when in reality they were still in process. For example:

- APHIS used some of its funds for a project to develop sensing technology that would detect plant materials coming through the mail. Both this and an equivalent technology development project for animal products were to be completed in 4 phases. While the status report correctly reflected these developmental stages for the animal products project, the project for plant products showed only a single date. The sole completion date reflected on the report for plant products was actually the date the contract was entered into with the Department of Energy, (Phase I), not the true completion date.

-- APHIS' March 2003 report showed that a study on shipping containers of fruit products had been completed in February 2003. APHIS officials stated that the February date on the status report showed when a contract was signed for work to be performed, rather than the date the project was actually completed. APHIS personnel responsible for preparing the status report stated that they considered the milestone completed once the contract was signed, not when the work was accomplished.

OBPA officials responded that they were aware of the discrepancies but stated that they do not have the authority to require agencies to revise reports. Departmental Administration does have the authority to require such changes, but OBPA officials said the status reports are not routinely provided to them. OBPA officials stated that they do suggest updates the agencies need to make, but we observed in our review of May 2003 status reports that errors in the March reports generally remained uncorrected.

In response to this problem, OBPA officials have developed their own internal tracking document (updated quarterly) based on the most current information. We compared a copy of this document (covering the period ending March 2003) to agencies' status reports for the same period. We found that the OBPA report generally contained the same discrepancies as those in the agencies' monthly status reports.

Recommendation No. 1:

Issue a notice to all agencies requiring them to establish a review process and internal controls that will identify and correct errors and outdated information on the status reports. The notice should also clarify that the status reports should reflect both financial and program-accomplishment information.

Agency Response:

Agency officials stated they have developed internal review processes and tracking documents to prevent errors and ensure information on the status of projects is up-to-date. In addition, OBPA and Homeland Security staff met with agency administrators to encourage higher level attention to the monitoring and reporting on the status of Homeland Security funds.

OIG Position:

We accept this response to reach management decision and no further action is necessary.

FINDING NO. 2 - APHIS' STATUS REPORTS DID NOT ACCURATELY REFLECT OBLIGATIONS OF HOMELAND SECURITY FUNDS

APHIS' monthly status reports did not accurately reflect the agency's cumulative obligations of funds because, beginning in early fiscal year 2003, the agency began reporting disbursements instead of obligations. Although APHIS officials stated that this change was made at the verbal direction of OBPA officials, we were unable to confirm this. The OBPA officials themselves stated that they had never instructed APHIS to report disbursements as obligations. As a result of the reporting error, as of March 2003, the agency's status report understated cumulative obligations by \$26 million. In addition,

since APHIS' budget staff used the status reports as part of their own internal monitoring process, agency officials were unaware that as of May 2003 their obligations for two projects exceeded the amounts approved by the Office of the Secretary by approximately \$1.1 million. APHIS officials informed us that they had corrected the problem on the May 2003 status report, and as of May they were reporting cumulative obligations. Our review of the May 2003 status report confirmed that this had been done.

We also found that APHIS did not have adequate controls to ensure that obligations of funds remained within the guidelines specified by the Department in the approved spending plans. This occurred because APHIS budget officials used the status reports, rather than the agency's internal accounting records, to monitor obligations on a monthly basis. As a result, supplemental funds for two Homeland Security activities—remote sensing and smuggling interdiction—were over-obligated by \$1,123,106 as of May 2003. These over-obligations had not been previously apparent to OBPA because, as noted above, the status reports had been underreporting obligations.

Our comparison of the status reports to APHIS' finance system records also disclosed reporting errors in 2 of the 52 categories. The status reports showed that obligations for swine feeding surveillance totaled \$1,663,349, while the agency's own finance record reflected \$1,709,539. Thus, the actual obligations per agency records were \$46,190 greater than what was reported to OBPA. The status report also understated obligations by \$3,418 for telecommunications/COOP (Cooperative). An APHIS official acknowledged the errors, and said that the amounts on the finance system were correct. We determined that APHIS could have prevented these clerical errors if they had established controls to reconcile the obligations on the status report to the obligations in the accounting system.

Recommendation No. 2:

Determine whether the additional \$1,123,106 for remote sensing and smuggling interdiction were appropriate and necessary. If so, determine whether funds need to be redirected from other sources to meet the agency's Homeland Security needs.

Agency Response:

According to APHIS officials, they have corrected these over-obligations which were errors in the accounting system.

OIG Position:

We accept this response to reach management decision and no further action is necessary.

Recommendation No. 3:

Require APHIS to institute procedures to reconcile the obligations on its status reports to the obligations reflected in its accounting system on a monthly basis.

Agency Response:

APHIS officials stated that they reconcile obligations in the accounting system with the status report monthly.

OIG Position:

We accept this response to reach management decision and no further action is necessary.

We appreciate the assistance and cooperation of your respective staffs during the audit.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Finding Number	Recommendation Number	Description	Amount	Category
2	3	Funds obligated in excess of approved levels	1,123,106	FTBPTBU (A)

(A) Funds to be put to better use.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

March 31, 2004

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

FROM: Jeremy Stump *JWS*
Homeland Security Director

SUBJECT: OIG Audit Report No. 50601-7-CH – Allocation and Use of
Homeland Security Funds

I have reviewed the final audit report regarding the allocation and use of Homeland Security funds. I appreciated the opportunity to discuss the draft report earlier with your staff and their responsiveness to my comments and observations. On the whole, I think the agencies have done a fine job of managing the funds for the purposes for which they were approved and to address the Department's Homeland Security weaknesses. As you are aware, there were other high priority activities warranting the agencies attention, which sometimes caused delays in reporting. Attached are specific responses provided by the Animal and Plant Health Inspection Service and the Office of Budget and Program Analysis to address a number of concerns with the final report. No other agencies filed a response.

Attachments



United States
Department of
Agriculture

Marketing and
Regulatory
Programs

Animal and
Plant Health
Inspection
Service

Washington, DC
20250

TO: Robert W. Young
Assistant Inspector General for Audit

FROM: Bobby R. Acord *Kevin Steiner* MAR 17 2004
Administrator

SUBJECT: APHIS Response to OIG Audit on the use of Homeland Security Funds.

We have reviewed the official draft of the findings of the OIG audit on Homeland Security Supplemental funds. We agree that there was confusion regarding obligations and program accomplishments that should be reported to the Department but feel all this was addressed and satisfactorily resolved. APHIS feels the Department was adequately informed of Homeland Security Supplemental spending. Additionally, the Department has indicated it felt adequately informed by APHIS. APHIS has some concerns with findings of the report.

- **Finding No.1** Status reports did not always reflect agencies' progress on funded Homeland Security projects.
 - APHIS acknowledges that at times there was confusion on due dates. However, APHIS feels there are reasonable, logical explanations for such confusion.

OIG Finding: "One of APHIS' major projects was to upgrade physical and operational security at 18 critical facilities. The March 2003 status report listed that the same anticipated completion date of July 2003 for all 18. However we found through interviews with APHIS officials that the actual projected completion dates for these facilities ranged from September 2003 through January 2004."

APHIS Position: APHIS' initial expectation was that the security assessments would be completed for all 18 facilities followed by upgrades by July 2003. The July 10th 2003 report reflects that the upgrades would be completed between September 2003 and January 2004. The due date was revised prior to the passing of the initial due date. The status report agrees with the information OIG found.

OIG Finding: "Of the 125 milestones reported by APHIS for March 2003, the estimated completion dates for 13 passed without being updated. For



example, one milestone projected the installation of security equipment to restrict access to pesticides, drugs, firearms, and explosives by November 2002. However, the May 2003 status report did not contain a revised or actual completion date. The comments section indicated this was 98 percent complete.”

APHIS Position: There were various reasons why projected completion dates changed. These reasons ranged from contract difficulties and labor disputes to emergencies such as the outbreaks of exotic Newcastle disease and low path avian influenza which delayed projects by requiring personnel to address pressing health, safety, and international trade issues. APHIS would rely on program managers input before changing due dates. In some instances, due dates passed before we received project managers guidance. The example presented shows a typographic error and should have read November 2003. This project was actually completed October 2003.

- o The report states that interim milestones were sometimes inaccurately presented as project completion dates in status reports.

OIG Finding: “.....The sole completion date reflected on the report for plant products was actually the date the contract was entered into with the Department of Energy (phase 1), not the true completion date.”

APHIS Position: The milestone referred to reads “Interagency Agreement with the Dept. of Energy for a chemical sensor to detect plant products in international mail.” Once the agreement was signed the funds were obligated and the milestone considered completed.

OIG Finding: “APHIS’ March 2003 report showed that a study on shipping containers of fruit products had been completed in February 2003. APHIS officials stated that the February date on the status report showed when the contract was signed for the work to be performed, rather than the date the project was actually completed. APHIS personnel responsible for preparing the status report stated that they considered the milestone completed once the contract was signed, not when the work was accomplished”

APHIS Position: Once a contract was signed the funds were obligated and the project from a financial perspective considered completed. Our

emphasis was on obligating funds for projects and tracking those activities knowing that the projects would be completed as a matter of course.

Recommendation No. 1

Require each agency to establish a review process and internal controls that will identify and correct errors and outdated information on the status report.

-APHIS has an internal review process in place and updates the status report monthly with the latest information available showing both financial and program accomplishment information.

- **Finding No. 2** APHIS status report did not accurately reflect obligations of Homeland Security funds.

OIG Finding: The OIG draft report states “We also found that APHIS did not have adequate controls to ensure that obligations of funds remained within guidelines specified by the Department in the approved spending plan. This occurred because APHIS budget officials used the status reports rather than the agency’s internal accounting records, to monitor obligations on a monthly basis”

APHIS Position: The status report numbers came directly from the official Foundation Financial Information System; we disagree with the OIG finding. The variation likely occurred because the status report reported on obligations as of the end of each month. OIG auditors pulled obligation from the accounting system either prior to or after the end of the month. This gave auditors up to the last day data while the status report was reporting data at month’s end. If APHIS is reporting obligations as of the 30th of a month and data is pulled on another day obligations will vary.

Another source of confusions was whether to report disbursements or obligations. APHIS and OBPA staff worked to successfully correct this.

APHIS never over obligated its total authority for Homeland Security Supplemental funds. Whenever there were over obligations on certain allocations approved by the Department, APHIS corrected them. In these cases there were either errors in the accounting system or charges to the incorrect accounting code which required deobligations and/or reobligation to correct the obligations.

Recommendation No. 2

Determine whether the additional \$1,123,106 for remote sensing and smuggling interdiction were appropriate and necessary. If so, determine whether funds need to be redirected from other sources to meet the Agency's Homeland Security needs

- APHIS corrected these over obligations which were errors in the accounting system.

Recommendation No. 3

Require APHIS to institute procedures to reconcile the obligations on its status reports to the obligations reflected in its accounting system on a monthly basis.

- APHIS reconciles obligations in the accounting system with the status report monthly. If there is an error in the accounting system, APHIS makes corrections on status report.



United States
Department of
Agriculture

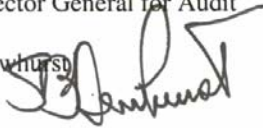
Office
of the
Secretary

Office of Budget
and Program
Analysis

Washington,
D.C.
20250

MAR 25 2004

TO: Robert W. Young
Assistant Inspector General for Audit

FROM: Stephen B. Dewhurst
Director 

SUBJECT: Office of Inspector General Audit: Allocation and Use of Homeland Security Funds (50601-7-Ch)

I have reviewed the official draft audit report regarding the allocation and use of the Homeland Security Supplemental funds. As I stated in my memorandum dated February 12, 2004, I do agree that there was some confusion in the agencies' compliance with the reporting process that resulted in unreported delays for specific projects but I feel that these issues have been addressed and resolved. However, I still have concerns with Finding No. 1 of the report.

- **Finding No. 1:** Status reports did not always reflect agencies' progress on funding Homeland Security projects.

OIG Finding: "The agencies reviewed did not always provide complete or accurate information in their monthly status reports to OBPA....In addition, neither OBPA nor Departmental Administration effectively reviewed the agencies' reports. As a result, Departmental officials were not always fully informed of the agencies progress in completing critical and time-sensitive Homeland Security measures."

OBPA Position: I take strong exception with this finding that "...neither OBPA nor Departmental Administration effectively reviewed the agencies' reports." The narrative of the report describes an effective review and comment process that was established by OBPA as well as an additional tracking document developed by OBPA. This report was used to communicate progress and identify issues with the Homeland Security Staff, including the lack of timeliness and other shortcomings that OBPA identified in its review of the agency reports. As a result of this review, OBPA and the Director of the Homeland Security Staff met with agency administrators to encourage higher level attention to the monitoring and reporting on the status of Homeland Security funds. It is for these reasons that I feel that every attempt was made to keep Departmental officials sufficiently informed of the agencies progress in completing critical and time sensitive Homeland Security measures.

Informational copies of this report have been distributed to:

General Accounting Office	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)