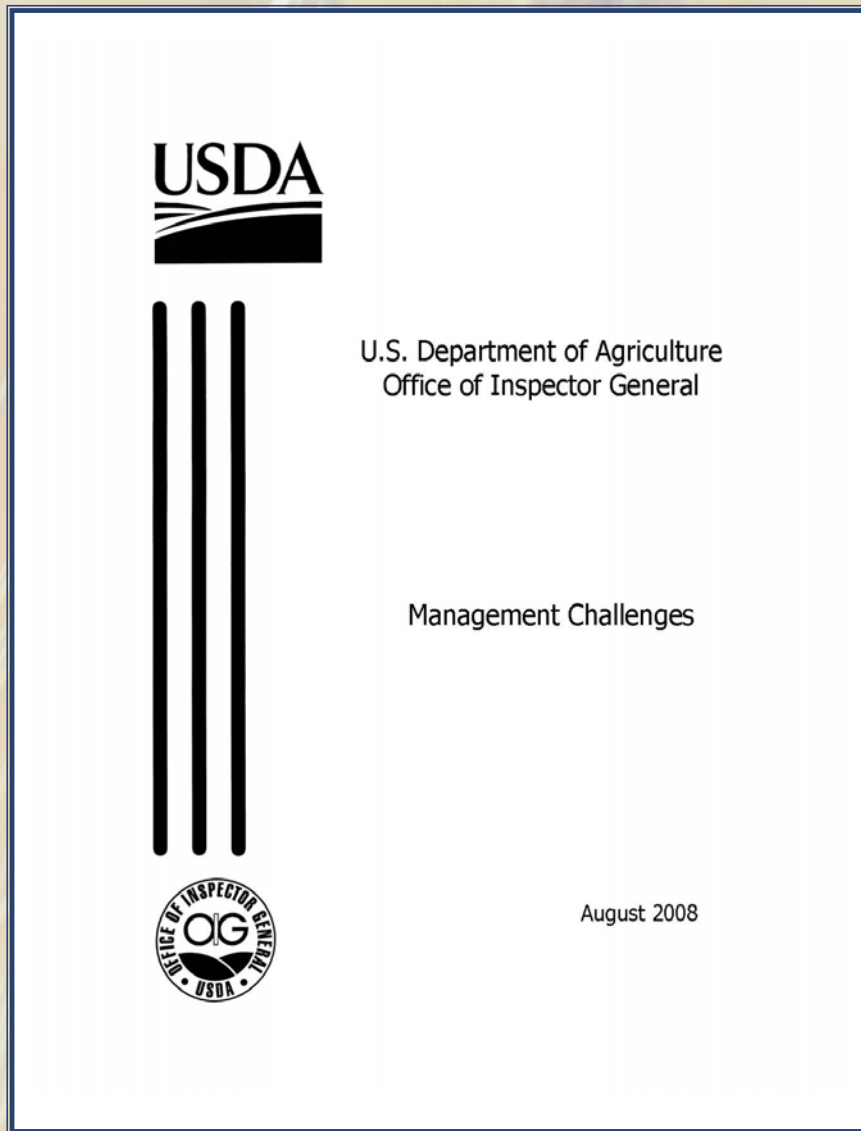




4 Other Accompanying Information

Appendix A—Management Challenges





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



MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong */signed/* August 1, 2008
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 on 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, audit, and inspection 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 on nine major challenges that we believed were the most significant management issues facing USDA. This year we have removed the challenge on the implementation of the Improper Payments Information Act requirements since we found in a recent audit that the Department has implemented corrective actions as well as a strategy to mitigate the risk of making improper payments. We have also added a new challenge in the area of renewable energy due to the Department's integral involvement in developing viable solutions to meet an increasing worldwide demand for energy. With these adjustments, this year's Departmental challenges remain at nine.

For the previously reported challenges that remain, we restructured some subelements in our challenges and added others. Under Challenge 1 (Interagency Communication), we have now included communication and coordination on issues relating to agricultural inspection policies and procedures. For Challenge 2 (Internal Controls), we added the Natural Resources Conservation Service to the existing Forest Service subelement on improving internal controls and management accountability. Under Challenge 4 (Homeland Security), we restructured our focus on avian influenza and added a subelement on strengthening controls over live animal imports. Also under Challenge 4, we removed the subelement on animal disease surveillance since the agency has re-evaluated and adjusted its testing protocols based on recommendations made.

Memorandum for the Secretary

Lastly—in preparation for the transition to a new administration in 2009—we have included a section on prospective areas of concern (emerging issues) that may have the potential to develop into Departmental challenges in future years. Even though OIG has not had the resources available to conduct work in some of these areas, we believe these issues would be of interest to officials transitioning into their positions in a new administration.

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 Deputy Inspector General Kathleen Tighe at (202) 720-7431. You or members of your staff may also 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 2008)**

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, crop insurance, and conservation programs.
 - Increase communication and coordination on issues related to agricultural inspection policies and procedures.

- (2) **Implementation of Strong, Integrated 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 and perform required reconciliation of producer/policy holder data in the Federal Crop Insurance Program.
 - Prepare complete, accurate financial statements without extensive manual procedures and adjustments.
 - Improve Forest Service and Natural Resources Conservation Service internal controls and management accountability in order to effectively manage resources, measure progress towards goals and objectives, and accurately report 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) **Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained**
 - Implement commodity inventory systems that provide critical homeland security features and complete security clearances for employees involved in commodity inventory management activities and in risk assessments.
 - 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.
- Continue to strengthen ability to respond to avian influenza outbreaks.
- Strengthen controls over live animal imports.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) *NEW CHALLENGE:* Implementation of Renewable Energy Programs at USDA

- Develop and implement a viable and comprehensive renewable energy strategy for USDA agencies and programs.

Challenges Removed From the Fiscal Year 2007 List

One Departmental management challenge reported last year, Challenge 4 on the Implementation of the Improper Payments Information Act Requirements, was removed from this year's list.

(Last Year's Challenge 4) Implementation of Improper Payments Information Act (IPIA) Requirements Needs Improvement

OIG initiated 18 audits in response to this effort since 2005, when eliminating improper payments became a Presidential Management Agenda initiative. The Office of the Chief Financial Officer (OCFO)—as the cognizant body for the Department—fully implemented our recommendations and has strengthened and clarified the risk assessment process. All agencies must perform risk assessments to determine their degree of susceptibility to improper payments. We have noted in our audits that the agencies designated by the Office of Management and Budget (OMB) and the Department to be at high risk of making improper payments, have taken steps to accurately estimate the rate of improper payments. In our most recent audit, we found that the seven FSA programs considered to be high risk (over 50 percent of USDA's high risk programs) made significant improvements in their estimation processes. As a result of this, their improper payment rate dropped from \$2.9 billion to \$563 million (a decline from 11.2 to 2.5 percent). In addition, based on discussions with the OCFO, a strategy to aggressively implement the part of the IPIA geared towards reducing the improper payment rates within the Department is being implemented. We will continue to work with the Department on this effort and monitor the progress made.

USDA has also made significant progress in addressing issues identified under the following Departmental management challenge.

Challenge (4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Ensure animal disease surveillance testing protocols are based on emerging science. The Animal and Plant Health Inspection Service (APHIS) has re-evaluated and adjusted its testing protocols based on emerging science and agreed to continue to do so. APHIS agreed to make adjustments to its standard operating procedures based on recommendations from OIG, its own scientists, and internationally recognized experts. Additional tests and flexibility will be utilized when conflicting or unexplained anomalies in test results occur and will only be performed after consultation with USDA officials. APHIS implemented the new standard operating procedures in October 2006 after it moved from the enhanced surveillance program to a level of testing commensurate with OIE (World Organization for Animal Health) guidelines.

EMERGING ISSUES

In preparation for the transition to a new administration in 2009, we have included potential areas of concern (emerging issues) that may develop into challenges in upcoming years. Some potential areas identified encompass all components of USDA, while others may be specific to our current management challenges.

- **Implementation of the New Farm Bill Activities/Initiatives.** On June 18, 2008, the Food, Conservation, and Energy Act of 2008 became Public Law 110-246. The new Farm Bill authorizes new programs and re-authorizes programs covering the plethora of activities carried out by the Department. In addition to the farm provisions affecting U.S. producers, the Farm Bill includes trade, Federal crop insurance, research, food safety and marketing, food stamp, rural development, international food assistance, and bioenergy provisions. With enactment of this law, the Department will need to immediately implement some new programs, phase out expired programs, and revise existing programs. The scope of the Farm Bill and the timelines provided to implement the multitude of provisions will require significant monetary and human capital resources to be expended by the Department.
- **Enforcement of Suspension and Debarment Regulations in USDA agencies.** Except in a few agencies, generally USDA is not using suspension and debarment regulations to protect the Government from habitual abusers of Federal programs even though this has been a requirement of Executive Order 12549, *Debarment and Suspension*, signed by the President on February 18, 1986. Moreover, USDA has excluded many of its programs from the suspension and debarment regulations using questionable justification. Given the fact that suspension and debarment is a critical tool for ensuring program integrity, we believe it is time for USDA to address this issue and implement controls to ensure the effective implementation of suspension and debarment within USDA.
- **Proposed Amendments to IPIA.** A bill was introduced by the Senate to enact “The Improper Payments Elimination and Recovery Act.” This bill would amend the Improper Payments Information Act of 2002 to prevent the loss of billions in taxpayer dollars. Previously, only programs that had estimated improper payments to exceed 2.5 percent and \$10 million were required to take further measures to statistically estimate their level of improper payments. The proposed legislation states that if either of the criteria is met, a program would be required to develop a systematic process for producing a statistically valid estimate of the level of improper payments being made by the program. The proposed legislation focuses more attention on the elimination of improper payments through improving management controls.

- **Availability of Human Capital Resources To Handle Agency Program Requirements.** Program changes occur annually due to new laws, changes in priorities, the occurrence of disasters, new initiatives, etc. Each program change requires an experienced and skilled staff to ensure the programs operate efficiently and effectively. There will be increased pressure on staff during the next few years as the new Farm Bill is being implemented. For example, under the new Farm Bill, there will be new programs that will require policies, regulations, and changes to management information and program delivery systems to ensure each program is properly implemented and program benefits timely and accurately dispersed. These program changes are occurring at the same time that a large percentage of USDA's experienced and skilled staff is eligible to retire. Sixteen percent of USDA's staff is currently eligible to retire. There are 12 agencies and offices that have 20-plus percent of their staff retirement eligible and an additional 11 with 15-plus percent eligible. Current statistics reveal that USDA staff has decreased from over 105,000 in 2003 to under 98,000 in 2008 (a reduction of 7 percent). In 2003, 12.6 percent of the staff in the GS-11 to -13 grade range and 21.6 percent of those employees in the GS-14 and -15 range could retire. This compares to 18.2 percent and 27.5 percent, respectively, in 2008. Following are specific areas of concern.

 - **Natural Resources Conservation Service's (NRCS) Staffing Resources.** In our ongoing audit of wetland restoration compliance in NRCS' Wetlands Reserve Program (WRP), we found that NRCS State offices were unable to monitor an increasingly large number of WRP easements on an annual basis with the resources available to them. We sampled 153 WRP projects in 6 States and found that NRCS was unable to annually monitor 134 of the projects (88 percent). We visited 92 of these WRP projects and found that NRCS did not detect violations on 37 of the WRP projects (42 percent). We noted from fiscal years (FY) 2000 to 2005, in the 5 State offices we visited, monitoring responsibility almost doubled—from 1,584 WRP projects to 2,971. Meanwhile, these 5 State offices lost almost a quarter of their WRP full-time equivalents (FTE)—from 69 to 53. For example, projects being monitored at NRCS' New York State Office increased from 542 to 1,132, while its FTEs decreased from 9 to 8. We found similar trends at the other four State offices. Instead of attempting to monitor all sites as required by current procedures given its resources, we recommended that NRCS implement a monitoring system to prioritize projects for monitoring.
 - **Food Safety Inspector Staffing and Retention.** Recent recalls and Congressional hearings have brought Food Safety and Inspection Service (FSIS) inspector staffing levels into question. There may be a public perception that there are not enough FSIS inspectors on staff, and in testimony to Congress, USDA admitted that there are areas where inspector retention is difficult. Although this is not a new issue, it is one that is likely to persist, especially given FSIS' increasing role and potential budget constraints.

- **Workforce Succession Planning for Firefighters.** The Forest Service (FS), like numerous Federal agencies, has a workforce where many of its employees are ready to retire or will be eligible in the near future. FS already relies on employing retired personnel to perform many needed tasks. This appears to be increasingly true for fire-suppression activities. OIG is currently initiating an audit of FS workforce succession planning for firefighters. We are considering including in our FY 2009 audit plan an audit of other FS workforce succession issues. We are starting with firefighters because of the immediate possible impact on public health and safety.
- **NRCS Conservation Performance Goals.** Under its Conservation Effects Assessment Project (CEAP), NRCS has adopted outcome-based performance measures to quantify the environmental benefits of conservation practices by private producers and landowners participating in its conservation programs. Until CEAP is fully implemented, NRCS does not have timely and accurate information to effectively measure the accomplishments of its conservation activities and of the agency's strategic goals. In its 2006 Program Assessment Rating Tool, OMB identified the Conservation Security Program as "Results Not Demonstrated" in large part because it is difficult to estimate the environmental benefits from the Conservation Security Program's enhanced activities that provide incentives for producers to achieve benefits greater than the minimum standards. In our review of the Chesapeake Bay Program, we recommended that the Department expedite the development and implementation of CEAP. Currently, NRCS leadership is assessing the specific direction needed to accomplish this goal.

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 cohesive 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 provide a continuum of information, thus streamlining operations, reducing expenditures, and improving program efficiency, compliance, and integrity. This approach would enable USDA to speak with one unified voice and would be in line with USDA's strategic plan, which emphasizes results based on teamwork across agencies.

OIG AUDIT/INVESTIGATION ACTIONS:

USDA Could Improve Crop Insurance, Conservation, and Farm Program Integrity and Efficiency Through Integration of the Agencies' Information Management Systems. Since 1998, the Farm Service Agency's (FSA) ad hoc crop disaster programs (CDP) have been predicated on crop production data that are managed by the Risk Management Agency (RMA) and downloaded to FSA. OIG's audits of the 1998-2002 CDPs showed that FSA and RMA need to reconcile and redefine their data to better meet the needs of FSA in the administration of the CDPs. 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. For example, our audit of the 2001/2002 CDP found cases in which FSA incorrectly processed applications for producers with crop insurance based upon group risk; such applications required special handling to determine the producers' individual (versus group) losses, but FSA employees did not consistently recognize group risk program policies on the data downloaded from RMA.

Our August 2005 audit of the Natural Resources Conservation Service's (NRCS) *Wetland Reserve Program (WRP) in California* and our followup August 2007 audit of *Crop Bases on Lands With Conservation Easements in California* concluded, generally, that NRCS purchased easements on land with farm subsidy base acres without communicating easement information to FSA or ensuring that landowners permanently retired that base from FSA's programs. (Producers are generally prohibited from receiving payments for both a conservation easement and FSA's farm subsidy programs on the same piece of ground.) As a result, FSA made improper farm subsidy payments on easement-encumbered lands and was at risk of making more because the necessary easement data were not provided to FSA.

In the instances above, CDP and farm subsidy improper payments could have been reduced had the respective RMA and NRCS information been fully reconciled and integrated with FSA's program operating systems.

The Agricultural Risk Protection Act of 2000 (ARPA) required RMA and FSA, beginning with the 2001 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 RMA and FSA's first data reconciliation effort (for the 2001 crop year) was thwarted by differences in the agencies' data definitions, such as "producer" vs. "insured" and "farm" vs. "unit." The attempted data reconciliation identified hundreds of thousands of disparate records between the two agencies—a number too great to be addressed successfully. The agencies have not since attempted another data reconciliation and RMA and FSA have not completed the legislatively mandated annual 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, developed for RMA and FSA, would demonstrate substantial efficiencies and serve as a first step toward broader, Departmentwide integration—that valuable groundwork would be laid for further modernization of information technology systems of USDA agencies in the future, and for the incorporation of those systems into CIMS.

Under the CIMS project, which is expected to be operational in 2012, RMA and FSA have begun to address inconsistencies in their crop data definitions, such as practice, type, intended use, and variety. However, rather than build on those data definitions to develop a fully integrated system in which data reported by a producer to one agency may be used to the extent practicable by the other agency, the CIMS project, to date, has focused on sharing the data collected by one agency with the other, in order to allow a side-by-side, visual comparison of the producer data reported to each agency. According to FSA, CIMS is not intended as a process for reconciliation of data collected by RMA and by FSA from producers; the reconciliation process that will be performed using CIMS is a reconciliation of data elements that are used to collect data from producers. Moreover, CIMS currently is not integrated into the agencies' program administration—CIMS stands alone as a subsystem whose operations do not interface with the agencies' program operating systems. Much remains to be done to bring to fruition the agencies' reconciliation and integration of producer information, in order to improve the integrity and efficiency of the programs.

In the interim, OIG investigations staff in the National Computer Forensic Division is working with RMA and FSA in order to determine common data sets that could be utilized from both their systems for data mining until the CIMS project is fully operational.

USDA Could Reduce Improper Payments in Conservation and Farm Programs Through Improved Communication and Understanding Between Agencies. Past and ongoing audit work has identified the need for agencies to (1) better understand how their actions impact other agencies' programs and (2) better communicate to other agencies information essential to the proper administration of the other agencies' programs.

In an earlier example, we described how FSA issued improper farm subsidy payments because NRCS did not communicate to FSA essential easement information. This problem continued for at least 2 years after we initially reported the communication problem in our 2005 audit of WRP.

Likewise, our ongoing audit of FSA's Hurricane (crop) Indemnity Program (HIP) shows that RMA has not yet provided to FSA corrected crop insurance information necessary to ensure the integrity of HIP payments, although RMA is aware such corrections are needed. Specifically, under HIP, eligible producers who received a crop insurance indemnity for crop losses attributable to the 2005 hurricanes (based on the producer-reported causes of loss and dates of damage) were eligible to receive HIP benefits equal to 30 percent of the crop insurance indemnity. HIP payments are based on RMA data downloaded weekly to FSA. However, during the audit it came to our attention that, subsequent to the date HIP was announced, some producers' RMA data changed: some approved insurance providers (AIP) changed producers' causes of loss or dates of damage and resubmitted the information to RMA so it would be downloaded to FSA. This action resulted in some producers becoming eligible for HIP payments who otherwise would have been denied payments.

The changes to RMA data for HIP purposes were first reported to RMA by FSA in August 2006, and by February 2007, RMA had verified with at least one of the AIPs that some of the changes were unsupported. However, it was not until May 4, 2008, that RMA submitted the data-warehousing and data mining work order that would be used to make inquiries to the AIPs and ultimately provide FSA with a final and verified list of eligible HIP producers.

In these cases, NRCS and RMA were aware of how their respective easement and cause of loss/date of damage information affected FSA's farm subsidy and HIP programs, but did little to ensure the correct, necessary data were provided to FSA to ensure the integrity of FSA's program payments. In such cases, the agencies must recognize not only the need to share, but their responsibility to provide accurate data to other USDA agencies.

Improved Communication Could Enhance Agricultural Inspection Activities. Selected agricultural inspection activities were transferred to the Department of Homeland Security (DHS) U.S. Customs and Border Protection (CBP) from USDA. In 2003, CBP assumed responsibility to inspect agricultural goods arriving at U.S. ports, while the Animal and Plant Health Inspection Service (APHIS) retained responsibility for agricultural policies and procedures. In a joint audit, DHS-OIG and USDA-OIG focused on transition issues and problems previously identified by USDA-OIG.

In the joint January 2007 audit, we found APHIS had not developed an Agricultural Quarantine Inspection Monitoring (AQIM) process for incoming rail cargo (sampling for AQIM helps APHIS predict potential future risks of the entry of agriculture pests and diseases). Although APHIS officials had agreed with the need for a risk assessment process in our *Safeguards to Prevent Entry of Prohibited Pests and Diseases Into the United States* report issued February 2003, they cited operational difficulties (such as the inability to obtain cargo manifests on a timely basis) as a barrier to the development of a workable AQIM system.

APHIS policy on Transportation and Exportation (T&E) shipment permits was not consistent. APHIS' *Airport and Maritime Operations Manual*, issued in April 2004, allowed agriculture specialists to use their own judgment and allow some T&E shipments to enter without APHIS-issued permits. The APHIS *Manual for Agriculture Clearance*, issued June 2005, required transit permits for all T&E shipments. Other APHIS policies allow some exceptions. For example, APHIS' *Fruit and Vegetable Manual*, issued November 2005, stated that some T&E shipments could enter without permits.

APHIS guidelines provide that all seized material should be sealed and properly labeled with the flight number or vessel's name and country of origin for later examination and identification of pests and diseases. Only one of the three airports visited labeled and bagged all seized Quarantine Material Interceptions (confiscated regulated plant or animal products from baggage, cargo, mail, aircraft, or vessels because of prohibition, permit denial, pest risk, or abandonment). Without labeling and sealing the seized agricultural products in containers or bags, the port may not be able to use the products in risk assessment to identify the pests' source.

Resolution of these issues requires USDA and CBP to coordinate in the development of policies, procedures, and systems to improve the effectiveness of agriculture inspection activities at ports of entry into the United States.

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). 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 is to enable agency management, FSA county offices, RMA compliance and regional offices, AIPs, company approved agents, and loss adjusters to access, from a single source, applicable producer information and crop acreage information reported by producers to RMA and to FSA. RMA reports that, since July 2006, CIMS has been loading selected RMA and FSA data on a weekly basis. According to RMA, the system currently provides RMA and FSA electronic access to a centralized source of some common information reported by a producer to both RMA and FSA, generally regarding crop acreage and business entity type. As of April 8, 2008, FSA reported that testing of "Managers Reports" developed through CIMS and procedures was underway. According to FSA, the reports, when deployed, can be used by AIPs, RMA, or FSA when concerns arise as to possible differences between information submitted by producers to RMA and to FSA, i.e., to facilitate data reconciliation. "Member entity" data maintained by FSA are slated to be incorporated into the CIMS process by the third quarter of FY 2008, and production data are slated to be incorporated by the fourth quarter. In addition, FSA and RMA each report that it has incorporated into CIMS "the appropriate points for applying data mining techniques within [its agency]."

FSA has provided CIMS 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. In December 2007, USDA published routine uses for CIMS (system of records) in order to share crop and production data with AIPs. However, for CIMS purposes, USDA has since proposed to limit the disclosure of FSA's Farm Records File to RMA and any contractor engaged in the development or maintenance of CIMS, including access to all FSA data incorporated into CIMS.¹ FSA reports that, in the third quarter of FY 2008, the agencies will begin working towards a single acreage reporting process for insured producers to reduce the burden of duplicating reporting requirements for producers for common elements, which would eliminate the need for reconciliation (since only one dataset would be maintained). In the long term, NRCS will be invited to participate in CIMS. The success of the CIMS 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 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.

In response to the joint DHS – USDA audit of CBP's agricultural inspection activities, APHIS updated the *Manual for Agricultural Clearance* to allow CBP to establish local procedures to allow proper labeling and packaging for seized agricultural products. APHIS also provided a detailed training course for CBP on various aspects of the manual.

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/integration in order to increase efficiency and to preclude the agencies from inadvertently working at odds with one another. While the Department's actions to foster improved communication and data sharing are incomplete, RMA, NRCS, and FSA report incremental achievement of progressive milestones in their submissions to the USDA Major Management Challenges Report.

¹ As of May 19, 2008, a USDA draft notice to correct routine uses of FSA's Farm Records File (USDA/FSA-2) system of records proposes, for CIMS purposes, to limit disclosure of records contained in FSA-2 to RMA and to any contractor engaged in the development or maintenance of CIMS, including access to all FSA data incorporated into CIMS. Further, the notice proposes to limit the specific categories of information in FSA-2 that FSA will routinely share with RMA "for appropriate distribution to AIPs and loss adjusters": AIPs, company approved agents, and loss adjusters will not have direct access to CIMS, but, through RMA, AIPs and loss adjusters will be provided access to certain FSA-2 information associated with their insured producers and producers' farming operations contained in counties covered by their policies.

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

- RMA, FSA, and NRCS should implement CIMS 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 CIMS 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, since that time, the agencies temporarily have stopped sharing this information until issues related to producer privacy can be resolved.² NRCS could also benefit from data mining in its direct administration of conservation programs.)
- NRCS and FSA and, likewise, RMA and FSA, should continue to integrate interagency communication and coordination in their program activities to ensure one agency's actions do not adversely affect the other agency's programs.

Inspection of Agricultural Commodities. To assist CBP in improving the inspection of agricultural products:

- APHIS should develop and provide to CBP a system of risk assessment for rail cargo so that the degree of risk can be determined.
- APHIS should clarify the requirements for using T&E permits and develop methods for CBP to efficiently verify that required permits are obtained.

² As of May 19, 2008, USDA proposed to disclose certain information from FSA's Farm Records File to RMA and any contractor engaged in the development or maintenance of RMA's system of records identified as "Compliance Review Cases" as used in RMA's Data Mining Project.

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CHALLENGE: IMPLEMENTATION OF STRONG, INTEGRATED 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 Development's (RD) 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 to victims in 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 safeguard the assistance it provides for major disasters. 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 RHS was funding repairs to residences that were not related to hurricane damage. Since the funding RHS receives for disasters is limited, it is critical that RHS 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.

Additionally, through our investigative work, we found individuals who claimed residencies in hurricane-affected areas; however, these individuals had never actually lived in those areas. In one investigation an Illinois woman obtained at least \$23,982 in Hurricane Katrina housing, food stamps, and cash assistance to which she was not entitled. The woman never resided in Louisiana or Mississippi and could not have been affected by Hurricane Katrina. She also claimed that she had two children die in the Hurricane when, in fact, she never had any children.

Another case involved a woman, who stated she was living in her RHS-financed dwelling from early 2000 until November 2005, when instead, she rented the dwelling to other individuals and did not report it to RHS. The woman also applied for and received benefits from the Federal Emergency Management Agency (FEMA) for damages to the dwelling, which she was not entitled to because it was not her primary residence.

Longstanding Issues Remain Uncorrected in Federal Crop Insurance Programs Regarding Quality Control Issues, Sanctions, and Reconciliation of Data. For the 2007 crop year, indemnity payments totaled approximately \$3.5 billion and Government subsidies of insurance premiums totaled approximately \$3.8 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 reviews by AIPs 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 quality control review system to evaluate private sector delivery of the Federal Crop Insurance Program. 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. 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 perform 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 through the time that CIMS is fully implemented because only current information will be loaded into CIMS. Full implementation (i.e., common land unit, common producer reporting, single acreage reports) is anticipated in 2012. Without a firm commitment and Departmental oversight, we believe the date for implementation will continue to be pushed back.

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. The U.S. Government Accountability Office's (GAO) Web site lists 73 audits with open recommendations for USDA. This includes 9 audits released in FY 2008 and 64 in prior years as of July 16, 2008, with the oldest GAO audit being open since FY 2002. As of July 16, 2008, there were 18 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. Based on records maintained by the Office of the Chief Financial Officer (OCFO), as of July 16, 2008, there were approximately 88 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many GAO and OIG findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Processes. Improvements in internal controls over financial management systems and processes are needed in USDA to ensure that accurate financial data are available to managers administering and operating USDA programs, as well as OMB, in a timely manner. Control weaknesses continue to impair the utility of USDA's financial information as evidenced by the three reportable conditions, disclosed for the past 4 years, 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. USDA and RD received qualified audit opinions on the FY 2007/2006 financial statements. The qualified opinion on the Consolidated Financial Statements was due to significant revisions made to RD credit reform processes related to the Single-Family Housing Program cashflow model and

subsidy reestimates. RD was unable to provide sufficient, appropriate evidence to support the financial statement line item amounts as of September 30, 2007. These revisions materially impacted RD's and USDA's Consolidated Financial Statements as a whole. Furthermore, agency stand alone financial audits identified 6 material weaknesses and 11 significant deficiencies. Although improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

Forest Service (FS) Needs To Better Ensure Adequate Oversight of Internal Controls.

Internal control issues 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 include the lack of adequate controls to monitor and ensure adequate training of contract firefighters, administration of vendors (i.e., verification of employment eligibility or overcoming communication barriers when English is second language) as well as contract crew member qualifications.

NRCS Needs To Significantly Strengthen Its Policy, Processes, and Procedures. We continue to find significant deficiencies in NRCS' management controls over its programs (from producer eligibility approval to producer compliance with conservation provisions) as well as over its administrative activities. Starting with the 2002 Farm Bill, NRCS was authorized more responsibility to implement and administer newly mandated conservation programs. In the 2002 Farm Bill, NRCS was authorized additional responsibilities with level staffing to implement newly mandated conservation programs that deliver significantly more financial assistance to producers. NRCS has yet to establish the necessary management controls and process to effectively administer and manage these new mandated responsibilities. We attribute these deficiencies to the agency's decentralized organization structure. NRCS delegates broad authority to its field units (State and area offices, and district offices) without having an adequate system of oversight, monitoring, and review controls to ensure policies established by senior management are followed. We have identified significant control deficiencies in our three most recent WRP audits, our two Farm and Ranchland Protection Program audits, and our *Controls over Vehicle Maintenance Costs* audit. In each of these audits we found a significant number of instances where NRCS State and local staff either did not comply with established procedures or relied on other parties, including producers/landowners, to ensure compliance.

In an ongoing audit of NRCS' Conservation Security Program (CSP), which was first authorized under the 2002 Farm Bill, we found cases where NRCS may have inadvertently permitted producers to misrepresent their farm operations to obtain additional payments from multiple CSP contracts and, thereby, to receive CSP benefits in excess of payment limitation levels. Instead of verifying the producer's agricultural operations against comparable, readily available data that the producer had provided to FSA, NRCS relied only on the producer's certification of his/her operations. As a result, NRCS overpaid participants in FYs 2006 and 2007 and is scheduled to make additional overpayments over the remaining years of the contracts. In another ongoing review of whether producers were complying with conservation agreements under WRP, we found that the NRCS State offices did not annually monitor 88 percent of the sampled WRP projects. We found violations on 42 percent of the WRP projects that we visited. NRCS National office program staff were often not aware of the type or extent of the noncompliance issues that we found.

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

Our 2005 audit of FSA compliance activities showed FSA generally did not capture or analyze the results of its various compliance 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 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 that 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.
- 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.
- 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 are currently evaluating the quality control review system that AIPs have in place. In addition, we have an ongoing audit to evaluate RMA's overall compliance activities.
- 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, have found that 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.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:

- RD is actively engaged in discussions with FEMA and other Departments to develop computer matching agreements to provide housing assistance to disaster victims to prevent and detect duplicate payments. RHS is developing procedures to monitor field office actions following disasters and has also agreed to obtain guidance from the Office of the General Counsel (OGC) to ensure that limited disaster funds are spent on only disaster-related expenditures.

- USDA continues to strengthen its financial management process. 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.
- RMA has been conducting operations reviews of the AIPs' compliance activities and is developing a "rolling" Program Error Rate. RMA plans to complete a review of all 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*. RMA has developed its review guide and completed the third round of these national program operations reviews for the 2007 reinsurance year. RMA believes that these reviews will provide the first program error rate.

In response to ARPA's sanction authority, the proposed rule to amend the *General Administrative Regulations, Administrative Remedies for Non-Compliance* provisions was published in *The Federal Register* on May 18, 2007, with the comment period ending on June 18, 2007. RMA has reviewed the comments to the proposed regulation and forwarded the final rule to OGC for clearance. RMA will finalize the ARPA-authorized sanctions regulations as soon as OGC has completed its review of the current draft.

- 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.
- For the 2007 crop year, FSA implemented a new statistical compliance review and spot check selection process. Under the new process, compliance review results are entered into a National Compliance Review Database, which is used to collect data and generate reports from compliance review and spot check findings. Reports will be generated at the national office level. FSA State offices will be notified of compliance results and any necessary corrective action. The reports will consist of an analysis that identifies discrepancies, noncompliance trends, and common problems, including errors resulting in improper payments and steps taken to reduce them. This information will be shared across FSA divisions to assist the agency in identifying noncompliance trends, directing limited resources to known problem areas, and improving the integrity of FSA programs.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE:

- RHS needs to complete computer matching agreements with other agencies that provide disaster response and relief. It also needs to complete new RHS procedures to monitor and control assistance in response to disasters.
- RMA needs to continue its effort to establish a consistent and comprehensive review process to be used by all reinsured companies. RMA also needs to implement a system to evaluate the overall effectiveness and reliability of quality control 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 agreed-upon timeframes.
- USDA agencies need to continue to improve their financial systems so that the financial information produced by these systems will allow them to prepare complete, accurate financial statements without extensive manual procedures and adjustments.
- FS and NRCS both need to improve their management controls in order to effectively manage resources, measure progress towards goals and objectives, and accurately report accomplishments.
- FSA needs to complete its first (2007) compliance review cycle under the new process, including analysis of the compliance review results to identify program weaknesses and improve the corresponding systems of internal controls.

CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY

SUMMARY: USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. Managing and securing USDA's vast array of networks and IT resources is a major challenge coupled with significant risk. Despite progress, the Department's systems and networks continue to be vulnerable. 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, Management and Security of Wireless Devices, and Office of the Chief Information Officer (OCIO) IT General Controls* have found that, despite strong guidance provided by 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 controls, patch management, Privacy Act implementation, and incident response; and nonperformance of vulnerability scans. Although agencies have accelerated efforts to comply with Federal information security requirements, IT management and security continues to be a material weakness within USDA.

The weaknesses discussed above have allowed for abuse of these systems. One example involved a former county employee of the Soil and Water Conservation District (SWCD) who confessed to using SWCD-owned computers to upload and download child pornography images to and from the Internet while he was working in the USDA Service Center. The former employee also confessed to posting child pornography images to a photo album on a popular Internet site, using a computer at his new place of employment to access the images, and downloading child pornography images to one of his personally owned computers.

GAO conducted a review of FSA's IT systems, *Information Technology: Agriculture Needs to Strengthen Management Practices for Stabilizing and Modernizing Its Farm Program Delivery Systems* [GAO-08-657, issued May 16, 2008]. GAO reported that many interruptions of service experienced during FY 2007 were caused by varying factors including aging equipment, inability to monitor network performance, poor training of personnel, inadequate testing of payment delivery systems, and lack of a backup site if an interruption occurred. FSA was aware that, if not corrected, some of these factors may cause service interruptions. GAO further stated that USDA and FSA have drafted a remediation plan and have started to address these issues. However, it is still uncertain how long the modernization initiative will take to implement and how much it will cost.

OIG's National Computer Forensic Division (NCFD) continues to work closely with USDA OCIO Cyber Security concerning Data At Rest (DAR) encryption and its impact on law enforcement operations. In recent years the Federal Government has mandated that agencies implement policies and procedures to safeguard personally identifiable information (PII) and sensitive data. These policies are a result of OMB Memorandum M-06-16 issued on June 23, 2006, stating that all DAR had to be secured through encryption and other safeguards. This effort has made access to Government data even more challenging during an investigation. The NCFD is working with OCIO Cyber Security to ensure that OIG investigations will have access to encryption/decryption keys in a manner that requires very little, if any, agency involvement.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: According to USDA's OCIO, significant accomplishments to address IT security have been achieved. 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. OCIO has made significant improvements in the Certification and Accreditation (C&A) concurrency process during FY 2008 that has resulted in better C&A documentation. Also, OCIO has made improvements in increasing employee awareness of PII and the responsibilities for protecting it by creating a PII awareness campaign, reporting more incidents, and increasing risk mitigation activities for vulnerabilities. Currently, OCIO is implementing a new software tool which OCIO expects—once fully functional—will provide significant program improvements over information technology security.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: The Department needs to coordinate with all of its agencies, determine the overall risks, prioritize those risks, and develop and implement a time-phased plan to systematically mitigate identified risks. With agency cooperation and acceptance, improvements could be achieved in compliance with required standards, plan of action and milestones reporting, risk-level characterization, certification and accreditation processes, Privacy Act implementation and encryption, and configuration management.

In addition, agency-level managers should continue to consider IT security a top priority and display greater commitment and attention to ensuring 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: 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 2008, USDA homeland security missions were funded at over \$570 million. The areas that USDA's Homeland Security Office (HSO) and agencies have focused on are part of the Food and Agriculture Defense Initiative. For FY 2008, the initiative was funded at \$41 million for food defense and \$142 million for agriculture defense. Many of the activities under this initiative 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 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, resource and budgetary constraints delayed actions to address this concern.

Select Agents and Toxins. In January 2006, OIG issued an audit of 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, that assessed how well 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 issues reported on by USDA 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. These recommendations remain open.

Controls Over Permits To Import Agricultural Products. Our previous audit of this process, issued in March 2003, identified weaknesses that could allow unauthorized persons to gain access to the permit program and potentially use it to bring prohibited materials into the country. In our October 2007 followup audit, we found some improvements had been made to the security of its processes for issuing import permits for agricultural products; however, APHIS had not fully implemented its new permit system (ePermits), which would provide much greater control and accountability than was previously possible. Inspectors have the ability to access ePermits to verify basic information on permit shipments; however, APHIS inspectors have not been provided instructions for using ePermits to screen incoming shipments. APHIS had made some progress in improving its screening procedures at ports of entry by routing biohazardous materials through seven facilities equipped for safe handling; however, it had not instituted controls to ensure shipments are routed to these facilities. Finally, APHIS had not implemented an adequate system to perform compliance inspections after permit approval and had not instituted controls to verify that the inspections are performed.

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 our January 2008 audit of *USDA's Implementation of the National Strategy for Pandemic Influenza*, we found that USDA took action on each lead task we reviewed; however, it did not test newly developed procedures or assess and evaluate the revised procedures to ensure they worked as designed. Also, USDA did not correctly report the status of two major APHIS functions to the Homeland Security Counsel (HSC). In addition, as of July 2008, APHIS has not fully implemented one of the eight recommendations from our prior report, *Oversight of Avian Influenza* (Audit Report No. 33099-11-Hy, issued June 2006). The recommendation is intended to strengthen APHIS' ability to respond to an AI outbreak.

Importation and Movement of Live Animals. APHIS' controls over live animal imports need improvement to prevent, detect, and address the entry of live animals not meeting import requirements. APHIS relies on country-of-origin health certificates certifying the animal's health condition, age, and that U.S. import requirements are met, but does not have adequate processes in place to follow up and determine whether individual problems detected represent a larger systemic noncompliance. APHIS could not always demonstrate that all restricted animals are slaughtered. Also, we found inadequate accountability over the inventory and issuance of official USDA seals used to secure the movement of restricted animals after inspection at the port of entry.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Currently, as stated in the *FY 2007 Performance and Accountability Report*, the Departmental efforts and initiatives in Homeland Security include:

- Implementing procedures for inspecting registered organizations in possession of select agents. The new procedures will verify that organizations conduct and document annual performance tests of their security plans. These procedures are being implemented in FY 2008.
- Implementing a Memorandum of Understanding between APHIS and FSA that provides a further understanding of each agency's cooperation, expectations, and responsibilities to control and eradicate avian influenza and other foreign diseases of livestock.
- Implementing national AI surveillance activities to be undertaken by Federal and State agencies and the commercial poultry industry in the event of an outbreak.

In response to our audit of homeland security issues relating to USDA commodity inventories, FSA has, since 2005, been conducting risk assessments for the various sectors with which it is involved. FSA has collaborated with DHS, the Food and Drug Administration, and the Federal Bureau of Investigation, as well as private industry and State governments in the Strategic Partnership Program Agroterrorism (SPPA) Initiative for the various sectors affected by FSA operations. The SPPA Initiative is designed to identify sector-specific vulnerabilities through critical infrastructure/key resource assessments and to develop sector-specific mitigation strategies to reduce the threat of attack. To date, SPPA Initiative risk assessments have been conducted for the export and country elevator sectors, the processed commodity sector, and the sugar beet sector. FSA will continue to monitor these sectors, as required. Each of the four risk assessments will be reviewed with the industry on a biennial basis to check on progress in implementing mitigation practices. FSA has used the results of the completed assessments to formulate action plans on food safety and security and establish safeguard requirements for the commodities that it manages, handles, transports, stores, and distributes.

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, data collection and analysis methodologies, reporting of surveillance results, and assessment of surveillance programs.

In order to ensure the accuracy of information reported to HSC, APHIS requires first-line supervisor clearance prior to submission. APHIS provided HSC with corrected information for the inaccurately reported tasks. APHIS has proposed to HSC, and they have agreed to use, QuickPlace³ to track all future action items for all Departments. This will allow them to monitor their lead action items and the actions they are responsible for as a support agency. HSC will make this a voluntary system initially. APHIS will report completed action items for which they are

³ QuickPlace is a central Web-based repository that is accessible by authorized users to collaborate, share ideas, and document and track project tasks.

assigned support functions to ensure USDA's interests are considered appropriately. APHIS agreed that testing is essential to assess readiness. APHIS provided evidence of the tests of actual procedures during a simulated HPAI outbreak that would supplement tabletop exercises. APHIS formalized its procedures to update its notification Web site.

In response to our review of the importation and movement of live animals, APHIS agreed to compile and analyze information on all health certificate issues, track policy noncompliance to assess trends, and issue instructions to CBP on requirements for Canadian horses imported under a temporary authorization. APHIS also agreed to establish a new protocol for inspections at Mexican ports of entry to amend the import documents to reflect only those animals that were allowed into the United States; issue instructions to reconcile USDA seals; and issue instructions on the inventory, control, and use of USDA seals. Finally, APHIS agreed to update the list of slaughter establishments approved to receive imported animals, standardize the process for alert of pending re-inspections, complete a port operations manual, and amend procedures to include a port facility checklist to improve oversight of port operations.

In response to our review of permits to import agricultural products, APHIS agreed to incorporate capabilities into ePermits to identify permit holders who are required to be inspected and inspections that have actually been performed. We concurred with the proposed corrections for the other recommendations made; however, most of APHIS' responses only described Plant Protection and Quarantine's corrective actions and did not include actions being taken by Veterinary Services.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE:

Commodity Inventories. FSA needs to implement commodity inventory systems that provide critical homeland security features, such as timely and effective reporting of significant details about inventory changes. FSA reports that USDA has joined forces with the U.S. Agency for International Development and the Maritime Administration to implement a modern Web-based supply chain management system with procurement, order delivery, and finance functionalities, including inventory management for all processed commodities. The project began in the fall of 2006 with plans to make the system live in 2009.

FSA also needs to complete security clearances currently in process for employees involved in the risk assessment process and in inventory management activities.

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.

Controls Over Permits To Import Agricultural Products. APHIS needs to develop timeframes for full implementation of permit tracking capabilities and the ability to track permit activity at the ports of entry for nationwide analyses; issue instructions, both to Plant Protection and Quarantine personnel at the plant inspection stations and CBP personnel at other locations, for screening regulated materials; and ensure that all permits and labels that accompany shipments are accountable documents.

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, including 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. The current program for State plans is limited to Low Pathogenic AI (LPAI) initial State response. While the focus of these plans is LPAI, many of the actions and responses are equally applicable and can be used for HPAI situations. APHIS agreed to provide additional guidance in the next major revision of the HPAI National Response Plan in 2008.

In order to ensure USDA’s readiness to respond to a pandemic, USDA should establish a control mechanism to accurately report information on assigned tasks, provide HSC with corrected information for the inaccurately reported tasks, and monitor support tasks and coordinate with HSC. In addition, USDA needs to develop plans for testing the tasks that have not been tested and formalize procedures to update its notification Web site. Further, APHIS needs to immediately assign responsibility to finalize corrective actions set forth in our prior report.

Importation and Movement of Live Animals. APHIS needs to develop an automated system to track problems with imported animals, develop procedures to perform reviews of Canada’s export operations, and coordinate with CBP officials at the northern border to ensure that all animal shipments are properly inspected. APHIS also needs to implement procedures for reconciling all imported restricted animals and reconciling discrepancies identified, as well as reject entire shipments if port officials cannot confirm that the animals tested negative for diseases such as tuberculosis. APHIS needs to automate inspection results for rejected animals from Mexico. Finally, APHIS needs to inventory, reconcile, and account for missing USDA seals.

CHALLENGE: MATERIAL WEAKNESSES CONTINUE TO PERSIST IN CIVIL RIGHTS CONTROL STRUCTURE AND ENVIRONMENT

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 had not been timely addressed and there had been 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 longstanding problems, including the backlog. In a report issued in May 2007, however, OIG found that although CR's (now known as the Office of Adjudication and Compliance) 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. This could reduce the public's confidence in USDA's ability to administer civil rights programs. As a result, OIG reinstated this challenge in 2007.

OIG AUDIT/INVESTIGATION ACTIONS: In our most recent audit report issued in May 2007, 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.⁴ In a report issued in 2000, we 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 in collaboration with the agencies. 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

⁴ In addition to tracking EEO complaints, CRES is also used to track program complaints and alternative dispute resolution matters.

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.

On May 14, 2008, GAO officials testified on their assessment of USDA's progress in addressing long-standing civil rights issues. GAO's testimony focused on ASCR's continuing problems in resolving discrimination complaints, the accuracy of its reports on minority participation in USDA programs, and the adequacy of its strategic planning process in assessing performance progress and gaps.

CHALLENGE: USDA NEEDS TO DEVELOP A PROACTIVE, INTEGRATED STRATEGY TO ASSIST AMERICAN PRODUCERS TO MEET THE GLOBAL TRADE 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 FYs 2002 through 2007 and for FYs 2007 through 2010, increasing export opportunities for U.S. agriculture was listed at the top of the Department's strategic goals. Between 1990 and 2006, the dollar value of U.S. agricultural exports rose by 56 percent (from \$59.4 billion to \$92.7 billion), but due to larger export gains by foreign competitors, the U.S. market share of global exports declined by 31 percent over the same period. In 1990, the U.S. market share was 14.3 percent; by 2006, it had declined to 9.8 percent. For 2008, the Department has boosted its forecast for U.S. agricultural exports to \$108.5 billion. Over the past 2 years, U.S. agricultural exports have increased significantly in total dollars due to adverse weather conditions in other major agricultural production areas, a decline in the value of the U.S. dollar, developing countries (like China and India) having more income to purchase foods, etc. According to a USDA forecast and a recent Federal Reserve study, continued growth in U.S. agricultural exports would be dependent on increasing the level of agricultural exports involving high-value or processed products.

The Department needs to develop a global trade strategy to effectively and proactively address the increasing export opportunities as well as competition in global markets. In our recent report on the Department's implementation of the 2002 Farm Bill trade title provisions, we reported that the Department had not implemented a process to integrate its current country-specific marketing strategies into a focused global strategy to more effectively respond to changing trends in global markets. In another report, we recommended that the Department needs to strengthen its trade promotion programs and outreach efforts.

The share of American crop land devoted to cultivating biotechnology derived or genetically engineered (GE) crops has consistently grown. In 2007, American producers planted around 143 million acres with GE crops, retaining its top world ranking at 50 percent of the total global biotechnology derived acreage, spurred by a growing market for ethanol using GE corn. For agricultural commodities such as soybeans and corn, U.S. production has largely become GE-based. For 2007, GE corn constituted 63 percent of the corn planted, GE cotton constituted 78 percent of the cotton planted, and GE soybeans constituted 91 percent of the soybeans planted. American farmers will be facing increasing competition from GE crops grown abroad. Between 1996 and 2007, worldwide growth in GE planted acreage has sustained a double-digit growth rate. In 2007, the number of countries planting GE crops has increased to 23.

Recognizing the increasing reliance of American agriculture on the global trade market 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. 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.

Because of the sensitivity and concern that GE traits, particularly regulated or non-approved traits, inadvertently appear in agricultural commodities sold to foreign markets, the need for strengthened monitoring and oversight over field trials is critical. The Department has faced a number of legal challenges to its issuance of these field-testing permits. In response to these legal challenges, in July 2007, the Department issued a draft environmental impact statement as mandated under the National Environmental Policy Act, accompanied with a request for comments on its proposed field test permitting procedures.

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, the discovery of unapproved GE traits in certain rice varieties in 2006 destabilized U.S. rice exports and resulted in the closing of markets in the European Union and other major importers of U.S. rice. The overall cost to the industry, estimated at \$1.2 billion, included losses up to \$253 million from food-product recalls in Europe, U.S. export losses of \$254 million in the 2006-2007 crop year, and future export losses of \$445 million. A spokesperson for the U.S. Rice Federation characterized the incident as “certainly the most significant event in the history of the U.S. rice industry.” However, due to high market prices and limited availability of non-GE crops, some major importers of American grains have recently had to purchase and import GE crops.

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 not only domestically but abroad to the safety concerns and benefits of agricultural biotechnology, coordinating the regulatory frameworks for release of GE crops, conducting outreach efforts abroad as to the safety of America’s GE crops, 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-regulated and non-regulated crops; and (3) 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-regulated 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. We have accepted management decision on all recommendations in the audit report. On many of these recommendations, we accepted management decision based on the Department's interim actions incorporating our recommendations. The Department's long-term corrective action is to issue revised regulations for GE field releases in a final rule in the *Code of Federal Regulations* (C.F.R.) and to issue policies and procedures in a revised users guide. The Department currently anticipates it will release the agreed-to changes as a final rule in the C.F.R. by December 2009.

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 USDA's role in the export of GE crops, particularly in developing a strategy to remain competitive in the global agricultural market.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: We have accepted management decision on all recommendations concerning the oversight of GE crops. To address the recommendations, the Department has stated that it is eliminating the current notification-and-permit system in favor of a multi-category 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. The Department also agreed to implement interim corrective actions, pending the issuance of the final rule; to clarify some reporting requirements and terms, which would be incorporated into the final rule; and to complete work on the

management information system and ensure that it is capable of recording necessary information related to field sites, including the specific location of each field site and the dates of significant events.

With respect to 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 proposed that the 35-percent threshold involving high-value and processed commodities be eliminated with the new Farm Bill and the 2008 Farm Bill did not extend this provision.

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 is in the process of completing its review of other data and reporting mechanisms. In May 2008, FAS issued a customer survey to solicit feedback from its stakeholders and plans to utilize the survey results in refining its information and reporting systems available to its stakeholders.

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. Although the Department is developing an integrated strategy, that strategy to be effective needs to incorporate a regional and global level in addition to the country level.

To strengthen USDA's oversight of regulated GE crops, the Department needs to proceed and expeditiously issue the final rule implementing many of our audit recommendations. We continue to monitor that process and, if appropriate, provide feedback on the pending regulations. The Department also needs to complete work on the management information system and ensure that it is capable of recording necessary information related to field sites, including specific location of each field site and the dates of significant events.

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

SUMMARY: In recent years, the average costs to fight wildfires have exceeded more than \$1 billion per year. In 2007, FS spent \$1.375 billion for wildland fire suppression. From FYs 1998 to 2007, FS suppression costs averaged \$994 million annually (adjusted for inflation). FS efforts to contain firefighting costs are affected 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 have 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 to reduce hazardous fuels on Federal land. Deteriorating forest health has resulted in the unnaturally heavy accumulation of hazardous fuels. While FS' 2008 budget for hazardous fuels reduction is \$291 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.

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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. Our audit of *FS' Air Safety Program* determined the agency needed to make improvements in its program. Primarily, FS needed to develop and implement an airworthiness assessment, inspection, and maintenance program geared towards the particular demands of the firefighting flight environment.

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. For 2008, FS has worked with other land management agencies to establish an inter-agency set of standards for reviewing costs of large wildfires. Incident commanders will have performance standards that assess 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 LANDFIRE⁵ 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 officials need 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 directs its human and physical resources to effectively address the changing environment of forest health and the expanding of WUI.

⁵ LANDFIRE, also known as the Landscape Fire and Resource Management Planning Tools Project, is a 5-year, multi-partner project to produce 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

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 illness and food contamination events. The Food Safety and Inspection Service (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.

Since 1998, the Federal meat and poultry inspection program has operated under the Hazard Analysis and Critical Control Point (HACCP) system. 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 recommended that FSIS implement a system of oversight for HACCP plans that establishments develop. In response, FSIS initiated the use of food safety assessments to evaluate these controls. Also, we have 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 have recommended that FSIS develop a written time-phased plan for completing its reviews of HACCP plans, including periodic reassessments, and to establish a strategy for hiring and training staff. We also have made numerous recommendations to improve FSIS IT 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.

In FSIS' February 2007 proposal to proceed with risk-based inspection, it based risk assessments of processing establishments predominately on data contained in its information systems. In May 2007, Public Law 110-28⁶ prevented FSIS from using funds to implement risk-based inspection in any location until OIG studied the program, including the data in support of its development and design, and FSIS addressed and resolved the issues identified. In our December 2007 report, we identified that the data were limited and we questioned whether FSIS had the systems in place to provide reasonable assurance that risk can be timely or fully assessed, given that FSIS lacks current, comprehensive assessments of establishments' food safety systems.

Throughout this review, we discussed our concerns and provided recommendations to FSIS so that the agency could immediately initiate actions to address weaknesses we identified. The concerns we identified related to FSIS' (1) assessments of establishments' food safety systems, (2) security over IT resources and application controls, (3) data management infrastructure and analyses, and (4) management control structure.

On January 30, 2008, the Humane Society of the United States released a video showing the mistreatment of non-ambulatory (downer) cows at a California slaughterhouse. The video shows plant workers abusing cattle in an effort to force them to their feet for slaughter. We are currently conducting an investigation into this matter to determine whether there were violations of the Federal Meat Inspection Act. We are also conducting an audit to determine what inspection controls/processes may have broken down and whether the events at the slaughterhouse are isolated or systemic. We will evaluate the adequacy of pre-slaughter controls

⁶ Public Law 110-28, §6102, U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act 2007, enacted May 25, 2007.

and determine whether improvements are needed to identify and prevent similar concerns from occurring elsewhere.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: FSIS developed and recently implemented a management control system intent 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.

FSIS provided written procedures and guidance on the use of the AssuranceNet system to ensure that its data are being used in the most effective manner and to allow the system to be used in the context of a larger management control structure.

FSIS agreed to continue its expedited efforts to resolve and achieve final action on OIG recommendations. FSIS notes that the Program Evaluation and Improvement Staff (PEIS) in the FSIS Office of Program Evaluation, Enforcement and Review, which serves as the agency's liaison to OIG and GAO, implemented a new system to notify FSIS' programs monthly about their obligations to respond to and take final action on OIG recommendations, to track the results, and to produce a variety of reports for FSIS management and USDA's OCFO. PEIS added the maintenance of this system to its own management controls.

FSIS is re-aligning its systems into the Public Health Information Consolidation Project (PHICP) to better integrate and consolidate its numerous applications that collect information regarding its primary activities of ensuring the safety of meat, poultry, and egg products. The FSIS PHICP will use a Web-based system design to augment and replace current IT systems used to support mission-critical FSIS business functions such as inspection, surveillance, auditing, enforcement, scheduling, modeling, and analysis. Some of the FSIS mission-critical applications contained in PHICP include the Public Health Information System (PHIS), AssuranceNet, and laboratory systems. The major business functions/modules of PHIS include Domestic Products, Imported Products, Exported Products, and Modeling and Analysis.

PHIS is being developed, in part, to predict hazards and vulnerabilities, communicate or report analysis results, and target resources to prevent or mitigate the risk of food-borne illness and threats to the food supply. Another planned key benefit of PHIS is the ability to exchange data with key external stakeholders—organizations that FSIS has no current electronic connection with, but with which future interfaces are essential in order for the agency to satisfactorily perform its mission and to operate within the law. Such organizations would include DHS-CBP.

Other key goals of PHIS are to build a Domestic Inspection Module for use by field inspectors and Headquarters staff and predictive models to analyze real time data. In November 2007, in response to our audit of the agency's risk-based inspection program, FSIS informed us that the domestic module is targeted for implementation by selected users in June 2008; a predictive analytics and modeling component will be deployed around the same time. In July 2008, FSIS officials explained that the testing phase of PHIS is scheduled for the third quarter of 2009, and

production readiness is scheduled for the fourth quarter of 2009. According to FSIS officials, the high level milestones for PHIS have not changed and are currently on track.

Additionally, OIG investigations staff, in coordination with FSIS, is planning program-related training. This program training focuses on subject matter relating to adulterated meat and poultry products. The training covers topics such as management, processing, and investigative techniques related to food safety investigations.

ACTION NEEDED TO ADDRESS THE CHALLENGE: FSIS should complete its plan for improving the use of food safety assessment-related data and determine how the assessment results will be used in estimating establishment risk. As the agency moves forward with the development and implementation of a risk-based inspection program, FSIS should ensure that components of the selected algorithm are thoroughly documented and evaluated with limitations mitigated and are transparent (i.e., clear and understandable) to all stakeholders. The agency should conduct analyses to support the data windows selected for assessing an establishment's ability to control risk. FSIS should also institute appropriate oversight and control over the development of critical IT systems needed to support risk-based inspection. In various sections of the risk-based inspection report, we have recommended actions aimed at strengthening FSIS' training programs for its supervisory and inspection personnel.

FSIS should develop and implement procedures to ensure sufficient, timely followup work is performed in response to findings in food safety assessments. FSIS should continue with efforts begun during the course of our audit to prioritize and schedule food safety assessments. FSIS should also continue its efforts to complete a comprehensive, agency-wide examination of its information needs and establish a process for periodically reassessing these needs. This will include management controls to identify the specific types of information to collect, the standard reports to produce, and analyses to perform by program areas and district offices. FSIS should continue its increased diligence to resolve prior audit recommendations.

In addition, FSIS needs to implement procedures to ensure that IPPS data being input to AssuranceNet are properly supported, and to strengthen AssuranceNet's monitoring over the IPPS process.

production readiness is scheduled for the fourth quarter of 2009. According to FSIS officials, the high level milestones for PHIS have not changed and are currently on track.

Additionally, OIG investigations staff, in coordination with FSIS, is planning program-related training. This program training focuses on subject matter relating to adulterated meat and poultry products. The training covers topics such as management, processing, and investigative techniques related to food safety investigations.

ACTION NEEDED TO ADDRESS THE CHALLENGE: FSIS should complete its plan for improving the use of food safety assessment-related data and determine how the assessment results will be used in estimating establishment risk. As the agency moves forward with the development and implementation of a risk-based inspection program, FSIS should ensure that components of the selected algorithm are thoroughly documented and evaluated with limitations mitigated and are transparent (i.e., clear and understandable) to all stakeholders. The agency should conduct analyses to support the data windows selected for assessing an establishment's ability to control risk. FSIS should also institute appropriate oversight and control over the development of critical IT systems needed to support risk-based inspection. In various sections of the risk-based inspection report, we have recommended actions aimed at strengthening FSIS' training programs for its supervisory and inspection personnel.

FSIS should develop and implement procedures to ensure sufficient, timely followup work is performed in response to findings in food safety assessments. FSIS should continue with efforts begun during the course of our audit to prioritize and schedule food safety assessments. FSIS should also continue its efforts to complete a comprehensive, agency-wide examination of its information needs and establish a process for periodically reassessing these needs. This will include management controls to identify the specific types of information to collect, the standard reports to produce, and analyses to perform by program areas and district offices. FSIS should continue its increased diligence to resolve prior audit recommendations.

In addition, FSIS needs to implement procedures to ensure that IPPS data being input to AssuranceNet are properly supported, and to strengthen AssuranceNet's monitoring over the IPPS process.

CHALLENGE: IMPLEMENTATION OF RENEWABLE ENERGY PROGRAMS AT USDA (*New Challenge*)

SUMMARY: Sustainable renewable energy is a global challenge for the 21st century. In conjunction with other Federal Departments and agencies, USDA is at the forefront of research and production to develop viable solutions to meet an increasing worldwide demand for energy. Existing legislation and the President's recent Advanced Energy Initiative call upon USDA to create and support new energy options for all Americans.

The Department answered the President's call by investing millions of dollars into renewable energy projects. USDA agencies funded many worthwhile projects that had positive impacts for renewable energy. However, we identified several issues that, if corrected, could improve USDA's efforts in reducing the Nation's dependence on foreign oil and in powering its homes and businesses with renewable energy sources. The most significant issue is that USDA has not developed a comprehensive strategy for the implementation of renewable energy activities in USDA.

The successful research, commercialization, marketing, and outreach of renewable energy activities by the Federal Government can greatly assist the Nation's overall effort to be less dependent on expensive foreign oil while creating a cleaner environment. Another benefit is the economic stimulus created in rural communities where most renewable energy resources, opportunities, and jobs exist. The Under Secretary for Rural Development chairs the USDA Energy Council, which is responsible for the implementation of renewable energy within the Department. Additionally, the Under Secretary, along with the Assistant Secretary for Energy Efficiency and Renewable Energy of the Department of Energy, serves as co-chairperson on the Governmentwide Biomass Research and Development Board. Given the emphasis on renewable energy, USDA funding for related activities is estimated to rise from the current \$1.6 billion (allocated for FYs 2003 to 2007) to \$3.6 billion for the next Farm Bill period (FYs 2008 to 2012).

USDA's effective implementation of renewable energy programs within USDA can avoid serious detriment to the Nation's security and defense as well as assist in economic growth and the health of its citizens.

OIG AUDIT/INVESTIGATION ACTIONS: USDA does not have a renewable energy strategy for all agencies and programs within the Department. Such a strategy should include program goals for agency managers, a detailed course of action to accomplish those goals, and measures to evaluate performance. In March 2008, the Department issued a strategy related to research, education, and extension services. However, that strategy does not include agencies and programs that fund renewable energy commercial projects. Without a strategy that includes all agencies and programs within the Department, agency managers independently determine funding priorities, develop selection criteria, and assess the impact of renewable energy projects. Consequently, agency managers for programs that do not receive funds directly appropriated for renewable energy activities may have not placed sufficient emphasis on energy projects. Program managers have not analyzed proposed energy related projects to identify those that would provide the most benefit for funds expended (i.e., return on investment).

OIG found that there are at least six agencies within the Department with programs that fund similar renewable energy projects. To date, the Department has not issued guidance on how agencies should coordinate to prevent duplicate funding of similar projects. For instance, there is no internal control that compares objectives and data from funded projects to the objectives and supporting information for newly proposed projects. We concluded that duplicate funding and efforts could occur without the Department's knowledge.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In March 2008, the Department issued a strategy to address the research, education, and extension services portions of its renewable energy efforts. This strategy, however, did not address other renewable energy activities, primarily the commercialization of renewable energy.

ACTION NEEDED TO ADDRESS THE CHALLENGE: USDA needs to ensure that a comprehensive strategy is developed for all of its renewable energy programs and funding, whether directly appropriated for renewable energy activities or funded from existing appropriations. Once this comprehensive strategy is realized, USDA needs to monitor its progress to ensure timely and effective implementation. The Department needs to establish internal controls to ensure that renewable energy research is not duplicated and that it meets the needs of the current marketplace (i.e., the research is not outdated). USDA needs to ensure that limited renewable energy funds are used to fund projects where a primary selection criterion for investment is based upon projects where the most renewable energy is yielded per funds invested, as well as other secondary criteria. Additionally, projects should be analyzed based on projected versus actual outcomes.

ACRONYMS USED IN THIS DOCUMENT

AI	avian influenza	OIG	Office of Inspector General
AIP	approved insurance provider	OMB	Office of Management and Budget
APHIS	Animal and Plant Health Inspection Service	PAR	Performance and Accountability Report
AQIM	Agricultural Quarantine Inspection Monitoring	PBIS	Performance-Based Inspection System
ARPA	Agricultural Risk Protection Act of 2000	PEIS	Program Evaluation and Improvement Staff
ASCR	Assistant Secretary for Civil Rights	PHICP	Public Health Information Consolidation Project
C.F.R.	Code of Federal Regulations	PHIS	Public Health Information System
CBP	Customs and Border Protection	PII	personally identifiable information
CDP	crop disaster programs	RD	Rural Development
CEAP	Conservation Effects Assessment Project	Response Plan	National Avian Influenza Preparedness and Response Plan
CIMS	comprehensive information management system	RHS	Rural Housing Service
CR	Civil Rights	RMA	Risk Management Agency
CRES	Civil Rights Enterprise System	SPPA	Strategic Partnership Program
CSP	Conservation Security Program		Agroterrorism Initiative
CTR	Currency Transaction Reports	SWCD	Soil and Water Conservation District
DAR	Data At Rest	T&E	Transportation and Exportation
DHS	Department of Homeland Security	USDA	U.S. Department of Agriculture
EEO	equal employment opportunity	WFU	wildland fire use
EERA	Emergency Equipment Rental Agreements	WRP	Wetland Reserve Program
FAS	Foreign Agricultural Service	WUI	wildland urban interface
FEMA	Federal Emergency Management Agency		
FS	Forest Service		
FSA	Farm Service Agency		
FSIS	Food Safety and Inspection Service		
FTE	full time equivalents		
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		
HSC	Homeland Security Counsel		
HSO	[USDA] Homeland Security Office		
IPIA	Improper Payments Information Act of 2002		
IPPS	In-Plant Performance System		
IT	information technology		
LPAI	low pathogenic avian influenza		
NCFD	National Computer Forensic Division		
NRCS	Natural Resources Conservation Service		
OCFO	Office of the Chief Financial Officer		
OCIO	Office of the Chief Information Officer		
OGC	Office of the General Counsel		