

VI. Appendices

APPENDIX A—MANAGEMENT CHALLENGES



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



September 2, 2005

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong /signed/
Inspector General

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General (OIG) to identify and report annually the most serious management challenges the Department and its agencies face. This year we have consolidated our concerns into the six major crosscutting challenges that we believe are the most significant management issues facing USDA.

To identify the current challenges, we examined previously issued audit reports where corrective actions have yet to be taken; assessed ongoing investigative and audit work to identify significant vulnerabilities; and analyzed new programs and activities which could pose significant challenges due to their range and complexity. We discussed these challenges with USDA officials to obtain their input.

Last year OIG identified 10 Department-wide and 2 agency-specific challenges. Because the majority of USDA's challenges frequently cross jurisdictional lines within the Department, we reassessed last year's issues and combined them into six Departmental challenges. We also removed two challenges that were included in last year's list in recognition of the progress made by Civil Rights in addressing backlogged complaints and Rural Development's promulgation of appropriate regulations in the Rural Multi-Family Housing Program.

We look forward to working with the Department to address these management challenges. If you have any questions or would like to discuss this, please contact me at 720-8001, or have a member of your staff contact either Robert W. Young, Assistant Inspector General for Audit, at 720-6772 or Mark R. Woods, Assistant Inspector General for Investigations, at 720-3306.

Attachment

cc:
Deputy Secretary
Secretary's Subcabinet
Chief Financial Officer
Agency Administrators

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2005)**

Current Challenges - Synopsis

- (1) **Interagency Communications, Coordination, and Program Integration Need Improvement**
 - Establish for farm programs comprehensive information management systems, data reconciliation processes, and effective data mining.
 - Implement a Department-wide Research Misconduct Policy.
 - Ensure that animal disease surveillance program policies and procedures are well-defined and supportable and terminology and practices are consistent with public announcements.

- (2) **Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed**
 - Strengthen the quality control in the Federal Crop Insurance Programs.
 - Prepare complete, accurate financial statements without extensive manual procedures and adjustments.
 - Improve Forest Service (FS) internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.

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

Agencies need to

 - Emphasize security program planning and management.
 - Establish an internal control program throughout the systems' 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.

- (4) **Reducing Improper Payments Continues to be a Priority of Congress and the Administration**
 - Assign sufficient resources and provide management oversight.
 - Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling over \$100 billion.
 - Develop a supportable methodology/process to detect and estimate the extent of improper payments.
 - Develop and implement a corrective action plan to address the weaknesses that allowed the improper payments to occur.
 - Agencies that have identified programs that are susceptible to improper payments need to develop and implement action plans to reduce the amount of these payments.

- (5) **Departmental Efforts and Initiatives in Homeland Security Need to be Maintained**
- Continue efforts to coordinate with DHS in implementing effective control systems to ensure the safety and security of agriculture products entering the country.
 - Conduct vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, handles, transports, stores, and distributes.
 - Continue to work with OIG and other USDA agencies to ensure effective coordination and implementation of HSPD-9; i.e., develop a coordinated agriculture and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile.
 - Strengthen controls over select agents and toxins.
 - Establish Department-wide policies and procedures for defining sensitive and dual use information and implementing adequate controls to protect such information.
- (6) **Department-wide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need to Be Strengthened**
- Strengthen germplasm policies and procedures.
 - Strengthen GEO field testing process.
 - Establish improved methods to detect GEO products in trade exports.

Challenges Removed from the FY 2004 List

Civil Rights Complaints Processing Still a Concern in USDA – This challenge was removed based on actions taken by the Department. The premise behind the challenge was that civil rights complaints were not timely addressed and there was a backlog of old complaints. Recent audit work shows the backlog has been dealt with and the Assistant Secretary has developed 13 initiatives to address the long-standing problems pertaining to Civil Rights.

Improvements and Safeguards Needed for the Rural Multi-Family Housing Program – This management challenge was removed based on the Rural Housing Service's (RHS) issuance of new regulations which closed many long-standing audit recommendations, and the agency's proactive approach to identify and address program challenges. Past OIG audits identified major problems related to RHS' ability to maintain its portfolio of rural multi-family housing in good repair so that it can continue to provide safe and affordable housing for low to moderate-income rural residents. Our audit reviews found that RHS needed to do a better job of inspecting and repairing its aging portfolio of Rural Rental Housing (RRH) projects. We also found that RHS needed to implement wage matching to identify excessive rental assistance. Additionally, RHS needed to identify and prevent theft (equity skimming) of RRH project funds. In response to OIG audit recommendations, RHS developed regulations to address many of the issues identified by OIG and has implemented improved management controls. Although all actions have not been fully implemented, RHS has taken aggressive steps to resolve these RRH issues.

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

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

OIG AUDIT/INVESTIGATION ACTIONS:

USDA Farm Programs Could Improve Fraud Prevention and Detection through Cross-Agency Information Sharing. Participation in the Farm Service Agency's (FSA) 1998-2002 crop disaster programs was predicated on crop production data managed by the Risk Management Agency (RMA). The Agricultural Risk Protection Act (ARPA) of 2000, enacted in part to improve the efficiency and integrity of the Federal crop insurance programs, requires FSA and RMA, beginning with the 2000 crop year, to annually reconcile data received by the agencies from producers. In our September 2003 report on the implementation of ARPA, we reported that the Departmental efforts on data reconciliation on the 2001 crop data were effectively negated by the hundred of thousands of disparate records that were identified between the two agencies. OIG's reviews of the crop disaster programs also have shown the importance of data sharing and data reconciliation. Differences in the agencies' definitions of basic terms such as "producer" vs. "insured" and "farm" vs. "unit," hamper any data reconciliation as well as data sharing. To date the agencies have been unable to satisfactorily complete the legislatively mandated data reconciliation for a single year.

OIG investigative experience supports this audit finding. Investigations have found that allegations of fraud involving one farm-related program, such as crop insurance fraud, can develop into complex cases involving fraud in other farm-related programs (i.e., disaster payments, farm loans). In a recent investigation, we found that a producer and his two sons falsified production worksheets. As a result, they received over \$255,000 in illegal crop insurance indemnities on their 1998 crops. They also made a false claim for FSA disaster assistance in the amount of \$166,227 and received \$30,677 in 1998 Loan Deficiency Payments and \$25,000 in other FSA program payments for which they were not eligible. Over the past 5 fiscal years, our investigations involving these programs resulted in a total monetary result of \$100.3 million and 287 convictions. With a more efficient data matching capability between the various agencies responsible for these programs, schemes such as these may be identified at a much earlier stage and potentially reduce program monetary losses.

The interrelationship of RMA crop insurance and FSA disaster programs and the associated risk led OIG to initiate a multifaceted and comprehensive review of these programs to identify improper payments and address fraud and abuse. To carry out this review, OIG established a Farm Fraud Working Group composed of auditors, investigators, and representatives from FSA and RMA who had considerable work experience with crop insurance and disaster assistance programs. The overall goal of the Working Group is to make recommendations to strengthen the safety net that these programs provide to American producers. Specific objectives are to: (1) ensure program integrity by strengthening the Department's protection against dishonest participants; (2) fortify program controls; and (3) reduce fraud, waste, and abuse. To accomplish the objectives, the Working Group analyzed audits and investigations from the past 5 years and held numerous discussions with representatives from RMA, FSA, and the Government Accountability Office (GAO) to identify inherent weaknesses in these programs and develop corrective actions. The Working Group's results will be included in a report containing short and long-term recommendations to improve programs.

Under the Wetlands Reserve Program (WRP) administered by the Natural Resources Conservation Service (NRCS), the law requires that the owners and operators of land subject to WRP conservation easements agree to the permanent retirement of any existing cropland bases for such land under any USDA program. In our ongoing review of WRP, we noted specifically that NRCS is not consistently coordinating with FSA to ensure such bases are permanently reduced (retired) for farm program purposes. As a result, USDA is both compensating the producers for the value of the base acres under WRP and issuing farm program payments on the base acres to the producers under the farm programs.

USDA Still Needs a Department-wide Directive on Research Misconduct. In our March 2005 report, we reported that despite an Office of Science and Technology Policy (OSTP) directive issued on December 6, 2001, to implement a research misconduct policy, the Department had not yet implemented one. Furthermore, since the Department did not assign this responsibility to any specific group or agency, the Department did not ensure that an individual agency implement such a policy or that agency policies were consistent across the Department or compliant with OSTP's directive. The Department also did not have a Department-wide research misconduct policy that addresses extramural research misconduct referrals, allegations, investigations, and adjudications.

Coordination between USDA Agencies Necessary for Effective Protection of Food Safety, Public Health, and Agriculture Trade. In our August 2004 audit review of the Bovine Spongiform Encephalopathy (BSE) Surveillance Program – Phase I, we reviewed the BSE plan in place and the plans for the expanded program. We made 19 recommendations to address limitations in the surveillance plan, make full disclosure of assumptions, and better define the animal population to be tested. Agreement on the recommendations was achieved at report issuance. Although many steps are being taken to improve the BSE surveillance program, the Animal and Plant Health Inspection Service (APHIS) and the Food Safety and Inspection Service (FSIS) need to closely coordinate their activities to protect the safety of our food supply and agriculture markets.

In February 2005, we reported that from August 2003 to April 2004, APHIS officials allowed a gradual expansion in the types of Canadian beef products approved for import into the United States. Additionally, APHIS allowed an expansion in the type of Canadian facilities that would be allowed to produce items for export to the United States. However, FSIS and APHIS did not always communicate effectively about the eligibility status of products imported, which resulted in ineligible product being brought into the United States. APHIS and FSIS agreed with the report's recommendations.

In September 2004, we initiated an audit to evaluate whether USDA enforcement of the ban on specified risk materials in meat products, the administration of its testing program, and the controls to prevent central nervous system (CNS) tissue in advanced meat recovery product have been effectively implemented to reduce the public health risk, provide consumer protection, and monitor the success of adopted prevention and control measures. We also started an audit to evaluate whether the newly expanded BSE Surveillance Program is accomplishing its intended objectives and has been effectively implemented and administered.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In carrying out their mandate, RMA and FSA have established a working group to develop a comprehensive information management system (CIMS), which will combine the agencies' separate program data (e.g., acreage, type of crop, producer, past claims, etc.). In addition to developing an integrated comprehensive information management system, this effort has included re-defining data common to, and needed by, both agencies and data unique to each agency and developing a common format for such data. In the long term, NRCS will be invited to participate in CIMS. The success of this effort will critically depend on a unified, integrated approach to information collection and systems development.

APHIS agreed that additional discussion and clarification of the BSE surveillance program objectives and assumptions would contribute to public understanding of its efforts. Both FSIS and APHIS have issued instructions to field personnel that clearly state the policy to sample all cattle condemned on ante mortem inspection (except veal calves condemned for non-CNS reasons). Personnel in both APHIS and FSIS have been trained on the sample collection process. The APHIS and FSIS Administrators signed a Memorandum of Understanding on July 6, 2005, relative to cooperation in surveillance programs.

For research misconduct, the Department agreed, as recommended in our report, that a centralized body for implementing a research misconduct policy will be established within the Department. The office of the Under Secretary for Research, Education, and Economics will be accountable for coordinating research misconduct policies and procedures.

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

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

- RMA, FSA, and NRCS should implement a comprehensive information management system to better share program data and eliminate duplicate reporting by producers.
- RMA and FSA should implement a more effective data reconciliation process, as mandated by ARPA. Even if a comprehensive information management system is implemented, validity checks, i.e., data reconciliation, should be employed in that system to the extent practicable to identify apparent discrepancies in related data, and steps should be taken to resolve such discrepancies.
- RMA, FSA, and NRCS should incorporate data mining techniques upfront in the design of software used for program administration to detect data anomalies and potential improper payments. (RMA has estimated \$310 million in potential savings over a 4-year period; FSA has not participated, contending it is prohibited statutorily; NRCS could also benefit in its direct administration of conservation programs).

Research Misconduct. The Department needs to develop and implement a Department-wide, OSTP-compliant research misconduct policy. Such a Department-wide policy would include specific instructions applicable to USDA-funded research and proposals submitted for research funding.

Food Safety, Public Health, and Agriculture Trade. Effective coordination and communication within USDA and with external stakeholders is essential to protect consumers and prevent the entry of animal and plant diseases into the United States. The Department needs to:

- Develop scientifically based animal disease surveillance programs and ensure that representations made regarding the prevalence of animal diseases in the United States can be supported by valid statistical sampling methodologies that are complete and accurate.
- Implement controls to ensure that actual practice is consistent with public announcements.
- Issue policies to strengthen controls over meat and poultry products arriving from restricted countries with foreign diseases, such as BSE.

APHIS needs to institute procedures for communicating changes in policy to all interested parties, and monitoring the consistency between agency practice and publicly stated policy. FSIS should implement controls to communicate the specific eligibility of product when its eligibility status changes. FSIS should also implement an edit check in its import information system to identify ineligible product presented for entry into the United States.

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

SUMMARY: Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, has been revised and will be effective for 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 Department-wide weaknesses.

Improved Oversight Needed to Ensure the Quality Control of the Federal Crop Insurance Programs. For the 2004 crop year, indemnity payments totaled approximately \$3.1 billion, and Government subsidies of insurance premiums totaled approximately \$2.2 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 (QCR) by the insurance companies and compliance activities by its own staff. Our audits and investigations have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. We have found through our audits and investigations that there is no reliable QC review system to evaluate private sector delivery of the Federal Crop Insurance Programs. However, based upon the results of our audit work, RMA will begin insurance company operations reviews starting with the 2005 reinsurance year.

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. In the last 15 semiannual reports to Congress, USDA agencies have averaged more than 50 audit reports where OIG and the agencies have not reached management decision on the actions necessary to address the recommendations within the required 6-month time period. As of June 9, 2005, there were more than 120 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 OIG findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Systems. Internal controls over financial management systems and processes are needed in USDA to improve the timeliness and accuracy of financial data available to managers administering and operating the Department's programs. Although the Department has now obtained unqualified audit opinions for 3 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, the fiscal year (FY) 2003 statements had to be reissued to correct material errors disclosed during the FY 2004 audit. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

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

Another internal control issue discovered through an OIG investigation is the need for more FS oversight of national firefighting contract crews. Specific issues identified included the lack of oversight in training continuity – ensuring adequate training of contract fire fighters – and administration of vendors (i.e., vendors using illegal workers on the firefighting crews who may have language barriers), as well as contract crew member qualifications.

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

- Our audit work has disclosed that RMA lacks an effective QCR system to evaluate private sector delivery of the Federal Crop Insurance Program. Our upcoming work includes an audit to evaluate RMA's overall compliance activities, including the adequacy of its review of insurance providers. Additionally, through our investigative work we will continue to address allegations of fraudulent schemes by insurance agents and adjusters.
- OIG continues to work with USDA agencies to reach management decision on actions needed to address our audit recommendations. One of our primary goals is to ensure that the actions that are agreed to by the agency and OIG are achievable within the required 1-year period.
- OIG is responsible for the audit of the Departmental financial statements. We accomplish this through the use of audit staff and contracts with CPA firms. These audits ensure that the annual financial reports accurately reflect the results of operations and the financial results of the Department and its agencies. The reviews allow OIG to evaluate the financial system within the Department and provide recommendations for improvement.
- We continue to focus our audits on the management control structure within FS. OIG audits, along with those from GAO and special reviews from outside contractors, find FS management has not implemented effective corrective action on reported problems. Some of these issues have been reported in multiple reports for over a decade but their solutions are still in the study and evaluation process by the FS. We currently plan to conduct an audit of the overall structure of FS management control systems. This work is

scheduled to start in late FY 2005 or early FY 2006 depending on availability of audit staff. Our ongoing investigation will continue to delve into whether there is appropriate oversight of national firefighting contracts.

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

- RMA has begun conducting company operations reviews to develop a rolling Program Error Rate. RMA plans to complete a review of all participating companies once every 3 years. These operational reviews assess the company's compliance with Appendix IV (quality control (QC)) and other provisions in the Standard Reinsurance Agreement. The planned reviews will require looking at documentation of the companies' systems that are in place and verify that they are operational. RMA will also assess the operational QC programs, training provided, and flaws identified when conducting business. The review guide is under development and the process will be in place for Crop Year 2005 reviews.
- The Department's Office of Chief Financial Officer (OCFO), along with a number of the agencies, have undertaken efforts to reduce the number of audits with unresolved recommendations as well as those audits where final actions have not been completed within 1 year. While some progress has been made, continued efforts will be needed to reduce the backlog. Successfully reducing the backlog will help the Department implement those management actions needed to improve the Department's operations.
- The Department has continued 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.
- FS has reemphasized its management review process to assess its operation 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.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: RMA needs to continue its effort to establish a consistent and comprehensive QC process for all reinsured companies, including a system to evaluate the overall effectiveness and reliability of QC reviews performed by the companies. USDA agencies and the Department need to ensure that their proposed management actions address audit recommendations and are structured so they can be achieved within reasonable time frames. USDA agencies need to continue to improve their financial systems with the goal that the financial information produced by these systems will allow them to prepare complete, accurate financial statements without extensive manual procedures and adjustments. FS needs to improve its management controls in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.

CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY

SUMMARY: USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the most significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases, criminals seeking economic gain, or disgruntled internal staff members. OIG considers the spectrum of these threats to pose a major challenge because of the extraordinary risk incumbent in the Department's automated data systems expressed in terms of billions of dollars in payments flowing through them, the untold disruption which could occur in the world's financial and agricultural markets, and the potential negative impact on the health and safety of the world's population. It is imperative, therefore, that IT controls such as risk assessments and measures to preclude unauthorized access are in place.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has had an extensive IT security audit program and investigative Computer Forensic Unit in place for several years, which has enabled us to provide coverage to virtually every agency in the Department. Our audits, performed pursuant to the Federal Information Security Management Act (FISMA) of 2002, have found that despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agency implementation of IT security requirements has been inadequate. OCIO has agreed these material weaknesses stem from lack of compliance with OMB Circular A-130, Management of Information Resources, provisions requiring development of security plans, performance of risk assessments, preparation of disaster recovery plans, completion of security awareness training, and performance of system certification and accreditation plans. In addition, our annual audits of general controls at the National Finance Center (NFC) and National Information Technology Center (NITC) have disclosed security weaknesses that could jeopardize the confidentiality, integrity, and availability of the data the centers process.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCIO has worked diligently to facilitate and assist the agencies to achieve conformance with security mandates. Significantly, OCIO plans to independently verify and validate all information systems certified in FY 2004. The majority of the systems (86 percent) have been accredited. Other systems are currently under review. The reviews should be completed by October 2005. Further, OCIO has become actively involved in the budget process to ensure, among other initiatives, that cyber security and FISMA requirements are addressed in IT acquisitions. We view these as significant steps to address the challenges ahead.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Agency-level managers should consider IT security a top priority and display greater commitment and attention to assuring compliance with federally mandated IT security requirements to reduce the level of vulnerability. Specifically, agencies need to ensure that provisions of OMB Circular A-130 are fully met.

CHALLENGE: REDUCING IMPROPER PAYMENTS CONTINUES TO BE A PRIORITY OF CONGRESS AND THE ADMINISTRATION

SUMMARY: The Federal Government faces a major challenge in implementing the Improper Payments Information Act (IPIA) of 2002. The Act requires agency heads to annually review all programs and activities that they administer and identify those that may be susceptible to significant improper payments. If the estimate exceeds \$10 million, agencies are to report the causes of the improper payments and corrective actions taken. OIG considers this to be a major challenge because of the number and complexity of USDA programs and activities that fulfill the Act's criteria. The methodology to be employed to identify improper payments consists of a detailed risk assessment of programs' internal controls. While the impact of the challenge cannot yet be forecast, OMB has estimated improper payments of about \$55 billion, Government wide. USDA reported that its agencies had 286 programs, with outlays totaling about \$100 billion in FY 2005, that had been assessed by the individual agencies to determine their susceptibility to improper payments. A total of 11 programs, with outlays totaling \$47.7 billion, were reported as having been determined to be susceptible to significant improper payments and to require further actions as specified in the IPIA.

OIG AUDIT/INVESTIGATION ACTIONS: OIG performed a series of five audits in which we reviewed the Department's oversight (administered by OCFO), and six agencies' compliance with the Department's guidance issued to implement the IPIA. Our reviews disclosed that the risk assessments, as performed, were not adequate to estimate the agencies' susceptibility to improper payments because OCFO's guidance was not sufficiently prescriptive and detailed to translate into meaningful results. For example, the guidance did not include a methodology for establishing estimated error rates, a critical measure needed to support the overall vulnerability ranking (only those programs rated as "high" must be further analyzed through the development of a statistical projection estimating the extent of improper payments and a corrective action plan to mitigate them). We recommended that OCFO strengthen guidance over the IPIA risk assessments to provide reasonable assurance that the requirements of the Act are met, and monitor the agencies' implementation of the OCFO guidance to ensure adherence. OCFO fully agreed with our recommendations and promptly revised its guidance, which mitigated the policy deficiencies.

The risk assessment methodology proposed by OIG entailed the following:

- Risk factors should be identified which are discrete to the program being assessed and consider information from all sources, such as audit reports. Factors should be significant (pose a potential quantitative risk) and have a reasonable likelihood of occurrence.
- Documented internal controls, designed to mitigate the risk factors, should be identified and preliminarily evaluated to provide reasonable assurance that they are adequate as prescribed (designed to preclude or detect errors and irregularities in a timely manner).

- Tests of transactions should be performed to quantitatively determine error rates. The extent of testing should be based, in part, on the results of the preliminary evaluation performed above and any other known vulnerabilities (from audits, internal reviews, or other sources).
- The resultant error rate should be multiplied by the program outlays and the process continued, as appropriate.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs. Such programs include the Food Stamp Program, FSA loan programs, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led to total monetary results of \$658 million, of which \$404 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of our investigations is on specific subjects and specific allegations of criminal violations. Thus, the results achieved in individual investigations pertain directly to individuals, rather than identifying broad agency-wide problems in benefit delivery. However, our investigative findings assist in identifying problem areas, such as common schemes used to obtain undeserved payments.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCFO has published detailed guidance on the IPIA process, worked with the agencies, and tabulated the current results. It is incumbent upon the agencies, however, to meet the requirements prescribed.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: USDA agencies need to continue to aggressively implement the requirements of the law and OCFO's revised direction. Analyses of the internal control structure of all major programs must be performed and weaknesses that could create vulnerabilities to improper payments need to be identified. Due to the breadth and complexity of the undertaking, successful implementation of the IPIA poses a significant management challenge to the Department.

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

SUMMARY: The events of September 11, 2001, heightened concern about potential terrorist threats and added a new dimension to the Department'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. For FY 2005, \$601 million has been appropriated for Homeland Security initiatives at USDA. Building on its earlier progress, USDA must accelerate its efforts to identify its assets, conduct thorough security risk assessments, and establish appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must maintain their current border inspection activities to guard against the unintentional introduction of pests, diseases, and contaminants on imported products.

The Department has been responsive to specific security vulnerabilities identified by OIG. USDA has also participated in or implemented a number of security-related initiatives, including the National Animal and Plant Health Laboratory Networks (designed to rapidly detect foreign pathogens and other pests) and the National Interagency Incident Management System (developed to respond to a wide range of emergencies, both natural and human-caused). However, USDA still faces many challenges as it shifts its focus to encompass security as well as safety in each of its mission areas. Specifically, the Department must foster effective coordination and communication across agency and Departmental lines to ensure effective implementation of its ongoing and future Homeland Security initiatives. For example, the Department has coordinated and monitored the USDA agencies to achieve timely and effective implementation of biosecurity procedures for its many laboratories.

Such coordination and communication is critical if Homeland Security Presidential Directive 9 (HSPD-9) is to be implemented effectively. Issued on January 30, 2004, HSPD-9 established a comprehensive national policy to defend the agriculture and food system against terrorist attack, major disasters, and other emergencies. With DHS as the lead Federal agency, HSPD-9 directed USDA, the Department of Health and Human Services (HHS), the Environmental Protection Agency (EPA), and the U.S. Attorney General to develop and implement systems and networks in the following areas: awareness and warning, vulnerability assessments, mitigation strategies, and response planning and recovery. For example, USDA, in conjunction with these agencies, needs to develop a coordinated agriculture- and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile.

OIG AUDIT/INVESTIGATION ACTIONS: In our February 2004 review of Homeland Security issues regarding USDA commodity inventories, OIG found that FSA needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities. We also found that FSA needs to formulate clear directions on food safety and security for the commodities that it manages, handles, transports, stores, and distributes.

Another OIG audit issued in June 2005 reviewed 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. OIG's review found that APHIS had not taken adequate steps to register all entities possessing, using, or transferring listed agents or toxins; granted provisional registrations without determining whether adequate security measures were in place; and had not established policies and procedures to ensure consistent and thorough inspection of registered entities.

OIG audits conducted prior to the transfer of APHIS inspection duties to DHS disclosed serious control weaknesses at the borders or ports of entry for agriculture and other food products. Many of our recommendations remain unresolved because of issues arising from the transfer of inspection duties from APHIS to DHS' Customs and Border Protection (CBP). 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. In March 2005, OIG reported on our review to determine whether APHIS had implemented controls, processes, and procedures, in conjunction with CBP, to ensure timely and effective coordination of inspection activities that could impact agriculture. OIG concluded that APHIS needs to establish a more effective way to coordinate with CBP to ensure that adequate safeguards are implemented, and that APHIS has access to all information needed to verify that U.S. agriculture is being protected. APHIS concurred on the need to resolve outstanding issues with CBP, but discussions continue as to the best means to accomplish this.

Problems identified in several GAO reports overlap with the specific issues included in the OIG reports cited above. In testimony before Congress, GAO referred to four GAO reports that identified problems with Federal oversight of the Nation's agriculture and food supply. For example, GAO found that border inspectors needed to be provided with adequate guidance for detecting and preventing foot-and-mouth disease and that inspection resources could not handle the magnitude of international passengers and cargo. In another report, GAO found that Federal oversight officials did not have clear authority to impose requirements on food processors to ensure secure facilities. GAO recommended that both USDA and HHS study and identify the additional authorities needed to ensure security at these food-processing facilities. GAO reported that USDA and HHS generally agreed with the recommendations.

In March 2005, GAO issued a report titled, "Much Is Being Done to Protect Agriculture from a Terrorist Attack, but Important Challenges Remain." GAO recommended that USDA examine the costs and benefits of developing stockpiles of ready-to-use vaccines, and that it determine the reasons for the decline in agricultural inspections at the borders.

During FY 2005, we will begin work to evaluate the Department's actions to implement many of the initiatives outlined in HSPD-9. These initiatives are critical to the defense of agriculture against terrorist attack, disasters, and other emergencies.

In addition, OIG investigations continue to uncover illegal smuggling of plant and animal products that may threaten American agriculture by introducing foreign pests and diseases. For example, we recently opened a criminal investigation after APHIS alerted us to the smuggling of

boneless chicken feet, a prohibited item, into the country. This activity is significant because of the potential for avian influenza to be present on the smuggled product. In another investigation, we found that company officials at a manufacturer and international supplier of poultry vaccines illegally smuggled both a live Exotic Newcastle Disease virus and an inactive avian influenza virus into the country.

Although APHIS has the primary responsibility for safeguarding American agriculture from foreign pests and diseases entering the United States, FSIS and DHS also have significant involvement and responsibilities. Having numerous responsible agencies requires close coordination and communication, particularly when an immediate response is necessary. We will continue to work with USDA agencies and other law enforcement agencies on all levels to pursue possible threats to American agriculture and the American food supply.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In response to our review of Homeland Security issues pertaining to USDA commodity inventories, FSA generally agreed with our recommendations and agreed to work with USDA's Office of Homeland Security to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures. However, further action is needed to ensure timely implementation of those measures.

APHIS generally agreed with OIG's recommendations regarding safeguards to prevent the entry of prohibited animal and plant diseases and pests. USDA entered into a memorandum of agreement with DHS to address how the Departments will coordinate their activities in this area. Individual appendices have been written to address issues such as training and transfer of funds; functions and employees transferred to DHS; and regulations, policies, and procedures.

In a May 3, 2005, speech at the International Symposium on Agro-Terrorism, the Secretary of Agriculture outlined 14 new measures the Department has taken to protect America's food and agricultural systems. In addition, USDA recently released four model food security plans that will guide producers and importers in developing their own security measures to deter international contamination of the food supply.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: HSPD-9 specifically directed USDA, HHS, and DHS to expand current vulnerability assessments of the agriculture and food sectors, and to develop mitigation strategies to reduce vulnerable critical nodes of food production or processing. FSA needs to work with the Department's Homeland Security Office to conduct vulnerability or risk assessments of its agricultural commodity and inventory operations and related programs. FSA, in collaboration with the Food and Drug Administration and the Department's Homeland Security Office, also needs to establish and implement measures to mitigate any vulnerabilities identified.

HSPD-9 also called for USDA, HHS, and DHS to build on their existing efforts to develop common screening and inspection procedures for agriculture and food items entering the United States. After the significant transfer of responsibilities and personnel from USDA to DHS in March 2003, USDA now faces the major challenge of timely and effective coordination and communication not only within USDA, but also with DHS. In addition, the USDA Office of

Homeland Security working with OIG can strengthen its monitoring of the USDA agencies to ensure that they have fully implemented corrective actions to address Homeland Security weaknesses.

CHALLENGE: DEPARTMENT-WIDE EFFORTS AND INITIATIVES ON GENETICALLY ENGINEERED ORGANISMS NEED TO BE STRENGTHENED

SUMMARY: The use of biotechnology-derived or genetically engineered crops has grown significantly over the past decade, particularly in the United States. In 2001, approximately 88 million acres of such crops were planted in the United States. For the 2004 crop year, genetically engineered crops were to be planted on as much as 86 percent of the planned 75.4 million acres of soybeans and approximately 46 percent of the planned 79 million acres of corn. Approximately 76 percent of the 14.4 million acres of cotton were planted with genetically engineered seeds. In all, approximately 118 million acres of genetically engineered crops were planted in 2004. Just recently, the seed industry reported that the 1 billionth acre of gene-altered seeds had been planted.

In a recent report, the Food and Agriculture Organization of the United Nations cited the benefits of genetically engineered crops, including higher yields, lower costs, reduced pesticide use, and greater resistance to disease, pests, and drought. However, the acceptance of genetically engineered crops in the world market is mixed. The European Union (EU), for example, has instituted both labeling and traceability requirements for biotechnology-derived imports. These documentation requirements significantly impact the ability of U.S. producers to compete in the EU market. Recent incidents in which several shipments of U.S. crops were found to contain unauthorized (for human consumption) genetically engineered material and were returned to the United States could affect the international debate over genetically engineered crops. Further, such incidents could lead to bans on imports of certain U.S. commodities, which would have serious economic consequences for American agriculture. Disparities in approval processes and lack of harmonization could continue to impact U.S. agricultural exports of these commodities.

USDA plays a major role in regulating and monitoring genetically engineered crops – from storing the germplasm used to produce seeds and approving field testing, to monitoring interstate shipment and imports and providing export assistance. The Department must balance the goals of (1) maintaining adequate accountability for genetically engineered seeds and crops, (2) preserving the integrity of non-genetically engineered seeds and crops, (3) ensuring the health and safety of the American food supply, and (4) maintaining the export levels of American agricultural production despite some foreign markets' reluctance to accept genetically engineered crops and the added costs of allaying safety concerns.

OIG AUDIT/INVESTIGATION ACTIONS: In our recent review of the Department's germplasm storage system, we found the need for increased accountability and tracking controls over genetically engineered germplasm. Specifically, the Department needed to strengthen controls over the identification, shipment, inventory, and disposal of genetically engineered organisms (GEO). The effectiveness of the Department's germplasm storage system is critical in responding to a major catastrophe or pest infestation. As described in the recently issued HSPD-9, the germplasm storage system will be the primary source of genetic resources for rebuilding agricultural production in the event of a national or regional agricultural disaster.

In our ongoing review of USDA's accountability for and monitoring of genetically engineered crops, we evaluated the Department's controls over issuance of GEO release notifications and permits, which are required to ship or field-test regulated GEOs. We found that the Department needed to strengthen its controls over the entire process, from the initial permit and notification applications to the devitalization of the genetically engineered crops under approved notifications and permits. In subsequent discussions with the Department, it stated that corrective actions to address some of the recommendations have been initiated.

We also plan to conduct an audit to evaluate the Department's controls over genetically engineered food crops once they have entered the American food system.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: The Department has agreed to publish and implement procedures to strengthen controls over the germplasm storage system; however, no timeframes for doing so have been established. Also, OIG and the Department have worked to develop meaningful corrective actions to improve oversight of genetically engineered crops.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: The Department needs to strengthen the field release application process by developing a standard application review guide, implementing more specific standards for field-testing, and requiring more detailed information from applicants. To adequately account for field tests of genetically engineered crops, the Department needs to maintain an updated, comprehensive inventory of approved field-test and movement applications. Until it implements these upfront controls, the Department cannot effectively monitor genetically engineered crops and does not have assurance that such crops will not inadvertently enter the human food supply. The Department needs to strengthen its oversight of field tests by clearly defining the line of authority for field inspections, developing standard inspection procedures, and providing consistent training to field inspectors.