
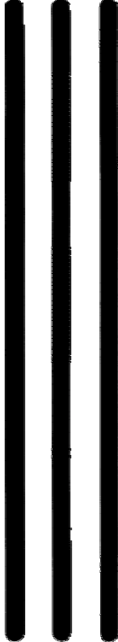



# IV.



## Other Accompanying Information

### Appendix A—Management Challenges



U.S. Department of Agriculture  
Office of Inspector General

Management Challenges

August 2006



## UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



August 22, 2006

**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 USDA and its agencies face.

To identify Departmental 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 that could pose significant challenges due to their range and complexity. We discussed these challenges with USDA officials to obtain their input.

Last year we consolidated our concerns into six major crosscutting challenges that we believed were the most significant management issues facing USDA. Overall, these management challenges remain. This year, however, we have increased our challenges to seven to include USDA's response to the devastating hurricane season of 2005, including its efforts to effectively and properly distribute benefits and coordinate with other Federal agencies involved in the response. We have also added under our Homeland Security challenge a new issue on the development of plans to monitor potential avian influenza outbreaks in live bird markets or other "off-farm" environments.

Even though our overall challenges remain the same, we removed issues identified under three challenges last year in recognition of the progress made or actions taken by the agencies. These issues include the implementation of a Departmentwide research misconduct policy, the establishment of Departmentwide policies and procedures for defining sensitive and dual-use information, and the Department's issuance of revised procedures strengthening USDA germplasm policies and procedures. A further description of actions taken to remove these issues from the challenges is noted on page 3 of this report.

Memorandum for the Secretary

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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 720-8001, or have a member of your staff contact either Mr. Robert W. Young, Assistant Inspector General for Audit, at 720-6945, or Mr. Mark R. Woods, Assistant Inspector General for Investigations, at 720-3306.

Attachment

cc:

Subcabinet Officials

Agency Administrators

**OFFICE OF INSPECTOR GENERAL  
MAJOR USDA MANAGEMENT CHALLENGES  
(August 2006)**

**Current Challenges - Synopsis**

- (1) **Interagency Communications, Coordination, and Program Integration Need Improvement**
  - Integrate the management information systems used to implement the crop insurance, conservation, and farm programs.
  - Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.
  - Improve communication and strengthen controls for beef exported to Japan.
  
- (2) **Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed**
  - Strengthen 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.
  - Capitalize on Farm Service Agency (FSA) compliance activities to improve program integrity.
  
- (3) **Continuing Improvements Needed in Information Technology (IT) Security**  
Agencies need to:
  - Emphasize security program planning and management.
  - 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.
  
- (4) **Implementation of Improper Payment Act Requirements Needs Improvement**
  - 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 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 strengthen controls over select agents and toxins.
  - Continue efforts to coordinate with the Department of Homeland Security (DHS) in implementing effective control systems to ensure the safety and security of agriculture products entering the country.
  - Develop a comprehensive approach for surveillance and monitoring for outbreak of avian influenza, including live bird markets or other “off-farm” environments.
  - Ensure animal disease surveillance program policies and procedures are well-defined and supportable.
  - Develop an information system to better track noncompliance violations related to Specified Risk Materials.
  - Improve security and accountability of explosives and munitions.
  - Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive (HSPD) 9; e.g., develop animal and plant diagnostic and tracking networks.
- (6) **Departmentwide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need To Be Strengthened**
- Strengthen the GEO field testing process.
  - Develop a comprehensive strategy for increasing exports of genetically engineered crops.
- (7) **USDA’s Response to the 2005 Hurricanes Needs Ongoing Oversight**
- Provide sufficient oversight to ensure that monies allocated for housing, food stamps, conservation, and farm programs are used effectively.

**Challenges Removed From the Fiscal Year (FY) 2005 List**

Even though our overall Departmental management challenges remain the same as last year, there was considerable improvement or appropriate action taken in some specific areas under these challenges. Those areas are:

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

**Implement a Departmentwide Research Misconduct Policy—USDA Still Needs a Departmentwide Director on Research Misconduct.** This challenge area was removed based on actions taken by the Department. Over the past year, staff from the Office of the Under Secretary for Research, Education and Economics, in coordination with staff from other mission area program agencies and the Office of the General Counsel, have diligently worked to draft Departmentwide policies and procedures in accordance with Office of Science and Technology Policy guidelines. The Departmentwide policies and procedures were issued under a Secretary's Memorandum on July 11, 2006. Since the Secretary's Memorandum expires in a year, these interim policies and procedures are to be followed by permanent policies and procedures on extramural research to be published in the *Code of Federal Regulations* (CFR) and on intramural research in the CFR and/or Departmental regulations by July 2007.

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

**Establish Departmentwide Policies and Procedures for Defining Sensitive and Dual-Use Information and Implementing Adequate Controls To Protect Such Information.** In our report, we recommended that Agricultural Research Service (ARS) management controls be enhanced to prevent the transfer of sensitive knowledge to hostile individuals or countries. Although the agency has acknowledged this deficiency, there are no established Governmentwide criteria to strengthen such controls. In recognition of this deficiency, the National Institutes of Health created the National Science Advisory Board to tackle this biosecurity issue. In the interim, ARS has agreed to implement alternative measures. Consequently, we are removing this issue from our list.

**Under Challenge (6)—Departmentwide Efforts and Initiatives on Genetically Engineered Organisms Need To Be Strengthened**

**USDA Needs To Strengthen Germplasm Policies and Procedures.** Specifically, USDA 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. This challenge area was removed based on USDA's action to issue revised procedures by late summer 2006.



**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 USDA to speak with one cohesive voice and realize its vision of being "recognized as a dynamic organization that is able to efficiently provide the integrated program delivery needed to lead a rapidly evolving food and agriculture system."

**OIG AUDIT/INVESTIGATION ACTIONS:**

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

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

Since 1998, FSA's ad hoc crop disaster programs (CDP) have been predicated on crop production data that is managed by RMA and downloaded to FSA. OIG's audits of the 1998-2002 CDPs have shown that FSA and RMA need to reconcile and redefine their data to better meet the needs of FSA in the administration of the CDPs. This need to redefine data to ensure consistency between FSA and RMA is still ongoing and is being tackled in the CIMS project. Specifically, the audits have disclosed instances in which improper payments occurred

because the data downloaded from RMA was not properly interpreted or used by FSA. In addition, the newly implemented FSA Hurricane Indemnity Program (HIP) relies in part upon data provided by RMA: eligible producers who received a crop insurance indemnity for crop losses suffered due to the 2005 hurricanes will receive HIP benefits equal to 30 percent of the crop insurance indemnity. (Note: HIP also provides benefits to producers who received FSA Noninsured Crop Disaster Assistance Program payments for production losses due to the hurricanes.) The necessary RMA data files for administering the HIP are downloaded weekly to FSA. However, RMA data may change due to updated information. As a result, FSA must manually generate periodic discrepancy reports to identify RMA data that no longer match HIP data. If RMA's and FSA's systems were integrated, the downloads of data from RMA to FSA would be unnecessary; data necessary to properly administer the programs would be available in real time and with reduced risk of improper payment. More than just the crop insurance and disaster programs would benefit—for example, production data in the system could also be used to determine whether quantities reported by producers for FSA price support program purposes were reasonable.

**USDA Could Reduce Improper Payments in Conservation and Farm Programs Through Improved Coordination Between Agencies.** The Natural Resources Conservation Service (NRCS) purchases conservation easements on land in association with its conservation programs, while FSA provides farm subsidy payments on crop base acres under its Direct and Counter-Cyclical Program (DCP). Producers are generally prohibited from receiving payments for both DCP and conservation easement on the same piece of ground. In our audit of NRCS' Wetland Reserve Program (WRP), we found that, even though the law requires the owners and operators of land subject to WRP conservation easements to agree to the permanent retirement of any existing crop base acres for such land under any USDA program, NRCS occasionally purchases easements on land with base acres without ensuring that landowners permanently retire that base with FSA. NRCS had not issued any instructions requiring landowners to notify FSA to retire federally purchased crop base at FSA. In addition, we found that NRCS did not consistently notify FSA of conservation easements purchased. In our ongoing review of crop bases on conservation easements, we specifically have noted that NRCS is not consistently coordinating with FSA to ensure such bases are permanently reduced (retired) for farm program purposes. We have discussed this issue with both agencies. As a result of poor interagency communication and weak program integration, 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 DCP. The need for a more collaborative approach to the programs and better coordination between NRCS and FSA in these instances becomes more apparent as Congress enacts more conservation programs in lieu of farm subsidies. Improved interagency communication and understanding of the linkages, interactions, and processes between the agencies and their programs will reduce instances in which one agency's action adversely affects the other's programs.

**Coordination Between USDA Agencies Necessary for Effective Protection of Food Safety, Public Health, and Agriculture Trade.** On January 20, 2006, Japan halted the import of U.S. beef products because veal product exported from a U.S. plant contained a vertebral column, a violation of an agreement between the United States and Japan to ship only boneless beef. The Secretary immediately announced 12 actions that USDA would undertake to facilitate



resuming trade and requested that OIG review the adequacy of USDA's coordination and control processes for the Beef Export Verification (BEV) program for Japan. We concluded that the Agricultural Marketing Service (AMS) and the Food Safety and Inspection Service (FSIS) could strengthen controls over the BEV program by better communicating BEV program requirements, clearly defining their respective roles and responsibilities, and implementing additional oversight of FSIS inspection personnel.

**DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:** RMA and FSA have established a working group to develop CIMS, which will combine the agencies' separate program data (e.g., acreage, type of crop, producer, past claims, etc.). In addition to developing an integrated comprehensive information management system, this effort has included redefining 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 program administration, information collection, and systems development.

In response to our audit of WRP, NRCS hired a State-certified Chief General Appraiser to provide overall direction and supervision of the easement valuation process. NRCS modified the WRP Manual to improve technical precision and to provide direction to the NRCS staff on how to handle crop base acres from land subject to WRP conservation easements. NRCS staff is to notify the appraiser and landowner of the need to permanently reduce, for farm program purposes, existing crop base acres from land subject to WRP conservation easements. Additionally, NRCS and FSA have established a working group to identify and remove all impairments that have prevented them from ensuring that landowners permanently reduce their existing crop base acres where appropriate. These actions when completed, along with implementation of the other recommendations, will significantly strengthen the program. These actions will also result in improved interagency communication, coordination, and program integration.

In response to our audit of the BEV program, AMS agreed to maintain a list of specific export-eligible products for each facility with an approved BEV program; systematically notify FSIS when any establishment is approved/delisted from a BEV program; and review all establishments in the BEV program to ensure that they adhere to program requirements. FSIS agreed to clarify the roles and responsibilities of FSIS personnel involved at each stage of the export verification process, expedite the development of export certification training, and increase supervisory oversight of the export certification process. These actions, along with the 12 announced by the Secretary, should further strengthen the program.

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

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

- RMA, FSA, and NRCS should implement a comprehensive information management system to better share program data and eliminate duplicate reporting by producers.
- RMA and FSA should implement a more effective data reconciliation process, as mandated by ARPA. Even if a comprehensive information management system is implemented, validity checks, i.e., data reconciliation, should be employed in that system, to the extent practicable, to identify apparent discrepancies in related data; and steps should be taken to resolve such discrepancies.
- RMA, FSA, and NRCS should incorporate data mining techniques up front in the design of software used for program administration to detect data anomalies and potential improper payments. (Through data mining RMA has estimated \$456 million in potential savings since crop year 2001 through the current crop year 2006; FSA has not participated, contending it is prohibited statutorily. NRCS could also benefit in its direct administration of conservation programs.)
- NRCS and FSA should improve interagency communication and coordination to assure one agency's actions do not adversely affect the other agency's programs.

**Food Safety, Public Health, and Agriculture Trade.** AMS needs to continue to ensure that meat plants include the specific products and process requirements necessary for export certification programs and that those requirements are documented and included in plant quality assurance manuals. AMS and FSIS need to continue to work closely together to clarify the roles and responsibilities of FSIS personnel involved at every stage of the export certification process, expedite the development of training on export certification for Consumer Safety Inspectors, and increase supervisory oversight of the export certification process by revising the In-Plant Performance System review guidance to incorporate procedures that specifically evaluate the ability of inspection personnel to perform export certifications.

**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 is 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 Departmentwide weaknesses.

**Improved Oversight Needed To Ensure Quality Control of the Federal Crop Insurance Programs.** For the 2005 crop year, indemnity payments totaled approximately \$2.3 billion, and Government subsidies of insurance premiums totaled approximately \$2.3 billion. To ensure quality and integrity in its programs, RMA relies on a number of complementary and/or independent control systems; these include quality control (QC) reviews by the approved insurance companies (AIP) and compliance activities by its own staff. Our audits and investigations have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. We have found through our audits and investigations that there is no reliable QC review system to evaluate private sector delivery of the Federal Crop Insurance Programs.

**Agencies Need To Improve Their Response to Audit Recommendations.** USDA agencies need to improve their timeliness in developing and implementing corrective action plans in response to audit recommendations. As of August 3, 2006, there are 46 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. In addition, there are approximately 132 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Also, as of August 10, 2006, the U.S. Government Accountability Office's (GAO) Web site lists 68 audits with open recommendations for USDA. This includes 9 audits released in FY 2006 and 59 in prior years, with the oldest GAO audit being open since FY 2002. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many OIG and GAO findings deal directly with weaknesses in agencies' internal control structures.

**Improved Controls Needed Over USDA Financial Processes.** 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 USDA's programs. Although the Department has now obtained unqualified audit opinions for 4 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, OIG identified three reportable conditions, two of which—(1) needed improvements in overall financial management across USDA and (2) needed improvements in information technology security—were significant enough to warrant being reported as material weaknesses

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for the Department. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

**Forest Service Needs Improvement in Policy, Process, and Internal Control Issues.**

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

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

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

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

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

- Our audit work has disclosed that RMA lacks an effective QC review system to evaluate private sector delivery of the Federal Crop Insurance Program. We currently have an ongoing audit to evaluate RMA's overall compliance activities, including the adequacy of its review of the AIPs. 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 certified public accounting firms. These audits ensure that the annual financial reports accurately reflect the results of operations and the financial results of USDA 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 FS. We currently plan to conduct an audit of the overall structure of FS management control systems. This work is scheduled to start in FY 2007 depending on availability of Audit staff. An 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 the following.

- RMA has begun conducting AIP operations reviews to develop a rolling Program Error Rate. RMA plans to complete a review of all participating AIPs once every 3 years. These operational reviews assess the company's compliance with Appendix IV (quality control) and other provisions in the Standard Reinsurance Agreement. The reviews will look at documentation of company 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 first round of these national operations reviews has been completed for the 2004 reinsurance year. For FY 2006, RMA has initiated six reviews for the 2005 reinsurance year.
- USDA has continued to strengthen its financial management process. The Office of the Chief Financial Officer (OCFO) has worked closely with the agencies to improve control measures to mitigate errors in financial data and to improve the Department's financial systems.
- FS has reemphasized its management review process to assess its 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.
- In response to an audit, FSA formed a task force in August 2005 to examine its compliance activities. As part of its duties, the FSA compliance task force will make recommendations on how FSA can use the results of its compliance reviews to strengthen internal controls.

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



**CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY**

**SUMMARY:** USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. As technology has enhanced the ability to share information instantaneously among computers and networks, it has also made organizations more vulnerable to unlawful and destructive penetration and disruption. Insiders with malicious intent, recreational and institutional hackers, and attacks by intelligence organizations of other countries are just a few of the threats that pose a risk to the USDA's critical systems and data.

**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 have found that, despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agencies' implementation of IT security requirements continues to be problematic. Although the agencies accelerated their efforts to comply with Federal information security requirements during the fiscal year, IT management and security remain a material weakness within USDA. An example includes the recent event where Departmental servers containing personal identity information were compromised through hacker intrusion. Through forensic analysis, OIG revealed details that made it clear that this personal information may not have been protected.

In another audit, OIG found that OCIO implemented the Universal Telecommunications Network (UTN) without adequate security controls. This was due to the fact that OCIO had not conducted required system testing, security control testing, and certification and accreditation (C&A) of the UTN network before implementation.

**DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:** OCIO has worked diligently to assist the agencies to achieve conformance with security mandates. The Department has stated that, since October 2005, it has made progress in information security as highlighted by the significant improvements in the Cyber Security scorecard, which tracks agency progress on the areas required under the Federal Information Security Management Act (FISMA) of 2002. Specifically, USDA issued revised C&A guidance in October 2005 to ensure its documentation meets Federal requirements. The Department's incident handling policy has been recognized by the U.S. Computer Emergency Readiness Team as a good process that ensures incidents are handled timely. Information security training was demonstrated in two venues: (1) approximately 150 employees throughout USDA attended the November 2005 IT Summit and (2) as of June 30, 2006, an estimated 90,000 USDA employees have taken the Computer Security Awareness Training course that was updated in January 2006. In addition, USDA's Cyber Security staff is addressing OIG audit recommendations made to date and expects to fully address all recommendations by the end of the fiscal year. Although the Department reported improvements in its overall security program, OIG has not independently verified or tested these improvements. By the time this is published in the Performance and Accountability Report, OIG will have completed its planned audit assessment and can therefore make a determination on the

effectiveness of OCIO's actions. OIG is assisting the Department in its IT security efforts by initiating a review of controls over lost and stolen equipment. In response to a request by OMB and in accordance with the President's Council on Integrity and Efficiency initiatives on IT security, OIG has also included, as part of its 2006 FISMA audit, additional steps to ensure the Department has adequate safeguards in place to protect personal data.

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

**CHALLENGE: IMPLEMENTATION OF IMPROPER PAYMENT ACT REQUIREMENTS NEEDS IMPROVEMENT**

**SUMMARY:** USDA 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 for USDA because of the number and complexity of USDA programs and activities that meet the Act's criteria. The methodology to be employed to identify improper payments consists of a detailed risk assessment of programs' internal controls. In August 2005, OMB revised Circular A-136, Financial Reporting Requirements, requiring agencies to report on their risk assessments, annual improper payment estimates, corrective action plans, and recovery efforts. GAO reported that in FY 2005 only 23 of 33 Federal agencies that prepared Performance and Accountability Reports reported that they had completed risk assessments for all programs and activities. 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 over \$65 billion, were determined by USDA to be susceptible to significant improper payments and to require further actions as specified in the IPIA.

**OIG AUDIT/INVESTIGATION ACTIONS:** In FY 2005, OIG reviewed five agencies' implementation of the OCFO guidance. We reported our findings to the CFO and recommended that the Deputy Secretary be briefed on the conditions. Although improvements were noted, we found that, in general, the five agencies we reviewed had not fully implemented OCFO's guidance. This was attributed to the individual agencies not establishing controls over the risk assessment process to ensure adherence to instructions. As a result, the five agencies could not support their conclusions that the nine programs we reviewed were at low risk for improper payments. In our opinion, not prescribing controls that provide reasonable assurance IPIA requirements were met indicates management's attention and commitment to this critical area is questionable. Although USDA added five new programs as high risk in FY 2005, only two of those were supported by risk assessments (the remaining three were based on the judgment of agency officials). For USDA to fulfill its responsibilities under a law devised to save and safeguard taxpayers' assets and foster efficiency in Government operations, considerable management attention is warranted. As part of our current FY 2006 audit of the Department's high-risk programs, we alerted FS and Rural Housing Service (RHS) management that problems were noted in the statistical sampling that was required to be performed on their high-risk programs for 2005 and that these problems would continue to exist if not timely addressed.

In addition, our audits of FSA's compliance activities and of FSA's tracking of finality rule and equitable relief decisions revealed that FSA has not coordinated efforts between its program and financial management divisions to identify, quantify, and reduce improper payments.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs. Such programs include the food stamp, FSA loan, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led

to total monetary results of \$589 million, of which \$393 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of our investigations is on specific subjects and specific allegations of criminal violations. Thus, the results achieved in individual investigations pertain directly to individuals, rather than identifying broad agencywide problems in benefit delivery. However, our investigative findings assist in identifying problem areas, such as common schemes used to obtain undeserved payments.

**DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:** OCFO strengthened its published guidance on the IPIA process, has continued to work with the agencies, and tabulated the current results. It is incumbent upon the agencies, however, to establish internal processes to meet the requirements prescribed for performing annual risk assessments. FS and RHS are presently reviewing the issues we reported.

**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. FS and RHS need to revise their sampling methodology for FY 2007 to ensure it is statistically valid and meets OMB requirements.

**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 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. For FY 2006, \$564 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 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 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, implemented, or is in the process of implementing 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 effectively implemented. 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, 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.

**OIG AUDIT/INVESTIGATION ACTIONS:**

**Commodity Inventories.** In our February 2004 audit report 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, actions have not yet been completed due to resource and budgetary constraints.



**Select Agents and Toxins.** In January 2006, OIG issued an audit of the Animal and Plant Health Inspection Service's (APHIS) implementation of the Agricultural Bioterrorism Protection Act of 2002, which provides for the regulation of agents and toxins that could pose a severe threat to animal and plant health or to animal and plant products. 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. 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. USDA-OIG and DHS-OIG are in the final stage of a joint audit to determine the extent to which CBP conducted agricultural inspection activities transitioned from USDA to prevent or minimize the introduction of harmful, exotic pests and diseases into the United States. The audit will also determine if CBP has taken corrective action on USDA-OIG recommendations including any that USDA was unable to take corrective action on before the transition of the areas to CBP.

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 disease at ports of entry. GAO also recommended developing and implementing a national staffing model to ensure that agriculture staffing levels at each port are sufficient to meet those risks.

**Avian Influenza.** In our June 2006 review of APHIS' oversight of avian influenza (AI), we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI. However, APHIS has not yet developed a comprehensive approach for surveillance and monitoring of AI in domestic poultry. APHIS relies on a variety of voluntary State and commercial programs to monitor and test domestic poultry and wild birds. Because these programs are voluntary, APHIS does not know the extent of surveillance activity in place and is not gathering consistent data to enable it to draw conclusions, to permit the detection of changes in epidemiological parameters (e.g., subtype of AI or rate of prevalence), or to report incidents of AI in accordance with new international trade requirements.

On December 12, 2005, we issued a management alert to APHIS that outlined concerns regarding the development of a comprehensive AI surveillance plan, identifying gaps in sampling surveillance and assessing risk as a basis for determining the need for additional sampling.



In regard to its National AI Preparedness and Response Plan, APHIS needs to provide additional guidance on preparing and responding to highly pathogenic AI (HPAI) or notifiable AI (NAI) outbreaks in live bird markets or other “off farm” environments. APHIS needs to clarify actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. Also, APHIS needs to finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns.

**Bovine Spongiform Encephalopathy (BSE) Surveillance Program and Controls Over BSE Sampling, Specified Risk Materials (SRMs), and Advanced Meat Recovery Products.** OIG evaluated the expanded BSE surveillance program, the enforcement of the ban on SRMs, the administration of USDA’s testing program, and the controls to prevent central nervous system tissue in advanced meat recovery products. APHIS obtained significantly more samples for testing than originally thought needed, but because the program is voluntary, we could not determine whether it obtained a representative proportion of high-risk cattle. Using USDA-published data, we could not determine whether APHIS achieved either geographical representation or representation of the high-risk surveillance stream (clinical suspects, fallen stock, casualty slaughter fallen stock, and routine slaughter).

We did not identify SRMs entering the food supply; however, due to the lack of adequate records, we could not determine whether procedures to remove, segregate, and dispose of SRMs were followed and/or were adequate in 9 of 12 establishments reviewed. FSIS did not have an information system to track noncompliance violations relating to SRMs.

**Explosives and Munitions.** We conducted a review to follow up on the status of FS’ implementation of 24 recommendations to improve security and accountability of explosives and munitions that we had identified in our March 2003 report. We found that FS had not completed 11 of the 24 recommendations and that it was unable to apprise us of the status of the open recommendations even though 3 years had lapsed since it originally agreed to implement them. We recommended that FS designate a senior national level official to provide overall leadership and safety oversight for the National Explosives Safety Program and to be accountable for ensuring corrective actions were completed.

**HSPD-9.** This year OIG initiated reviews to evaluate the Department’s actions to implement many of the initiatives outlined in HSPD-9. One of the reviews will determine the status of the implementation of the Integrated Consortium of Laboratory Networks and determine whether USDA has effectively implemented the diagnostic and reporting networks for animal and plant pathogens (specifically, the National Animal Health Laboratory Network (NAHLN) and National Plant Diagnostic Network (NPDN)). In another review, we are assessing USDA’s role in monitoring warehouses and elevators that are required to register with the Food and Drug Administration; we are also reviewing the Department’s implementation of HSPDs regarding monitoring and surveillance programs that track specific commodities and food.

**Illegal Smuggling of Plant and Animal Products.** OIG continues to conduct investigations of individuals who are illegally smuggling plant and animal products that may threaten American agriculture by introducing foreign pests and diseases. We currently have several ongoing investigations into the smuggling of poultry and poultry products into the United States. This activity is significant because of the potential for smuggled product to contain AI. Additionally, we have several investigations of illegal cockfighting rings operating in the United States. In many instances, the birds involved in the cockfighting rings are smuggled into the United States from foreign countries and, we believe, have the potential to spread not only AI, but also other avian diseases.

Although APHIS has 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. OIG is working with APHIS and FSIS to establish protocols to ensure the coordination and sharing of information in smuggling investigations. Once these protocols are in place, they will be provided to DHS to ensure coordination between Departments.

**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, according to FSA, actions have not yet been completed due to resource and budgetary constraints.

In response to the President's National Strategy for Pandemic Influenza, APHIS has developed the National AI Preparedness and Response Plan (Response Plan) to address the threat of AI. Characterized by its authors as a "living document" and subject to revision, it 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 has also initiated a series of actions to address the concerns we raised in our BSE audit. These actions include revising its testing protocols to provide for additional confirmatory procedures when inconclusive test results occur and publishing information to fully advise stakeholders of assumptions and procedures, limitations of data, and conclusions reached as a result of the BSE surveillance program. In addition, APHIS agreed to perform additional outreach to emphasize the age of the target animals and ensure laboratory personnel understand testing procedures. For its part, FSIS agreed to verify the adequacy of SRM control programs at all beef slaughter and processing establishments and confirm compliance with SRM control procedures through its Performance Based Inspection System, which is to be modified to allow for timely analysis of violation trends and tracking corrective action.

In response to our followup review, FS appointed a senior national-level official to provide overall leadership and safety oversight for the National Explosives Safety Program and to ensure corrective actions were completed.

**ACTIONS NEEDED TO ADDRESS THE CHALLENGE:**

**Commodity Inventories.** FSA needs to determine and implement actions necessary to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures.

**Select Agents and Toxins.** APHIS needs to coordinate with the Centers for Disease Control and Prevention, HHS, to develop and implement procedures to share responsibilities for inspecting registered entities handling overlap agents. APHIS needs to improve its inspections of registered entities in possession of select agents by verifying that these entities base their security plans on a site-specific risk analysis; address all critical areas identified in the regulations; 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 and accountability are 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 disease at ports of entry. Also, staffing models need to be developed to address those risks.

**AI Surveillance.** APHIS needs to develop and implement a comprehensive AI surveillance plan and perform and document an analysis identifying gaps in sampling surveillance and assessing risk as a basis for determining the need for additional sampling. APHIS also needs to revise the Response Plan to include detailed instructions for (1) handling HPAI occurrences in live bird market systems and other “off-farm” environments and (2) obtaining and administering vaccines and anti-virals to people in the event of a culling operation. Also, APHIS needs to coordinate with FSA and the States to develop and formalize producer notification and action procedures when an outbreak of AI occurs, to include identification of the roles and responsibilities of personnel involved, specific timeframes for action, and linkage to the Standard Operating Procedures set forth in the Response Plan.

**BSE Surveillance and Safeguards.** APHIS needs to ensure the transparency of published information so that stakeholders are fully advised of the assumptions and procedures used, limitations of data, and the basis of conclusions reached as a result of the BSE surveillance program. Testing protocols need to be continually reevaluated and adjusted based on emerging science. Additional outreach should be performed to emphasize the age of the target animals and ensure that laboratory personnel understand procedures for submitting the desired samples. APHIS should also follow up with laboratories that appear to be providing an insufficient number of samples.

FSIS needs to implement a review and evaluation program to be conducted by FSIS' Office of Program Evaluation, Enforcement, and Review to verify the adequacy of SRM control programs at all beef slaughter and processing establishments and verify compliance with its SRM control procedures through its Performance Based Inspection System, which should also be modified to allow for timely analysis of violation trends and tracking corrective action.



**CHALLENGE: DEPARTMENTWIDE EFFORTS AND INITIATIVES ON GENETICALLY ENGINEERED ORGANISMS NEED TO BE STRENGTHENED**

**SUMMARY:** As the share of American crop land devoted to cultivating biotechnology-derived or genetically engineered crops has grown, USDA's obligation to regulate these crops and to promote them as commodities in foreign markets has grown commensurately. While 88 million acres of genetically engineered crops were planted in the United States in 2001, by 2005 that number had grown to 123 million acres, with the total number of acres planted with genetically engineered crops over this 5-year period surpassing a billion. As of July 2005, approximately 87 percent of soybean acreage, 52 percent of corn acreage, and 79 percent of cotton acreage were grown from genetically engineered seeds. Recognizing the increasing importance of genetically engineered crops to the American agricultural sector, Congress required in the 2002 Farm Bill that USDA promote the export of these crops to foreign markets by developing a global marketing strategy and educating consumers about the safety of these products.

However, other countries—especially countries that have long been traditional markets for American agricultural commodities—have not always been eager to import genetically engineered crops. Even though the Food and Agriculture Organization of the United Nations has acknowledged the benefits and wholesomeness of genetically engineered crops, the European Union (EU) has instituted labeling and traceability requirements for biotechnology-derived imports, requirements that negatively affect U.S. producers' ability to compete in European markets and effectively act as trade barriers. Moreover, in several recent and highly publicized cases, U.S. crops have been found to contain genetically engineered material unauthorized for human consumption in foreign markets and subsequently were rejected by them. Given the new importance of genetically engineered crops to American agriculture, USDA faces significant challenges in regulating these crops, overcoming trade barriers in well-established markets, and cultivating new markets more receptive to importing biotech crops.

To meet these challenges, USDA must balance several goals, including (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 import genetically engineered crops.

**OIG AUDIT/INVESTIGATION ACTIONS:** During our review of USDA's monitoring of genetically engineered crops, we evaluated how USDA issues 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 genetically engineered crops under approved notifications and permits. Of the 28 recommendations resulting from this audit, USDA has reached management decision on 15. We will continue to work with the Department to achieve management decision on the remaining 13 recommendations. Actions needed include establishing a timetable for implementing a new multi-tiered permit system and new procedures for disposing of high-risk pharmaceuticals and industrial harvests.

In our ongoing review of the export of genetically engineered crops, we are assessing how USDA has promoted the export of genetically engineered crops to remain competitive in the global agricultural market. Our preliminary results indicate that the Department has more to do to meet the challenge of overcoming trade barriers for exporting these crops to mature and new markets in emerging economies. To date, USDA's emphasis has been on resolving individual trade problems. To meet this challenge, the Department must continue to work to implement a global market strategy with clear goals for overcoming trade barriers in longstanding, well-established markets and for developing new markets where genetically engineered crops will be welcomed.

**DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:** OIG and USDA agencies continue to work to reach management decision on our recommendations concerning the oversight of genetically engineered crops. Most of the outstanding recommendations require timeframes for implementing corrective action; however, the Department also needs to develop procedures for requiring written protocols for field tests before those tests are approved and for improving how the actual disposition and devitalization of regulated genetically engineered crops will be monitored. Our review of USDA's efforts to promote the export of genetically engineered crops is ongoing.

**ACTIONS NEEDED TO ADDRESS THE CHALLENGE:** To improve USDA's oversight of regulated genetically engineered crops, the Department needs to develop time-phased action plans to address the outstanding audit recommendations. To better promote the export of genetically engineered crops, USDA needs to develop a coordinated and consolidated global market strategy that will guide negotiations with countries reluctant to import genetically engineered crops and also open new markets willing to import American agricultural products.



**CHALLENGE: USDA'S RESPONSE TO THE 2005 HURRICANES NEEDS  
ONGOING OVERSIGHT**

**SUMMARY:** In January 2006, Secretary of Agriculture Mike Johanns announced \$2.8 billion in assistance for victims of the 2005 hurricane season—\$1.2 billion to assist farmers and ranchers and \$1.6 billion to rebuild rural homes and communities. While these funds are sorely needed in rural America, administering them presents USDA with several significant challenges. First, the Department must strive to distribute this assistance as rapidly as possible while still ensuring that only hurricane victims receive benefits. Given the unprecedented magnitude of these disasters and the number of Federal agencies involved in the response, USDA agencies must coordinate with many other Federal agencies to avoid paying duplicate benefits. Second, USDA also has a responsibility to perform outreach, informing hurricane victims of what benefits are available to them and how they may best apply. Third, the Department has a responsibility to learn from how its agencies have responded to these catastrophes. Many USDA employees have succeeded in helping thousands of citizens through difficult and unfortunate circumstances, but the Department can still benefit from reviewing its own performance. By using the lessons learned, USDA can better prepare to respond to future disasters.

**OIG AUDIT/INVESTIGATION ACTIONS:** The President has requested that hurricane assistance be provided with the highest standards of accountability. In response to this charge, we have aimed to determine if relief efforts are being safeguarded against fraud, waste, and abuse and to ensure that disaster relief is reaching those most in need. At present, we have initiated audits and investigations of each USDA agency responding to these disasters, including FS, RHS, FNS, FSA, NRCS, and RMA. Together, our audits and investigations constitute an aggressive campaign to prevent the misuse of Federal funds and to improve USDA's overall ability to respond to future catastrophes.

**Forest Service.** Over the last 5 years, the Federal Emergency Management Agency (FEMA) has relied on FS to respond to major disasters, primarily because FS can rapidly establish camps to distribute emergency supplies to disaster victims. When using these camps to distribute supplies to people displaced by forest fires, FS has had a great deal of success keeping costs down by using prearranged contracts. We found that FEMA could significantly reduce its costs by negotiating more of these contracts prior to disasters, and we issued a letter to DHS-OIG suggesting that FEMA cut its costs by negotiating more prearranged contracts as it prepares for future disasters.

**Rural Housing Service.** RHS provides funds for hurricane victims whose homes have been destroyed and must be rebuilt. During our ongoing audit of this program we found two problems with how those funds are being administered. First, we found that RHS was not conducting adequate outreach to inform disaster victims of emergency assistance available to help them rebuild. Next, we identified some victims who were receiving duplicate benefits because USDA had not coordinated its assistance with other Federal agencies. By coordinating with other agencies likely to pay similar benefits and by performing better outreach, USDA can correct these problems as it responds to future disasters.

**Food and Nutrition Service.** FNS implemented Disaster Food Stamp Programs (DFSP) in Louisiana, Texas, Mississippi, Alabama, and Florida to provide food assistance to the many victims displaced by the 2005 hurricanes. So that evacuees who fled the Gulf Coast could also receive food assistance, FNS also implemented a National Evacuee Policy/Expanded Disaster Evacuee Policy (NEP), which provided a streamlined application process for disaster victims, even though they were no longer residing in a disaster area. The streamlined process reduced the administrative burden on host States that were helping victims from the affected States. Due to the extraordinary number of people displaced by these storms, FNS waived many of the eligibility tests and other program requirements that ordinarily apply to the Food Stamp Program. Overall, as a direct result of these storms, over 2.2 million households received more than \$907 million in program benefits.

To evaluate the effectiveness of FNS' controls to prevent program abuse and duplicate payments, we have initiated audits of DFSP and NEP programs in all five States directly affected by the hurricanes. These audits are ongoing, but they will offer recommendations for how FNS can improve its administration of DFSP and NEP programs in preparation for future disasters.

**Farm Service Agency and the Natural Resources Conservation Service.** FSA and NRCS are also administering funds intended to counteract hurricane damage to crops, livestock, trees, and aquaculture through disaster programs such as the Livestock Indemnity Program, the Feed Indemnity Program, the Hurricane [Crop] Indemnity Program, the Tree Indemnity Program, and grants to aquaculture producers. In addition, these two agencies are administering funds intended to help reduce hurricane-related environmental damage through programs like FSA's Emergency Conservation Program (ECP), its Emergency Forestry Conservation Reserve Program (EFCRP), and NRCS' Emergency Watershed Protection Program (EWP).

We have initiated an audit of the EWP and ECP 2005 hurricane relief efforts with objectives such as monitoring funding levels, evaluating the adequacy of management controls, conducting reasonableness reviews of reimbursements, and assessing any waived or revised procedures under the programs. We also plan to review FSA's Livestock, Feed, Hurricane, and Tree Indemnity Programs and grants to aquaculture producers, as well as how FSA has implemented the new EFCRP and expanded ECP authorities established under the 2006 Defense Appropriations Act.

**Risk Management Agency and the Federal Crop Insurance Corporation.** Hurricanes Katrina, Rita, and Wilma caused catastrophic damage to crops that were reinsured through RMA's Federal Crop Insurance Corporation. Because of the extent of this damage, RMA authorized expedited procedures to streamline certain loss determinations and accelerate indemnity payments to hurricane victims. As of May 25, 2006, total indemnity losses caused by Hurricanes Katrina and Wilma in Florida stood at \$227.1 million for nurseries and \$13 million for citrus crops.

We have initiated an audit of RMA's emergency relief efforts in Florida for processing indemnity claims under these expedited procedures. As part of this audit, we are reviewing RMA's oversight of private insurers as they determined hurricane damage and issued payments.

Since producers could receive crop insurance indemnities as well as disaster payments, we are also assessing the potential for duplicate payments.

**DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS:** From the beginning, USDA has been deeply involved in the Government's response to the 2005 hurricanes. In the early hours of the emergency, FEMA tasked FS with establishing incident camps where first responders lived while providing emergency assistance to hurricane victims. RHS and FNS also provided much needed food and shelter to evacuees throughout the United States. As the region continues to recover from the devastation wreaked by these storms, the Department will continue its commitment to deliver new benefits, including helping farmers and ranchers resume production, issuing crop insurance payments, and rebuilding rural communities and infrastructure.

**ACTIONS NEEDED TO ADDRESS THE CHALLENGE:** USDA faces three challenges as it responds to these disasters. First, it must expedite benefits while ensuring that those benefits are issued only to hurricane victims. Meeting this challenge will involve improving its coordination with other Federal agencies and preventing duplicate payments. Second, USDA must reach out to hurricane victims so that they are aware of what benefits are available to them. Third, and perhaps most importantly, USDA must use the lessons learned to identify its successes, and correct any weaknesses. By doing so, USDA will strengthen its ability to respond to future disasters.