



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



MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong (signed SEP 12 2003)
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. To identify these management challenges, we (1) examined previously issued audit reports where corrective actions have not been implemented, (2) assessed ongoing audit and investigative work to identify issues where significant vulnerabilities have been identified, and (3) analyzed new programs and activities, which could pose significant challenges due to their breadth and complexity. We discussed these challenges with USDA officials to obtain their input.

This year, we have summarized USDA's most serious management challenges by issue area, rather than by mission. USDA's major management challenges frequently cross organizational lines within the Department and should be dealt with on a coordinated basis. The management challenges OIG identified last year fall under one or more of the general issue areas we have identified this year. While progress has been made in each challenge facing USDA, more can be done to strengthen management controls, ensure USDA benefits go to those intended, and protect the integrity of USDA's programs and activities. Also, we have identified three new emerging issues that either mandate new requirements or that have not been effectively dealt with on a Department-wide coordinated basis. OIG has identified 10 Department-wide and 2 agency-specific challenges we believe are the most significant management issues facing USDA.

While the Department has begun actions to address these challenges, OIG audits and investigations have shown that additional actions are necessary. We look forward to working with the Department to evaluate actions taken to address these weaknesses and will make recommendations, where necessary, for further improvements.

If you have any questions or would like to discuss these management challenges, please contact me at 720-8001, or have a member of your staff contact Richard D. Long, Assistant Inspector General for Audit, at 720-6945.

Attachment

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

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(September 2003)**

DEPARTMENT-WIDE CHALLENGES

1. Homeland Security Considerations Should be Incorporated Into Program Design and Implementation
2. Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed to Meet HACCP's Goals
3. Risk Must be Examined and Improper Payments Minimized Within USDA – *Emerging Issue*
4. Financial Management – Improvements Made but Additional Actions Still Needed
5. Information Technology Security – Much Accomplished, More Needed
6. Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets – *Emerging Issue*
7. Civil Rights Complaints Processing Still a Concern at USDA
8. Research Misconduct Policy Not Consistently Implemented– *Emerging Issue*
9. USDA Faces Major Challenges in Implementing the 2002 Farm Bill and Disaster Assistance Legislation
10. Integrity of the Federal Crop Insurance Programs Policyholders' Database Must be Strengthened

AGENCY-SPECIFIC CHALLENGES

11. Strong Internal Control Structure is Critical to the Delivery of Forest Service Programs
12. Improvements and Safeguards Needed for Rural Multi-Family Housing Program

**OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(September 2003)**

DEPARTMENT-WIDE CHALLENGES

1. HOMELAND SECURITY CONSIDERATIONS SHOULD BE INCORPORATED INTO PROGRAM DESIGN AND IMPLEMENTATION

The events of September 11, 2001, and subsequent heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's 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. USDA must now readily identify its assets, perform security risk assessments, and design and implement 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 also ensure that the current inspection and safeguard processes for the unintentional introduction of pests, diseases, and contaminants on imported products is not overlooked. While the Department has been both proactive and responsive to specific vulnerabilities identified by OIG, it is still challenged in its efforts to: shift from a focus on safety goals to both safety and security in each of its mission areas; foster effective coordination and communication across jurisdictional lines to better define roles and responsibilities; and increase Departmental oversight of, and accountability by, USDA agencies.

The Department, in response to our audit recommendations, has taken significant steps to incorporate these approaches in restructuring some of its mission activities. However, more needs to be done to provide assurance that established policies and procedures are consistently implemented and that effective inter- and intra-agency coordination and communication continues.

This year, there was a significant transfer of responsibilities and personnel from USDA to DHS. A major challenge now faced by USDA is timely and effective coordination and communication, not only within USDA, but also with DHS. Prior audits disclosed material weaknesses within USDA when certain functions were solely the responsibility of USDA. Therefore, it is imperative that USDA continue to work with DHS to design the appropriate control systems and processes to ensure timely communication and coordination.

2. INCREASED OVERSIGHT AND MONITORING OF FOOD SAFETY INSPECTION SYSTEMS ARE NEEDED TO MEET HACCP'S GOALS

In 1998, the Department, through the Food Safety and Inspection Service (FSIS), implemented a major change to its food safety system and created a new regulatory system for meat and poultry safety within the meat and poultry plants it regulates. The Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) rule is the centerpiece of the new regulatory approach because it mandates HACCP, sets certain food safety performance standards, establishes testing programs to ensure those standards are met, and assigns new tasks to inspectors to enable them to ensure regulatory performance standards are met. In 2000, OIG reported on FSIS' implementation of HACCP, concluding that while FSIS had taken positive steps in its implementation of the science-based HACCP system, HACCP plans were not always complete; FSIS needed to place greater emphasis on pathogen testing; and it needed to define its oversight role in the HACCP system, and hold plants accountable for noncompliance. During 2002, USDA experienced some of the largest recalls in its history. OIG's reviews of two of these recalls in the past year indicate that FSIS still faces significant challenges to ensure the successful implementation of HACCP. Most critical to this process are: FSIS' assessment of plant HACCP plans and resolution of any deficiencies; establishment of management controls to accumulate and analyze data to monitor and assess the adequacy of food safety systems; establishment of criteria to initiate enforcement actions; baseline studies to define the goals, objectives, and performance measurements for pathogen testing programs; and better supervision and oversight of field inspection processes. Also, FSIS must reassess its recall process, including traceback policies, to identify the product source, and improve monitoring to ensure timely notification of the recall and maximum recovery of the product. While FSIS has generally been responsive to these issues and has made some changes to its inspection policies and procedures, complete corrective actions and estimated timeframes for addressing these weaknesses are not yet known.

An additional challenge for FSIS is to complete its proposed actions in response to OIG's prior audit of the imported meat and inspection process. OIG's followup review reinforced the need for FSIS to complete an in-depth assessment of its organizational structure and establish a system of control objectives and processes to ensure the goals of the import inspection process are achieved.

3. RISK MUST BE EXAMINED AND IMPROPER PAYMENTS MINIMIZED WITHIN USDA – EMERGING ISSUE

USDA faces a new management challenge with the implementation of the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires each Federal agency head to: (1) review all programs and activities and identify those which are susceptible to significant improper payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce improper payments; and (4) annually report the estimates and progress made in reducing improper payments. Compliance with this Act will require sustained intensive effort and commitment by the Department. Successful implementation will require a strong internal control structure, to include management commitment and the necessary

resources, quality control processes, and information systems to measure the extent of erroneous payments. The ultimate challenge will be to design internal control systems to detect and prevent improper payments before “they go out the door.” The challenges we reported last year relating to ineligible payments in the food assistance programs, as well as in the crop insurance program (lack of an effective quality control process over reinsurance companies in the determination of indemnities for losses), should be corrected when the requirements of this Act are fully implemented and measures have been taken to reduce improper payments to an acceptable level.

4. FINANCIAL MANAGEMENT – IMPROVEMENTS MADE BUT ADDITIONAL ACTIONS STILL NEEDED

In the fiscal year (FY) 2002 financial statements, USDA reported assets of over \$123 billion and program costs of over \$72 billion. Actions taken by the USDA Office of the Chief Financial Officer (OCFO) and the agencies’ financial management staff resulted in the Department achieving its first unqualified audit opinion on the FY 2002 Consolidated Financial Statements. While the achievement of an unqualified opinion represents a major accomplishment, USDA needs to continue to improve its underlying financial management systems, with less reliance on extensive ad hoc efforts to produce timely financial data. Also, USDA should continue to review its legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. This is especially critical in light of the accelerated timeframes for producing audited financial statements, as well as for directing limited resources to other critical needs. OCFO has initiatives underway to (1) renovate the Department’s corporate administrative systems, (2) establish and implement cost accounting principles and methodologies, (3) improve the process for accounting for real and personal property, and (4) enhance overall financial management accountability and control. These are significant actions that demonstrate USDA’s recognition of the challenge it faces.

5. INFORMATION TECHNOLOGY SECURITY – MUCH ACCOMPLISHED, MORE NEEDED

USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains. While the Department and its agencies continue to strive to improve the security over IT resources, significant progress is still needed toward establishing an effective security program. Specifically, increased management involvement and commitment at the agency level is needed to effectively implement a strong IT security program. Despite the efforts of OIG and the Office of the Chief Information Officer (OCIO) during the past several years to heighten awareness of security issues, our reviews in 10 agencies during this year continue to show that the Department and its agencies are not yet in compliance with Office of Management and Budget (OMB) Circular A-130, Appendix III. This noncompliance includes preparing security plans for all major applications, conducting risk assessments, establishing disaster recovery plans, and implementing a system certification/ authorization process. We also continue to find that agencies do not have strong physical and

logical access controls over IT resources and have not yet effectively used the vulnerability scanning tools provided by the Department to identify and mitigate known security vulnerabilities in their systems.

6. CONTROLS OVER GERMPLASM STORAGE MATERIAL AND GENETICALLY ENGINEERED ORGANISM FIELD TESTING ARE CRITICAL TO U.S. MARKETS – EMERGING ISSUE

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 2003 crop year, as much as 80 percent of the planned 73.2 million acres for soybeans and approximately 38 percent of the planned 79 million acres for corn were planted with genetically engineered seeds. These two crops constitute a major portion of American exports of agricultural production. The acceptance of genetically engineered crops in the world market, however, is mixed. The loss of these major export markets could seriously impact the American agricultural economy. Critics have questioned the effect of long-term consumption of such genetically engineered crops on the health of humans and livestock, but so far, the evidence to support such a determination is still pending. Countering such criticisms are the benefits of such genetically engineered crops: boosting yields; lowering costs; reducing pesticide use; and making crops more resistant to disease, pests, and drought.

USDA plays a major role in regulating and monitoring genetically engineered crops – from the storing of germplasm used to produce seeds for such crops, to approving field testing of genetically engineered crops, to providing assistance for export of American agricultural production. The Department must balance the goals of: (1) maintaining adequate accountability and integrity of genetically engineered versus non-genetically engineered seeds and crops; (2) ensuring the health and safety of the American food supply; and (3) maintaining the export levels of American agricultural production against the added costs to implement such controls and the uncertainty of the effects of genetically engineered crops. 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 if USDA is to provide assurance to other markets. USDA must also address public concerns that field-testing applications have been properly reviewed, field testing is adequately monitored, and proper surveillance is in place to preclude such crops from entering the human food process.

7. CIVIL RIGHTS COMPLAINTS PROCESSING STILL A CONCERN AT USDA

In March 2000, OIG reported that minimal progress had been made in overcoming inefficiencies in processing civil rights program and employment complaints. Deficiencies disclosed in OIG's five prior audit reports had not been corrected. The March 2000 report noted that the Office of Civil Rights (CR) did not reengineer its complaint resolution process, its database and file room remained poorly managed, and a large backlog of cases was stalled in the "intend-to-file" category and/or may not have received due care. To correct these long-standing problems, OIG recommended that CR implement a management plan that would address effective leadership,

change the organizational culture, focus on customers, and reengineer its processes. Until that plan is fully implemented, resolving civil rights complaints will remain a management challenge for USDA. In September 2002, the General Accounting Office reported that the processing of program complaints continued to exceed required timeframes. The Department has demonstrated the importance it places on civil rights when the first Assistant Secretary for Civil Rights was sworn into office on April 1, 2003. OIG will continue to work with the Department to strengthen the operations of the civil rights program.

8. RESEARCH MISCONDUCT POLICY NOT CONSISTENTLY IMPLEMENTED – EMERGING ISSUE

USDA plays a major role in U.S. agricultural research activities, providing well over \$1 billion annually for research to increase American agriculture production and to protect and treat American agricultural crops against foreign plants and animal pests and diseases. Research integrity is critical to the mission of USDA. In December 2000, the President's Office of Science and Technology Policy issued a Federal policy to establish uniformity among Federal agency definitions and treatment of research misconduct. USDA, however, has not implemented a coordinated Department-wide policy or procedures for the treatment of research misconduct; responsibility for implementing the Federal policy was delegated to each agency within USDA. In an ongoing OIG review, we found that most USDA agencies have not implemented any research misconduct policies and procedures. In those agencies that had implemented a policy, procedures were inconsistent and relied primarily on in-house resources to review allegations of research misconduct. In the absence of consistent policies, USDA has no assurance that potential research misconduct involving USDA funds is being timely referred, independently adjudicated, and appropriately resolved, including determining whether criminal investigation is warranted.

9. USDA FACES MAJOR CHALLENGES IN IMPLEMENTING THE 2002 FARM BILL AND DISASTER ASSISTANCE LEGISLATION

The multi-billion dollar Farm Bill, the Farm Security and Rural Investment Act of 2002 (Act), enacted new or reauthorized existing farm income, commodity support, and conservation programs for crop years 2002 through 2007. This Act made significant changes in the support of production agriculture. Efficient and effective performance and management of these programs are critical to the missions of the Farm Service Agency (FSA) and the Department and necessitated by the magnitude of funding for the programs (program outlays for the Commodity and Conservation provisions are estimated to be about \$63 billion over the duration of the Act). For example, new Direct and Counter-Cyclical Program payments through 2007 are based on one-time base and yield options that producers selected by April 1, 2003. If errors and irregularities in the bases and yields are not prevented or timely detected, resultant improper payments may be perpetuated throughout the 6-year life of the program.

The Agricultural Assistance Act of 2003 provided \$3.1 billion for qualifying 2001 or 2002 disaster losses of crops, livestock, and grazing in addition to the "regular" farm program assistance under the Farm Bill. Such ad hoc disaster assistance programs are particularly

susceptible to fraud, waste, or abuse in that they are not implemented timely to coincide with the physical evidence of loss and greater reliance must be placed on producers' self-certifications of qualifying damage or loss. Prior audits of similar ad hoc disaster assistance programs have identified ongoing concerns with payments to ineligible recipients or for ineligible or overstated losses.

USDA's challenge is to effectively work across organizational lines to ensure that data is shared, discrepancies are resolved in automated systems, and problems found in internal reviews and audits are coordinated and analyzed for their impact on program payments in each affected agency.

10. INTEGRITY OF THE FEDERAL CROP INSURANCE PROGRAMS POLICYHOLDERS' DATABASE MUST BE STRENGTHENED

The Federal crop insurance programs, administered by the Federal Crop Insurance Corporation (FCIC) in conjunction with the Risk Management Agency (RMA), have become the American producers' primary "safety net." Over the years, as Congress mandated changes to the programs, the Federal crop insurance programs have grown significantly, particularly after the passage of the Agricultural Risk Protection Act of 2000 (ARPA). Under ARPA, Congress encouraged participation by American producers by increasing the level of subsidized premiums. By crop year 2002, crop insurance coverage increased to 216 million acres with a total Government insurance liability of over \$37 billion. However, indemnity payments and subsidy reimbursements have also increased: for the 2000 crop year, indemnity payments totaled approximately \$4 billion, while the Government's subsidized share of the insurance premium totaled approximately \$1.7 billion. At the same time, RMA has not been able to determine the level of improper or erroneous payments under its programs. To ensure the integrity of its program payments, RMA must continue to improve and strengthen its policyholders' database by effectively implementing all of the provisions under ARPA, and improving its Data Acceptance System (DAS). ARPA mandated that additional methods of ensuring Federal crop insurance program compliance integrity be developed and implemented, including a plan for FSA to assist RMA in the ongoing monitoring of crop insurance programs. RMA has not yet fully implemented the required data reconciliation between FSA records and RMA records. Data mining was also stipulated under ARPA; RMA has acknowledged that data mining has provided constructive feedback to the agency. RMA's DAS is intended to perform as a series of edits on information submitted by the insurance companies before it is incorporated into RMA's electronic Policyholder Database. Audit results, however, have shown that the information contained in the system and used to drive RMA's accounting system may not be reliable and/or compliant with OMB core and Federal financial system requirements.

AGENCY-SPECIFIC CHALLENGES

11. STRONG INTERNAL CONTROL STRUCTURE IS CRITICAL TO THE DELIVERY OF FOREST SERVICE PROGRAMS

The Forest Service (FS) needs to continue to improve its system of internal controls to ensure the agency is accountable for the efficient and effective delivery of its programs. The decentralized organizational structure of the FS makes it imperative that a well-defined system of controls be in place and effectively operating. For example, a strong internal control structure is essential to FS's challenge of implementing the National Fire Plan to deal with recent catastrophic fires. Our initial work found that controls were not adequate to ensure that funds were spent as intended and budget estimates provided by the agency for the implementation of the fire plan accurately reflected its needs. These issues are consistent with the control weaknesses found in other programs administered by FS, such as grant award and administration, timber environmental analyses, and the agency's implementation of the Government Performance and Results Act. FS has begun actions to resolve individual issues; however, a comprehensive evaluation of its systems of internal controls has not been completed. These weaknesses have impeded FS' ability to effectively prioritize its work and fund those projects most essential to its mission.

12. IMPROVEMENTS AND SAFEGUARDS NEEDED FOR RURAL MULTI-FAMILY HOUSING PROGRAM

A substantial portion of the Rural Housing Service's (RHS) current Rural Rental Housing (RRH) loan portfolio involves properties over 20 years old. RHS faces a major challenge to maintain its portfolio in good repair so that it will continue to provide safe, decent, and affordable housing for low to moderate income rural residents. RHS needs to address several challenges in its management of the Multi-Family Housing (MFH) program. RHS needs to: inspect and repair its aging portfolio; accurately report to Congress the units built in its guaranteed MFH program; plan for future increases in rental assistance costs; implement wage matching to identify excessive rental assistance costs; fairly use equity incentives to keep RRH projects in the program; and continue to implement regulatory and other internal controls to address deficiencies that have been identified in the program.