



United States Department of Agriculture  
Office of Inspector General





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



**INFORMATIONAL MEMORANDUM FOR THE SECRETARY**

FROM: Phyllis K. Fong  
Inspector General

August 13, 2013

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) to report annually on the most serious management challenges USDA and its agencies face.<sup>1</sup> To identify these Departmental challenges, we examine issued audit reports with recommendations where corrective actions have yet to be taken, assess ongoing investigative and audit work to ascertain significant vulnerabilities, and analyze new programs and activities that could pose significant challenges due to their range and complexity. We discussed our current challenges with USDA officials and considered all comments received.

This year, we have broadened three of our challenges to include additional concerns associated with these areas. Challenge 4, formerly addressing USDA's civil rights efforts, now includes discussion on the Department's general outreach efforts. We have also broadened Challenge 6 to incorporate not only the Forest Service's role in improving the stewardship of natural resources, but the Natural Resources Conservation Service's efforts as well. Challenge 9, which previously focused on succession planning, has been expanded to address the training of human resources as USDA moves to a more streamlined workforce.

We have also added a new challenge (Challenge 10) for USDA concerning food stamp fraud. Participation in the Supplemental Nutritional Assistance Program has grown by 80 percent since 2007, and the Department must strengthen its efforts to prevent misuse as the program increases in size. Finally, we discuss several emerging issues that may develop into significant concerns: animal welfare, performance measures reporting, duplication in USDA programs and operations, and the Risk Management Agency's crop insurance policies.

We would like to close by expressing our appreciation to you and Deputy Secretary Krysta Harden for your ongoing support of our work and your commitment to excellence at USDA. We look forward to working with the Department to address the management challenges and mitigate any emerging issues.

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<sup>1</sup> Public Law 106-531.

If you have any questions or would like to discuss these issues, please contact me (202-720-8001) or Deputy Inspector General David Gray (202-720-7431). You or your staff may also contact Audit's Assistant Inspector General, Gil H. Harden (202-720-6945), or Investigations' Assistant Inspector General, Karen Ellis (202-720-3306).

Attachment:

Major USDA Management Challenges

cc:

Subcabinet Officials

Agency Administrators





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## **Interagency Communication, Coordination, and Program Integration Need Improvement (Challenge 1)**

Like many departments within the Federal Government, the Department of Agriculture (USDA) faces a challenge in coordinating the efforts of various agencies and programs within its purview. This challenge is particularly pressing for USDA, as the Department divides responsibilities for such matters as food safety among several agencies that jointly provide oversight of key mission areas. This requires a high degree of intradepartmental cooperation, and USDA agencies must better understand their interrelationships in order to create a cohesive, integrated system of program administration. Such an approach should increase organizational communication; streamline operations; reduce spending; and improve program efficiency, compliance, and integrity.

The 2012 calendar year saw over 80.5 billion shell eggs packed by approximately 287 companies nationwide. Handling such volume requires well-managed efforts by Federal departments and their agencies, which have compartmentalized roles and responsibilities for shell egg safety. The Food and Drug Administration's (FDA) oversight traditionally covers egg-laying barns, while three USDA agencies have differing roles to ensure the safety of shell eggs. The Food Safety and Inspection Service (FSIS) regulates the storage temperature and labeling of shell eggs at storage facilities and in transport vehicles of shell egg packers, the Agricultural Marketing Service (AMS) performs voluntary grading services and animal husbandry audits, and the Animal and Plant Health Inspection Service (APHIS) works to prevent the transmission of *Salmonella enteritidis* (SE) in breeder flocks producing egg-laying hens.

Coordinating inspections of the Nation's food supply is critical to ensuring its safety, as was illustrated during an August 2010 nationwide voluntary market recall of over 500 million shell eggs that were potentially adulterated with SE. The eggs were reportedly linked to more than 1,900 illnesses in 11 States. Over 230 million shell eggs in that recall were packed in cartons that contained the USDA grademark for quality. Several months later, in November 2010, FDA posted another recall for almost 290,000 shell eggs that were potentially adulterated with SE; 94 percent of those shell eggs received the USDA grademark.

The USDA's Office of Inspector General (OIG) found that the lack of coordination within USDA, and between the Department and FDA, prevented crucial information from getting to agencies that could have potentially limited the scope of the recall and related illnesses. Prior to the August 2010 recall, APHIS and AMS possessed critical information on the affected eggs; however, because of the divided regulatory environment, FDA and FSIS were not informed, even though they both had the authority and ability to act on that information. We also found that AMS conducted its grading activities without ensuring that FSIS, FDA, or the shell egg companies informed AMS graders of possible SE microbiological adulteration; as a result, AMS labeled eggs with the USDA grademark without being aware of potential contamination. We recommended that FSIS, as USDA's lead food safety agency, coordinate with FDA, AMS, and APHIS to implement a plan to ensure a seamless approach to shell egg safety, implement a process to collect data on sanitation issues at packing companies, and implement a science-based



policy on shell egg refrigeration. Subsequent to those recalls, USDA and FDA have updated their agreements in an effort to improve coordination and the exchange of information.<sup>1</sup>

Similarly, in another review, we found that agencies need to better coordinate their efforts when working in the field. For example, although FSIS inspectors and AMS graders are often in the same plants performing different functions, the two agencies have long acknowledged they may be able to “cross-utilize” each other’s employees, both to maximize staff resources and to fill in when an employee is unavailable. To this end, AMS and FSIS have a memorandum of understanding (MOU) that sets forth the basic framework for cross-utilization of AMS graders and FSIS inspectors. However, OIG’s review found that this MOU is 30-years old and out-of-date. The procedures available do not reflect current agency operations, take into consideration new technology, or consider new ways of inspecting, such as the Hazard Analysis and Critical Control Points system. We recommended that AMS and FSIS update their procedures. In a subsequent review, AMS agreed that if an update to the MOU is warranted, the agency will update appropriate instructions by July 2014.<sup>2</sup>

Collaboration can help ensure that departmental approaches to mission areas are in close alignment with agencies’ individual objectives and strategies. We have found instances where USDA agencies have worked closely with internal and external agencies to ensure that efforts are cross-utilized, rather than duplicated. For example, in our review of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Broadband Initiatives Program (BIP), we found that the Rural Utilities Service had sufficiently coordinated with both the Department of Commerce’s National Telecommunications and Information Administration, which runs another broadband program, and the Federal Communications Commission.<sup>3</sup>

Continual communication is a vital tool for ensuring that various departmental agencies work effectively together. Over the years, we note that USDA has made progress in improving information sharing. As the Department works to address the future challenges facing U.S. agriculture, particularly in a time when the Government is asked to operate with fewer resources, we encourage agencies to strategize how best to accomplish mutual goals and use shared resources. This can help ensure that USDA’s processes are safeguarded against potential weaknesses, and that its programs benefit from the combined expertise present throughout USDA’s agencies.

### **Examples of Work We Anticipate Completing in the Future**

- *Foreign Agricultural Service (FAS)—Trade Adjustment Assistance for Farmers Program.* This audit is assessing the agencies’ (FAS, the Farm Service Agency (FSA), and the National Institute for Food and Agriculture) controls over application approval, payment distribution, program operations oversight, and agency reporting.

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<sup>1</sup> *USDA Controls Over Shell Egg Inspections* (50601-0001-23, November 2012).

<sup>2</sup> *FSIS and AMS Field-Level Workforce Challenges* (50601-0002-31, July 2013).

<sup>3</sup> *American Recovery and Reinvestment Act of 2009 — Broadband Initiatives Program — Pre-Approval Controls* (09703-0001-32, March 2013).

- *FSA—Livestock Forage Program.* As part of this program, FSA should coordinate closely with the Natural Resources Conservation Service (NRCS) and the Risk Management Agency (RMA). We will assess whether existing procedures and practices ensure that participants meet eligibility requirements and comply with program requirements, payments are accurately computed and properly paid, and compliance operations are effective.

## **USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (Challenge 2)**

USDA managers oversee critical elements of our Nation’s agriculture, nutrition, and natural resources policy. In order to bring about desired results—such as disbursing payments accurately, and only to eligible persons—they must design effective internal systems for program implementation.<sup>4</sup> These internal controls are comprised of the policies, procedures, and organizational structures that collectively determine how a program is managed and how its requirements are met. In effect, internal controls are the tools managers use to ensure that programs achieve intended results efficiently and effectively; they provide for program integrity and proper stewardship of resources. Since systemic control flaws can yield systemic program weaknesses—e.g., unrealized objectives and improper payments—managers must continuously assess and improve their internal control systems. When they identify a widespread deficiency, they must fix the problem before it undermines the program.

Over the years, many USDA agencies have tended to place their primary focus on administering their programs and providing benefits—often at the cost of sufficiently designing controls to ensure that program funds serve their intended purposes. For example, our audits of NRCS’ conservation programs determined that although NRCS performs some compliance activities, it had not implemented a comprehensive, integrated compliance strategy. This occurred because NRCS’ strategic plan focuses on putting conservation practices “on the ground.” Although this emphasis is understandable, agencies must also design adequate internal controls to ensure program integrity. We recommended that NRCS develop a strategy to maximize the effectiveness of current compliance reviews, and perform a meaningful assessment and review of specific program risks and vulnerabilities; NRCS agreed.<sup>5</sup>

Large programs present unique challenges that require particularly strong internal controls to safeguard against potential fraud, waste, and abuse. Two such programs—the Food and Nutrition Service’s (FNS) Supplemental Nutrition Assistance Program (SNAP) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)—have approximately 46,000 authorized retail vendors nationwide. Like SNAP, WIC, due to its complexity, is at risk for unscrupulous attempts to subvert program rules (see Challenge 10). Controls need to ensure that not only agency personnel and recipients follow guidelines, but vendors as well. Additionally, because many vendors and recipients are involved in both SNAP and WIC, it takes a concerted effort on FNS’ part to ensure that ineligible participants and vendors from one program are also appropriately disqualified from the other program.

Our review of the WIC program determined that FNS’ controls in two State offices were not sufficient to identify and disqualify vendors who violated program guidelines. Instead, 42 of the 179 vendors in our sample were not disqualified as required, and could redeem an estimated \$6.6 million in WIC benefits during their required periods of disqualification. We also found

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<sup>4</sup> Here and below, we have drawn from the Office of Management and Budget’s (OMB) description of Federal managers’ obligations in *Management’s Responsibility for Internal Control* (Circular A-123, 2006 revision).

<sup>5</sup> *Natural Resources Conservation Service’s Oversight and Compliance Activities* (10601-0001-22, February 2013).

that one State agency did not conduct compliance investigations on 24 of its 35 high-risk vendors, and did not treat smaller vendors in an equitable manner with large chain stores. To address these issues, we recommended that, in addition to disqualifying the violating vendors we identified, FNS should strengthen its internal controls over vendors and assess and update its management evaluation process. FNS has proposed corrective actions and we have reached agreement on all recommendations.<sup>6</sup>

Risks can emerge from domestic fraud, as in the case of SNAP and WIC trafficking, or from international sources, such as exotic pests. Prohibited products and pests that enter the United States from abroad can cause billions of dollars in lost revenue and millions in cleanup costs; some scientists estimate their economic impact exceeds \$1 billion annually in the United States. The Smuggling Interdiction and Trade Compliance (SITC) unit is part of the APHIS Plant Protection and Quarantine program. Its mission is to prevent the unlawful entry and distribution of prohibited agricultural products that may harbor plant and animal pests, diseases, or invasive species. In our review of SITC activities from fiscal years (FY) 2008 through 2011, we found that SITC's control environment did not include a system of management accountability that fostered efficiency, adequacy, or accuracy in either achieving its core mission or in reporting its results. For example, we found that 90 percent of SITC's market surveys were not successful at either seizing a prohibited product or in generating a traceback to identify the importer of a prohibited product. Although SITC never established nationwide benchmarks in the interest of allowing its officers maximum flexibility, a high-level SITC official stated that the success rates we cited were surprisingly low. After reaching management decision on all of our recommendations, SITC now has a meaningful plan of action to improve results and management accountability, but further corrective action is needed to ensure that its Congressional reports are accurate and supported.<sup>7</sup>

We maintain that implementing timely corrective actions in response to audit recommendations is key for program integrity and effectiveness. In recent years, USDA agencies have generally been more timely in implementing corrective action plans to address issues identified in audits. However, individual issues, when viewed comprehensively, can sometimes point to weaknesses in the overall system of internal controls. As stewards of Federal resources, "[a]gencies should carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines," and senior USDA managers should work to identify and correct such issues.<sup>8</sup> When USDA and its agencies strengthen their overall internal controls, they also strengthen their programs.

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<sup>6</sup> *Vendor Management in the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)* (27601-0038-Ch, March 2013).

<sup>7</sup> *Effectiveness of the Smuggling Interdiction and Trade Compliance Unit* (33601-0012-Ch, August 2012).

<sup>8</sup> Sec. IV(B) "Identification of Deficiencies," and sec. IV(C) "Role of a Senior Management Council" in OMB's *Management's Responsibility for Internal Control* (Circular A-123, 2006 revision).

## **Examples of Work We Anticipate Completing in the Future**

- *Single Family Housing Direct Loan Servicing and Payment Assistance Recapture.* The objective of this audit is to assess the controls and procedures in place over servicing direct loan borrower accounts, with emphasis on annual reviews and payment assistance.
- *RMA—Controls Over Prevented Planting.* We are assessing whether RMA established adequate management controls, policies, and procedures related to the prevented planting provisions of the Federal Crop Insurance Program.

## **Information Technology Security Needs Continuing Improvement (Challenge 3)**

Typically, USDA's work is thought of in terms of the benefits and services the Department provides, which touch almost every aspect of American life. To accomplish its mission, USDA must manage vast amounts of data associated with its many programs and operations. This critical information ranges from agricultural statistics that drive domestic and global markets to data-driven inspection systems that help ensure our food is safe. Department employees must be able to access, use, and communicate this information to deliver programs effectively. Additionally, the general public can apply for many program benefits and other services via the internet. It is therefore critical that the Department protect the security, confidentiality, and integrity of its information technology (IT) infrastructure.

Since the passage of the Federal Information Security Management Act of 2002 (FISMA), OIG has annually reviewed the Department's cybersecurity initiatives, including those that shield IT equipment and systems from theft, attack, and intrusion. Although USDA has made improvements in its IT security over the last decade, many longstanding weaknesses remain. In the last several years, our reviews have reported that USDA's IT systems remain vulnerable in many key areas. While OIG has made 49 recommendations for improving the overall security of USDA's systems from FYs 2009 to 2012, only 18 of these recommendations have been implemented. OIG has reported many of these remaining corrective actions since 2001, when we first detailed serious weaknesses in the design and effectiveness of USDA's overall IT security program.<sup>9</sup> Most significantly, the current security program does not have a solid foundation because the Department has not fully deployed basic analytic tools that determine accurate system inventories, or performed appropriate risk assessments and timely vulnerability scans. Further, USDA is not as prepared as it needs to be to prevent or respond to IT-related incidents because it lacks adequate mechanisms to continuously monitor systems and recover from disasters.

We continue to recommend that the Department work with all of its agencies to identify overall risks, and then prioritize the risks so that it will have a solid basis for a time-phased plan to systematically mitigate them. Again, in 2012, we reported that the Department has not established a continuous program for monitoring IT security or contractor systems (including systems residing in the cloud);<sup>10</sup> ensured that agencies securely configure their computers;

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<sup>9</sup> For example, see the last 5 years of our FISMA audits: *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act* (50501-0003-12, November 2012); *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2011 Federal Information Security Management Act* (50501-0002-12, November 2011); *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2010 Federal Information Security Management Act* (50501-0002-IT, November 2010); *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2009 Federal Information Security Management Act* (50501-0015-FM, November 2009); and *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2008 Federal Information Security Management Act Report* (50501-0013-FM, September 2008).

<sup>10</sup> Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

mandated user multi-factor authentication; consistently reported security incidents; implemented a risk-based framework for handling security issues; adequately remediated weaknesses; implemented adequate contingency policies and procedures; and adequately planned for security costs.<sup>11</sup>

We also noted that the Office of the Chief Information Officer (OCIO) did not strategically plan, prioritize, and manage its efforts to improve USDA's IT systems. For instance, we found that several of OCIO's projects did not meet the purposes outlined in its request to Congress for additional funding or address the Department's most critical IT security concerns. OCIO needs to adequately develop oversight mechanisms, communicate and coordinate internally, plan projects, and determine how to effectively utilize its resources. OCIO agreed with our recommendations, and we will continue to monitor the situation to ensure that effective corrective action has been implemented.<sup>12</sup>

Improvements to internal controls could help make critical USDA programs and financial information less vulnerable to compromise. Federal agencies are required to use controls recommended by the National Institute of Standards and Technology (NIST) to reduce risks to Federal systems. We examined controls over the Department's eAuthentication system, which the Department uses to electronically authenticate employee access to its systems, and determined that OCIO has not implemented some NIST requirements. Although OCIO managers and staff were aware of NIST requirements, they did not incorporate them when maintaining the eAuthentication system. Without incorporating the applicable NIST control measures, the eAuthentication system could be at greater risk of security breaches or service outages that would negatively impact access to over 400 USDA systems. Since OCIO is currently modernizing the eAuthentication system, the agency should address all NIST requirements as part of the system's upgrade. OCIO agreed with our recommendations and is migrating to a modernized system.<sup>13</sup>

Going forward, we believe USDA needs to lay the foundation for an effective, comprehensive IT security plan. With 34 agencies and offices to protect, many with their own IT infrastructure, managing IT security will remain a formidable responsibility for USDA.

### **Examples of Work We Anticipate Completing in the Future**

- *FY 2013 FISMA Report.* This audit assesses USDA's IT security posture based on questions prepared by the U.S. Department of Homeland Security's National Cyber Security Division and the Office of Management and Budget (OMB).
- *Security Review of National Agricultural Statistics Service (NASS) Lockup Procedures.* We are auditing NASS' lockup process and procedures to determine if physical, electronic, and other protection measures are properly implemented to assure sensitive market data are secured and released according to established criteria.

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<sup>11</sup> *Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act Report* (50501-0003-12, November 2012).

<sup>12</sup> *Audit of the Office of the Chief Information Officer's FYs 2010 and 2011 Funding Received for Security Enhancements* (88401-0001-12, August 2012).

<sup>13</sup> *Review of Selected Controls of the eAuthentication System* (88501-0001-12, January 2013).

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## Departmental Outreach Efforts Need to be More Transparent (Challenge 4)

USDA is dedicated to ensuring that its programs and benefits are accessible to all communities it serves. As the Department has vigilantly worked with affected communities to address past civil rights issues, an April 2009 memorandum from the Secretary of Agriculture to all USDA employees reiterated the importance of civil rights, emphasizing that there was significant progress to be made. The Department has received public attention with respect to various discrimination complaints that have been filed in Federal district court including *Pigford I*,<sup>14</sup> the *Black Farmers Discrimination Lawsuit (BFDL)*,<sup>15</sup> *Keepseagle*,<sup>16</sup> and *Garcia/Love*.<sup>17</sup> Settlements have been reached in *Pigford I*, *BFDL*, and *Keepseagle*, and a voluntary administrative claims process for Hispanic and female farmer claimants has been established.

Because outreach and civil rights efforts are top priorities, the Department established the Office of Advocacy and Outreach (OAO) in 2008 to improve access to USDA programs and reach out to small and beginning farmers and historically underserved communities. USDA needs to address past issues and, looking forward, ensure fair and equitable treatment in all aspects of its programs. Because of USDA's commitment to just and equitable actions, the Department faces the challenge of ensuring that all outreach efforts are conducted fairly and transparently.

The Secretary of Agriculture asked OIG to evaluate OAO's policies, procedures, and the internal controls used to select the FY 2012 recipients of grants funded through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program. OIG found that the applicants that OAO initially selected to receive program grants may not have been the most meritorious and deserving candidates. When making these selections, OAO officials had disregarded regulatory requirements and guidelines cited in the Funding Opportunity Announcement. Also, they had no documentation to support their decisions and could not explain why some applicants that appeared more deserving were not selected to receive grant funds. We issued a Fast Report in May 2012 and, on the basis of this report, OAO reselected applicants for the Secretary's consideration in July 2012.<sup>18</sup> We evaluated the process used to reselect applicants and concluded that it was more impartial and transparent than the initial process.

In the fall of 2012, OIG performed additional work for this audit, reviewing how well OAO was monitoring its grantees. We found that officials were not monitoring how grant recipients used funds that were awarded in FYs 2010 and 2011 primarily because they had not assigned monitoring duties to personnel and did not have procedures in place. To address this additional issue, we recommended that OAO strengthen its processes for selecting grantees and for

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<sup>14</sup> *Pigford v. Glickman*, No. 97-1978 (D.D.C.)

<sup>15</sup> *In re Black Farmers Discrimination Litigation*, No. 08-mc-511 (D.D.C.)

<sup>16</sup> *Keepseagle v. Vilsack*, No. 1:99 CV 03119 (D.D.C.)

<sup>17</sup> *Garcia v. Vilsack*, No. 1:00CV02445 (D.D.C.) and *Love v. Vilsack*, No. 1:00CV02502 (D.D.C.)

<sup>18</sup> *Controls Over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012* (91099-0001-21(1), May 2012).



monitoring grantees' use of funds.<sup>19</sup> The agency agreed with our recommendations and we accepted management decision.

As part of the Claims Resolution Act of 2010, which provided \$1.15 billion for the payment of claims in *BFDL*, OIG was required to review a statistical sample of adjudicated claims for *BFDL*. The *BFDL* settlement agreement determined that two external entities—the claims administrator and a deciding official (known as the neutral)—would be responsible for processing and approving or denying claims, respectively. This audit work is in process. Additionally, in July 2013, the Secretary requested that OIG conduct a performance audit of adjudicated claims framework established in *Garcia/Love*.

As the Department moves forward to address alleged civil rights disputes and reaches out to the communities it serves, we emphasize the importance of strong internal controls—such as formalized procedures, documentation, and oversight—which will, in the long-run, ensure more transparent, consistent, and equitable treatment of all those seeking to participate in USDA programs.

### **Examples of Work We Anticipate Completing in the Future**

- *USDA Strikeforce Initiative*. Our objective is to review and evaluate (1) the transfer of all funds from various agencies within the Department to OAO that were used for the StrikeForce Initiative, (2) the approval and disbursement of all funds under the StrikeForce Initiative, and (3) the use of these funds by recipients and OAO's monitoring of the recipients' actions.
- *Recipient Eligibility and Compliance Consideration for Section 2501 Grants Awarded FYs 2010-2011*. This audit will evaluate OAO's policies, procedures, and internal controls related to its grant management process during FYs 2010 and 2011, as well as the grants awarded during this time, to ensure that grant recipients were eligible and that they expended grants in accordance with regulations.

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<sup>19</sup> *Controls Over the Grant Management Process of the Office of Advocacy and Outreach* (91099-0001-21, February 2013).

## **A Proactive, Integrated Strategy is Necessary to Increase Agricultural Commerce and Trade (Challenge 5)**

Given the importance of U.S. agriculture to the economy—in 2012, the Nation’s farms and ranches produced \$436 billion in goods<sup>20</sup>—USDA has a deeply rooted and longstanding interest in promoting the export of our commodities worldwide. Over the last few years, the total monetary value of U.S. agricultural exports has risen significantly because of several factors, including adverse weather conditions in major agricultural areas, the U.S. dollar’s declining value, and increased demand in countries such as India and China. The value of U.S. agricultural exports has grown from \$96.3 billion in FY 2009 to \$135.8 billion in FY 2012.

In this positive environment for U.S. agricultural goods, USDA’s challenge is to capitalize on the historic moment. We reported in 2007 that USDA had not integrated its current country-specific marketing strategies into a focused, global strategy capable of responding effectively to international market trends. At that time, we recommended that the Department develop a global market strategy to increase U.S. export opportunities and competitiveness and, in 2010, the Department announced a global market strategy in answer to the President’s call for an export initiative.<sup>21, 22</sup>

While the Department is taking steps to enhance agricultural trade, further work is still needed. We evaluated the effectiveness of FAS’ recently updated strategic plan. FAS helps U.S. food and agricultural exporters take full advantage of market opportunities through trade promotion and trade policy, and serves as the principal coordinator for international activities within USDA.

The Government Performance and Results Act (GPRA) requires each executive agency to create a strategic plan with outcome-related goals and objectives, and the Government Accountability Office (GAO) recommends that agencies establish quantifiable performance measures in order to gauge progress. We found that while FAS’ updated strategic plan did include measurable goals and objectives, these goals and objectives (which measure the dollar value of exports) do not present the whole picture of how FAS’ actions are affecting the global market for American agricultural goods. FAS’ measures are not outcome-based and do not show how the United States is performing in a given market compared to its competitors. Though OIG acknowledges that developing outcome-based performance measures for FAS’ trade efforts is difficult, we maintain that a change in U.S. market share is an outcome-based measure that would be of great use to policymakers. To align with the goals and objectives contained in its new strategic plan, FAS will also need to update its Country Strategy Statements, USDA’s Global Market Strategy, and its corresponding performance measures in USDA’s Annual Performance Report.

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<sup>20</sup> Value of agricultural sector production forecast for 2012, as of February 2013.

<sup>21</sup> *Foreign Agricultural Service: Implementation of the Trade Title of the 2002 Farm Bill and the 2002 President’s Management Agenda* (50601-0012-At, March 2007).

<sup>22</sup> In March 2010, the President issued the National Export Initiative, an executive order to enhance and coordinate Federal efforts to facilitate the creation of jobs in the United States through the promotion of exports and to ensure the effective use of Federal resources. This initiative supports the Administration’s goal of doubling exports within the 2010-2015 period.

We recommended that FAS refine its performance measures to contextualize changes to U.S. market share; incorporate clear, outcome-based performance measures into the 2013 Country Strategy Statements; and work with the Department to update certain strategies and performance measures. FAS generally agreed with our recommendations and has moved forward to address the issues presented in the report; however, more work is needed to validate its measure for U.S. jobs created by exports.

By taking these steps to fully develop a strategy and improve the measures of its success, FAS can increase transparency in USDA reporting and show how FAS, in reaching its goals, is contributing to USDA's overarching goal of increasing prosperity in rural communities.<sup>23</sup>

### **Examples of Work We Anticipate Completing in the Future**

- *FAS—Implementation of the Administration's Trade Agreement Initiatives.* We plan to evaluate whether the Department is effectively coordinating and monitoring implementation of the Administration's trade agreement initiatives—the Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership—and whether the Department has effectively integrated these trade initiatives into its trade strategies.
- *FAS—Commodity Credit Corporation Export Credit GSM-102 Guarantee Program.* We plan to assess whether FAS has effectively implemented the program to meet the Department's trade strategic goal, and whether FAS has adequate controls to ensure the program is effectively administered in accordance with program regulations, policies, and procedures.

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<sup>23</sup> *Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals* (50601-0001-22, March 2013).

## **Action Needed to Improve Natural Resources Stewardship (Challenge 6)**

One of USDA's mission areas is ensuring the health of the land through sustainable management and conservation of the Nation's natural resources. Over the years, USDA's agencies—particularly the Forest Service (FS) and NRCS—have had to balance budgetary concerns with the increasing demands placed on our Nation's public and private lands, as well as the logistical issues of managing vast and geographically diverse natural resources. These agencies now face growing concerns such as climate change, increasing land development, conservation measures that affect human safety, and drilling for oil and gas on National Forest System (NFS) land. Successfully managing these demands will continue to pose a challenge in future years.

Since FS is entrusted with hundreds of billions of dollars in fixed public assets, such as 193 million acres of national forests and grasslands, FS needs to ensure that it approaches complex budgetary and human resource management issues with the same dedication it brings to managing America's lands. FS' budget is being stretched in many directions by competing factors, one of which is population growth in residential developments next to wildlands, also known as the Wildland Urban Interface (WUI). Given the danger to public safety, FS must spend significant funds to protect people and property in the WUI from wildfires. In addition, although FS' 2012 budget dedicates \$317 million to reducing hazardous fuels in forests and in the WUI, these fuels are still accumulating faster than the agency can reduce them.

By continuing to improve its internal controls and coordination, FS will be able to better fulfill its mission of caring for the Nation's forests and grasslands. One OIG review found that FS allocated Recovery Act grants for wildland fire management (WFM) activities—such as hazardous fuels reduction, forest health, and ecosystem improvements—without the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose. These findings apply not just to Recovery Act grants, but to the entire FS WFM grant program. We also found that FS did not enhance its existing controls, despite the Recovery Act's requirements for greater transparency and accountability. As a result, grant recipients charged a total of \$92 million in unallowable and questionable costs to both Recovery Act and non-Recovery Act grants. Additionally, FS staff did not take necessary steps to ensure that the agency met the Recovery Act's overall objective of maximizing job creation and retention in the most cost effective manner possible. FS generally concurred with all of our audit recommendations.<sup>24</sup>

FS also needs to take greater strides in managing the growing practice of drilling for oil and gas on NFS land. Rising energy prices have increased interest in the exploration and development of domestic oil and gas resources, some of which are found beneath public lands within national forests. In a recent review, we found that FS was not adequately safeguarding NFS lands against environmental damage. FS could not validate whether all well sites were being inspected annually, as required. Likewise, while permitting oil and gas drilling on NFS lands does pose an environmental risk, FS does not require operators to submit a spill plan that would ensure that

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<sup>24</sup> *American Recovery and Reinvestment Act — Forest Service Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands* (08703-0005-SF, March 2013).

operators are prepared to quickly respond to any spills. We also found that FS needs to work more closely with the Bureau of Land Management (BLM) in the Department of the Interior to regulate drilling operations—including establishing a more formal means of communication. We recommended that FS coordinate with BLM to expedite approval of lands for drilling, use BLM systems to track inspections, develop spill response plans, and revise performance measures. FS generally agreed with our recommendations.<sup>25</sup>

Along with FS, NRCS plays a key role in managing the Nation’s natural resources by working with private landowners to help them conserve, maintain, and improve their natural resources. We have found that without strong controls in place to ensure compliance and effective program operations, NRCS cannot ensure that its budget for conservation efforts—\$4.34 billion in FY 2012—is used efficiently or correctly. For instance, through the Emergency Watershed Protection Program’s floodplain easement component, NRCS purchases rights to property in floodplains in order to restore and protect the floodplain’s functions, conserve natural values such as habitat and water quality, reduce long-term Federal disaster assistance, and safeguard lives and property. However, we found that because NRCS did not have the necessary controls in place, it did not always target funds to those easements most in line with program goals, or ensure easements were maintained consistent with conservation program goals. Specifically, NRCS did not always adequately communicate program rules to landowners, such as actions prohibited on easements. As a result, land was not always maintained in a manner consistent with the program goal of restoring floodplains to a natural condition. We recommended that NRCS develop its policies, improve guidance to landowners, strengthen controls over program obligations, and take action on payment errors.<sup>26</sup> The agency generally agreed.

Responsible management is key to ensuring that all Americans can benefit from our country’s rich and diverse natural resources. USDA agencies must strike a balance between production and conservation demands, while at the same time working to safeguard American homes and lives. With growing concern over issues such as climate change, we encourage agencies to be vigilant in putting their limited resources to the best use.

### **Examples of Work We Anticipate Completing in the Future**

- *NRCS Conservation Easement Compliance.* This audit will determine whether NRCS’ conservation easement monitoring and management policies and procedures are functioning as intended to ensure compliance with NRCS’ compatible-use practices.
- *NRCS—Environmental Quality Incentives Program.* This audit will examine NRCS’ management controls to ensure the Environmental Quality Incentives Program is effectively and properly implemented in accordance with laws, regulations, policies, and procedures.

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<sup>25</sup> *Management of Oil and Gas Resources on National Forest System Land* (08601-0001-21, March 2013).

<sup>26</sup> *Recovery Act—NRCS’ Emergency Watershed Protection Program Floodplain Easements Field Confirmations* (10703-0005-KC, March 2013).

## **Food Safety Inspection Systems Need Improved Controls (Challenge 7)**

Because food-borne pathogens and food contamination can put consumer health in jeopardy, USDA inspection systems work to protect the safety of the U.S. food supply. The Department provides a range of safety measures, from placing qualified inspectors in livestock slaughtering facilities to creating comprehensive inspection and testing programs that pinpoint likely risks at processing facilities. Additionally, the USDA grademark has come to stand as a symbol of safety and quality. To maintain the confidence of consumers, Congress, and other stakeholders, FSIS and AMS should continue to improve their technology systems, inspection processes, and enforcement efforts to accurately assess risk and effectively prevent contamination. USDA's challenge is to remain vigilant and proactive in ensuring that American consumers receive wholesome foods.

As mentioned in Challenge 1, in the wake of a significant recall of shell eggs, USDA has focused on ensuring the safety of the Nation's food supply. Our audit of the shell egg inspection process found that FSIS' shell egg refrigeration policy was not sufficient to decrease the risk of *Salmonella enteritidis* (SE) contamination in shell eggs. FSIS' refrigeration policy does not require eggs to be stored below 45 degrees Fahrenheit—a safety limit supported by scientific research—and FSIS does not take sufficient measures to deter repeat violators. We also noted that AMS had been placing the USDA grademark for quality on shell eggs without knowing whether or not the shell eggs were potentially adulterated with SE. This occurred because AMS believed the USDA grademark was a testament only to the quality and condition of an egg, not its safety. We recommended that AMS clarify whether a shell egg's "condition" relates to its quality, fitness for human food, or both. We also recommended that FSIS implement a science-based policy and a process to take progressively stronger enforcement actions against repeat violators. Generally, the agencies agreed.<sup>27</sup>

OIG also reviewed FSIS' efforts to detect *Escherichia coli* O157:H7 (*E. coli*) in boxed beef. This harmful strain of bacteria can result in serious illness or even death. We found that while FSIS has a comprehensive system for sampling and testing raw ground beef products or product likely to become raw ground beef, it needs to reevaluate its *E. coli* testing methodology as it relates to the downstream processing of boxed beef products. This is particularly crucial because certain products—such as tenderized or ground beef—pose higher risks, and downstream processors that may package these cuts do not always face the same level of inspection and scrutiny as larger facilities. For instance, at large processing plants we visited, FSIS and the plants tested product that was designated as ground beef or trim destined to become ground beef, but they generally did not test boxed beef product, even though some downstream establishments may be grinding that product. Similarly, "retail exempt establishments"—such as grocery stores and butcher shops—potentially grind their own ground beef; but unlike federally-inspected plants, FSIS does not sample and test trim at these establishments for *E. coli*. Likewise, despite several recent recalls, FSIS does not test tenderized meat products for *E. coli*. To further strengthen inspection of boxed beef, we recommended that FSIS take additional steps to ensure that beef to be ground at any point in the production process—from federally-inspected slaughter

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<sup>27</sup> *USDA Controls Over Shell Egg Inspections* (50601-0001-23, November 2012).

establishments to local grocery stores—be subject to FSIS sampling and testing for *E. coli*. The agency agreed with each of our 12 recommendations.<sup>28</sup>

Our review of FSIS’ inspection and enforcement actions at swine slaughter plants found problems similar to those identified in other audits of FSIS, such as our shell egg audit. We found that FSIS enforcement policies do not deter swine slaughter plants from becoming repeat violators. As a result, plants have repeatedly violated the Federal Meat Inspection Act with little or no consequence. In 8 of the 30 plants we visited, inspectors did not always examine the internal organs of carcasses in accordance with inspection requirements, or did not take enforcement actions against plants that violated food safety regulations. As a result, FSIS inspectors may not always effectively identify pork that should not enter the food supply. Additionally, while FSIS initiated a pilot program—the Hazard Analysis and Critical Control Point-based Inspection Models Project (HIMP)—in order to streamline the inspection process and improve food safety, FSIS has never, in the 15-year history of the program, assessed whether HIMP plants have been successful in improving food safety.<sup>29</sup> To address these issues, we recommended that FSIS develop a strategy to take progressively stronger enforcement actions against plants with serious or repetitive violations, as well as determine whether the HIMP program has improved food safety and should continue. FSIS should also develop a plan on how it will minimize reliance on inspector judgment to ensure inspectors consistently enforce laws. The agency agreed.

The task of ensuring the safety of America’s food is a vast responsibility, and we recognize the difficulties USDA faces in maintaining daily vigilance. If the Department continues to meet its food safety challenge through strengthening its inspection processes, technology systems, and enforcement actions, then consumers can be confident that USDA’s measures effectively safeguard against the risk of contaminants entering the food supply.

### **Examples of Work We Anticipate Completing in the Future**

- *Implementation of the Public Health Information System (PHIS) for Domestic Inspection.* We are evaluating whether the design and subsequent implementation of PHIS adequately addresses its key mission elements. This includes reviewing FSIS’ collection of establishment profile data, policies, and procedures to secure and protect data within PHIS, and whether FSIS has a documented interagency system agreement. We are also assessing FSIS’ overall timeframes for PHIS implementation, and whether the system was implemented within its budget.
- *Follow-up on 2007 and 2008 Audit Initiatives.* This audit will evaluate FSIS’ implementation of corrective actions resulting from OIG’s major audit initiatives in 2007 and 2008. These corrective actions include changes to management control systems, staffing and supervision of in-plant inspectors, oversight of the Humane Methods of Slaughter Act, and removal of specified risk materials.

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<sup>28</sup> *FSIS E. coli Testing of Boxed Beef* (24601-0003-31, March 2013).

<sup>29</sup> *FSIS – Inspection and Enforcement Activities at Swine Slaughter Plants* (24601-0001-41, May 2013).

## **Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs** *(Challenge 8)*

USDA delivers approximately \$144 billion in public services annually through more than 300 programs. In FY 2012, USDA reported that 16 of its programs were vulnerable to significant improper payments (“high risk” programs) and estimated \$5.5 billion in improper payments for that year—a 5.11 percent error rate. While this represents a reduction from FY 2011’s 5.37 percent error rate, the Department can continue to realize considerable cost savings by identifying root causes, implementing corrective actions, and reducing its improper payments.

Improper payments occur when funds go to a wrong or ineligible recipient, the proper recipient receives an incorrect amount of funds or uses funds in an improper manner, or documentation is not available to support a payment. According to OMB’s Controller, not all improper payments involve fraud or waste—most payment errors are inadvertent and often based on missing documentation. However, all improper payments affect the integrity of Government programs and compromise citizens’ trust in government.

The President’s 2009 Executive Order, *Reducing Improper Payments and Eliminating Waste in Federal Programs* (EO 13520), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the new Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) strengthened Federal improper payment reduction efforts.<sup>30</sup> These measures not only require more stringent reporting, they also help agencies reduce improper payments by identifying and correcting underlying problems. Additionally, they require OIGs to evaluate agencies’ progress in implementing these requirements. As USDA agencies become increasingly familiar with the new requirements, their reports should become more compliant. However, we found that USDA continues to struggle to fully comply, particularly with requirements involving USDA’s reporting practices and preventative measures.

In FY 2012, USDA and its agencies submitted the required reports, but information was sometimes left out of these reports, or was inaccurate. For instance, during our IPERA review, we observed problems that varied from agency to agency. We reported that, collectively, six programs administered by FNS, FSA, and Rural Development did not comply with the requirement of meeting their FY 2012 improper payment reduction targets. If these programs had met their reduction target, \$74 million in reported improper payments could have been avoided. Although USDA made progress to improve its processes to comply with IPERA, it was not fully compliant for a second consecutive year, specifically falling short on three of the seven requirements.<sup>31</sup>

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<sup>30</sup> IPERIA and IPERA supplement the Improper Payments Information Act of 2002. These two laws also expand the use of payment recovery audits and enhance payment accuracy through a “Do Not Pay List.”

<sup>31</sup> *Fiscal Year 2012 Improper Payment Elimination and Recovery Act of 2010 Compliance Review* (50024-0004-11, March 2013).



USDA remains not fully compliant primarily because the Office of the Chief Financial Officer (OCFO) and USDA agencies have not completed several actions—such as an FNS review of the National School Lunch Program’s (NSLP) error rate calculation methods—which would assess results and achieve compliance. We note that OCFO continues to work on enhancing internal controls over the reporting process and collaborating with USDA agencies to ensure improper payment information is accurate and complete. In addition, USDA has completed its search and selected a contractor that will report on departmental efforts to recover improper payments.

We found similar issues in our review of the Department’s actions to reduce its high dollar overpayments, which totaled approximately \$20.3 million in FY 2012. USDA’s FY 2012 quarterly reports on high dollar overpayments and related actions did not always provide accurate, complete, and timely information. Specifically, the quarterly reports included errors, did not include all reportable high-dollar overpayments, and were submitted up to 102 days after the due date. In the case of NRCS, we recommended that NRCS improve its process for ensuring the accuracy of its improper payment reporting. NRCS agreed to implement our recommendations.<sup>32</sup>

Many improper payments have occurred because of a lack of internal controls. For instance, we reviewed FSA farm disaster assistance payments<sup>33</sup> and identified 12 errors that led to \$80,480 in improper payments which, according to our statistical sample, projects to about \$17 million in potential improper payments in the program as a whole. As with other programs, this occurred primarily because FSA needed to strengthen internal controls—particularly for the Supplemental Revenue Assistance Payments program, which is the largest of its farm disaster assistance programs. Specifically, FSA needed to better protect against and identify manual payment calculation and input errors. FSA accepted OIG’s recommendations to strengthen internal controls.<sup>34</sup>

As USDA works to address improper payments, we will continue to emphasize the importance of complying with IPERIA, IPERA, EO 13520, and other requirements. USDA’s agencies must not only continue to recover improper payments, but also identify the root causes of payment errors and implement necessary internal controls to prevent future improper payments. If USDA continues to take these steps, the public can be more confident that USDA conscientiously and effectively accounts for, uses, and—when necessary—recovers taxpayer dollars.

### **Examples of Work We Anticipate Completing in the Future**

- *FNS—Audit of the National School Lunch and School Breakfast Program.* This audit evaluates FNS’ methods to lower the error rates for both NSLP and the School Breakfast Program. Specifically, we will determine if FNS, State agencies, and school food authorities (SFA) have adequate controls to ensure children approved for free and

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<sup>32</sup> *Executive Order 13520, Reducing Improper Payments—Fiscal Year 2012 High Dollar Report Review* (50024-0003-11, August 2013).

<sup>33</sup> Our sample consisted of payments from FSA’s Supplemental Revenue Assistance Payments Program (SURE), Tree Assistance Program, and various other disaster assistance programs. However, because SURE accounts for 75 percent of FSA’s disaster programs, the majority of payments we reviewed came from this program.

<sup>34</sup> *Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments* (03401-0002-11, July 2013).

reduced price meals meet the eligibility requirements, and meal claims are supported and accurately reimbursed.

- *USDA—Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013.* This audit reviews USDA’s FY 2013 Agency Financial Report and accompanying information to determine whether the agency was compliant with the Improper Payments Information Act of 2002, as amended in 2010.

## **USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources** *(Challenge 9)*

In the current economic climate, USDA, like most of the Federal Government, has been asked to accomplish more with fewer employees. For many agencies, this means appropriately training and utilizing their available staff. As USDA faces significant staff reductions that restrict the hiring of new employees, the Secretary announced in January 2012 that several agencies would soon be undergoing a major restructuring intended to build an efficient and modern agency by consolidating offices and reducing staff. While these decisions respond to the realities of USDA's current and future budgetary circumstances, as well as to changing demographics, agencies will be expected to accomplish an increasing number of program objectives with fewer employees, which may have significant consequences.

More than ever, as agencies address this challenging situation, it is critical to ensure personnel are appropriately trained and prepared to perform their duties. Some agencies have assigned employees multiple roles in order to enhance efficiency. For instance, within Rural Development, the Rural Business-Cooperative Service (RBS) is responsible for ensuring that selected projects in the Rural Business Enterprise Grant (RBEG) program meet program objectives and requirements. For the RBS personnel responsible for administering this program, reviewing and processing grants is only one of several roles they fill for multiple programs in their agency. While cross-utilizing personnel can effectively maximize existing human resources, it comes with particular challenges.

Our review of the Recovery Act RBEG program found that because the RBEG program is relatively small in comparison to other RBS programs, RBEG-specific information was not heavily emphasized during RBS staff training. Consequently, individuals responsible for administering the program were unaware of key program requirements. When personnel had to expeditiously disburse over \$15.3 million in Recovery Act funding for 145 first-round RBEG projects, we found that they did not sufficiently review projects and documentation—primarily because they were unfamiliar with all requirements. Out of the 47 grants we reviewed, we identified 20 where RBS personnel did not obtain or review required forms; we estimate that 70 grants (49 percent) may have similar issues, with a projected total value of \$4.6 million. We recommended that RBS provide personnel in charge of overseeing RBEG projects with formal, comprehensive training, and recover RBEG Recovery Act funds for projects that did not meet program requirements. The agency generally agreed with our recommendations and provided training to their field staff in 2012.<sup>35</sup>

We found a similar issue in the Single Family Housing (SFH) Direct Loan Program, which is intended to help rural low-income and very low-income borrowers that cannot qualify for other credit to obtain homeownership. Many of the issues we encountered with the program were due to a lack of sufficient training and guidance. We reviewed a statistical sample of 100 loans and questioned borrower eligibility determinations for 17 loans where borrowers (1) had no history of stable and dependable income, (2) had questionable credit histories, or (3) did not meet

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<sup>35</sup> *Rural Business Enterprise Grants Recovery Act Controls Field Confirmations* (34703-0001-31, January 2013).

repayment ability guidelines. We also questioned some property eligibility determinations. From our sample, we projected that 1,772 loans worth \$208 million (22 percent of the universe) may have similar noncompliance issues. This occurred largely because field-level personnel were not sufficiently trained on conducting and documenting proper determinations, did not have an effective second party review process, and did not have sufficient guidance on property eligibility. The agency implemented numerous corrective actions, including providing direct loan underwriting training at the SFH national policy meeting held in August 2011.<sup>36</sup>

For programs administered at the State level, agencies also need to ensure that State personnel are sufficiently informed of program requirements so that Federal funding—and ultimately taxpayer dollars—are used efficiently. We found that for NSLP, State agencies and SFAs were unprepared to carry out their administrative functions due to a lack of guidance, information, and proper training. For example, FNS officials expected—but never instructed—SFAs to periodically review invoices to ensure that food service management companies were passing along the full value of USDA-donated foods and other rebates. We recommended that FNS establish a plan to ensure that State agencies and SFAs are informed of available training and encouraged to use it. FNS officials agreed.<sup>37</sup>

As USDA continues to streamline its operations, adequately preparing personnel to fill critical roles will become increasingly important. Doing so should reduce error and ensure that USDA is efficient and effective in performing the diverse duties of an evolving Federal workforce.

### **Examples of Work We Anticipate Completing in the Future**

- *FSA Compliance Activities.* Our review’s objective is to determine if FSA’s compliance activities are adequate to achieve effective and efficient operations, ensure compliance with laws and regulations, and ensure government resources are used to achieve intended program results. We will evaluate the impact of staff cuts, budget cuts, and agency restructuring on FSA’s compliance activities. We also plan to follow up on a September 2005 OIG report, *FSA Compliance Activities* (03601-0012-Ch).
- *State Food Costs for the WIC Program.* This audit will evaluate the factors that contribute to the high average participant food costs reported for various States within the WIC program. We will also review FNS’ oversight activities for monitoring program costs.

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<sup>36</sup> *Single-Family Housing Direct Loans Recovery Act Controls – Compliance Review* (04703-0003-KC, June 2012).

<sup>37</sup> *National School Lunch Program — Food Service Management Company Contracts* (27601-0001-23, January 2013).

## **FNS Needs to Strengthen SNAP Management Controls** *(Challenge 10)*

By far the largest program within USDA, SNAP provides monthly food assistance and nutrition for the health and well-being of more than 47 million low-income individuals. Due to the economic downturn, program participation has grown by 80 percent since 2007 and the program disbursed over \$74.5 billion in benefits in FY 2012. Given the program's significance, fraud committed by both SNAP recipients and the retailers that redeem SNAP benefits is a critical concern. With increased participation comes increased risk, and past audit work has found that FNS needs to redouble its efforts not only to enforce its policies against such fraud as trafficking,<sup>38</sup> but also to establish strong internal controls to prevent it.

In recent years, FNS has taken measures to strengthen its oversight of SNAP in three key areas: (1) reducing improper payments and errors, (2) combating the abuse and misuse of benefits, and (3) better pursuing recipient and retailer fraud. FNS' efforts have included improvements to its anti-fraud retailer data system, further plans to upgrade retailer surveillance technology, and promotion of a trafficking hotline number. Moreover, FNS is in the process of developing stronger penalties and sanctions for small retailers. FNS has also sent letters to State Commissioners and Governors in 2011 expressing the importance of addressing recipient integrity issues.

While FNS has made progress, further efforts are needed to fully utilize available resources. OIG recently analyzed SNAP-related databases at Federal and State levels to identify potentially ineligible recipients. We found that 27,044 recipients (0.2 percent) in 10 States were receiving approximately \$3.7 million a month in SNAP benefits, even though they were potentially ineligible. We attributed many of these issues to the fact that States do not make full use of tools and databases available to them for ensuring applicant eligibility and detecting fraud—primarily because FNS has not required their use. Also, States consider some databases' information to be unreliable, and must conduct further research before acting on data contained within them. Additionally, while research is often conducted by the States' fraud detection and prevention units, FNS officials stated that States face significant resource challenges and are relying on staffing cuts, as well as furloughs, to meet current financial challenges.<sup>39</sup> We also found that although FNS has a methodology for estimating a retailer trafficking rate, the method is based on a judgmental rather than statistical sample, and the results may not be representative of the retailer population. Therefore, the actual extent of trafficking could be over or underestimated. In addition, the agency has not established a process to identify or estimate the total amount of SNAP fraud occurring nationwide, either by recipients or by retailers.

As a result, FNS does not have the ability to effectively measure a total SNAP fraud rate over time. We recommended that FNS specify a set of tools that States are required to use, and establish associated guidelines. FNS has been responsive to our recommendations, reminding States of the importance of data matching and issuing guidance encouraging States to make

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<sup>38</sup> Trafficking is the exchange of benefits for cash or other compensation.

<sup>39</sup> *Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts* (27002-0011-13, September 2012).

greater use of USDA fraud data. FNS is also in the process of upgrading its technology to increase data reliability and enhance functionality for the States.

In many ways, FNS' technological advances have greatly improved FNS' ability to detect and prevent improper payments and fraud. However, as FNS updates this technology, FNS must ensure that it is making full use of gathered data, and that its agency policies and employee skill sets sufficiently supplement these automated efforts. For example, in a recent audit, OIG also determined that FNS does not have clear procedures and guidance to carry out key oversight and enforcement to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud either by a particular owner or within a particular location. In addition, FNS regional offices put their limited resources towards other activities, such as retailer authorization, rather than assessing and enforcing retailer penalties.

Overall, these issues have occurred because FNS has not yet comprehensively updated its regulations and guidance to reflect the transition from a stamp-based benefit system to the electronic benefit transfer system. Finally, FNS does not require retailers to undergo criminal background checks. If FNS does not consistently provide deterrents for trafficking, the integrity of SNAP is at risk, and taxpayer dollars may go to fraudulent retailers. In January 2013, FNS reorganized its retailer management functions to streamline and enhance authorization, reauthorization, and compliance activities. We view these efforts as a positive step in strengthening enforcement, and believe FNS must also take a comprehensive look at its regulations and guidance related to retailer authorization and fraud to ensure that these are clear, effective, and updated.

Because we recognize that FNS cannot further strengthen its enforcement and detection efforts without some financial investment, we believe FNS could improve its compliance efforts if it were able to retain a portion of retailer penalties as a supplement to annual appropriations. We recommended that FNS comprehensively review its policies, procedures, and guidance; require background checks for retailers; make improvements to its automated retailer data system; create and strengthen safeguards for high-risk stores; and require more supervisory reviews. We reached management decision on 12 of the 20 recommendations; however, further action from the agency is needed to reach management decision on the other recommendations.<sup>40</sup>

Investigating SNAP fraud continues to be a priority for OIG based upon the level of funding this program receives. OIG has significantly increased the level of investigative resources allocated to combating SNAP fraud from 37 percent in FY 2010 to 52 percent in FY 2012. With this increase has come a high percentage of success: the conviction rate for investigations of SNAP fraud was 89 percent for FY 2012.

Typically, the focus of OIG's investigations has centered on retailers engaging in SNAP trafficking. After careful analysis of our investigative work and discussions with FNS, we concluded that in order to address fraud more effectively and ultimately protect USDA funds, States must also make a concentrated effort to deal with recipient trafficking. With this goal in mind, OIG is working with FNS on an initiative to address both the retailers and recipients

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<sup>40</sup> *Controls for Authorizing Supplemental Nutrition Assistance Program (SNAP) Retailers* (27601-0001-31, July 2013).

identified through our investigations as engaging in SNAP trafficking. As we continue to review SNAP fraud detection and prevention efforts and investigate instances of fraud, we are dedicated to working with FNS to strengthen SNAP's internal controls.

### **Examples of Work We Anticipate Completing in the Future**

- *FNS—SNAP Error Rate.* Our objectives will be to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP error rates are accurately determined, take appropriate actions to reduce the error rates, and timely correct errors when detected.
- *FNS Implementation of Penalties on SNAP Retailers.* This audit will evaluate FNS' oversight of the penalty assessment and collection processes. We will also review whether FNS correctly calculated these penalties, and ascertain why retailers are accepting permanent disqualification for trafficking instead of paying the trafficking civil money penalty.

## Emerging Issues

*APHIS' Animal Care.* APHIS continues to work towards implementing corrective actions to address recommendations OIG made in 2010 as part of two audits that examined different aspects of animal welfare: APHIS' administration of legislation designed to protect horses in transit for slaughter and ensure horses are protected from the harmful practice of soring in the United States,<sup>41</sup> and APHIS' inspection of problematic dog dealers.<sup>42</sup> Although we have reached management decision on these audits, we continue to receive allegations claiming violations of the Animal Welfare Act and other abuses. These potential violations, along with sustained public attention, indicate that APHIS needs to continue to heighten its vigilance over animal welfare. OIG currently has work in progress on APHIS' oversight of research facilities.

*Potentially Redundant Federal Programs and Operations.* Both the President and Congress have cited the need to improve the Government's effectiveness by eliminating redundant programs that result in wasteful spending. In March 2011, the President directed a review of all Departments and agencies involved with increasing trade, exports, and U.S. competitiveness.<sup>43</sup> To assist policymakers in this review, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) created an interdisciplinary working group that compiled OIG reports—including USDA OIG audits—issued during the last 5 years, relating to trade and competitiveness.<sup>44</sup> As it compiled the results, the group identified areas of program inefficiency, overlap, duplication, and other factors that adversely impact the Government's administration of international competitiveness and trade. Several other USDA programs, such as USDA's nutrition programs, are also vulnerable to potential overlap and duplication. In 2010, GAO released a report on potential inefficiency and overlap in FNS' smaller nutrition programs. OIG recently reported that FNS needs to determine whether it has the resources to conduct a study to assess the extent of overlap or duplication, or whether additional appropriated funding will be required.<sup>45</sup> In addition, OIG has ongoing work to determine if there is duplication within RBS' grant programs.

*USDA's Performance Measures.* While the GPRA Modernization Act of 2010 requires agencies to report the actions taken by programs as outcomes clearly linked to program goals,<sup>46</sup> our audits have consistently identified performance measures as an area in need of improvement. Our recent work on Recovery Act performance measures has shown that program and agency goals are not clearly articulated, that performance measures tend to report outputs rather than outcomes, and that the data being reported are of questionable accuracy. As our audits have extended to non-Recovery Act programs, we have found similar issues. Without accurate and meaningful outcome-based performance measures, policymakers will not receive the information they need to make appropriate funding decisions. Since USDA should soon be fully

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<sup>41</sup> "Soring" involves intentionally inflicting pain to a horse's legs or hooves to produce an artificial gait.

<sup>42</sup> *Animal and Plant Health Inspection Service Administration of the Horse Protection Program and the Slaughter Horse Transport Program* (33601-0002-KC, September 2010) and *Animal and Plant Health Inspection Service Inspections of Problematic Dealers* (33002-0004-SF, May 2010).

<sup>43</sup> Presidential Memorandum, *Government Reform for Competitiveness and Innovation* (March 11, 2011).

<sup>44</sup> CIGIE, *Compilation of Prior Inspector General Reports on International Trade and Competitiveness* (May 2011).

<sup>45</sup> *Overlap and Duplication in the Food and Nutrition Service's Nutrition Programs* (27001-0001-10, June 2013).

<sup>46</sup> Public Law 111-352.



implementing new GPRA modernization guidelines issued in April 2011, OIG will again revisit this issue to determine USDA's progress.

*RMA Crop Insurance Policies.* RMA provides policies to insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease; RMA also provides coverage to producers for revenue and income losses that can result from commodity price fluctuations. In recent years, increasing numbers of producers have purchased policies that insure against revenue and income losses, partly in response to the unpredictable effects of climate/weather on commodity prices. In crop year 2010, about 66 percent of policies had this provision; that number rose to over 70 percent by crop year 2012. The Federal costs to administer the Federal crop insurance programs have increased significantly, nearly quadrupling from \$4.7 billion in FY 2010 to \$15.8 billion in FY 2012.

The past few years have also seen a significant rise in total crop insurance liabilities without a corresponding rise in the number of policies or acreage. For instance, in FY 2010, RMA's total liabilities amounted to \$71 billion covering 256 million acres and 1.1 million policies; by FY 2012, the total acreage had only increased to 282 million for 1.2 million policies—while total liabilities increased to approximately \$110 billion, an increase totaling over 50 percent over this period.

The increasing reliance on the Federal crop insurance programs as the primary risk management tool for American producers (with the resulting increase in total liabilities) coupled with the unpredictable results of recent weather/climate changes (and their impact on commodity prices) have, we believe, concomitantly increased the exposure and risk to the Federal crop insurance programs. This trend warrants more monitoring and oversight. For example, in OIG's current audit on prevented planting provisions, OIG is assessing whether RMA established adequate management controls over the prevented planting provisions of the Federal Crop Insurance Program—specifically, whether RMA has established adequate policies and procedures for approved insurance providers to implement and administer the prevented planting provisions.

## Audits Cited by Agency

### Animal and Plant Health Inspection Service

- *Animal and Plant Health Inspection Service Administration of the Horse Protection Program and the Slaughter Horse Transport Program* (33601-0002-KC, September 2010)
- *Animal and Plant Health Inspection Service Inspections of Problematic Dealers* (33002-0004-SF, May 2010)
- *USDA Controls Over Shell Egg Inspections* (50601-0001-23, November 2012)
- *Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit* (33601-0012-Ch, August 2012)

### Agricultural Marketing Service

- *USDA Controls Over Shell Egg Inspections* (50601-0001-23, November 2012)
- *FSIS and AMS Field-Level Workforce Challenges* (50601-0002-31, July 2013)

### Farm Service Agency

- *Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments* (03401-0002-11, July 2013)

### Foreign Agricultural Service

- *Foreign Agricultural Service: Implementation of the Trade Title of the 2002 Farm Bill and the 2002 President's Management Agenda* (50601-0012-At, March 2007)
- *Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals* (50601-0001-22, March 2013)

### Food and Nutrition Service

- *Vendor Management in the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)* (27601-0038-Ch, March 2013)
- *National School Lunch Program — Food Service Management Company Contracts* (27601-0001-23, January 2013)
- *Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts* (27002-0011-13, September 2012)
- *Controls for Authorizing Supplemental Nutrition Assistance Program (SNAP) Retailers* (27601-0001-31, July 2013)
- *Overlap and Duplication in the Food and Nutrition Service's Nutrition Programs* (27001-0001-10, June 2013)

## Forest Service

- *American Recovery and Reinvestment Act — Forest Service Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands* (08703-0005-SF, March 2013)
- *Management of Oil and Gas Resources on National Forest System Land* (08601-0001-21, March 2013)

## Food Safety and Inspection Service

- *FSIS and AMS Field-Level Workforce Challenges* (50601-0002-31, July 2013)
- *USDA Controls Over Shell Egg Inspections* (50601-0001-23, November 2012)
- *FSIS E. coli Testing of Boxed Beef* (24601-0003-31, March 2013)
- *FSIS – Inspection and Enforcement Activities at Swine Slaughter Plants* (24601-0001-41, May 2013)

## Natural Resources Conservation Service

- *Natural Resources Conservation Service’s Oversight and Compliance Activities* (10601-0001-22, February 2013)
- *Recovery Act – NRCS’ Emergency Watershed Protection Program Floodplain Easements Field Confirmations* (10703-0005-KC, March 2013)

## Office of Advocacy and Outreach

- *Controls Over the Grant Management Process of the Office of Advocacy and Outreach – Section 2501 Program Grantee Selection for Fiscal Year 2012* (91099-0001-21(1), May 2012)
- *Controls Over the Grant Management Process of the Office of Advocacy and Outreach* (91099-0001-21, February 2013)

## Office of the Chief Information Officer

- *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act* (50501-0003-12, November 2012)
- *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2011 Federal Information Security Management Act* (50501-0002-12, November 2011)
- *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2010 Federal Information Security Management Act* (50501-0002-IT, November 2010)
- *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2009 Federal Information Security Management Act* (50501-0015-FM, November 2009)
- *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2008 Federal Information Security Management Act Report* (50501-0013-FM, September 2008)

- *Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act Report* (50501-0003-12, November 2012)
- *Audit of the Office of the Chief Information Officer's FYs 2010 and 2011 Funding Received for Security Enhancements* (88401-0001-12, August 2012)
- *Review of Selected Controls of the eAuthentication System* (88501-0001-12, January 2013)

#### Rural Development

- *American Recovery and Reinvestment Act of 2009 — Broadband Initiatives Program — Pre-Approval Controls* (09703-0001-32, March 2013)
- *Rural Business Enterprise Grants Recovery Act Controls Field Confirmations* (34703-0001-31, January 2013)
- *Single-Family Housing Direct Loans Recovery Act Controls – Compliance Review* (04703-0003-KC, June 2012)

#### USDA

- *Fiscal Year 2012 Improper Payment Elimination and Recovery Act of 2010 Compliance Review* (50024-0004-11, March 2013)
- *Executive Order 13520, Reducing Improper Payments — Fiscal Year 2012 High Dollar Report Review* (50024-0003-11, August 2013)

## Acronyms and Abbreviations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
<i>BFDL</i>	The <i>Black Farmers Discrimination Lawsuit</i>
BIP	Broadband Initiatives Program
BLM	Bureau of Land Management
CIGIE	Council of the Inspectors General on Integrity and Efficiency
<i>E. coli</i>	<i>Escherichia coli</i> O157:H7
EO 13520	President's 2009 Executive Order, <i>Reducing Improper Payments and Eliminating Waste in Federal Programs</i>
FAS	Foreign Agricultural Service
FDA	Food and Drug Administration
FISMA	Federal Information Security Management Act of 2002
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FY	fiscal year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
HIMP	Hazard Analysis and Critical Control Point-based Inspection Models Project
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IT	information technology
MOU	memorandum of understanding
NASS	National Agricultural Statistics Service
NFS	National Forest System
NIST	National Institute of Standards and Technology
NRCS	Natural Resources Conservation Service
NSLP	National School Lunch Program
OAO	Office of Advocacy and Outreach
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHIS	Public Health Information System
RBEG	Rural Business Enterprise Grant
RBS	Rural Business-Cooperative Service
Recovery Act	American Recovery and Reinvestment Act of 2009
RMA	Risk Management Agency
SE	<i>Salmonella enteritidis</i>
SFA	school food authority
SFH	Single Family Housing
SITC	Smuggling, Interdiction and Trade Compliance unit

SNAP .....Supplemental Nutrition Assistance Program  
SURE .....Supplemental Revenue Assistance Payments Program  
USDA.....Department of Agriculture  
WFM.....wildland fire management  
WIC.....Special Supplemental Nutrition Assistance Program for Women,  
                                Infants, and Children program  
WUI.....Wildland Urban Interface

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