





# Cattle Health Program Disease Incident Response

## Audit Report 33601-0003-41

OIG evaluated APHIS' oversight of response activities related to cattle disease incidents for the tuberculosis, brucellosis, and bovine spongiform encephalopathy programs.

### OBJECTIVE

Our objective was to evaluate APHIS' oversight of response activities related to cattle disease incidents for the tuberculosis, brucellosis, and bovine spongiform encephalopathy programs.

### REVIEWED

We reviewed applicable laws, regulations, and agency and State-issued policies and procedures; interviewed key APHIS officials; reviewed documentation for the 29 cattle indemnity payments; and reviewed tracing investigation documentation for the 11 cattle disease incidents.

### RECOMMENDS

We recommended that APHIS: (1) analyze animal disease traceability risks by estimating the risks' significance; (2) revise and implement procedures to enable recipients to separately identify their costs for each program under APHIS' umbrella cooperative agreements; (3) determine whether APHIS complied with relevant appropriation act provisions; (4) consult with qualified professionals to determine whether APHIS' current valuation method reflects the fair market value of cattle destroyed; and (5) provide area offices with guidance that includes the specific documentation they are required to maintain.

### WHAT OIG FOUND

The Animal and Plant Health Inspection Service's (APHIS) mission includes protecting the health of United States (U.S.) agriculture and natural resources against invasive pests and diseases. APHIS administers the Cattle Health Program, which has the primary goals of: (1) rapidly detecting significant diseases that could affect the U.S. cattle population, and (2) preventing the introduction and spread of any detected devastating disease. According to APHIS, the Cattle Health Program protects and improves the quality, productivity, and economic viability of the U.S. cattle industry.

We found that APHIS did not adequately manage identified risks to its animal disease tracing capabilities; therefore, APHIS' ability to timely and effectively respond to cattle disease incidents may be adversely impacted, and cattle producers' business operations may also be affected. We also found that, since fiscal year (FY) 2017, APHIS did not properly track and account for its Animal Health program umbrella cooperative agreement funding. As a result, APHIS lacks assurance that the recipients used funds awarded—totaling more than \$18 million in FY 2020—for authorized purposes. This could put the agency at risk for reprogramming and Antideficiency Act violations.

Additionally, APHIS did not use appraisers to determine the fair market value of cattle destroyed due to tuberculosis; therefore, APHIS lacks assurance that owners were compensated the fair market value for these cattle, totaling more than \$2.4 million of payments in FY 2019. Finally, APHIS did not provide sufficient documentation to support more than \$613,000 for 17 of the 29 payments we reviewed. Consequently, APHIS has reduced assurance it paid Cattle Health Program indemnity payments—totaling more than \$2.4 million in FY 2019—in the correct amounts.

APHIS agreed with our recommendations, and we accepted management decision for the nine audit recommendations in the report.





## OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



**DATE:** November 28, 2022

**AUDIT**

**NUMBER:** 33601-0003-41

**TO:** Kevin Shea  
Administrator  
Animal and Plant Health Inspection Service

**ATTN:** Robert J. Huttenlocker  
Deputy Administrator  
Marketing Regulatory Program Business Services

**FROM:** Steve Rickrode  
Acting Assistant Inspector General for Audit

**SUBJECT:** APHIS' Cattle Health Program Disease Incident Response

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all nine audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>) in the near future.



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# Background and Objectives

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## Background

The Animal and Plant Health Inspection Service's (APHIS) mission includes protecting the health of United States (U.S.) agriculture and natural resources against invasive pests and diseases. With the enactment of the Animal Health Protection Act in 2002,<sup>1</sup> Congress modernized animal health laws and provided APHIS with more tools to safeguard the Nation's resources against those threats.

APHIS administers the Cattle Health Program, which includes activities for animal disease traceability (ADT), as well as the tuberculosis, brucellosis, and bovine spongiform encephalopathy domestic program diseases. The program's primary goals consist of: (1) rapidly detecting significant diseases that could affect the U.S. cattle population, and (2) preventing the introduction and spread of any detected devastating disease. According to APHIS, the Cattle Health Program protects and improves the quality, productivity, and economic viability of the U.S. cattle industry, valued at approximately \$106 billion (National Agricultural Statistics Service, 2019).<sup>2</sup>

In fiscal year (FY) 2020, APHIS received more than \$355 million for its Animal Health programs, which included \$104.5 million for the Cattle Health Program. To accomplish the Cattle Health Program's goals, APHIS works cooperatively with State agencies and other recipients.<sup>3</sup> One way the agency provides funds to State agencies and other recipients is through its Animal Health program umbrella cooperative agreements, which included approximately \$4.7 million for Cattle Health Program activities in FY 2020.<sup>4</sup> Cattle Health Program activities include disease response actions, such as disease tracing investigations; testing; and the movement and disposal of exposed or infected cattle.

In 2013, APHIS implemented its ADT Program to improve Federal and State agencies' animal disease tracing capabilities and help prevent the introduction and spread of disease.<sup>5</sup> To improve traceability, APHIS established nationwide minimum official identification and documentation requirements for covered livestock moving interstate.<sup>6</sup> APHIS designed these requirements to

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<sup>1</sup> Animal Health Protection Act, Pub. L. No. 107-171, §§ 10401-10418, 116 Stat. 134, 494-509 (2002) (codified at 7 U.S.C. ch. 109).

<sup>2</sup> USDA, *2022 USDA Explanatory Notes—Animal and Plant Health Inspection Service*, 22-68, available at <https://www.usda.gov/sites/default/files/documents/22APHIS2022Notes.pdf> (last visited June 7, 2022).

<sup>3</sup> In FY 2020, these other recipients included associations and a university.

<sup>4</sup> These agreements include multiple Animal Health programs including, but not limited to, Avian Health, Swine Health, and Cattle Health; and they provide funding for surveillance activities to detect disease, as well as response activities to contain and eradicate disease.

<sup>5</sup> Tracing capabilities include the ability to trace animals back from slaughter and forward from premises where agencies officially identify infected animals, in addition to tracing animals' interstate movements.

<sup>6</sup> *Traceability for Livestock Moving Interstate*, 78 Fed. Reg. 2071 (Jan. 9, 2013) (codified at 9 C.F.R. pt. 86).



embrace the strengths and expertise of States, Tribes, and producers, while giving them the flexibility to find and use the most effective traceability approaches.

Further, to prevent the spread of disease and encourage owners to report disease incidents early, APHIS pays owners for cattle destroyed due to diseases such as brucellosis and tuberculosis. APHIS compensates owners based on regulatory requirements, which vary by disease. APHIS is also required to maintain documentation to support the indemnities the agency pays to owners.

## **Objectives**

Our objective was to evaluate APHIS' oversight of response activities related to cattle disease incidents for the tuberculosis, brucellosis, and bovine spongiform encephalopathy programs.

## Finding 1: APHIS Needs to Improve Its Risk Management Process for Disease Traceability

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We found that APHIS did not adequately manage identified risks to its animal disease tracing capabilities.<sup>7</sup> This occurred because APHIS did not sufficiently analyze the risks' significance in order to determine what mitigating actions APHIS or its cooperators should take.<sup>8</sup> As a result, APHIS' ability to timely and effectively respond to cattle disease incidents may be adversely impacted—potentially slowing the tracing process and increasing the likelihood of disease spread.<sup>9</sup> Additionally, cattle producers' business operations may also be affected.

The Office of Management and Budget (OMB) provides guidance to Federal agencies to ensure managers effectively manage risks to the agencies' strategic objectives.<sup>10</sup> Further, a United States Department of Agriculture (USDA) Departmental Regulation requires agencies to establish internal controls in accordance with the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*.<sup>11</sup> These standards outline risk assessment requirements that provide the basis for developing appropriate risk responses.<sup>12</sup>

In 2013, APHIS implemented its ADT Program, which established minimum requirements for official identification and documentation of cattle that move interstate.<sup>13</sup> It is a collaborative program in which APHIS cooperates with State and Tribal animal health officials, and cattle industry members to carry out program requirements. The program's purpose is to improve Federal and State abilities to trace livestock in the event of livestock disease.<sup>14</sup> Tracing identifies where diseased and at-risk animals are located, where they have been, and when they were there. APHIS Veterinary Services' (VS) epidemiologists and State personnel initiate traces to identify infected animals' herd-of-origin—as well as other herds that may have been exposed to the disease—so that they can prevent the disease's spread and control and eradicate the disease. These traces can be complex and involve hundreds to thousands of cattle.

In 2017, APHIS evaluated the effectiveness of its ADT Program and published a report that identified four “significant gaps” in its framework,<sup>15</sup> as summarized below:

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<sup>7</sup> APHIS' animal disease tracing capabilities are an integral part of its strategic objectives because these capabilities help prevent, control, and eradicate animal disease.

<sup>8</sup> Estimating the significance of risks includes considering the magnitude of impact, likelihood of occurrence, and nature of the risks.

<sup>9</sup> We reviewed 11 disease incidents, and found that one incident was not successfully traced back due to a risk identified by APHIS. Nevertheless, cattle disease traces could be adversely impacted by these risks since, according to APHIS, the risks represent “significant gaps” in tracing capabilities.

<sup>10</sup> OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Circular A-123 (July 15, 2016).

<sup>11</sup> USDA Departmental Regulation 1110-002, *Management's Responsibility for Internal Control* (June 17, 2013).

<sup>12</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Sept. 2014).

<sup>13</sup> *Interstate movement* refers to the movement of cattle from one State into or through any other State.

<sup>14</sup> APHIS defines *livestock* as all farm raised animals. See 9 C.F.R. § 86.1.

<sup>15</sup> USDA APHIS, *Animal Disease Traceability Assessment Report* (April 2017).

*Official Identification Requirements Limited to Interstate Movements:* Current ADT regulations require specific types of cattle to have official identification; however, these requirements only apply to cattle that move interstate.<sup>16</sup> APHIS found that this could adversely affect disease tracing capabilities because cattle without official identification could commingle with other cattle and spread disease to animals that subsequently move interstate. APHIS' report stated this risk could create significant confusion and enforcement challenges when cattle with different identification requirements commingle.

*Reliance on Low-Cost Visual Only Tags:* Visual ear tags are the primary method of official identification for cattle that move interstate.<sup>17</sup> APHIS found that this method could adversely affect disease-tracing capabilities because of the challenges and limitations of visual-only identification tags, including the inability to read official identification at the speed of commerce, and legibility and transcription errors.

*Exclusion of Beef Feeder Cattle from Official Identification Requirements:* Feeder cattle are young, short-lived cows that go directly to slaughter, and they are currently exempt from official identification requirements. However, APHIS found that this exemption could adversely affect disease tracing capabilities because feeder cattle are usually not isolated from other animals that can go on to spread infectious diseases.

*Inconsistent Collection and Correlation of Identification at Slaughter Facilities:* ADT regulations require that cattle identification devices be removed at slaughter and correlated with the animals' carcasses through final inspection. However, APHIS found that this process was inconsistent and could adversely affect disease tracing capabilities. Specifically, although successful tracing is not guaranteed by the availability of identification collected at slaughter, according to APHIS, it provided a significant advantage for Federal and State personnel in their investigations.

We determined that these "significant gaps" represented risks to APHIS' ADT Program objectives because the ADT Program's purpose is to improve Federal and States' disease tracing capabilities; however, these "significant gaps" could adversely affect the agencies' ability to effectively trace cattle disease incidents and achieve the program objective.<sup>18</sup> While APHIS identified these risks, the agency did not adequately manage the risks and determine what mitigating actions, if any, APHIS or its cooperators should take.

This occurred because APHIS did not sufficiently analyze the risks' significance by considering the magnitude of impact, likelihood of occurrence, and the nature of the risks, as required.<sup>19</sup> Specifically, APHIS did not conduct an analysis for three of the four risks it identified. For

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<sup>16</sup> 9 C.F.R. § 86.4.

<sup>17</sup> The official ear tag is an identification tag approved by APHIS that bears an official identification number for individual animals.

<sup>18</sup> GAO defines a risk as "[t]he possibility that an event will occur and adversely affect the achievement of objectives." GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Sept. 2014).

<sup>19</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, ¶ 7.06 (Sept. 2014).

example, APHIS did not analyze the *Exclusion of Beef Feeder Cattle from Official Identification Requirements* risk. Without an analysis, APHIS does not have the information it needs to determine whether the risk is significant and response actions are warranted. If the risk is significant, APHIS could be missing opportunities to implement mitigating actions that could impact a large population of cattle, as feeder cattle made up over 79 percent of all slaughtered cattle in 2017.

APHIS also did not conduct a sufficient analysis for the fourth, remaining risk (*Inconsistent Collection and Correlation of Identification at Slaughter Facilities*) by considering the magnitude of impact and the nature of the risk. In 2017, APHIS initiated a pilot project to assess the accuracy of cattle identification correlation and determine how often identification did not match the carcass.<sup>20, 21</sup> While this analysis assessed the risk's likelihood of occurrence, it did not analyze the nature of the risk or the impact this risk could have on Federal and State agencies' ability to trace disease. For example, APHIS did not measure whether the inconsistent correlation affected traces or prevented the agency from meeting the ADT Program's purpose.

Without sufficient analyses, APHIS does not have the information needed to determine whether these risks are significant. If significant, these risks could adversely impact Federal and State agencies' ability to timely and effectively respond to cattle disease incidents, and they could also affect cattle producers. Specifically, these risks could adversely impact disease tracing capabilities by slowing the tracing process and increasing the likelihood of disease spread. According to APHIS, the timely and successful tracing of disease is essential to protect the economic viability and competitive advantage of the U.S. cattle industry; the longer it takes to trace the disease, the more likely the disease is to spread. These tracing capabilities are more important in the event of fast-moving diseases, such as foot-and-mouth disease, that spread quickly and easily between animals and could devastate the U.S. cattle industry if not contained timely. Further, these risks could also affect cattle producers by disrupting business operations, such as restricting the movement or sale of cattle until APHIS can determine the cattle's disease status.<sup>22</sup>

APHIS officials emphasized that the agency monitors and assesses States' tracing capabilities on an ongoing basis. Specifically, the agency conducts State tracing exercises that measure States' ability to timely identify the herd-of-origin and movement of cattle with official identification. APHIS officials stated that tracing performance measures have consistently improved. However, these exercises were not designed to analyze the identified risks and were based on cattle that

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<sup>20</sup> USDA APHIS VS, *Matching Adult Cattle TB Granuloma Submissions to Animal Identification Tags* (Aug. 2018).

<sup>21</sup> APHIS initiated the pilot project as a result of a 2016 Western States Livestock Health Association resolution that urged USDA to evaluate cattle identification correlation.

<sup>22</sup> Producers' herds can be unnecessarily quarantined because the movement of non-infected/non-exposed herds could be restricted when investigators are unable to trace the animals' origin from slaughter. Slaughter facilities divide cattle into groups, and each group may be owned by several different producers. If investigators cannot identify the producer that owned the infected animal, they may have to quarantine and test all of the owners' herds within that group to identify disease exposure (including non-infected/non-exposed herds). This can disrupt producers' business operations by restricting the movement or sale of cattle until the disease status can be determined.

had official identification; therefore, the exercises did not address the risks identified in APHIS' 2017 report.

While APHIS officials generally agreed that analyses would be beneficial, they were concerned the agency may not have the ability to address all of the risks due to the collaborative nature of the program and its limited authority. Specifically, according to APHIS officials, the *Official Identification Requirements Limited to Interstate Movements* risk was outside of APHIS' jurisdiction because the statutory and regulatory requirements only covered cattle that moved interstate. Further, APHIS officials were concerned that implementing changes to address the *Exclusion of Beef Feeder Cattle from Official Identification Requirements* risk would be subject to significant industry opposition. We understand these concerns and recognize APHIS' ability to address these risks may be limited due to the collaborative nature of the program; however, analyses would provide APHIS with the information needed to help determine what mitigating actions, if any, are warranted. Additionally, while APHIS may not be able to eliminate these risks entirely, the agency may be able to use information from these analyses to persuade stakeholders to take action.<sup>23</sup>

According to APHIS, it has begun a response action to mitigate one of these risks as the agency is pursuing the rulemaking process to address the *Reliance on Low-Cost Visual Only Tags* risk.<sup>24</sup> However, APHIS has not implemented response actions or conducted sufficient analyses for the remaining three risks identified in its 2017 report.<sup>25</sup> Therefore, to ensure that APHIS sufficiently manages its identified risks, the agency should analyze the three remaining risks by estimating the risks' significance. Based on the results of the analyses, APHIS should determine what actions are necessary to mitigate the risks.

## **Recommendation 1**

Analyze the three risks for which APHIS has not begun mitigating actions by estimating the risks' significance by considering the magnitude of impact, likelihood of occurrence, and the nature of the risks.

### **Agency Response**

APHIS agrees with this recommendation and will estimate the risks' significance by considering the magnitude, impact (consequences), likelihood of occurrence, and the nature of the risks.

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<sup>23</sup> We are referring to stakeholders from the cattle industry, as well animal health officials from other Federal agencies, State agencies, and Tribal nations. These stakeholders do not include members of Congress, and the statement should not be interpreted as lobbying to Congress.

<sup>24</sup> *Semiannual Regulatory Agenda, Spring 2022*, 87 Fed. Reg. 48,246 (Aug. 8, 2022).

<sup>25</sup> The remaining three risks are related to the *Official Identification Requirements Limited to Interstate Movements*, *Exclusion of Beef Feeder Cattle from Official Identification Requirements*, and *Inconsistent Collection and Correlation of Identification at Slaughter Facilities*.



### **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 2**

Based on the results of Recommendation 1, determine what actions are necessary to mitigate the risks.

### **Agency Response**

APHIS agrees with this recommendation. APHIS has prepared a new traceability rule for publication to address the needs and desires of the industry for traceability. APHIS will endeavor to incorporate findings from the above analysis into the traceability program and institute risk mitigations for the three identified areas.

### **OIG Position**

We accept management decision for this recommendation.

## **Finding 2: APHIS Needs to Improve Its Animal Health Program Umbrella Cooperative Agreement Reimbursement Process**

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We found that, since FY 2017, APHIS did not properly track and account for its Animal Health program umbrella cooperative agreement funding to ensure funds were used for authorized purposes and in accordance with applicable requirements.<sup>26</sup> Specifically, APHIS tracked and funded the costs of multiple Animal Health programs under the agreements—including the Cattle Health Program—based on estimated, predetermined percentages, instead of recipients’ actual expenses for each program. This occurred because APHIS did not adequately revise the reimbursement process to accommodate USDA’s ezFedGrants System, which the agency implemented in FY 2017, to enable recipients to separately identify their costs for each program. As a result, APHIS lacks assurance that recipients’ Animal Health program costs reflected the predetermined percentages, or that the recipients used the funds awarded—which totaled more than \$18 million in FY 2020—for authorized purposes. Further, this process could put the agency at risk for reprogramming and Antideficiency Act violations.

The Federal Managers’ Financial Integrity Act of 1982 requires Federal agencies to establish internal accounting and administrative control systems to provide reasonable assurance that funds are safeguarded against unauthorized use or misappropriation, and that revenues and expenditures are accounted for properly.<sup>27</sup> Accordingly, Federal Accounting Standards require that agencies use separate budget accounts to track the use of each appropriation for specific purposes.<sup>28</sup> For APHIS’ Animal Health programs (e.g., Cattle Health, Swine Health, Avian Health, etc.), funding is divided among each program within the explanatory statement referenced in the appropriation acts.<sup>29</sup> The explanatory statement provides Congressional intent and Congress’ expectations for the division of funds.

APHIS awards umbrella cooperative agreements to recipients, which cover animal disease activities for multiple Animal Health programs (including Cattle Health). As part of these agreements, recipients estimate the percentage of cost or effort they expect to expend on each Animal Health program.<sup>30</sup> The recipients then complete work throughout the cooperative

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<sup>26</sup> A cooperative agreement is a legal instrument of financial assistance between a Federal agency and a non-Federal entity, which is used when substantial Federal involvement is anticipated in carrying out the agreement’s activities. See 2 C.F.R. § 200.24. APHIS awarded Animal Health program umbrella cooperative agreements that covered multiple Animal Health programs (e.g., Cattle Health, Swine Health, Avian Health, etc.). These agreements included surveillance activities to detect disease, as well as response activities to contain and eradicate disease.

<sup>27</sup> Federal Managers’ Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 Stat. 814 (codified at 31 U.S.C. § 3512).

<sup>28</sup> Federal Accounting Standards Advisory Board (FASAB), *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Version 18 (June 30, 2019).

<sup>29</sup> We reviewed the appropriation act explanatory statements for our scope period (FYs 2017–2020).

<sup>30</sup> For two of the three States reviewed, the basis for the States’ estimates was inconsistent and the methodologies did not always comply with APHIS’ guidance.

agreements' performance period,<sup>31</sup> and periodically submit lump-sum reimbursement claims to APHIS for all Animal Health program expenses.

While recipients requested reimbursement for their total Animal Health program costs, we found that APHIS did not properly track or fund these reimbursements for umbrella cooperative agreements. Specifically, APHIS funded recipients' reimbursements based on predetermined, estimated percentages instead of based on the recipients' actual expenses for each, separate program. For instance, if a recipient initially estimated that 50 percent of its total Animal Health program expenses would be spent on Cattle Health, APHIS would then allocate (i.e., fund) 50 percent of the reimbursement payment to the Cattle Health Program. APHIS would allocate this amount even though the recipient's actual Cattle Health Program expenses may have been more or less than the 50 percent initially estimated.

When we analyzed the Cattle Health Program expenses provided by the States, we found that the amounts APHIS allocated to the Cattle Health Program did not accurately reflect two of the three States' expenses.<sup>32</sup> For instance, the amount APHIS allocated to the Cattle Health Program for one State was more than \$118,000, which exceeded the State's actual expenses for a 3-year period.<sup>33</sup> APHIS allocated this amount to the Cattle Health Program even though these funds reflected other Animal Health program costs according to the State. For another State, the amount APHIS allocated to the Cattle Health Program was more than \$74,000, which was less than the State's actual expenses for a 3-year period.<sup>34</sup> APHIS allocated this amount to other Animal Health programs even though these funds reflected Cattle Health Program costs according to the State. In total, for two of the three States we reviewed, APHIS did not properly account for more than \$193,000 in Animal Health program funds for a 3-year period.<sup>35</sup>

This occurred because the agency did not adequately revise its reimbursement process to accommodate USDA's ezFedGrants System, which APHIS implemented in FY 2017.<sup>36</sup> According to APHIS, prior to this system, recipients submitted reimbursement claims that identified their costs by specific programs. However, because this system did not include that functionality, recipients were required to claim reimbursement for the totality of their Animal Health program expenses. APHIS then funded recipients' reimbursements based on the

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<sup>31</sup> The performance period for APHIS' umbrella cooperative agreements covers April 1 through March 31 the following year.

<sup>32</sup> According to APHIS, the agency awarded 57 Animal Health umbrella cooperative agreements in FY 2020. These agreements were awarded to 53 State agencies and 4 other recipients.

<sup>33</sup> The 3-year period included FY 2017 through FY 2019 and the allocation totaled \$118,305. We did not include FY 2020 of our scope period in this example because the State had not submitted its final reimbursement claim at the time of our analysis.

<sup>34</sup> The 3-year period included FY 2017 through FY 2019 and the allocation totaled \$74,977. We did not include FY 2020 of our scope period in this example because APHIS allocated about \$49,000 more to the Cattle Health Program than the State's actual Cattle Health expenses in that year.

<sup>35</sup> Our analysis was based on the States' actual Cattle Health Program expenses provided by the State agencies.

<sup>36</sup> The ezFedGrants System is an online computer system used for managing the grant award process. Members of grant-seeking organizations use the ezFedGrants External Portal to view/apply for grant award opportunities, view grant award package documents, and submit claims and reports, among other actions.

predetermined percentages, instead of revising and implementing procedures to separately track and account for the Animal Health program funds.

When we discussed this with agency officials, they stated that the new system could not be easily modified because it would require a major upgrade that was not a priority (since APHIS was the only agency that used umbrella cooperative agreements to cover multiple programs). Officials also explained the agency used this allocation method to continue administering Animal Health programs under one umbrella cooperative agreement, thereby minimizing the administrative burden. However, they acknowledged that there could be ways to resolve this issue, such as having recipients attach a document with their reimbursement requests that lists the separate program costs, which APHIS is currently pursuing. Officials believed the estimated percentages reflected the costs for each program, and that the recipients would notify the agency if the expenses did not match the amount they estimated for each Animal Health program.

Due to the discrepancies identified during our review, APHIS lacks assurance that the recipients' Animal Health program costs reflected the estimated percentages. APHIS also lacks assurance that the recipients used the Animal Health program funds the agency awarded—which totaled more than \$18 million in FY 2020—for the purposes intended by Congress and APHIS. As explained above, APHIS allocated funds to the Cattle Health Program that reflected the States' other Animal Health program costs and vice versa. Consequently, these misallocated funds did not reflect expenses used for the intended purposes of each Animal Health program.

Additionally, APHIS' allocation process could put the agency at risk for reprogramming and Antideficiency Act violations.<sup>37</sup> According to APHIS, the agency and recipients can only use Animal Health program funds for the designated program.<sup>38</sup> For example, APHIS officials

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<sup>37</sup> The Antideficiency Act prohibits, in part, Federal Government officials from: (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the government in any contract or other obligation for the payment of money for any purpose in advance of appropriations made for such purpose, unless the contract or obligation is authorized by law; and (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. *See* 31 U.S.C. §§ 1341, 1517. Appropriation acts may also include requirements for reprogramming funds, which, generally, occurs when an entity shifts funds within an appropriation to purposes other than those considered or indicated by Congress at the time of the appropriation. For example, the FY 2020 Appropriations Act stated that a reprogramming involving funds in excess of \$500,000 or 10 percent, whichever is less, that augments existing programs, projects, or activities, would be a reprogramming event for which the Act requires notification to and approval of the Committees on Appropriations of both Houses of Congress at least 30 days in advance of the reprogramming. *See* Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, div. B, tit. VII, § 716(b)(1), 133 Stat. 2534, 2646.

<sup>38</sup> APHIS cited the Appropriation and Explanatory Statements, its budget authority for each Animal Health program, and Congressional direction/intent as the basis for its interpretation that APHIS and recipients can only use Animal Health funds for the designated program. There may also be other funding limitations (such as reprogramming requirements that impact the availability of funds, and requirements related to apportionments, reapportionments, or agency regulations). However, the scope of our audit did not include the extensive review necessary to identify, analyze, and interpret all of the relevant funding requirements.

stated that Cattle Health Program funding is limited to the amount provided in the Appropriation Explanatory Statements, which included \$104.5 million in FY 2020.

If the net amount of misallocated funds for each program exceeded applicable funding limitations (after considering each program's aggregate funding and expenditures for the fiscal year), the agency is at risk of reprogramming and Antideficiency Act violations.<sup>39</sup>

APHIS officials agreed that the agency needed to revise its umbrella cooperative agreement reimbursement process to enable recipients to separately identify their costs for each program. While they did not believe that differences resulting from its allocation process would rise to the level of reprogramming or Antideficiency Act violations, APHIS does not currently have the information needed to make that determination. Therefore, to ensure APHIS meets the applicable funding requirements, the agency should revise and implement procedures to enable recipients to separately identify their costs for each program under APHIS' Animal Health program umbrella cooperative agreements. In addition, to assess whether APHIS exceeded any program funding limitations as a result of its allocation process, the agency should obtain the recipients' actual expenses for each Animal Health program under the umbrella cooperative agreements awarded for the last 3 years,<sup>40</sup> and perform a reconciliation to determine whether these expenses reflected the amounts APHIS allocated. Finally, based on this reconciliation, APHIS should determine whether it complied with relevant appropriation act provisions and, as necessary, obtain an Office of the General Counsel opinion on any potential unauthorized reprogramming and Antideficiency Act violations.

### **Recommendation 3**

Revise and implement procedures to enable recipients to separately identify their costs for each program under APHIS' Animal Health program umbrella cooperative agreements.

#### **Agency Response**

APHIS agrees with this recommendation. APHIS implemented a more comprehensive process to address this finding on December 20, 2021, which included two new policies for cooperators. First, cooperators are asked to complete a chart with their workbook

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<sup>39</sup> For example, if APHIS' aggregate Cattle Health Program obligations/expenditures equaled \$104.5 million (the amount Congress specified for Cattle Health in the FY 2020 appropriation explanatory statement), and the agency subsequently determined that its net misallocations resulted in additional Cattle Health Program expenditures (from funds that had previously been misallocated to other Animal Health programs), then the total of APHIS' actual Cattle Health Program expenditures would exceed the amount specified by Congress. APHIS is at risk of reprogramming and Antideficiency Act violations by not tracking the shift in funds, which can implicate notice and approval requirements for some or all of the shifted funds that, if not followed, make the funds unavailable for the Cattle Health Program.

<sup>40</sup> We limited APHIS' reconciliation to this time period because Federal regulations require that non-Federal grant/agreement recipients must only retain financial records and other supporting documentation for a period of 3 years. *See* 2 C.F.R. § 200.333.



based on their approved funding by program in U.S. dollars rather than percentages. Second, every claim a cooperator submits under an umbrella cooperative agreement is now required to include a breakdown by program and cannot exceed the approved funding amount for each program.

#### **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 4**

Obtain the recipients' actual expenses for each Animal Health program under the umbrella cooperative agreements for the last 3 years from the implementation of Recommendation 3, and perform a reconciliation to determine whether these expenses reflected the amounts APHIS allocated.

#### **Agency Response**

APHIS agrees with this recommendation. APHIS will contact the cooperators participating under umbrella cooperative agreements to gather the relevant data and then complete the reconciliation.

#### **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 5**

Based on the results of the reconciliation performed in Recommendation 4, determine whether APHIS complied with relevant appropriation act provisions and, as necessary, obtain an Office of the General Counsel opinion on any potential unauthorized reprogramming and Antideficiency Act violations.

#### **Agency Response**

APHIS agrees with this recommendation. APHIS will contact the Office of General Counsel (OGC) to address Anti-deficiency Act violations if the analysis and results of recommendation 4 indicate additional action is warranted.

#### **OIG Position**

We accept management decision for this recommendation.

### **Finding 3: APHIS Needs to Improve Its Tuberculosis Indemnity Valuation Process**

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We found that APHIS did not use appraisers, as required, to determine the fair market value of cattle destroyed due to tuberculosis. This occurred because APHIS implemented alternative valuation methods to increase transparency and consistency without updating its regulatory requirements. However, these alternative methods did not reflect the valuation approach commonly used by appraisers and may not have reflected cattle's fair market value. As a result, APHIS lacks assurance that owners were compensated the fair market value for cattle destroyed due to tuberculosis, which totaled more than \$2.4 million of indemnity payments in FY 2019.

The relevant Federal statute requires APHIS to compensate owners for animals destroyed due to a disease based on the fair market value, as determined by the agency.<sup>41</sup> Accordingly, APHIS implemented regulations for its tuberculosis disease program that state animals for which indemnity is to be paid<sup>42</sup> must be appraised at their fair market value by an appraiser selected by APHIS<sup>43</sup> and appraisals must be recorded and signed by the appraiser.<sup>44</sup> Further, cattle owners may request a review of the appraisal if they deem it inadequate.<sup>45</sup>

We found that APHIS did not use appraisers to determine the fair market value of cattle destroyed due to tuberculosis and, instead, used alternative valuation methods that were inconsistent with the methodology commonly used by appraisers.<sup>46</sup> For instance, during the scope of our audit, APHIS used beef and dairy cattle "indemnity calculators" that based value on historical market data.<sup>47</sup> These calculators were complex spreadsheets developed by APHIS that included various cost, price, and quality relationships. To use these calculators, APHIS' field personnel entered the applicable cattle characteristics (such as age, weight, and pregnancy status) into the spreadsheets, which produced an estimated value for cattle indemnified.

The calculators' valuation method did not reflect the valuation approach commonly used by appraisers because it based value on averaged historical market prices. Specifically, the calculators were updated quarterly using averaged market data that was roughly 6 or 12 months old from the prior quarter. The calculators also incorporated additional "seasonal adjustments" for seasonal variations in cattle market prices that were based on 5-year averages. This differed from the approach appraisers commonly use because appraisers estimate value based on the sale prices of recently sold, comparable cattle. Consequently, an appraiser would consider market

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<sup>41</sup> 7 U.S.C. § 8306(d)(2)(A).

<sup>42</sup> Indemnity is payment to owners for cattle destroyed because of tuberculosis. *See* 9 C.F.R. § 50.3.

<sup>43</sup> 9 C.F.R. § 50.9(b).

<sup>44</sup> 9 C.F.R. § 50.10.

<sup>45</sup> 9 C.F.R. § 50.9(b).

<sup>46</sup> According to APHIS, appraisers commonly used the sales comparison approach to estimate cattle value that considers the data of recently sold comparable cattle.

<sup>47</sup> We use the term "historical market data" to refer to market prices and other information that may no longer reflect market conditions at the time of the appraisal.

data of comparable cattle sold at the time of the appraisal, if available; whereas APHIS' calculators would not.

In December 2020, after the scope of this audit, APHIS transitioned away from the indemnity calculators and began using beef and dairy "indemnity tables," which were developed by the Farm Service Agency and APHIS to create a consistent valuation process throughout USDA. However, the tables' valuation method also did not reflect the valuation approach commonly used by appraisers. Specifically, the indemnity tables based value on averaged historical nationwide market data from the prior calendar year. The tables were also less complex than the calculators and included fewer cattle characteristics (such as quality, lactation, and milk production) and used broader weight ranges in the valuation. Subsequently, a 1-pound difference could substantially increase the cattle's value.<sup>48</sup> Similar to the calculators, this methodology differed from the approach appraisers commonly use since appraisers would consider relevant characteristics that affect value, as well as the local market data of comparable cattle sold at the time of the appraisal, if available, whereas APHIS' tables would not.

According to APHIS, the agency used these alternative valuation methods for a variety of reasons, including to increase the transparency of APHIS' indemnity process and increase consistency in value determinations. However, these alternative valuation methods did not reflect the regulatory requirement for APHIS to use appraisers to determine the fair market value of cattle destroyed due to tuberculosis. Further, because the methodologies were based on historical market data, these methods may not have reflected the fair market value of cattle destroyed since the value of cattle may change over time. For example:

- The value of cattle may change due to normal fluctuations of market prices from one year to the next. Specifically, according to the USDA National Agricultural Statistics Service, the average price per hundred pounds of beef cattle was more than 6 percent higher in 2019 than in 2020.
- The value of cattle may change due to unpredictable events, such as the coronavirus disease 2019 pandemic. According to the USDA Agricultural Marketing Service, the spread of the coronavirus throughout the United States resulted in significant market disruption to the cattle industry due to plant closures, dramatic decline in beef production, and demand. These disruptions resulted in more than a 9-percent increase in cattle prices from March to April 2020, and a decline of more than 18-percent from April to May of that same year.<sup>49</sup>
- The value of cattle may also change due to seasonal variability. According to the USDA Agricultural Marketing Service, beef prices typically decline after the Independence Day holiday before rebounding as Labor Day approaches.

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<sup>48</sup> For example, the value of a 250-pound non-adult beef cow was more than 145 percent higher than the value of a 249-pound non-adult beef cow.

<sup>49</sup> These price fluctuations occurred in fed cattle prices for each 100 pounds of weight.

Had APHIS' alternative valuation methods considered normal fluctuations of market prices and the impact of unforeseen events on the cattle industry, its cattle tuberculosis-related appraised values may have been different. Consequently, APHIS lacks assurance that owners were compensated the fair market value for cattle destroyed due to tuberculosis, which totaled more than \$2.4 million of indemnity payments in FY 2019. These payments could have been more, less, or equal to the indemnity APHIS paid if the sale prices of recently sold comparable cattle were considered in the agency's cattle tuberculosis indemnity value determinations.

According to APHIS, the agency is in the process of updating its Cattle Health Program indemnity regulations to reflect a consistent USDA valuation approach.<sup>50</sup> While we understand the agency's reasons for using alternative valuation methods, APHIS should ensure its current valuation method meets the statutory requirement to compensate owners based on fair market value. Thus, APHIS should consult with qualified professional(s) (such as licensed appraisers) to determine whether the agency's cattle valuation method used to indemnify cattle for tuberculosis reflects the fair market value of cattle destroyed. If the agency's cattle tuberculosis evaluation method does not reflect fair market value, APHIS should establish an evaluation approach that reflects fair market value and seek to update its tuberculosis indemnity payment regulation to include this approach.<sup>51</sup>

## **Recommendation 6**

Consult with qualified professional(s) (such as licensed appraisers) to determine whether APHIS' current valuation method used to indemnify cattle for tuberculosis reflects the fair market value of cattle destroyed.

### **Agency Response**

APHIS agrees with this recommendation. APHIS is in discussions with various associations regarding the possible use of privately sourced data in developing indemnity values. APHIS is also working with the American Society of Farm Managers and Rural Appraisers (ASFMRA) on the development of appraisal standards for livestock indemnification. The Congressionally recognized Appraisal Foundation recommended APHIS use ASFMRA. APHIS is also working with ASFMRA on the development of a national directory of qualified livestock appraisers and the vetting of appraisers who would be included in this directory.

### **OIG Position**

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<sup>50</sup> *Advance Notice of Proposed Rulemaking*, 87 Fed. Reg. 54,633-54,636 (Sept. 7, 2022).

<sup>51</sup> We did not take exception to any monetary amount for this issue since we do not have evidence that the value of APHIS' tuberculosis indemnity payments was inaccurate. While APHIS did not use appraisers, as required, to determine the fair market value of cattle destroyed due to tuberculosis, its resulting indemnity payment amounts could have been higher, lower, or equal to the amounts determined by appraisers.

We accept management decision for this recommendation.

## **Recommendation 7**

Based on the results of Recommendation 6, revise, if needed, the current valuation method used to indemnify cattle for tuberculosis to ensure it reflects the fair market value of cattle destroyed.

### **Agency Response**

APHIS agrees with this recommendation. APHIS is proposing a new rule to address indemnity evaluations and published an Advance Notice of Proposed Rulemaking on September 7, 2022. APHIS will use the comments received to guide its approach to tuberculosis indemnities. Part of the Advance Notice of Proposed Rulemaking is the question of incorporating the use of an annual table to the normal valuation process.

### **OIG Position**

We accept management decision for this recommendation.

## **Recommendation 8**

If the tuberculosis indemnity payment process has not been formally incorporated into regulations, submit a regulatory work plan to the USDA Office of Budget and Program Analysis.

### **Agency Response**

APHIS agrees with this recommendation. A regulatory workplan has been submitted and an Advance Notice of Proposed Rulemaking was published on September 7, 2022.

### **OIG Position**

We accept management decision for this recommendation.



## **Finding 4: APHIS Needs to Improve Its Documentation for Tuberculosis and Brucellosis Indemnity Payments**

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We found that APHIS area offices did not provide sufficient documentation to support portions of 17 of the 29 Cattle Health Program indemnity payments we reviewed.<sup>52</sup> This occurred because the APHIS national office did not provide adequate guidance to ensure its area offices maintained sufficient documentation readily available for review. Consequently, APHIS has reduced assurance that the agency properly paid its tuberculosis and brucellosis indemnity payments—totaling more than \$2.4 million in FY 2019—in the correct amounts.

OMB required agencies to support Federal payments with sufficient documentation to ensure the agencies made payments to eligible recipients in correct amounts.<sup>53</sup> The relevant USDA Departmental Regulation also requires agencies to establish internal controls in accordance with *GAO Standards for Internal Controls in Federal Government*.<sup>54</sup> These standards include documenting transactions to allow the documentation to be readily available for examination, as well as managing and maintaining documentation and records.<sup>55</sup>

To encourage producers to report disease early, APHIS pays producers an indemnity for animals destroyed. APHIS' regulations outline the indemnity payment requirements, which include different requirements based on the disease.<sup>56</sup> For example, the indemnity paid for cattle destroyed due to tuberculosis is based on the fair market value of the animal, whereas the indemnity paid for cattle destroyed due to brucellosis is based on maximum fixed rates for the type of animal destroyed. APHIS also pays other indemnity-related expenses, such as the cost of transporting cattle to slaughter, and costs for cleaning and disinfecting. APHIS then reduces the total indemnity by the amount of any salvage value the owner received.<sup>57</sup>

Of the 29 tuberculosis and brucellosis indemnity payments we reviewed, we found that APHIS did not provide sufficient documentation to support portions of 17 payments totaling more than \$613,000. Specifically, these indemnity payments lacked sufficient support for salvage value, or had inadequate support for the payment rates used or other deficiencies, as described below.

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<sup>52</sup> The 29 indemnity payments we reviewed included 24 tuberculosis payments and 5 brucellosis payments. Our review did not include any bovine spongiform encephalopathy indemnity payments.

<sup>53</sup> OMB, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, Memorandum M-18-20 (June 26, 2018).

<sup>54</sup> USDA Departmental Regulation 1110-002, *Management's Responsibility for Internal Control* (June 17, 2013).

<sup>55</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, ¶ 10.03 (Sept. 2014).

<sup>56</sup> 9 C.F.R. §§ 50.9, 51.3.

<sup>57</sup> For indemnity payments, salvage is deducted from the cattle's value for the amount typically paid for meat of dead, dying, disabled, or diseased animals, which would not likely pass inspection for human consumption (i.e., edible meat).

### *Insufficient Salvage Value Support*

APHIS' tuberculosis indemnity payment regulations require specific support for the salvage value of cattle, such as a form signed by the purchaser that details the basis for the salvage value amount (e.g., price per pound), gross receipts, and net proceeds.<sup>58</sup> However, we found that 11 indemnity payments lacked adequate support for more than \$607,900 of salvage value.<sup>59</sup> For example, one indemnity payment file lacked adequate documentation to support more than \$160,000 of salvage value for the 218 animals indemnified. While APHIS provided some documentation to support the payment (e.g., indemnity claim forms, indemnity payment calculators), it did not provide adequate documentation to support the salvage value the owner received.

### *Insufficient Payment Rate Support and Other Deficiencies*

APHIS' regulations for cattle destroyed due to brucellosis establish requirements that indemnity payments may not exceed \$250 for registered cattle and non-registered dairy cattle, or \$50 for any non-registered cattle other than dairy cattle.<sup>60, 61</sup> However, we found that six indemnity payments lacked sufficient documentation to support more than \$5,200 related to the payment rate used or other documentation deficiencies.<sup>62</sup> For example, APHIS paid the maximum \$250 brucellosis indemnity payment rate for 12 beef cattle, totaling \$3,000, but did not provide any documentation to support whether these cattle were registered and eligible for the payment rate the agency used.

This occurred because APHIS did not provide adequate guidance to ensure its area offices maintained sufficient documentation readily available for review. While the agency issued guidance memoranda in 2006<sup>63</sup> and 2009,<sup>64</sup> the guidance did not require or specify the documentation that should be maintained by the area offices, such as documentation needed to support salvage value. In the absence of sufficient guidance, APHIS area offices had a variety of reasons why they did not have sufficient documentation readily available for our review. In some instances, APHIS personnel stated they were unclear as to what documentation they were required to maintain. Another employee stated there was insufficient documentation because personnel no longer with the agency maintained that documentation and current staff did not

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<sup>58</sup> 9 C.F.R. § 50.11.

<sup>59</sup> Of these 11 payments, 2 also included unsupported amounts related to "other" deficiencies that totaled about \$699; however, we included these amounts with the payments in this category since the majority of the payments' unsupported amounts were related to salvage value.

<sup>60</sup> 9 C.F.R. § 51.3(a)(2)(i).

<sup>61</sup> APHIS defines *registered cattle* as cattle for which individual records of ancestry are recorded and maintained by a breed association whose purpose is the improvement of bovine species and for which individual registration certificates are issued and recorded by such breed association.

<sup>62</sup> Other documentation deficiencies include insufficient support for cleaning and disinfection costs, or discrepancies in supporting documentation.

<sup>63</sup> APHIS Veterinary Services, *Compensation: Procedures Appraisal and Indemnity Claim*, Memorandum 534.1, VI. Documentation, (B) Other Documentation (Apr. 28, 2006).

<sup>64</sup> APHIS Veterinary Services, *Indemnity for Tuberculosis*, Memorandum 552.32 (July 7, 2009).

have access to their email files. Finally, additional personnel explained that, due to office renovation, the documents were likely in storage and unavailable.

As a result, APHIS has reduced assurance that the agency properly paid its tuberculosis and brucellosis Cattle Health Program indemnity payments—which totaled more than \$2.4 million in FY 2019—in the correct amounts. Specifically, without sufficient documentation, internal and external reviewers cannot assess APHIS’ indemnity payments and verify that the agency made payments in the correct amounts.

We spoke with APHIS area office staff, and they stated developing guidance would be beneficial. We also discussed this issue with APHIS management officials, and they provided no additional feedback. Therefore, to ensure adequate support is readily available for review, APHIS should provide area offices with guidance that outlines documentation requirements for the Cattle Health Program tuberculosis and brucellosis indemnity payments.

## **Recommendation 9**

Provide area offices with guidance that includes the specific documentation area offices are required to maintain for the Cattle Health Program tuberculosis and brucellosis indemnity payments to ensure adequate support is readily available for review.

### **Agency Response**

APHIS agrees with this finding, and, as noted above in response to Finding 3, USDA is preparing a rule to cover livestock valuations and will supply additional guidance to the field offices with the finalization of this new rule.

### **OIG Position**

We accept management decision for this recommendation.

## Scope and Methodology

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We conducted a nationwide audit to evaluate APHIS' oversight of response activities related to cattle disease incidents for the tuberculosis, brucellosis, and bovine spongiform encephalopathy programs. The scope of our work covered FYs 2017–2020; however, we expanded our review to include an alternative indemnity payment valuation method that APHIS began using in December 2020 for cattle tuberculosis indemnity.<sup>65</sup> We performed fieldwork at the APHIS National Office (Riverdale, Maryland), three APHIS State area offices, and three State Animal Health offices; however, due to the coronavirus disease 2019 pandemic, we conducted fieldwork remotely to address the audit objective. The APHIS State area offices included the Florida State Area Office (Gainesville, Florida), Texas State Area Office (Austin, Texas), and Wyoming State Area Office (Cheyenne, Wyoming). The State Animal Health offices included the Florida Department of Agriculture and Consumer Services (Tallahassee, Florida), Texas Animal Health Commission (Austin, Texas), and Wyoming Livestock Board (Cheyenne, Wyoming).<sup>66</sup> We conducted fieldwork from May 2020 through August 2022.

We non-statistically selected three States for review based primarily on: (1) the number of disease incidents and/or the volume and total dollar amount of indemnities paid for the tuberculosis, brucellosis, and bovine spongiform encephalopathy cattle diseases; and (2) the total estimated State Cattle Health funding amounts.<sup>67, 68</sup> In addition, we reviewed the universe of 8 cattle indemnity payments for one selected State<sup>69</sup> and non-statistically selected 21 payments for review in another selected State based on the payment amounts. These 29 cattle indemnity payments totaled more than \$3.6 million, which represented about 35 percent of the more than \$10 million total cattle indemnities paid to our sampled States during the scope period.<sup>70</sup> In addition, we reviewed the universe of 11 cattle disease incidents (for tuberculosis, brucellosis, and bovine spongiform encephalopathy cattle diseases) that occurred during the scope period for our three sampled States.<sup>71</sup>

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<sup>65</sup> We did not need to expand our non-statistical indemnity payment selection beyond our scope period in order to evaluate this alternative valuation method.

<sup>66</sup> Herein referred to as “State Animal Health offices.”

<sup>67</sup> APHIS provided Cattle Health funding to State agencies and other recipients through “umbrella cooperative agreements” that included funding for multiple Animal Health programs. Consequently, APHIS could not provide the actual amount of Cattle Health funding awarded, but rather provided the amounts recipients estimated they would use on the Cattle Health Program.

<sup>68</sup> While we based our selection primarily on these factors, we ultimately selected one State without any indemnity payments because it included a bovine spongiform encephalopathy disease incident that was not successfully traced during our scope period. Due to this methodology, our sample did not include any bovine spongiform encephalopathy indemnity payments.

<sup>69</sup> We subsequently received information from APHIS after the sample was pulled that identified an additional indemnity payment for the selected State. However, we did not include or review this payment due to its impact on the sample selection methodology.

<sup>70</sup> The universe of tuberculosis, brucellosis, and bovine spongiform encephalopathy indemnity payments is based on information provided by APHIS on June 22, 2020; therefore, it does not include any FY 2020 payments that may have been made after this date.

<sup>71</sup> These disease incidents affected a herd (group) of cattle for tuberculosis and brucellosis. For tuberculosis, this includes confirmed infected animals within the herd.

To accomplish our objectives, we:

- Reviewed applicable laws, regulations, agency and State-issued policies, procedures, assessments, and reviews related to response activities for tuberculosis, brucellosis, and bovine spongiform encephalopathy cattle disease incidents.
- Interviewed key APHIS officials (including Budget and Grants & Agreements staff) to obtain an understanding of APHIS' administration and oversight of the Cattle Health Program funding.
- Reviewed APHIS' Animal Health umbrella cooperative agreements (and related information) with selected States that APHIS awarded during our scope period from FYs 2017–2020.<sup>72</sup>
- Interviewed key APHIS National and State area office officials to obtain an understanding of APHIS' response activities and indemnity payment processes related to tuberculosis, brucellosis, and bovine spongiform encephalopathy diseases.
- Interviewed key State Animal Health office officials to obtain an understanding of the State offices' response activities and indemnity payment processes related to tuberculosis, brucellosis, and bovine spongiform encephalopathy diseases.
- Reviewed documentation for the 29 cattle indemnity payments (e.g., indemnity claim form, appraised value records, salvage records, etc.) to assess payment accuracy and compliance with applicable regulations, policies, and procedures.
- Reviewed tracing investigation documentation for the 11 cattle disease incidents to evaluate APHIS' disease tracing processes and oversight.

During the course of the audit, we obtained data from the Financial Management Modernization Initiative system, the Searchable Test Results Application for National Veterinary Services Laboratories Diagnostics system, and the National Animal Health Laboratory Network. To assess the reliability of this data, we conducted limited testing and verified information for the non-statistical sample during our scope period. Additionally, for the Financial Management Modernization Initiative system, we also obtained independent assessments and reports, which evaluated the system's internal controls and did not identify any significant issues with data quality and integrity. Further, we obtained the system's Authorization to Operate issued by the USDA Office of Chief Financial Officer that stated adequate reviews had been completed and the risk to agency operations, agency assets, or individuals, resulting from the operations of the information system was acceptable. We did not independently review or assess any agency system; therefore, we make no representation regarding the adequacy of any agency computer system or the information generated from it.

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<sup>72</sup> Typically, APHIS' Animal Health umbrella cooperative agreements awarded for each fiscal year have performance periods covering April 1 through March 31 of the following year.

We assessed internal controls significant to the audit objective. In particular, we assessed:

<b>Component</b>	<b>Principle</b>
Risk Assessment	Management should identify, analyze, and respond to risks related to achieving the defined objectives.
Control Activities	Management should design control activities to achieve objectives and respond to risks.
Control Activities	Management should implement control activities through policies.
Monitoring	Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We conducted this performance audit in accordance with generally accepted Government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Abbreviations

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ADT.....	animal disease traceability
APHIS .....	Animal and Plant Health Inspection Service
C.F.R. ....	Code of Federal Regulations
FASAB .....	Federal Accounting Standards Advisory Board
FY.....	fiscal year
GAO .....	Government Accountability Office
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
U.S.....	United States
U.S.C. ....	United States Code
USDA .....	United States Department of Agriculture
VS.....	Veterinary Services

## **Exhibit A: Summary of Monetary Results**

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Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

<b>Finding</b>	<b>Recommendation</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>
2	3	Funds Not Properly Tracked	\$18,072,798	Funds to be Put to Better Use: Improper Accounting
4	9	Unsupported Indemnity Payments	\$613,227	Questioned Costs/Loans, No Recovery
<b>Total Monetary Results</b>			<b>\$18,686,025</b>	



**APHIS'  
Response to Audit Report**



United States Department of Agriculture

United States  
Department of  
Agriculture

Marketing and  
Regulatory  
Programs

Washington, DC  
20250

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**TO:** Steve Rickrode  
Acting Assistant Inspector General for Audits  
USDA Office of the Inspector General

**FROM:** Kevin Shea  
Administrator /S/  
Animal and Plant Health Inspection Service

**SUBJECT:** Animal and Plant Health Inspection Service (APHIS) Response to the Office of Inspector General Report “Cattle Health Program Disease Incident Response” (33601-0003-41)

Thank you for the opportunity for APHIS to comment on the report. APHIS agrees with all the OIG recommendations and will take the steps outlined below to implement the necessary program changes.

### **Finding 1: APHIS Needs to Improve its Risk Management Process for Disease Traceability**

**Recommendation 1: Analyze the three risks for which APHIS has not begun mitigating actions by estimating the risks’ significance by considering the magnitude of impact, likelihood of occurrence, and the nature of the risks.**

**APHIS Response:** APHIS agrees with this recommendation and will estimate the risks’ significance by considering the magnitude, impact (consequences), likelihood of occurrence, and the nature of the risks.

Risk 1: Official Identification Requirements Limited to Interstate Movements.

Risk 2: Exclusion of Beef Feeder Cattle from Official Identification Requirements.

Risk 3: Inconsistent Collection and Correlation of Identification at Slaughter Facilities.

**Target Completion Date:** November 30, 2023

**Recommendation 2: Based on the results of Recommendation 1, determine what actions are necessary to mitigate the risks.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS has prepared a new traceability rule for publication to address the needs and desires of the industry for traceability. APHIS will endeavor to incorporate findings from the above analysis into the traceability program and institute risk mitigations for the three identified areas.

**Target Completion Date:** November 30, 2023

## **Finding 2: APHIS Needs to Improve its Animal Health Program Umbrella Cooperative Agreement Reimbursement Process**

**Recommendation 3: Revise and implement procedures to enable recipients to separately identify their costs for each program under APHIS' Animal Health program umbrella cooperative agreements.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS implemented a more comprehensive process to address this finding on December 20, 2021, to include implementing two new policies (attached) for cooperators to address regarding this finding. First, cooperators are asked to complete a chart with their workbook based on their approved funding by program in U.S. dollars rather than percentages. Second, every claim a cooperator submits under an umbrella cooperative agreement is now required to include a breakdown by program and cannot exceed the approved funding amount for each program.

**Target Completion Date:** Completed December 20, 2021

**Recommendation 4: Obtain the recipients' actual expenses for each Animal Health program under the umbrella cooperative agreements awarded from FY 2017 through the implementation of Recommendation 3, and perform a reconciliation to determine whether these expenses reflected the amounts APHIS allocated.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS will contact the cooperators participating under umbrella cooperative agreements to gather the relevant data and then complete the reconciliation.

**Target Completion Date:** March 31, 2023

**Recommendation 5: Based on the results of the reconciliation performed in Recommendation 4, determine whether APHIS complied with relevant appropriation act provisions and, as necessary, obtain an Office of the General Counsel opinion on any potential unauthorized reprogramming and Antideficiency Act violations.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS will contact the Office of General Counsel (OGC) to address Anti-deficiency Act violations if the analysis and results of recommendation 4 indicate additional action is warranted.

**Target Completion Date:** October 31, 2023

### **Finding 3: APHIS Needs to Improve its Tuberculosis Indemnity Valuation Process**

**Recommendation 6: Consult with qualified professional(s) (such as licensed appraisers) to determine whether APHIS' current valuation method used to indemnify cattle for tuberculosis reflects the fair market value of cattle destroyed.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS is in discussions with the National Bison Association and the North American Deer Farmers Association (in addition to the National Turkey Federation and North American Gamebird Association) regarding the possible use of privately sourced data from these industries in developing indemnity values. APHIS is also working with the American Society of Farm Managers and Rural Appraisers (ASFMRA) on the development of appraisal standards, including remote appraisal standards, for livestock and poultry indemnification. The Congressionally recognized Appraisal Foundation recommended APHIS use ASFMRA. APHIS is also working with ASFMRA on the development of a national directory of qualified livestock and poultry appraisers and the vetting of appraisers who would be included in this directory.

In addition, APHIS is formally asking for stakeholder input on using the annual tables through the Advance Notice of Proposed Rulemaking published on September 7, 2022 (RIN 0579–AE65). APHIS accepted comments through November 7, 2022.

**Target Completion Date:** June 30, 2023

**Recommendation 7: Based on the results of Recommendation 6, revise, if needed, the current valuation method used to indemnify cattle for tuberculosis to ensure it reflects the fair market value of cattle destroyed.**

**APHIS Response:** APHIS agrees with this recommendation. APHIS is proposing a new rule to address indemnity evaluations. An Advance Notice of Proposed Rulemaking (RIN 0579–AE65) was published on September 7, 2022. We will use the comments received to guide our approach to tuberculosis indemnities. Part of the Advance Notice of Proposed Rulemaking is the question of incorporating the use of an annual table to the normal valuation process.

**Target Completion Date:** June 30, 2023

**Recommendation 8: If the tuberculosis indemnity payment process has not been formally incorporated into regulations, submit a regulatory work plan to the USDA Office of Budget and Program Analysis.**

**APHIS Response:** APHIS agrees with this recommendation. A regulatory workplan has been submitted and an Advance Notice of Proposed Rulemaking was published on September 7, 2022. (RIN 0579–AE65). The comment period closed November 7, 2022.

**Target Completion Date:** June 30, 2023

#### **Finding 4: APHIS Needs to Improve its Documentation for Tuberculosis and Brucellosis Indemnity Payments**

**Recommendation 9: Provide area offices with guidance that includes the specific documentation area offices are required to maintain for the Cattle Health Program tuberculosis and brucellosis indemnity payments to ensure adequate support is readily available for review.**

**APHIS Response:** APHIS agrees with this finding, and, as noted above in response to Finding 3, USDA is preparing a rule to cover livestock valuations and will supply additional guidance to the field offices with the finalization of this new rule.

**Target Completion Date:** October 31, 2023

Attachments



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