United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL

USDA Management Challenges

August 2015

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

INFORMATIONAL MEMORANDUM FOR THE SECRETARY

DATE: August 25, 2015

FROM: Phyllis K. Fong
Inspector General

SUBJECT: Office of Inspector General's USDA Management Challenges

Each year, the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) is required by the Reports Consolidation Act of 2000 to report annually on the most serious management challenges USDA and its agencies face.[1] This year, OIG has undertaken a significant revision of how we present the management challenges. Our intent is to provide the Secretary and other policymakers with a document that responds more fully to their needs and explains more clearly how challenges are identified, addressed, and resolved.

Most notably, we have consolidated the 11 challenges from our 2014 management challenges into 7 challenges. While the issues USDA faces are much the same in 2015 as in 2014, instead of discussing those challenges as affecting individual agencies, we have expressed them in terms of issues that cut across the entire Department. Thus, while the Natural Resources Conservation Service (NRCS) continues its work to improve natural resources stewardship (last year's Challenge 6), we discuss this issue as part of this year's Challenge 3, USDA Needs to Strengthen Program Performance and Performance Measures. (See Appendix B for a description of how 2014's challenges have been consolidated into 2015's challenges.) We have used this approach for the first five of the seven challenges. Because of the significance of their programs, specific challenges faced by the Food Safety and Inspection Service (FSIS) and the Food and Nutrition Service (FNS) are discussed in Challenges 6 and 7, respectively. We believe these consolidated challenges will assist Departmental leadership in moving forward to address and resolve the broad challenges that affect multiple agencies, as well as the unique challenges specific to certain agencies.

To this end, we have also endeavored to make more transparent how OIG determines which issues rise to the level of a management challenge, and how such challenges can be resolved. Annually, OIG reassesses the previous year's challenges to determine if they are still the most critical challenges; examines previously issued audit reports to isolate critical issues that remain topical and where corrective action has not been satisfactorily implemented; identifies repetitive inquiries or hotline trends in risk areas; assesses ongoing audit and investigative work to identify new issues; and analyzes new programs and activities that pose significant challenges due to

[1] Public Law 106-531.

their size and complexity. We may remove a challenge if USDA has fully implemented our recommendations or if agencies have shown significant improvement.

Our efforts to improve the usefulness of this report are ongoing. In future years, we envision including analysis in each challenge regarding how much progress USDA has made to address the challenge. In successive years, we plan to provide more precise information regarding the Department's headway in meeting each listed challenge.

We hope that the new format of our management challenges will prove more useful to senior Departmental management and will enable action on the issues facing USDA, its agencies, and its programs. 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 these management challenges.

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, Ann Coffey (202-720-3306).

Attachment
USDA Management Challenges

cc:
Subcabinet Officials
Agency Administrators

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Challenge 1: USDA Needs to Improve Oversight and Accountability for its Programs

Like other Federal departments, the Department of Agriculture (USDA) faces challenges in overseeing its many agencies and programs. The Department employs nearly 100,000 employees in 17 agencies and 18 staff offices; in total, these employees operate more than 300 programs that are responsible for $144 billion in spending per year. USDA program managers face critical problems in overseeing these programs so that every dollar spent accomplishes the results intended.

USDA managers are responsible for establishing an effective internal control system, ensuring that a culture of compliance with those controls exists, and holding employees accountable for implementing those controls. Ultimately, as the Government Accountability Office (GAO) has stated, "People are what make internal control work."[1] If management does not emphasize those controls, then Federal programs will not function as intended.

Internal Controls

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. Managers must design effective internal systems for program implementation, comprising the policies, procedures, and organizational structures that collectively determine how a program is managed and how its requirements are met. Since systemic control flaws can yield systemic program weaknesses—e.g., unrealized goals 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.

Our audits have shown that USDA does not always successfully provide sufficient oversight to ensure that program dollars achieve their intended results. In a noteworthy recent example, the Office of Inspector General (OIG) found that the Farm Service Agency's (FSA) Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) information technology system was 2 years overdue and approximately $140 million over budget.[2] As of April 1, 2015, FSA had obligated over $444 million to this project and retired only 1 of the 66 applications that MIDAS was intended to replace. In effect, management was not leading this initiative, and USDA had spent nearly half a billion dollars with little in the way of deliverables. By 2022, the program was projected to have a total cost of nearly $824 million. In response to these burgeoning problems, the Secretary of Agriculture stopped MIDAS, and redefined its scope. FSA agreed with our audit recommendations and is taking steps to implement corrective actions.

[1] GAO-14-704G, *Standards for Internal Control in the Federal Government,* September 2014.
[2] Audit Report 03501-0001-12, *Review of Farm Service Agency's Initiative to Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)*, May 2015.

MIDAS illustrates that USDA can do much more to ensure that taxpayer dollars are effectively used to deliver its programs. Many recent OIG audits have shown the need for USDA to strengthen program oversight and accountability in a number of agencies and programs:

- The Food and Nutrition Service (FNS) could improve its controls over the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) by ensuring that State agencies take appropriate and timely corrective actions to reduce food costs. We identified over $19.7 million in savings that could be realized. Although FNS is aware of policies that various State agencies have implemented to reduce their food costs, it has not evaluated those policies for program-wide implementation.[3] FNS agreed with our audit recommendations and is taking steps to implement corrective actions.

- USDA needs to strengthen its controls for fund transfers between programs. For example, although Congress reduced funding for USDA's Departmental Administration and Office of Tribal Relations for Fiscal Years (FY) 2011 and 2012, USDA transferred program money to fund staff that likely would have been affected by the reductions under its "Greenbook authority." Also, due to insufficient controls and guidance, we found that USDA exceeded its Greenbook authority and improperly transferred $2.1 million to pay for the Intertribal Technical Assistance Network from agencies that did not have the authority to fund those activities. Further, for transfers made under the Economy Act, we found that USDA had not provided sufficient direction to agencies, and we questioned $43 million in such transfers due to lack of support.[4] The Department agreed with our audit recommendations and is taking steps to improve controls which included targeted training and updated guidance for Greenbook and Economy Act transfers.

- The Risk Management Agency (RMA) needs to better design insurance programs indemnifying farmers. Our review found that the agency insures irrigated forage producers as if a reduction in rainfall affects their yields to the same extent as non-irrigated forage producers. However, irrigated yields are not nearly as dependent on rainfall as non-irrigated yields and, thus, do not incur the same level of loss. We questioned $142 million paid to producers in 7 States with an intended use of haying during crop years 2010 through 2013.[5] For the 2016 crop year, RMA plans to incorporate separate pricing methodologies for irrigated and non-irrigated hay.

Human Resources

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. OIG's review of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine (PPQ) program found the agency did not have a sufficient system

[3] Audit Report 27001-0001-22, *State Agencies' Food Costs for FNS' WIC*, September 2014.
[4] Audit Report 50099-0001-23, *USDA's Controls Over Economy Act Transfers and Greenbook Program Charges*, September 2014.
[5] Audit Report 05601-0003-31, *RMA: Rainfall and Vegetation Index Pilot Program-Pasture, Rangeland, Forage*, April 2015.

of management controls to ensure the Preclearance Offshore Program was able to effectively protect U.S. agriculture from foreign pests and diseases.[6] Specifically, PPQ officials did not implement management controls, such as performance measures, to assess the effectiveness of the program, nor identify or analyze risks after accepting countries into the program. Notably, PPQ did not have a formal training program in place, which hindered its inspectors' performance. APHIS agreed with our recommendations and is taking steps to implement corrective actions. According to the Office of the Chief Financial Officer (OCFO), APHIS has implemented corrective actions for 8 of the 16 recommendations.

Open Audit Recommendations

Finally, USDA could improve program accountability and oversight by making a determined, concerted effort to resolve outstanding audit recommendations. As of August 13, 2015, the Department has not resolved a total of 398 recommendations, some dating as far back as 1996. While some recommendations may no longer be relevant due to the passage of time and changes to certain programs, others still are. USDA could achieve meaningful gains in oversight by implementing these remaining recommendations.

Examples of Work We Anticipate Completing in the Future

- *Crop Insurance Compliance Case Management*—The overall objective of the audit is to evaluate RMA's crop insurance compliance case management. Specifically, we will examine the adequacy and effectiveness of RMA's processes related to (1) establishing cases, (2) monitoring and tracking cases, (3) monitoring and tracking findings, and (4) final disposition of cases.

- *Controls over APHIS' Introduction of Genetically Engineered Organisms*—Our objectives are to determine whether APHIS has established adequate controls over the introduction of genetically engineered (GE) organisms. Specifically, we will assess controls to minimize the inadvertent release of GE organisms and provide reasonable assurance that movements and releases of GE organisms in the environment are in accordance with laws and regulations. As part of this audit, we will also follow up on recommendations made in a prior report.

[6] Audit Report 33601-0001-23, *Plant Protection and Quarantine Preclearance Offshore Program*, September 2014.

Challenge 2: Information Technology Security Needs Continuing Improvement

To accomplish its mission of providing benefits and services to the American public, USDA must efficiently manage vast amounts of data. This critical information ranges from agricultural statistics that drive domestic and global markets to data-driven inspection systems that help ensure food safety. Department employees must be able to access, use, and communicate this information in order to deliver programs effectively. Additionally, the general public applies for and accesses many USDA program benefits and other services online, which can require the transfer of personally identifiable information through these online portals. It is therefore critical that the Department protect the security, confidentiality, and integrity of its information technology (IT) infrastructure.

With the passage of the Federal Information Security Management Act of 2002 (FISMA),[7] OIG has annually reviewed the Department's cybersecurity initiatives, including those that shield IT equipment and systems from theft, attack, and intrusion. In the past year, USDA has improved its IT security. For example, the Office of the Chief Information Officer (OCIO) released five key Department-wide policies in the latter part of FY 2013 and FY 2014. Earlier, in June 2013, USDA's National Information Technology Center became compliant with the Federal Risk and Authentication Management Program[8]—one year earlier than the mandatory date. However, even with these advances, our reviews have reported that USDA's IT systems remain vulnerable in key areas.

In our most recent FISMA review, OIG found that many longstanding weaknesses remain in USDA IT systems.[9] The Department has not: developed risk management procedures in accordance with Federal guidance; monitored agencies for compliance with baseline configurations and ensured the correction of known vulnerabilities; deleted separated employees' access to computer systems; and enforced a policy to detect and remove unauthorized network connections.

Generally, we continue to recommend that OCIO work with USDA agencies to identify overall risks, and then prioritize those risks so it will have a solid basis for a time-phased plan to systematically mitigate them. The next and most critical steps will require USDA's agencies and staff offices to take action. First, agency-specific procedures must be created based on each Departmental policy. Second, and most critical to improving USDA's security posture, each agency must incorporate the procedures it develops into normal, ongoing business processes.

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7 Federal Information Security Management Act of 2002, 44 U.S.C. § 3541, et seq.

8 The required deadline for the Federal Risk and Authorization Management Program (FedRAMP) was June 5, 2014. FedRAMP's purpose is to ensure that cloud-based services have an adequate information security program that addresses the specific characteristics of cloud computing and provides the level of security necessary to protect Government information. Failure of the cloud system to address and meet FedRAMP security controls increases the risk that USDA program data may be compromised, intercepted, or lost, which could expose the data to unauthorized parties.

9 Audit Report 50501-0006-12, *Fiscal Year 2014 Federal Information Security Management Act*, November 2014.

Recently, USDA has incorporated cloud computing into its overall IT environment. OIG has found, however, that the Department does not have a complete inventory of its cloud systems due to poor inventory management and the inconsistent application of the definition of a cloud computing system.[10] These issues occurred because individual USDA offices and agencies have adopted cloud computing technologies without clear guidance, including a USDA-wide definition of what constitutes a cloud computing system. As a result, USDA's data are exposed to risk of loss or disclosure to unauthorized parties, which could compromise the Department's programs and producer data. OCIO was receptive to our findings and is currently in the process of completing the issuance of formal guidance and the implementation of the processes agreed to as part of the management decision process.

Outstanding Audit Recommendations

From FYs 2009 through 2014, OIG made 57 recommendations for improving the overall security of USDA's systems. Management decision has been reached for all 57 recommendations, but only 21 of these have been closed (i.e., the agreed upon corrective action has been implemented).[11] While the Department has made a concerted effort to address the recommendations noted in these audits, corrective action plans should be reviewed and updated as necessary. For example, of the 14 recommendations made in FY 2009, 2 corrective actions have not been implemented and of the 19 recommendations made in FY 2010, 8 remain unimplemented. OCIO is focusing on closing out prior year audit recommendations.

Examples of Work We Anticipate Completing in the Future

- *FY 2015 FISMA Review*—Our objective is to evaluate the status of USDA's overall IT security program.

- *SSAE 16-National Finance Center (NFC) Control*s—Our objective is to determine the suitability of the design and operating effectiveness of controls for the period specified in the NFC description of its systems, October 1, 2014 through July 31, 2015. This review will focus on controls at NFC likely to be relevant to user entities' internal control over financial reporting. OIG is overseeing the work of an independent contractor that is conducting this examination.

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[10] Audit Report 50501-0005-12, *USDA's Implementation of Cloud Computing Services*, September 2014.

[11] The 36 open recommendations for improving the overall security of USDA's systems are included in the 398 total open recommendations as stated in Challenge 1.

Challenge 3: USDA Needs to Strengthen Program Performance and Performance Measures

USDA has been challenged to design, develop, and implement programs that reliably achieve their intended results. OIG has sometimes found that agencies focus on providing payments with little certainty that the funds provided are used to accomplish the program's goals. USDA must continually strive to be a careful custodian of Federal funds, ensuring that its programs are well designed and reporting data that indicate the extent to which its programs have succeeded.

Recent audit work has indicated that this challenge is ongoing. We found that USDA's programs for supporting beginner farmers—programs that are funded through several different agencies, including FSA, the National Institute of Food and Agriculture (NIFA), the Natural Resources Conservation Service (NRCS), the Office of Advocacy and Outreach (OAO), Rural Development (RD), and RMA—could benefit from a thorough revision of how these results are reported and better oversight of funds intended to encourage new farmers.[12] These programs lacked sufficient performance goals, direction, coordination, and monitoring to ensure success. In FYs 2012 and 2013, USDA spent $3.9 billion in assistance for beginning farmers, but did not develop an integrated and coordinated strategy to ensure that this assistance was helping new farmers establish and sustain new farming operations. This has been a longstanding problem. Since responsibility was shared between several agencies, agencies needed to improve their coordination and more consistently define eligibility requirements for their programs.

Due to these problems, USDA could not ensure that the $3.9 billion of beginning farmers' assistance in FYs 2012 and 2013 achieved effective and measurable outcomes. OIG recommended that the Department oversee the beginning farmers and ranchers initiative and focus on developing measureable outcomes and goals. We did find that the Department is taking positive steps towards improving this outreach. In early 2014, the Deputy Secretary brought together representatives from across the Department to focus on assisting beginning farmers and ranchers. USDA also unveiled a new website that provides a centralized, one-stop resource where beginning farmers and ranchers can explore the variety of USDA assistance designed to help them succeed.

While designing programs that function well is imperative, programs must also be designed so they report data indicating their successes and failures. Such information is essential so that policymakers are able to make well-informed funding decisions. The Government Performance and Results Modernization Act of 2010 was passed in order to assess Government program performance and improvement, with the intent of helping agencies focus on their highest priorities.[13] Strategic goals are what an organization aims to achieve during the period covered by its Strategic Plan. Priority goals, on the other hand, are outcome-oriented and limited in number to ensure that there is ample Departmental focus on achieving them within a 2-year timeframe.

[12] Audit Report 50601-0003-31, *USDA Beginning Farmers and Ranchers Program*, May 2015.
[13] Government Performance and Results Modernization Act of 2010, Pub. L. No. 111-352, 124 Stat. 3866.

Again, our review of the Department's efforts to assist beginning farmers shows the need to develop and report performance measures that better indicate how effectively USDA programs are accomplishing their intended results. We found that the Department is unable to gauge the effectiveness of its beginning farmer activities in creating economically sustainable operations because USDA has not implemented the GAO recommendations related to measurement of performance for the beginning farmers' programs. The Department took some initial steps in addressing recommendations from GAO's 2007 report by tasking OAO to develop a crosscutting Departmental strategic performance goal; however, an adequate measure of program performance was not developed.[14] This Departmental performance goal was not developed because the Department did not: (1) provide adequate oversight or resources to ensure OAO completed its task; (2) support OAO by requiring senior Department and agency officials to participate in the development of this performance goal; and (3) ensure the development of a standard definition of beginning farmers. Without a cross-cutting Departmental strategic performance goal, USDA cannot measure the outcomes of its many programs and activities that provide assistance to beginning farmers.

Overall, OIG maintains that agencies must commit themselves to providing the sort of outcome-based performance measures that will convey the true success of their programs. Those measures are part of designing an efficient and effective program that is focused on its goals.

Examples of Work We Anticipate Completing in the Future

- *Rural Energy for America Program*—We will determine whether the Rural Energy for America Program loan and grant recipients and projects met eligibility requirements and appropriate project performance measures were established and achieved.

- *Controls over the Conservation Stewardship Program*—We will determine whether NRCS has adequate controls over the program. Specifically, we will evaluate the accuracy of eligibility determinations and payments, plus producer compliance with Conservation Stewardship Program requirements. In addition, we plan to follow up on recommendations made in a prior report on the Conservation Security Program, as applicable to the Conservation Stewardship Program.

[14] GAO Report GAO-07-1130, *Beginning Farmers: Additional Steps Needed to Demonstrate the Effectiveness of USDA Assistance*, September 18, 2007.

Challenge 4: USDA Needs to Strengthen Controls over Improper Payments and Financial Management

USDA expends nearly $144 billion in public services every year. The Department's annual financial reports provide the public, Congress, and the President with information about USDA's costs and revenues, assets and liabilities, and other information, such as improper payments. It is imperative that these reports are accurate and timely so that USDA's financial management is transparent. However, USDA continues to fall short of full compliance with Federal requirements for improper payments and needs to address endemic control issues in some component agencies in order to resolve ongoing problems with financial management. Also, USDA needs to actively pursue efforts to identify root causes for improper payments in high-risk programs and make measurable progress to reduce the overall rate of improper payments.

Improper payments occur when funds go to the 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. Not all improper payments involve fraud or waste; payment errors are often inadvertent or based on missing documentation. However, improper payments affect the integrity of Federal programs and compromise citizens' trust in government.

The President's 2009 *Executive Order Reducing Improper Payments and Eliminating Waste in Federal Programs*,[15] the Improper Payments Elimination and Recovery Act of 2010 (IPERA),[16] and the Improper Payments Elimination and Recovery Improvement Act of 2012[17] have all increased the Government's accountability for reducing Federal improper payments. These measures require more stringent reporting, and also help agencies reduce improper payments by identifying and correcting underlying problems. OIGs evaluate agencies' progress in implementing these requirements.

In FY 2014, 20 of USDA's "high risk" programs (those considered vulnerable to improper payments) reported about $6.9 billion in improper payments. The error rate of 5.53 percent is an increase from the 5.36 percent error rate reported in FY 2013. USDA did not comply with IPERA for the fourth consecutive year.[18] Of the 20 high-risk programs, 8 were out of compliance, reporting excessive improper payment rates, missing reduction targets, or not publishing estimates, as required. Two component agencies used flawed sampling methods to report improper payment estimates, and some component agencies' corrective actions were ineffective. We determined that the Office of the Chief Financial Officer and senior officials for each noncompliant component agency need to set more aggressive goals to help USDA achieve compliance with IPERA.

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[15] *Reducing Improper Payments and Eliminating Waste in Federal Programs, Exec. Order No. 13,520* (November 23, 2009).

[16] Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2225.

[17] Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390.

[18] Audit Report 50024-0008-11, *USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements*, May 2015.

Recent audits demonstrate the need for USDA to improve controls for reducing improper payments. For example, we estimate that FNS, through its National School Lunch Program (NSLP), may have spent $12.5 million on lunches for ineligible recipients in school year 2012-2013.[19] This was due to insufficient controls over the verification process, in which school food authorities must verify that the recipients meet eligibility requirements for the program. FNS also expended nearly $11 million towards operating and improving school food service that school food authorities misused or mismanaged because of insufficient guidance. These control deficiencies continue to contribute to NSLP's significant amount of improper payments; as such, FNS needs to improve documentation requirements and the verification process.

We also found that RMA's Federal Crop Insurance Corporation Program Fund (FCIC) made approximately $972 million in estimated improper payments.[20] However, this amount may be misstated because RMA used flawed sampling methods to calculate FCIC's improper payment estimate. In FY 2014, OMB rescinded approval of FCIC's sampling methodology because FCIC has not accounted for all categories of potential improper payments and the methodology was not statistically valid. RMA developed new sampling methods for FYs 2015 and 2016, which OMB has approved, with the expectation that RMA will develop a more comprehensive sampling methodology for approval and use for FY 2017 reporting and beyond.

Each year, OIG completes significant work to express an opinion on the fair presentation of USDA's financial statements. An audit of USDA's financial statements revealed the Department's consolidated financial statements fairly present, in all material respects, USDA's financial position as of September 30, 2014 and 2013. However, OIG's review of USDA's internal control over financial reporting identified four significant deficiencies,[21] including a material weakness[22] related to financial management at three component agencies (NRCS, RMA, and Commodity Credit Corporation (CCC)).[23] For example, NRCS was unable to provide adequate evidential matter in support of certain transactions and account balances, with the result that the auditors could not form an opinion on NRCS' financial situation. Also, RMA had a material weakness in internal controls for FCIC related to the supporting evidence for significant estimates. Finally, CCC's existing funds control system does not record certain obligations at the transaction level, resulting in a lack of full funds control. Because of these conditions, these component agencies need to implement actions to provide adequate evidence and strengthen their internal control over financial reporting.

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[19] Audit Report 27601-0001-41, *National School Lunch and School Breakfast Programs*, April 2015.

[20] Audit Report 50024-0008-11, *Department of Agriculture's FY 2014 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, May 2015.

[21] A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[22] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of USDA's financial statements will not be prevented, or detected and corrected on a timely basis.

[23] Audit Report 50401-0007-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2014 and 2013*, December 2014.

As USDA works to address improper payments and financial reporting by implementing necessary internal controls, we continue to emphasize the importance of complying with improper payment and financial management requirements. If USDA addresses key weaknesses, the public can be more confident that USDA conscientiously and effectively accounts for, uses, and recovers taxpayer dollars.

Examples of Work We Anticipate Completing in the Future

- *FY 2014 Executive Order 13520, Reducing Improper Payments, High-Dollar Overpayments Reports Review*—Our audit objectives are to review USDA's FY 2014 quarterly high-dollar reports and to assess the level of risk associated with the applicable programs, determine the extent of oversight warranted, and provide the agency head with recommendations, if any, for modifying the agency's recovery and corrective action plans.

- *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2015 and 2014*—The objective of this audit is to express an opinion as to whether USDA's financial statements are fairly presented, in all material respects, in accordance with the United States' generally accepted accounting principles. Other objectives include identifying significant deficiencies and material weaknesses in internal control that come to our attention, reporting whether USDA's financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act, and providing the results of our review of compliance with selected laws and regulations.

Challenge 5: USDA Needs to Improve Outreach Efforts

Due to a history of public attention concerning how USDA has treated members of socially disadvantaged groups—most notably, lawsuits like *Pigford I*,[24] *Black Farmers Discrimination Litigation (BFDL)*,[25] *Keepseagle*,[26] and *Garcia/Love*[27]—the Department faces challenges in conducting outreach to disadvantaged groups and persuading members of those groups that the Department represents their best interests. Throughout his tenure, the Secretary of Agriculture has reiterated the importance of civil rights, emphasizing that there was significant progress to be made in working with communities to address past civil rights issues.

Despite USDA's emphasis on improving its outreach activities, USDA continues to face obstacles to fulfilling this vision. The results of recent OIG audits raise significant concerns about programs administered by OAO, the agency that collaborates with other USDA agencies on outreach initiatives and improving access to community services.

In 2010, the Department launched the StrikeForce Initiative pilot program to ensure that agricultural producers and communities in poverty-stricken, predominantly minority, rural areas have equal access to USDA programs. That pilot program was assigned to OAO. Instead of using a competitive process to select community-based organizations, OAO hand-picked four organizations with questionable qualifications to achieve the goals of the initiative. Although the goals of the StrikeForce Initiative pilot program were worthwhile, we found insufficient evidence to support that positive results were achieved for the program's goals and questioned the almost $2.7 million in funds provided to these organizations.[28] Currently, the Department allows each agency to manage its own StrikeForce programs, and the initiative continues to expand; it now operates in 880 counties across 21 States and Puerto Rico.

OIG also reviewed how OAO administered $20 million in grant funding for each of FYs 2010 and 2011 for its Section 2501 Program.[29] This program reaches out to socially disadvantaged farmers, ranchers, and forest landowners to increase participation in USDA programs. OIG found a pattern of broad and pervasive mismanagement of OAO grant funds in FYs 2010 and 2011. These problems occurred because the agency's grant approval processes were informal and undocumented, and regulatory processes were disregarded. OAO did not ensure that grantees adhered to regulations or the terms and conditions of their grant agreements, and performed limited monitoring of the grantees.

[24] *Pigford v. Glickman*, No. 97-1978 (D.D.C.).
[25] *In re Black Farmers Discrimination Litigation*, No. 08-mc-511 (D.D.C.).
[26] *Keepseagle v. Vilsack*, No. 1:99 CV 03119 (D.D.C.).
[27] *Garcia v. Vilsack*, No. 1:00CV02445 (D.D.C.) and *Love v. Vilsack*, No. 1:00CV02502 (D.D.C.).
[28] Audit Report 91099-0002-21, *USDA StrikeForce Initiative*, September 2014.
[29] Audit Report 91099-0003-21, *Section 2501 Program Grants Awarded FYs 2010-2011*, March 2015.

An earlier OIG review had exposed similar concerns regarding OAO's administration of the Section 2501 Program for FY 2012.[30] However, none of the individuals responsible for the administration of the Section 2501 Program during the years covered by our prior audits are currently employed by OAO. In addition, the Department has been developing and implementing internal controls and procedures as a result of our prior audit work. As part of the 2014 Farm Bill, the Section 2501 Program was authorized to receive $30 million annually, which includes $10 million to assist farmers and ranchers who are veterans.

Overall, we concluded that USDA needs to do more to ensure the accountability and transparency of the funds it spends on outreach, especially when those funds are intended to address past inequities experienced by socially disadvantaged groups.

Examples of Work We Anticipate Completing in the Future

- *Audit of In re Black Farmers Discrimination Litigation-Adjudicated Claims*—Our objective is to conduct an audit of the completed *BFDL* claims process to determine if awards were granted to eligible claimants. This audit will include reviewing a statistical sample of adjudicated claims.

- *FSA Microloans*—Our audit objective is to evaluate the internal controls for FSA's administration of application processing, eligibility, servicing, and security requirements for the Microloan Program, and to document the strategies and actions taken to determine if the Microloan Program is expanding access to credit to a variety of producers.

[30] Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.

Challenge 6: Food Safety Inspections Need Improved Controls

Since food-borne pathogens and food contamination can put consumer health in jeopardy, USDA inspection systems work to protect the safety of the country's food supply. The Department provides a range of safety measures, from placing qualified inspectors in livestock slaughtering facilities to operating comprehensive inspection and testing programs that pinpoint likely risks at processing facilities. The Food Safety and Inspection Service's (FSIS) mission is to ensure the nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged. Part of that mission is ensuring that technology systems and inspection processes are current, accurate, and compliant with safety standards.

One recent audit demonstrates the need for improved technology systems. FSIS has implemented the Public Health Information System (PHIS), an information system that was intended to serve as a comprehensive data analysis system with four components—domestic inspection, import activities, export activities, and predictive analytics. In a recent audit of the domestic component, OIG found that FSIS could improve PHIS' development and implementation controls.[31] During our visits to establishments in 2012 and 2013, we observed that inspectors were not adequately able to record inspection results, due to poor internet connectivity. Other issues included cost overruns during PHIS development, inconsistent internet connection in multiple plants, and inaccurate establishment profiles. We also found that inspectors were not always using a function in PHIS that allowed them to record the reasons that inspection tasks were not completed. In addition, we found issues with how FSIS managed access privileges for separated employees and prior OIG audit recommendations related to PHIS that were not properly implemented. We recommended a current written assessment of PHIS and the development and implementation of controls to ensure accessibility, information accuracy, and correct operations. FSIS officials acknowledged our findings and noted that the agency began taking actions to correct deficiencies as they became aware of them. This included actions to address preliminary findings we discussed with FSIS in 2013.

Another audit demonstrates the need for improved inspection processes. Specifically, FSIS management can improve how the agency oversees the safety of ground turkey and other turkey products. *Salmonella* is present in meat, but is not considered a contaminant. However, due to public concerns over its presence, FSIS performs pathogen sampling of both ground turkey and whole birds for pathogens such as *Salmonella* and *Campylobacter*. Product testing is used to gauge the safety of regulated product. OIG found the three turkey plants that participated in the *Salmonella* Initiative Program (SIP) either did not increase pathogen sampling when they exceeded the allowable number of *Salmonella* positive test results, or they did not implement their pathogen interventions at the control limits outlined in their agreement.[32] Further, we identified that, while FSIS noncompliance records adequately documented failures to comply with regulations, they were not always adequate indicators of potential problems with the plants'

[31] Audit Report 24601-0001-23, *Implementation of the Public Health Information System for Public Inspection (PHIS)*, August 2015.
[32] Audit Report 24601-0004-31, *Ground Turkey Inspection and Safety Protocols*, July 2015.

food safety system. We recommended that FSIS review and improve (1) its SIP approval and monitoring processes; (2) the data recorded and collected on noncompliance records to better gauge the significance of the noted violations; (3) how it tracks the timely updating of directives; (4) its pathogen sampling policies; and (5) the guidance provided to industry for developing its prerequisite programs.

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 technology systems and inspection processes, consumers can be more 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

- *FSIS Follow Up on the 2007 and 2008 Audit Initiatives*—We will evaluate the corrective actions taken by FSIS to implement prior OIG recommendations in Audit Report 24601-0007-KC, *Evaluation of FSIS Management Controls Over Pre-Slaughter Activities*, and Audit Report 24601-07-HY, *Issues Impacting the Development of Risk-Based Inspection at Meat and Poultry Processing Establishments*. We will also address concerns raised in a Congressional request related to FSIS' staffing and management decisions for livestock slaughter establishments. Specifically, we will address whether FSIS has controls in place to ensure that the right mix of human capital is in place, adequately trained, and properly performing pre-slaughter and humane handling activities.

- *USDA's Response to Antibiotic Resistance*—We will review the Department's oversight of its goals and plans to address major issues and impediments related to antibiotic resistance. We will also examine the Department's efforts to improve the surveillance, stewardship, and development of new treatment methods designed to address concerns regarding the prevention and control of antibiotic resistant infections and diseases. In addition, we will evaluate key short- and long-term actions planned to address these concerns.

Challenge 7: FNS Needs to Strengthen SNAP Management Controls

Although OIG's management challenges predominately focus on concerns that cut across program lines, the Supplemental Nutrition Assistance Program (SNAP), as the largest program within USDA and one of the largest programs in the Federal Government, presents a special challenge. SNAP provides monthly food assistance and nutrition for the health and well-being of more than 46 million low-income individuals. Since 2007, program participation has grown by 77 percent, and the program disbursed over $70 billion in benefits in FY 2014.

Given SNAP's significance, fraud committed by both SNAP recipients and the retailers who redeem SNAP benefits is a critical concern. With increased participation comes increased risk, and past audit and investigation work has found that FNS needs to redouble its efforts not only to enforce its policies against such fraud as trafficking, but also to establish strong internal controls to prevent such abuse.

FNS must continue to implement corrective actions we recommended in our prior audits of SNAP. Since 2007, we have made recommendations to improve FNS' internal controls and oversight over SNAP's electronic benefits transfer (EBT) systems and processes, retailer reviews and authorizations, and actions to detect and prevent fraud. For example, in 2012, we reported that approximately 27,000 recipients (0.2 percent) in 10 States were receiving about $3.7 million a month in SNAP benefits, even though they were potentially ineligible for reasons such as using a deceased individual's social security number or receiving duplicate benefits in the same State. While this percentage is small, any error in SNAP is of concern. Based on our audit results, we made nine recommendations to assist FNS with the identification, detection, and prevention of fraud in SNAP using data analytics and technology. According to OCFO, FNS implemented corrective actions for eight of the nine recommendations. Resolution of the remaining recommendation was initiated in June 2014 and dealt with FNS' ongoing implementation of a 12 month pilot system, which allows five participating States to check for dual participation within this group of States. According to FNS, the agency expects to complete and provide to Congress an evaluation report in FY 2016 regarding the costs and benefits delivered by the pilot, pursuant to Section 4032 of the Agricultural Act of 2014. This report could provide FNS with significant data to reduce fraud and strengthen internal controls using technology.[33]

In 2013, we reported that FNS did not have clear procedures and guidance to carry out key oversight and enforcement activities 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. This has led to a retailer authorization process without clear roles and responsibilities for different FNS divisions, inadequate supervisory reviews, and fragmented access to important documents. We found several initiatives were already underway at FNS—such as implementing a major reorganization

[33] Audit Report 27002-0011-13, *Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts*, September 2012.

of the retailer management function that moved it from a regional to a national organization, creating new policy for high-risk retailers, and increasing denial rates for business integrity issues. However, we made 20 recommendations to strengthen FNS controls for SNAP retailers. Our recommendations included FNS conducting a comprehensive review of its policies, procedures, and guidance; requiring background checks for retailers; and making improvements to its automated retailer data system. FNS agreed to consider proposing legislative changes that would provide FNS the authority to require any owner of a location that has been permanently disqualified for trafficking to have a vested interest, such as posting a collateral bond or letter of credit, before authorization. According to FNS, the agency submitted a regulatory work plan to propose rulemaking that would disqualify all stores under the same ownership when one store is determined to have trafficked unless the owner(s) meet the criteria for a trafficking civil money penalty, and proposed rules are being drafted. FNS' swift action to close these recommendations is vital to reduce SNAP's susceptibility to fraudulent activities.[34]

Based upon the funding this program receives and the public scrutiny directed at these expenditures, investigating criminal fraud in SNAP continues to be a priority for OIG. The SNAP fraud conviction rate for FY 2014 was 90 percent. Additionally, in FY 2014, OIG Investigations spent 58 percent of its time and 28 percent of its budget on SNAP cases.

Typically, OIG's investigations have centered on retailers engaging in SNAP trafficking. After careful analysis of our investigative work and discussions with FNS, we agreed with FNS that a more effective approach to addressing fraud and protecting USDA funds involves working proactively with States to make a concentrated effort to deal with benefit trafficking by recipients, as well as retailers. With this goal in mind, OIG is working with FNS to address both the retailers and recipients identified through our investigations as engaging in SNAP trafficking.

OIG also works to uncover and thwart new schemes for exploiting SNAP, as criminals are constantly seeking new ways to abuse the program and defraud the government. Recently, an investigation in Washington State found that several retailers used mobile independently contracted meat vendors to conduct EBT transactions and to provide services directly to SNAP recipients, who then traded SNAP benefits for cash. OIG investigations, especially investigations of route vendors, can be complex and have at times spanned several years. Although the retailers in this case were not prosecuted, they were administratively disqualified from participation as SNAP retailers. Because FNS uses investigations and data reviews to uncover and address compliance issues with route vendors, the actual number of SNAP authorized route vendors that use existing independently contracted drivers is unknown and represents a previously unknown vulnerability for SNAP. FNS has an active workgroup focused on route vendors that will be developing appropriate next steps to address this integrity challenge.

[34] Audit Report 27601-0001-31, *Controls for Authorizing Supplemental Nutrition Assistance Program (SNAP) Retailers*, July 2013.

FNS must continue its vigilance over SNAP. Not only is the program vital to the American people, but it is constantly subjected to ever more innovative attempts to misuse program funds, both by retailers and recipients. As new schemes are devised, FNS must be proactive in implementing controls to combat them.

Examples of Work We Anticipate Completing in the Future

- *FNS SNAP Error Rate*—Our objective is to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP payment error rates are accurately determined and reported, the appropriate actions are taken to reduce the error rates, and errors are timely corrected when detected.

- *Detecting Potential Fraud in SNAP using Data Analytics*—We will review SNAP retailer and participant data using analytical software in an attempt to identify potential fraud in the SNAP program.

Appendix A
OIG Audits Cited By Agency

APHIS

- *Plant Protection and Quarantine Preclearance Offshore Program* (33601-0001-23, September 2014)

FNS

- *State Agencies' Food Costs for FNS' WIC* (27001-0001-22, September 2014)
- *National School Lunch and School Breakfast Programs* (27601-0001-41, April 2015)
- *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)

FSA

- *Review of Farm Service Agency's Initiative to Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)* (03501-0001-12, May 2015)

FSIS

- *Implementation of the Public Health Information Systems for Public Inspection (PHIS)* (24601-0001-23, August 2015)
- *Ground Turkey Inspection and Safety Protocols* (24601-0004-31, July 2015)

RMA

- *RMA: Rainfall and Vegetation Index Pilot Program-Pasture, Forage, Rangeland* (05601-0003-31, April 2015)

USDA

- *USDA's Controls Over Economy Act Transfers and Greenbook Program Charges* (50099-0001-23, September 2014)
- *USDA's Implementation of Cloud Computing Services* (50501-0005-12, September 2014)
- *USDA StrikeForce Initiative* (91099-0002-21, September 2014)
- *Fiscal Year 2014 Federal Information Security Management Act* (50501-0006-12, November 2014)
- *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2014 and 2013* (50401-0007-11, December 2014)
- *Section 2501 Program Grants Awarded FYs 2010-2011* (91099-0003-21, March 2015)
- *Department of Agriculture's FY 2014 Compliance with the Improper Payments Elimination and Recovery Act of 2010* (50024-0008-11, May 2015)
- *USDA Beginning Farmers and Ranchers Programs* (50601-0003-31, May 2015)

Appendix B
2014 and 2015 Management Challenges Crosswalk

Challenge 1: USDA Needs to Improve Oversight and Accountability for its Programs

- USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (prior Challenge 2)
- USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources (prior Challenge 9)

Challenge 2: Information Technology Security Needs Continuing Improvement (prior Challenge 3)

Challenge 3: USDA Needs to Strengthen Program Performance and Performance Measures

- Interagency Communication, Coordination, and Program Integration Need Improvement (prior Challenge 1)
- Strategic Plan on Trade Should be Strengthened to Assess the Impact of Agricultural Commerce and Trade (prior Challenge 5)
- Action Needed to Improve Natural Resources Stewardship (prior Challenge 6)
- USDA Needs to Development Effective Performance Measures for its Programs (prior Challenge 11)

Challenge 4: USDA Needs to Strengthen Controls over Improper Payments and Financial Management

- Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs (prior Challenge 8)

Challenge 5: USDA Needs to Improve Outreach Efforts (prior Challenge 4)

Challenge 6: Food Safety Inspections Need Improved Controls (prior Challenge 7)

Challenge 7: FNS Needs to Strengthen SNAP Management Controls (prior Challenge 10)

Acronyms and Abbreviations

APHIS............Animal and Plant Health Inspection Service
BFDL ....The Black Farmers Discrimination Lawsuit
CCC................Commodity Credit Corporation
EBT ....Electronic Benefits Transfer
FCIC...............Federal Crop Insurance Corporation
FISMA............Federal Information Security Management Act of 2002
FNS ....Food and Nutrition Service
FSA ....Farm Service Agency
FSIS................Food Safety and Inspection Service
FY...................fiscal year
GAO...............Government Accountability Office
GE ....genetically engineered
IPERA............Improper Payments Elimination and Recovery Act of 2010
IT....................information technology
MIDAS...........Modernize and Innovate the Delivery of Agricultural Systems
NFC................National Finance Center
NIFA...............National Institute of Food and Agriculture
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
PPQ ....Plant Protection and Quarantine
QC..................quality control
RD..................Rural Development
RMA...............Risk Management Agency
SIP..................Salmonella Initiative Program
SNAP ....Supplemental Nutrition Assistance Program
SSAE..............Statement on Standards for Attestation Engagements No. 16
USDA.............Department of Agriculture
WIC................Special Supplemental Nutrition Program for Women, Infants, and Children

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