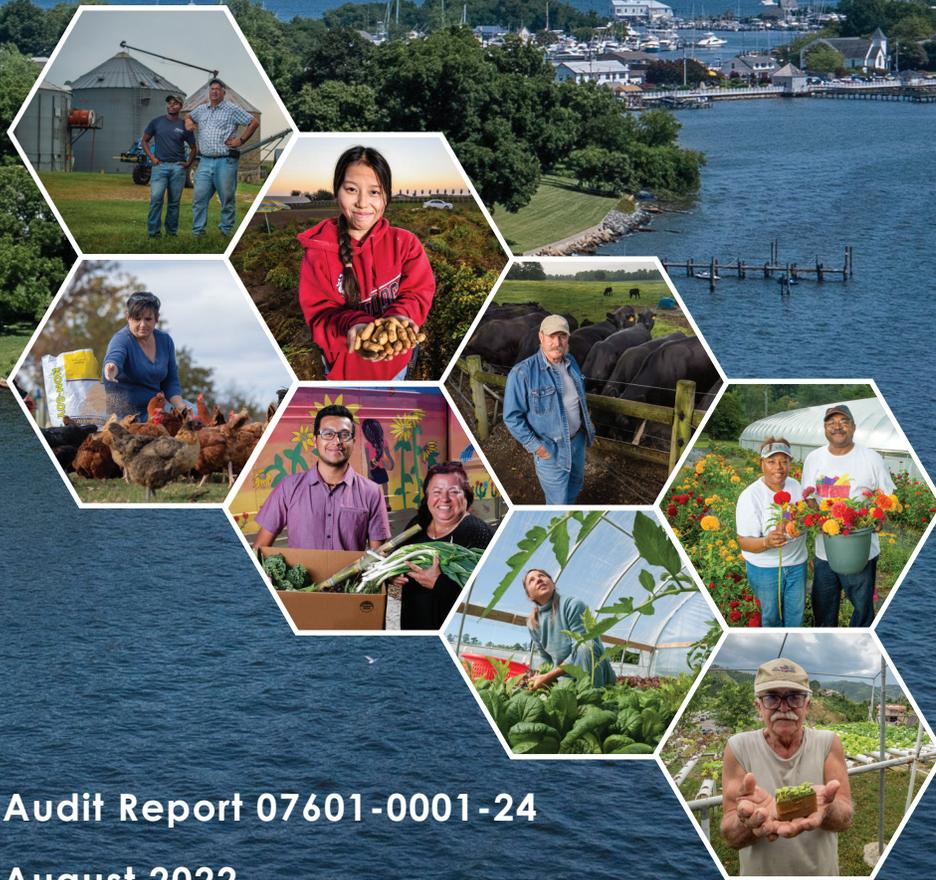




OFFICE OF INSPECTOR GENERAL
U. S. DEPARTMENT OF AGRICULTURE

Oversight of the Agricultural Trade Promotion Program



Audit Report 07601-0001-24

August 2022

IMPORTANT NOTICE

This audit report contains sensitive information that has been redacted for public release, due to privacy concerns.

Oversight of the Agricultural Trade Promotion Program

Audit Report 07601-0001-24

We reviewed the process FAS used to award \$300 million in ATP funding during FY 2019.

OBJECTIVE

We determined whether FAS' grant selection process complied with ATP requirements.

REVIEWED

We reviewed FY 2019 ATP policies, procedures, and grant selection documentation, and communicated with relevant agency officials.

RECOMMENDS

Approve and implement a written policy that is designed to ensure FAS complies with Federal grant requirements as well as published program regulations when awarding grants. This policy should include a process to document decisions throughout the grant selection process. Develop and implement plans to train personnel on how to perform their assigned roles and responsibilities as prescribed in the new grant policy and ensure FAS personnel are held accountable for the roles and responsibilities assigned to them. Finally, determine if the control issues we identified should be included in the agency's Federal Managers' Financial Integrity Act assurance statement.

WHAT OIG FOUND

The Foreign Agricultural Service (FAS) awarded \$300 million in Agricultural Trade Promotion Program (ATP) funding to applicants who may not have been the most meritorious based on the announced criteria and program regulations. This occurred because FAS did not make establishing controls over its grant programs a priority even though FAS agreed to do so in response to recommendations the Office of Inspector General made in 2014. Additionally, FAS did not maintain sufficient documentation about the reviews performed on applications and the selections made, which impaired our ability to fully evaluate those reviews and selections. FAS officials explained ATP was developed very quickly. FAS officials stated that the best way to develop the new program quickly was to model it on similar market development programs that were already in use and to use analysis that had recently been conducted for these same potential applicants.

The issues we identified in this audit were significant enough that we are unable to attest to the merits of the 59 ATP grants FAS awarded in fiscal year (FY) 2019, totaling \$300 million. FAS agreed with our recommendations and we accepted FAS' management decision on all four recommendations in this report.

**OFFICE OF INSPECTOR GENERAL**

United States Department of Agriculture

**DATE:** August 29, 2022**AUDIT****NUMBER:** 07601-0001-24**TO:** Daniel Whitley
Administrator
Foreign Agricultural Service**ATTN:** Vinny Fusaro
Senior Director
Compliance and Security Division**FROM:** Yaris Rivera-Rojas
Acting Assistant Inspector General for Audit**SUBJECT:** Oversight of the Agricultural Trade Promotion Program

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. In addition to responding to our four recommendations, your written response mentions specific statements in the report that you suggest may be misleading or inaccurate. Our professional standards require us to base our audit conclusions on sufficient, appropriate evidence. During the reporting process, we shared the evidence with you that we obtained to support our conclusions, and we provided FAS with the opportunity to provide additional documentation for consideration. Although FAS continues to assert that specific statements in the report are incorrect or misleading, FAS did not provide any evidence to support these assertions in its response. The evidence collected throughout the engagement supports the statements reflected in the report. In the absence of additional documentation, we did not make further edits to the report in relation to these statements.

For example, FAS did not provide documentation beyond an informal spreadsheet to support that the eligibility reviews referenced in the response were completed. FAS also took exception to the report statement concerning how FAS identified the applicants who would receive funding in the second round by calling them. As we have explained to FAS officials previously, this statement in the report was validated by statements made by staff who were involved in performing the actions described. While FAS' comments indicate that this description is a misunderstanding that the agency's most senior officials have refuted, FAS has not provided documentation to refute the statements made by those staff members who were involved in performing the described actions. Finally, FAS' response indicates that two of the sentences in the merit review section of the report, related to the recommended funding amounts by merit reviewers and the awards FAS made to applicants, represent a misunderstanding of the ATP application review process. However, these conclusions were based on citations related to the application review process as presented in grant regulations found in 2 C.F.R. § 200. ATP, as noted in our report, is a grant program and is, therefore, also subject to grant regulations. The

ATP Notices of Funding Opportunity (NOFO) incorporate reference to this regulation. Furthermore, the application review process described in the NOFOs includes the questioned terminology. The conclusions that FAS say represent a misunderstanding of the process are supported by our review of the application review sheets completed by merit reviewers, as well as the award letters provided to participants.

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 four audit recommendations in the report, and no further response to this office is necessary. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

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.

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 only publicly available information will be posted to our website (<https://usdaoig.oversight.gov>) in the near future.

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Background and Objective

Background

In 2018, the United States (U.S.) levied tariffs on steel and aluminum imports and also levied tariffs on U.S. imports from China. In response, specific foreign nations levied tariffs on U.S. food and agricultural products. In July 2018, the Secretary of Agriculture used his authority under the Commodity Credit Corporation's (CCC)¹ Charter Act² to create the Agricultural Trade Promotion Program (ATP) to assist exporters affected by the recent tariffs. ATP was a temporary, competitive grant program designed to aid in the development of agricultural commodities in foreign markets by providing financial assistance to eligible organizations for market promotion activities. ATP was administered by personnel of the Foreign Agricultural Service (FAS) acting on behalf of the CCC.^{3, 4} In administering the program, FAS was responsible for complying with ATP regulations,⁵ in addition to the United States Department of Agriculture (USDA) regulations applicable to all agencies that administer grants.⁶

FAS' grant selection process generally follows the overall grant selection processes described in 2 Code of Federal Regulations (C.F.R.) pt. 200 and 7 C.F.R. pt. 1489 through the establishment and implementation of internal control processes. These processes include the notification of funding opportunity (NOFO), application eligibility review, application merit review, application approval, and notification of decision and formation of agreement processes.



Figure 1. This figure outlines the grant selection process.

FAS issued two NOFOs to announce ATP funding. The first, published August 31, 2018,⁷ announced \$200 million in available funding. FAS awarded funding to 57 out of 72 applicants

¹ CCC is an agency established within the United States Department of Agriculture, subject to the general supervision and direction of the Secretary of Agriculture, for the purpose of stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced and adequate supplies of agricultural commodities, products thereof, foods, feeds, and fibers; and facilitating the orderly distribution of agricultural commodities. CCC is authorized to use its general powers to, among other things, export or cause to be exported, or aid in the development of foreign markets for, agricultural commodities (other than tobacco) (including fish and fish products, without regard to whether such fish are harvested in aquacultural operations). The Secretary of Agriculture serves as the Chairman of the Board.

² 15 U.S.C. § 714c(f).

³ 7 C.F.R. § 1489.10(e).

⁴ CCC does not have any employees and uses the employees of USDA agencies to perform its operations.

⁵ 7 C.F.R. pt. 1489.

⁶ The list of general application criteria can be seen at 7 C.F.R. § 1489.10(b) and includes regulations such as 2 C.F.R. pt. 400.

⁷ FAS, Office of Trade Programs, Notice of Funding Opportunity No. 2018-09, Agricultural Trade Promotion Program (Aug. 2018).

based on the first NOFO. USDA made an additional \$100 million in ATP funding available through a second NOFO that it published on June 3, 2019.⁸ The second NOFO stated that no new applications would be accepted. Based on the second NOFO, FAS awarded funding to 48 out of the 72 original applicants. In the second NOFO, FAS provided additional funding to 46 of the 57 applicants that received awards in the first NOFO. FAS also awarded funding to 2 applicants that did not receive any funding in the first NOFO, resulting in 48 awards in the second NOFO and 59 total award recipients between the two NOFOs.

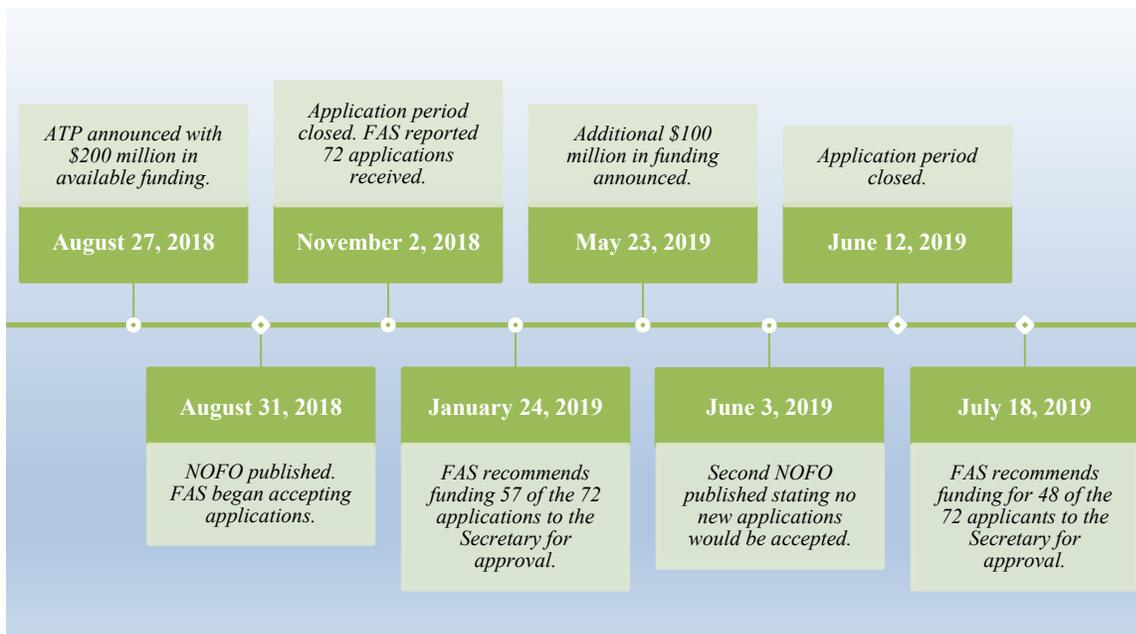


Figure 2. This outlines key dates in the ATP grant selection process, from the date funding was announced to the date funding recommendations were made to the Secretary of Agriculture.

Both ATP NOFOs included the same eligibility criteria and application review process. Interested applicants had to submit their complete application, in accordance with applicable Federal regulations and NOFO requirements, between August 30, 2018, and November 2, 2018. The NOFOs described processes FAS would use to evaluate applications. Specifically, FAS would review the applications to determine if ATP applicants were eligible for funding and submitted all the required documentation and information necessary to enter a second review, a review of the merits of proposals. According to the NOFO, the purpose of this second review is to identify meritorious proposals and to recommend an appropriate funding level for each application, based upon criteria outlined in the NOFO. Those applications that best satisfied the published criteria and factors and demonstrated the highest likelihood of success would be recommended for funding. The Secretary of Agriculture approved the ATP awards after FAS provided the recommendations for funding in January and July 2019.

The NOFOs also included requirements related to the disposition of applications at the end of the selection process. According to the NOFOs, FAS would notify each applicant in writing of the

⁸ FAS, Office of Trade Programs, Notice of Funding Opportunity No. 2019-06, Agricultural Trade Promotion Program (June 2019).

final disposition of its application. Approved applicants would be notified through an approval letter and program agreement.

We audited FAS' control environment and grant management process in a prior audit.⁹ During that audit, we found that FAS did not sufficiently strengthen its control environment before accepting Section 632(a) funds from the U.S. Agency for International Development (USAID). Specifically, we found that FAS had not implemented performance monitoring plans for all projects until over 2 years after the first project began. Also, FAS did not finalize or implement a grant management structure that would facilitate effective monitoring of recipients' fund use. We recommended that FAS forego accepting further Section 632(a) funds until the agency has fully implemented a formal monitoring and evaluation process and a grants management structure, including finalizing agency regulations and directives. FAS did not complete the actions necessary to close the recommendations from the 2014 Office of Inspector General (OIG) report until January 2022.¹⁰

Objective

We determined whether FAS' grant selection process complied with ATP requirements.

⁹ Audit Report 50601-0002-16, *Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan*, Feb. 2014.

¹⁰ We became aware of the agency reaching final action on these report recommendations in January 2022, during the report writing process for this audit. We were not provided information from the agency related to these actions in time to evaluate them in the context of this audit and, therefore, make no assertions related to the actions taken to achieve final action for that prior audit.

Finding 1: ATP Grant Selection Process

FAS awarded \$300 million in ATP funding to applicants who may not have been the most meritorious based on the announced criteria and program regulations. This occurred because FAS did not make establishing controls over its grant programs a priority even though FAS agreed to do so in response to recommendations OIG made in 2014. Additionally, FAS did not maintain sufficient documentation about the reviews performed on applications and the selections made, which impaired our ability to fully evaluate those reviews and selections. As a result, we are unable to attest to the merits of the 59 ATP grants awarded in fiscal year (FY) 2019, totaling \$300 million.

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal executive branch entities to establish internal controls in accordance with *Standards for Internal Control in the Federal Government*.^{11, 12} Departmental regulations also require USDA agencies and staff offices to establish, maintain, evaluate, improve, and report on systems of controls.¹³ According to the criteria established in the *Standards for Internal Control in the Federal Government*, Federal agencies are required to design and implement the control activities necessary to achieve agency objectives and comply with applicable regulations.¹⁴ FAS incorporated specific processes into its NOFOs by providing specific details of how applicants would be assessed and selected.

However, we identified control weaknesses and significant deviations from established internal controls and processes that call into question the merit of the awards made, totaling \$300 million. Specifically, we found that FAS did not implement grants and agreements guidance that the Acting FAS Administrator and a prior Agency Grants Management Officer (AGMO) issued in March 2018. The lack of implementation of this guidance contributed to the issues we identified. FAS officials explained ATP was developed very quickly. FAS officials stated that the best way to develop the new program quickly was to model it on similar market development programs that were already in use and to use analysis that had recently been conducted for these same potential applicants. The sections below describe the issues we identified that impacted the ATP grant selection process.

Eligibility and Application Completeness

ATP regulations state that applications shall be submitted in accordance with the terms and requirements specified in the NOFO and in the ATP regulations.¹⁵ In addition, the first ATP NOFO lists the required certifications that an applicant needed to submit with its application, including a certification regarding lobbying.

¹¹ 31 U.S.C. § 3512(c)-(d).

¹² Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G (Sept. 2014).

¹³ USDA Departmental Regulation 1110-002, *Management's Responsibility for Internal Control* (June 17, 2013).

¹⁴ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, Principles 10 and 12 (Sept. 2014).

¹⁵ 7 C.F.R. § 1489.13(a).

However, FAS provided an incomplete control document as verification that FAS personnel reviewed the completeness of the grant eligibility documentation submitted by all 72 applicants.¹⁶ Without a properly completed control document, FAS could not show us how it obtained the information necessary to fully assess applicant eligibility before awarding funds. Since FAS did not have any policy in place requiring an internal review of the eligibility and application completeness process, it lacked the proper controls to ensure only eligible applicants that met all NOFO requirements were submitted for further review and consideration.

Reviewer Independence

Governmentwide and USDA-specific regulations require agencies to establish conflict of interest policies for Federal awards.¹⁷ USDA regulations further prohibit reviewers from having any real or apparent conflicts of interest and require that independent reviewers assess applications.¹⁸ However, FAS did not implement the controls necessary to ensure those who participated in the review of applications were independent.

FAS' conflict of interest policy was not clear within the agency. One Departmental official told us that FAS did not have a documented conflict of interest policy. Another official stated it was their policy to use financial disclosure reports filed by designated employees to identify conflicts of interest.¹⁹ Although the financial disclosure forms are meant to assist employees and their agencies in avoiding conflicts between official duties and private financial interests or affiliations, relying solely on the information provided in such reports is not sufficient to assess a reviewer's independence. For example, if a close friend or family member of a reviewer applied for ATP funding, the reviewer's financial disclosure report may not include this information. According to FAS officials, the personnel that could have been assigned to perform these reviews were not all required to file a financial disclosure form. FAS could not provide documentation supporting who participated in these reviews or that the reviewers were independent. Assessing potential conflicts of interest of those reviewing applications is considered a key control in the grant award process because it prevents individuals with real or apparent conflicts of interest from participating in the review of ATP applications. Documenting and evaluating reviewers' independence helps FAS ensure that its awarding process is transparent and impartial.

¹⁶ The control document included eight eligibility documents, and FAS personnel were supposed to enter the dates that they verified that applicants submitted each eligibility document. First, we found the control document did not track all documentation listed in the NOFO. Second, FAS could not explain the numerous unfilled spots in the control document.

¹⁷ 2 C.F.R. §§ 200.112, 400.2.

¹⁸ 2 C.F.R. § 415.1(a)(2).

¹⁹ The United States Office of Government Ethics (OGE) Form 450, *Confidential Financial Disclosure Report*, and Form 278e, *Executive Branch Personnel Public Financial Disclosure Report* (for designated senior positions), are standardized forms prescribed by the OGE; moreover, OGE regulations governing the content of the reports describe specific reporting periods and identify individual financial interests covered by the reporting system. See 5 C.F.R. pt. 2634.

Merit Review

Federal regulations require the Federal awarding agency to design and execute a merit review process for applications.²⁰ FAS described the merit review process in its announcements. According to the initial NOFO, issued August 31, 2018, FAS merit reviewers would review each application against the published criteria to identify meritorious proposals and recommend an appropriate funding level for each application based on these criteria. Only those applications that best satisfy the factors and criteria from ATP regulations²¹ and demonstrate the highest likelihood of success²² would be recommended for funding. FAS convened a panel of FAS personnel to complete a merit review of the applications received during the first NOFO announcement. When an additional \$100 million was added to ATP, FAS announced in its new NOFO, issued on June 3, 2019, that it would allocate the funding against the applications it received related to the first NOFO. FAS officials confirmed no additional merit reviews were performed for the second NOFO. Instead, FAS used the reviewer recommendations from the first NOFO to support the award recommendations related to the second NOFO announcement.

We determined that, during the first NOFO, FAS received 72 applications requesting more than \$591 million in funding. When merit reviewers reviewed the applications, they recommended an initial funding amount for each activity contained within the application. FAS merit reviewers initially recommended \$237.9 million in funding be provided to 64 of those applicants. While we understand FAS was constrained by the initial program funding limitations of \$200 million, we found FAS did not follow the merit reviewers' recommendations when it awarded \$200 million to 57 applicants. FAS officials told us adjustments to the recommendations were made on a case-by-case basis. However, FAS was unable to provide any documentation to support the adjustments made to the funding amounts recommended by the merit reviewers and the extent of any additional review or discussion regarding the funding amount assigned to these applications. FAS distributed the second round of funds by providing additional funding to 46 of those 57 initial recipients and making 2 new awards. FAS officials said they identified the applicants that would receive funding in the second round by calling them to see if they needed more funding. This is concerning because we identified significant deviations between the recommendations made by those merit reviewers and what FAS awarded to applicants. For example, FAS awarded funding to an applicant that merit reviewers recommended receive no funding and did not award any funding to six applicants that merit reviewers recommended funding. Overall, FAS awarded \$300 million in funding for 59 of the 72 applicants.

In addition to the deviations described related to who received funding, FAS was unable to provide documentation to support the deviations between the amounts FAS merit reviewers recommended the applicants receive and what was awarded to those 59 applicants that received funding. We identified that FAS awarded 4 applicants the amount recommended, 46 applicants more than the amount recommended, and 9 applicants less than the amount recommended. When merit reviewers review applications, they provide a recommended funding amount for each of the activities that applicants propose to achieve in their ATP applications. According to ATP regulations, an activity is a specific foreign market development effort undertaken by an ATP

²⁰ 2 C.F.R. § 200.204.

²¹ 7 C.F.R. § 1489.14(d).

²² 7 C.F.R. § 1489.14(b).

participant.²³ We identified examples where the final award for an individual activity significantly differed from the amounts requested by the applicants and recommended by the reviewer. Specifically, one applicant requested \$190,000 for an activity; the reviewer recommended \$75,000 for the activity. The final award for the activity was more than \$1 million. In another instance, a different applicant requested \$300,000 for an activity. The reviewer recommended the full request, yet the total award for the activity was slightly over half of the request—more than \$160,000. FAS could not provide documentation to support the amount awarded to each applicant, as a whole, or the amount awarded for individual activities.

In a final example, FAS did not base a decision to provide funding to four applicants on the merit of the proposals submitted by the applicants.²⁴ Specifically, FAS awarded \$19 million to four applicants for activities that were not in the application and had not been reviewed for merit. Instead, FAS listed these funds as “uncommitted funds” on the award letter. For example, one of these four applicants received more than [REDACTED] million in ATP funding in the first round. FAS awarded this recipient an additional [REDACTED] million in the second round; however, more than \$4.6 million of this amount was not assigned to any activities.

FAS officials stated that these funds are assigned to grant recipients to use in the future if new projects arise. Assigning these funds to applicants for activities that have not been defined by the applicant or evaluated by the merit reviewers is not in accordance with ATP regulations.²⁵

In a written response to the discussion draft audit report, FAS officials stated that the funding recommendations produced by merit reviewers were not considered an initial recommendation, as no funding recommendation exists until the appropriate decision makers determine and agree upon a recommendation. Furthermore, during the exit meeting to discuss our draft report, a high-level FAS agency official stated that he was the only one who identified who would receive funding. Although management has ultimate responsibility for deciding how the agency complies with Federal grant requirements and program regulations, we questioned FAS’ actions because neither were included in the NOFO published or adequately supported afterwards. It is the lack of transparency and documentation in the ATP grant selection process that prompted our reporting. The lack of documentation of the variances between the awards and the recommendations prevented us from being able to determine if the most meritorious applicants were selected to receive grants based on published criteria, and further impacts the transparency and accountability associated with selecting meritorious applicants to be awarded grants.

Guidance for Administering Grants

FAS could have mitigated the issues we outlined in this finding if it would have implemented a prior OIG audit recommendation. Specifically, FAS did not implement the policies and procedures necessary to properly administer grants in accordance with applicable requirements, despite OIG making FAS aware of this lack of documented policies and procedures in 2014.

²³ 7 C.F.R. § 1489.11 (Definitions).

²⁴ 7 C.F.R. § 1489.14(c).

²⁵ Ibid.

A 2014 OIG audit report stated “FAS has developed, but has not yet finalized, (1) agency regulations and directives that would create uniform guidelines for administering Federal financial assistance, and (2) an electronic grant management system to manage its non-food aid grants and agreements.”²⁶ At that time, OIG made a recommendation to FAS to forego accepting grant funds associated with another grant program until it implemented a formal monitoring and evaluation process and a grants management structure, including finalizing agency regulations and directives. FAS responded to our recommendation in May and July 2014 by stating that it would implement a grants management structure, which would include finalizing agency regulations and directives, by March 2015. In addition, FAS stated in these responses that it would implement a formal monitoring and evaluation process by June 2015. In the 2014 report, we also learned that a consulting group recommended FAS develop a comprehensive standard operating procedure (SOP) capable of managing all types of agreements falling under FAS’ responsibility and train the personnel involved in implementing the new SOPs. However, FAS had not fully implemented the corrective actions when it awarded \$300 million in ATP funding more than 5 years after that report’s issuance. FAS did not complete the actions necessary to close the recommendations from the 2014 OIG report until January 2022.

Since the 2014 audit, FAS attempted to implement agencywide grants management processes to help it comply with Federal grant requirements. For example, in March 2018, an Acting FAS Administrator issued a notice stating that FAS implemented actions to comply with Governmentwide efforts and specific OIG recommendations to strengthen the management of grants and agreements. The notice required all Deputy Administrators to ensure that proposed awards cleared through the Grants and Agreements Office before signing them and stated that FAS must strengthen the role of the Grants and Agreements Office to ensure proper execution of FAS’ assistance instruments. Shortly after this notice was issued, the AGMO at the time provided additional implementation instructions to the program areas, including tools mentioned in the notice that were designed to ensure compliance with Federal grant requirements. The Grants and Agreements Office also initiated training sessions with program personnel on a new clearing process for grants that FAS was going to use to implement these new tools and bring FAS into compliance with Federal grants management requirements.

FAS was unsuccessful in implementing the guidance issued by the Acting Administrator and former AGMO for the ATP grant selection process. Statements obtained from personnel involved in the process reflected that this guidance was not implemented for ATP and FAS did not hold personnel accountable for performing these activities, which contributed to the deficiencies described in this finding. We corroborated these statements through the review of available documentation.

We identified a number of control activities, such as the use of a conflict of interest form and the clearance of awards using an Award Review Checklist, that the AGMO designed and trained personnel on, which, if properly implemented, could have helped FAS demonstrate compliance with ATP requirements.

²⁶ Audit Report 50601-0002-16, *Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan*, Feb. 2014.

In June 2020, FAS issued a Grants Directive that assigned roles and responsibilities, established policies, and referenced comprehensive procedures that were to be followed throughout the entire grant and agreement awarding cycle. This directive helped FAS strengthen its grants operations and, if implemented, would have helped FAS address key concerns from our prior audit. However, in June 2021, FAS issued a memorandum to adjust responsibilities within the directive and rescinded the comprehensive policies and procedures referenced in the June 2020 directive, stating implementation of the directive created inefficiencies in the awarding process. Establishing strong internal controls can help FAS ensure that funds are appropriately granted.

The internal control issues we identified in this finding may also impact FAS' annual FMFIA assurance statements. FMFIA requires that the head of each Executive Agency annually submit to the President and Congress: (1) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (2) a report on material weaknesses in the agency's controls. FAS' FY 2021 annual certification statement included an assurance that "*FAS provides an unmodified statement of assurance internal controls are designed, implemented, and operating effectively over operations.*"

Given the severity and pervasiveness of the issues identified, we are recommending multiple actions that FAS should take to correct these issues. This includes approving and implementing a written policy that is designed to ensure FAS complies with Federal grant requirements, as well as published program regulations, when awarding grants. This policy should include, at a minimum, the assigned roles and responsibilities as well as the processes and procedures FAS personnel will use to carry out these roles and responsibilities. FAS should also develop and implement a plan to train personnel on how to perform their assigned roles and responsibilities as prescribed in the written grant policy. This plan should also include information and guidance on how and when to elevate issues for resolution at the appropriate level of responsibility. FAS should develop and implement a plan to ensure FAS personnel are held accountable for the roles and responsibilities assigned to them in this policy related to ensuring compliance with all applicable Federal regulations when awarding grants. Finally, due to the impact of the internal control issues we identified, FAS should consult with the Office of the Chief Financial Officer to determine if the issues we identified in this report should be included in the agency's FMFIA assurance statement.

Recommendation 1

Approve and implement a written policy that is designed to ensure FAS complies with Federal grant requirements, as well as published program regulations, when awarding grants. This policy should include, at a minimum, a merit reviewer conflict of interest policy and a policy to document decisions throughout the grant selection process, especially if deviations from the process occur. This policy should also include the assigned roles and responsibilities and the processes and procedures that FAS personnel will use to follow relevant grant and program regulations.

Agency Response

FAS agrees with this recommendation. In November 2021, FAS published a Grants Management Directive that defines roles and responsibilities as well as processes and procedures to ensure compliance with Federal grant requirements and published program regulations. By August 4, 2023, FAS will adopt additional written policies to address merit reviewer conflict of interest and documenting decisions throughout the grant selection process, especially if deviations from the process occur.

OIG Position

We accept management decision on this recommendation.

Recommendation 2

Develop and implement a plan to train personnel on how to perform their assigned roles and responsibilities as prescribed in the new grant policy. This plan should also include information and guidance on how and when to elevate issues for resolution at the appropriate level of responsibility.

Agency Response

FAS agrees with this recommendation. In FY 2022 FAS implemented a new process to centrally monitor, assign, and evaluate the agency's grants management training. By August 4, 2023, FAS will formally document this process and ensure that personnel are trained on how to perform their assigned roles and responsibilities as prescribed in the Grants Management Directive, including guidance on how and when to elevate issues for resolution.

OIG Position

We accept management decision on this recommendation.

Recommendation 3

Develop and implement a plan to ensure FAS personnel are held accountable for the roles and responsibilities assigned to them in this new policy related to ensuring compliance with all applicable Federal regulations when awarding grants.

Agency Response

FAS agrees with this recommendation. By August 4, 2023, FAS will adopt a plan to ensure personnel are held accountable for the performance of their roles and responsibilities, as defined in the Grants Management Directive, in ensuring compliance with all applicable Federal regulations when awarding grants.

OIG Position

We accept management decision on this recommendation.

Recommendation 4

Determine if the control issues over the ATP grant program that we identified in this report should be included in the agency's FMFIA assurance statement.

Agency Response

By September 30, 2022, FAS will consult with the Office of the Chief Financial Officer (OCFO) to determine if the control issues over the ATP grant program identified in this draft report should be included in the agency's FY 2022 FMFIA assurance statement.

OIG Position

We accept management decision on this recommendation.

Scope and Methodology

Our audit of FAS' grant selection process covered the \$300 million in ATP funding awarded in FY 2019. The grant selection process related to this funding included activities that occurred between August 2018 when funding was announced and July 2019 when the awards related to the second announcement were made. FAS announced \$200 million in available funding for this program in FY 2018. In FY 2019, FAS announced an additional \$100 million was available.

We determined FAS received 72 applications requesting more than \$591 million in funding for this program overall. Between the two rounds of ATP funding, FAS awarded \$300 million in funding to 59 of the 72 applicants.²⁷ FAS awarded \$200 million to 57 applicants related to the first round. FAS provided additional funding to 46 of those 57 applicants, in addition to awarding funding to 2 applicants after the second application period closed, resulting in 59 award recipients between the two rounds.

We conducted our fieldwork from October 2019 to February 2022. In addition to the fieldwork conducted remotely, we also visited FAS' headquarters in Washington, D.C.

To accomplish our audit objective, we:

- reviewed applicable Federal regulations, such as 2 C.F.R. part 400, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and 7 C.F.R. part 1489, *Agricultural Trade Promotion Program*, in order to gain sufficient knowledge to evaluate FAS' ATP grant selection process;
- reviewed FAS' grant policy documentation to identify the internal controls it had in place to ensure it complied with Federal grant and program requirements;
- interviewed FAS officials responsible for administering ATP;
- reviewed available grant selection documentation, including the NOFOs, application review sheets, decision memorandum, and award letters to determine if FAS complied with the applicable regulations mentioned above throughout the grant selection process;
- reviewed the NOFOs to determine if FAS properly announced the funding;
- reviewed FAS' application review eligibility process to determine compliance with the applicable laws and regulations described above; and
- reviewed FAS' application review merit process to determine compliance with the applicable regulations described above.

We assessed two GAO Standards for Internal Control in the Federal Government components and three related principles of FAS' internal controls to satisfy the audit objective.²⁸ First, we assessed the control environment component and the related principle that states management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. In particular, we identified how responsibilities were assigned within the grant selection and approval process for ATP. Second, we assessed the control

²⁷ There were 72 applicants; however, 4 applicants were subsequently combined into two applications. As a result, we identified 70 applications.

²⁸ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Sep. 2014).

activities component and two related principles that state that management should design control activities to achieve objectives and respond to risks, and implement control activities through policies. In particular, we assessed FAS' control activities to determine if they were designed to incorporate the applicable requirements from Federal regulations and whether those control activities were implemented through policies. However, 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.

Although FAS uses an information system, the Unified Export System, to administer ATP, we make no representation regarding the adequacy of this system, or the information generated from it because evaluating the effectiveness of information systems or information technology controls was not one of the audit's objectives. We did not rely upon information from this system to form the basis of our conclusions. Instead, we obtained application documents and interviewed knowledgeable agency officials to support the findings and conclusions. From these efforts, we determined that the information and data reflected in this report were sufficiently reliable for the purposes of this report.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and 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

AGMO	Agency Grants Management Officer
ATP	Agricultural Trade Promotion Program
CCC.....	Commodity Credit Corporation
C.F.R.	Code of Federal Regulations
FAS	Foreign Agricultural Service
FMFIA	Federal Managers' Financial Integrity Act
FY	fiscal year
GAO	Government Accountability Office
NOFO.....	notice of funding opportunity
OGE	United States Office of Government Ethics
OIG	Office of Inspector General
SOP	standard operating procedure
U.S.	United States
USAID	U.S. Agency for International Development
U.S.C.....	United States Code
USDA.....	United States Department of Agriculture

Exhibit A: Summary of Monetary Results

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

Finding	Recommendation	Description	Amount	Category
1	1	FAS awarded \$300 million in ATP funding to applicants who may not have been the most meritorious based on the announced criteria and program regulations.	\$300 million	Questioned Costs, No Recovery
Total			\$300 million	Questioned Costs, No Recovery

**FAS'
Response to Audit Report**



United States
Department of
Agriculture

Trade and Foreign
Agricultural
Affairs

Foreign
Agricultural
Service

1400 Independence
Ave, SW
Stop 1052
Washington, DC
20250-1052

DATE: August 2, 2022

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Daniel Whitley /s/
Administrator

SUBJECT: Response to the Office of Inspector General’s Draft Report “Oversight of the Agricultural Trade Promotion Program” (07601-0001-24)

The Foreign Agricultural Service (FAS) appreciates this opportunity to respond to the Office of Inspector General’s (OIG) draft audit report on the Agricultural Trade Promotion (ATP) program. FAS acknowledges the effort made by OIG auditors to understand the context in which the program was created and the processes that FAS followed in implementing it. However, FAS has identified several areas where misunderstandings or differences of opinion may have resulted in misleading statements and conclusions in the report.

OIG states that FAS “provided an incomplete control document as verification that FAS personnel reviewed the completeness of the grant eligibility documentation submitted by all 72 applicants.” The referenced spreadsheet was offered as informal context for the process and was not meant to document FAS completion of the required reviews. All 72 reviews were conducted and completed from December 19, 2018, to January 31, 2019.

OIG states that “FAS officials said they identified the applicants that would receive funding in the second round by calling them to see if they needed more funding.” This misunderstanding has been repeatedly refuted by both program and the agency’s most senior officials, including all decision-making officials. FAS categorically states that no applicant received funding based on a telephone call. When the Administration added an additional \$100 million to ATP, applicants were contacted to confirm that the details of their applications remained accurate. That diligent step was freely disclosed to OIG in a requested presentation of the process FAS used to allocate the additional funding. OIG has taken that presentation as confirmation of earlier information received “from FAS officials with direct knowledge that FAS identified the applicants to receive funding in the second round by calling those applicants to discover if they needed more funding.” Without OIG disclosure of the source and context of this information, FAS can only speculate that the common confirmation practice has been misstated or misunderstood in this instance.

OIG states that “When merit reviewers review applications, they provide a recommended funding amount for each of the activities that applicants propose to achieve in their ATP applications” and “Specifically, FAS awarded \$19 million to four applicants for activities that were not in the application.” These two incorrect descriptions represent a continued misunderstanding of the ATP application review process as described in the ATP regulations at 7 C.F.R. § 1489.14, in which the word “merit” does not appear and “activities” are not identified as an allocation factor. The regulations do state that “The selection process, by its nature, involves the exercise of judgment. CCC’s choice of Participants and proposed promotion projects requires that it consider and weigh a number of factors, some of which cannot be mathematically measured – e.g., market opportunity, market strategy, and management capability.”

OIG goes on to state that “It is the lack of transparency and documentation in the ATP grant selection process that prompted our reporting. The lack of documentation of the variances between the awards and the recommendations prevented us from being able to determine if the most meritorious applicants were selected to receive grants based on published criteria, and further impacts the transparency and accountability associated with selecting meritorious applicants to be awarded grants.”

While FAS takes exception to the implication that its public officials applied anything less than the highest standards to the allocation and administration of this federal funding, the agency can accept OIG’s view that transparency and documentation regarding the quickly developed ATP program could be improved if it were to continue. In particular, the NOFO and the program regulations could be rewritten to more clearly describe the wholly appropriate administrative processes and procedures FAS followed to promote program effectiveness while preserving program integrity.

As for the four recommendations contained within the OIG report, FAS’s specific response to each is provided as follows:

Recommendation 1:

Approve and implement a written policy that is designed to ensure FAS complies with Federal grant requirements, as well as published program regulations, when awarding grants. This policy should include, at a minimum, a merit reviewer conflict of interest policy and a policy to document decisions throughout the grant selection process, especially if deviations from the process occur. This policy should also include the assigned roles and responsibilities and the processes and procedures that FAS personnel will use to follow relevant grant and program regulations.

FAS Response:

We agree with this recommendation. In November 2021, FAS published a Grants Management Directive that defines roles and responsibilities as well as processes and procedures to ensure compliance with Federal grant requirements and published program regulations.

By August 4, 2023, FAS will adopt additional written policies to address merit reviewer conflict of interest and documenting decisions throughout the grant selection process, especially if deviations from the process occur.

Recommendation 2:

Develop and implement a plan to train personnel on how to perform their assigned roles and responsibilities as prescribed in the new grant policy. This plan should also include information and guidance on how and when to elevate issues for resolution at the appropriate level of responsibility.

FAS Response:

We agree with this recommendation. In FY 2022 FAS implemented a new process to centrally monitor, assign, and evaluate the agency's grants management training. By August 4, 2023, FAS will formally document this process and ensure that personnel are trained on how to perform their assigned roles and responsibilities as prescribed in the Grants Management Directive, including guidance on how and when to elevate issues for resolution.

Recommendation 3:

Develop and implement a plan to ensure FAS personnel are held accountable for the roles and responsibilities assigned to them in this new policy related to ensuring compliance with all applicable Federal regulations when awarding grants.

FAS Response:

We agree with this recommendation. By August 4, 2023, FAS will adopt a plan to ensure personnel are held accountable for the performance of their roles and responsibilities, as defined in the Grants Management Directive, in ensuring compliance with all applicable Federal regulations when awarding grants.

Recommendation 4:

Determine if the control issues over the ATP grant program that we identified in this report should be included in the agency's FMFIA assurance statement.

FAS Response:

By September 30, 2022, FAS will consult with the Office of the Chief Financial Officer (OCFO) to determine if the control issues over the ATP grant program identified in this draft report should be included in the agency's FY 2022 FMFIA assurance statement.

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