

**Office of  
Inspector General**

**FY 2003 ANNUAL PLAN**

October 1, 2002 - September 30, 2003





# FOREWORD

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This is the Office of Inspector General's (OIG) Annual Plan for fiscal year (FY) 2003. This plan describes our strategies for conducting audits, investigations, and evaluations to provide our Department's managers with information they can use to improve the programs and operations they administer. We noted in our Annual Plan for FY 2002 that the terrorist attacks on September 11, 2001, caused us to readjust our priorities, and the subsequent anthrax attacks further highlighted the need. We are again focusing our priorities on those issues to help ensure a safe food supply, identify vulnerabilities to avert accidental or intentional release of agricultural threats, and help ensure that USDA's information technology systems and resources are secure.

Our priorities for FY 2003 will include a review of security provisions used to protect food stored in USDA warehouses earmarked for food service programs, including school lunch and child and adult care food programs, from deliberate contamination; a review of the food safety information system to ensure immediate actions are taken when unsafe meat and poultry products enter the marketplace; evaluating controls over permits issued to facilities that import biohazards, and systems used to track them; and evaluating security controls in place on e-Government program initiatives to ensure the integrity and confidentiality of these programs are not compromised.

Infrastructure security will again play a key role in our planning in other program areas as well. Some of these areas include: (1) assessing the Department's implementation and administration of the programs provided under the newly enacted Farm Security and Rural Investment Act of 2002; (2) assessing the steps being taken to reorganize the meat and poultry food safety inspection system; (3) reviewing the national fire plan; (4) monitoring the continued expansion of the Electronic Benefits Transfer systems for entitlement programs; and (5) determining that management controls are in place to ensure that funds Congress authorized for the newly created Federal-State partnerships – the Delta Regional Authority and the Northern Great Plains Regional Authority – are safeguarded against waste and abuse. In addition, our investigative resources will continue to be directed to issues affecting food and consumer protection and to threats to the health and safety of the public, as well as threats against USDA employees.

We are required by the Government Information Security Reform Act to perform annual reviews of the Department's information security procedures. We are also obligated to audit the Department's compliance with the requirements of the Federal Activities Inventory Reform Act. Recently enacted legislation now requires USDA's OIG to perform independent investigations of any Forest Service firefighter whose death is caused by wildfire entrapment or burnover. We also set aside time to handle those unexpected, critical issues that invariably arise during the course of a year. These could include identifying the cause of food-borne illnesses, reviewing disaster-related situations that might be vulnerable to abuse and fraud, and acting on requests received from members of Congress and USDA agencies. Limited funding, along with increasingly new statutory mandates for Inspectors General, have forced OIG to divert resources from our core audit and investigative work.

Last fiscal year, we conducted a complete review of OIG's operations with the goal of re-engineering our business practices to take full advantage of state-of-the-art technologies in our audit and investigative activities, streamline operations, and increase office efficiencies. This year we envision implementing our re-engineering efforts so we may provide more proactive assistance to USDA agencies as they carry out new and existing Federal programs.

As always, we encourage agency management to provide input into our planning process, and where possible, we have included their suggestions in our FY 2003 plan.

>signed<

JOYCE N. FLEISCHMAN  
Acting Inspector General



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# ACRONYMS

|                |  |       |   |
|----------------|--|-------|---|
| AMS            | Agricultural Marketing Service                               | GIPSA | Grain Inspection, Packers and Stockyards Administration |
| APHIS          | Animal and Plant Health Inspection Service                   | GISRA | Government Information Security Act                     |
| ARS            | Agricultural Research Service                                | GPRA  | Government Performance and Results Act                  |
| CCC            | Commodity Credit Corporation                                 | NASS  | National Agricultural Statistics Service                |
| CR             | Civil Rights   | NRCS  | Natural Resources Conservation Service                  |
| CSREES         | Cooperative State Research, Education, and Extension Service | OCFO  | Office of the Chief Financial Officer                   |
| 2002 Farm Bill | Farm Security and Rural Investment Act of 2002               | OCIO  | Office of the Chief Information Officer                 |
| FAS            | Foreign Agricultural Service                                 | OIG   | Office of Inspector General                             |
| FCIC           | Federal Crop Insurance Corporation                           | OMB   | Office of Management and Budget                         |
| FMFIA          | Federal Managers' Financial Improvement Act                  | PCIE  | President's Council on Integrity and Efficiency         |
| FNS            | Food and Nutrition Service                                   | RBS   | Rural Business-Cooperative Service                      |
| FS             | Forest Service   | RHS   | Rural Housing Service                                   |
| FSA            | Farm Service Agency  | RMA   | Risk Management Agency                                  |
| FSIS           | Food Safety and Inspection Service                           | RUS   | Rural Utilities Service                                 |
| FY             | fiscal year  | U.S.  | United States   |
| GAO            | General Accounting Office                                    | USDA  | U.S. Department of Agriculture                          |

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# **MANAGEMENT CHALLENGES**

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Over the past several years congressional committees, including the Senate Governmental Affairs Committee, Senate Budget Committee, House Government Reform Committee, and House Budget Committee, requested OIG to provide information on what we considered to be the most serious management challenges facing USDA. OIG is now required to include a statement, in accordance with Public Law 106-531, "Reports Consolidation Act of 2000," summarizing these management and performance challenges. The following paragraphs depict, as of September 25, 2002, OIG's most recent summary.

## **USDA HOMELAND SECURITY**

### **1. Homeland Security Issues**

The events of September 11, 2001, and the subsequent anthrax attacks on Government and media officials have alerted U.S. Department of Agriculture (USDA) at all levels to the need for increased vigilance and the strongest possible defenses. The Administration established the Office of Homeland Security to provide coordination and guidance across the Federal Government. As reflected in the Office of Homeland Security's priorities and the Administration's request for supplemental funding, homeland security comprises four missions: to support first responders to terrorist attacks, to defend against biological attacks, to secure our borders, and to share information about suspect activity. USDA's operations involve it in all four missions. The attacks also added a new dimension to the Department's priorities, particularly its mission to ensure the safety and abundance of the Nation's food supply, from the farm to the American people's table. However, based on our past and ongoing reviews, if the Department is to effectively respond to these new circumstances, it faces several challenges which it has not often confronted in the past: increased communication and coordination across the Department and its agencies, consistent departmental policies and procedures, and an emphasis on security (as opposed to safety) from potentially terrorist activities or other deliberate conspiracies.

The Office of Inspector General (OIG) experienced these challenges that the Department now faces in our recent efforts reviewing the USDA laboratory facilities. High on the list of potential weapons are the biological agents that USDA laboratories use for research on plant and animal diseases. OIG recently issued an audit report on the Department's controls over the security of its biological agents. The aim of the audit was to determine what pathogens the Department used and stored in over 300 laboratories around the country and what security those laboratories established to guard against break-ins. Our audit found that the responsibility for dealing with security was fragmented among the laboratory units. There were no policies or procedures in place to identify the type and location of the pathogens. Security in general at the laboratories needed improvement, but laboratory managers also needed to restrict access.

In response to the need for greater biosecurity in the wake of the September 11 attacks, the Secretary assigned a task force to develop policies and procedures for biosecurity within the

Department. On August 30, 2002, the Secretary's Chief of Staff signed for the Secretary the decision memorandum adopting for USDA-wide implementation Departmental Memo 9610-1, entitled "USDA Security Policies and Procedures for Biosafety Level – 3 Facilities." (The Department is also currently working on the draft policies and procedures for its other laboratories and technical facilities excluding Biosafety Level-3 facilities.) The affected USDA agencies have been developing corrective actions in response to our report and in response to the new Department policies and procedures on biosecurity. The recently-issued policies and procedures constitute the first major effort by the Department to issue Departmentwide biosecurity policies and procedures. Furthermore, any effective implementation of these corrective actions will entail a major change in the approach by the agencies' staff. To ensure that the current impetus is carried forth effectively, we have planned followup reviews to evaluate and verify whether these facilities have properly implemented their corrective actions.

Inadequate security procedures even after September 11 was observed during OIG's review of the security provided by the Forest Service over aircraft, including air tankers used for aerial dispersal of flame retardant chemicals and other fire suppression activities, because of its potential use as a weapon. The Forest Service owns 44 aircraft and leases another 800 under contract. Our review found that the Forest Service had not assessed the risk of theft and misuse by terrorists of these aircraft because, prior to September 11, officials did not consider the threat significant. In response to our concerns, the Forest Service assembled a team of security experts to review their air bases. At each site visited, the team planned to conduct a threat assessment and analyze the countermeasures needed to mitigate that threat.

We have been reviewing the Department's operation to prevent the entry of Foot and Mouth Disease and contaminated food products into the United States (see also sections on "Food Safety" and "Marketing and Regulatory Programs"). In an earlier review, we found that the two USDA agencies (that is, Animal and Plant Health Inspection Service (APHIS) and Food Safety and Inspection Service (FSIS)) responsible for preventing contaminated meat and poultry products from entering the Nation's food supply did not always coordinate their activities, giving importers an opportunity to bypass the inspection system. We are continuing our oversight of FSIS' inspection activities, particularly their systems to track, account for, and inspect all meat and poultry products arriving at U.S. ports of entry. If the Department is to ensure the safety of the American food supply, the Department and particularly the two affected agencies, APHIS and FSIS, must increase coordination and communication among themselves.

Currently, we have a number of ongoing reviews evaluating the spectrum of USDA agencies' homeland security initiatives and activities in response to the heightened alert resulting from September 11. These include a number of ongoing efforts looking at APHIS' role in monitoring America's vulnerable ports of entry; a review of APHIS' permit system involving the importation and domestic transshipment of biological agents (for example, animal and plant pests and pathogens), and a review of APHIS' agricultural imports inspection system, particularly on inspections of cargo and passengers at major ports of entry and border crossings to prevent entry of prohibited pests and diseases into the United States. We have initiated the second phase of our reviews of controls and oversight over biohazardous agents; in this phase,

we are evaluating the biosecurity and biosafety controls and procedures at USDA-funded laboratories (that is, university and private laboratory facilities receiving USDA financial assistance). So far, we have found minimal or no departmental guidance involving biosecurity to these laboratories. We have also initiated a review of controls and procedures over chemicals and radioactive materials stored and used at USDA facilities. In our earlier audit several years ago, we had reported material accountability problems. The urgency for strengthened Department controls over these substances materialized with the recent “dirty bomb” alert.

Communications and information technology are among the Department’s primary assets and have been a target of hackers in the past. OIG has been involved in strengthening the Department’s security of this technology well before September 11. To date, we have reviewed or are in the process of reviewing nine separate information systems within the Department. Successful hackers could release Government payments to individuals unassociated with Federal programs or employment. Terrorists could cause economic chaos by altering sensitive pricing data related to commodities markets. Our reviews found several weaknesses in the security of information technology within the Department. Increased cyber security remains a priority for the Department. (See also section 15 on Information Resources Management.)

As the Department and its agencies have undertaken efforts to identify vulnerable assets and to perform vulnerability assessments of their facilities and programs, they have realized the need to secure sensitive information that could be subject to criminal misuse by potential terrorists or to cause major harm to the agriculture sector of the economy. In response, the Department and some agencies initiated actions to remove some sensitive information from their websites. However, they are still faced with the required public disclosure of any document or information they have compiled or collected under the Freedom of Information Act since they do not have classification authority. Because of this vulnerability, the Department and agencies expressed concerns about compiling such information or issuing vulnerability reports. The Department and agencies are seeking a more permanent solution to this dilemma by requesting classification authority. The request has been forwarded to the White House for approval.

On January 10, 2002, President Bush signed the Defense Appropriations Act, which included \$328 million for security upgrades and other activities in response to the terrorist attack. Emphasizing the protection of the Nation’s food supply, the Act designates \$119 million for APHIS, \$113 million for the Agricultural Research Service, and \$15 million for the Food Safety and Inspection Service. The remaining \$80 million is designated for other USDA homeland security priorities. Furthermore, Congress is considering providing additional supplemental funds for FY 2002 for strengthening the Nation’s defenses related to homeland security. The Department faces a challenge in ensuring that these significant funds are expeditiously expended for the purposes specifically authorized by the act.

## **FARM AND FOREIGN AGRICULTURAL SERVICES**

### **2. Federal Crop Insurance**

Crop insurance has become USDA's farmer "safety net." The Federal Crop Insurance Reform Act of 1994 did away with the traditional crop loss disaster payments, and the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 phased out the traditional crop deficiency payments. Between crop years 1996 and 2001, crop insurance coverage increased from 205 million acres to 212 million acres (or an increase of about 3.4 percent), and the Government's total insurance liability increased from \$26.9 billion to \$36.7 billion (an increase of about 36.4 percent), as of March 18, 2002. Although both the number of acres and total liability has increased, the total liability has had a substantially larger increase. This illustrates that the total liability per acre has increased, probably due to increases in specialty crop acreage, as well as, the increase in revenue coverage. This substantial increase in liability per acre also results in a probability for larger per acre indemnity payment. The total indemnity payments in 1996 were \$1.5 billion compared to \$2.8 billion in 2001 (or an increase of approximately 88 percent), as of March 18, 2002. For the 2001 calendar year (CY), the total annual premiums were about \$3 billion; of which, \$1.8 billion (or approximately 59 percent) was paid by the Government through the legislated subsidy. The Government's subsidy was \$982,062,000, out of a total premium of \$1,838,559,000 (or 53.4 percent) for CY 1996. This represents an 80.2 percent increase in total subsidy payments from the 1996 CY to the 2001 CY.

Areas within the Federal crop insurance program where we believe management controls need to be strengthened based on past audit reviews or that we believe pose high vulnerability based on our assessment include the following:

Implementation of ARPA - The Agricultural Risk Protection Act (ARPA), enacted in June 2000, required the Secretary to develop and implement additional methods of ensuring Federal crop insurance program compliance and integrity, including a plan for the Farm Service Agency (FSA) to assist the Risk Management Agency (RMA) in the ongoing monitoring of crop insurance programs. ARPA also increased the Government's support (subsidy) of the insurance premium. The subsidy ranges from 67 percent for additional coverage equal to or greater than 50 percent, but less than 55 percent, of the recorded or appraised average yield to 38 percent for additional coverage equal to or greater than 85 percent. In the case of additional coverage, all insurance other than catastrophic, the amount of the premium shall (1) be sufficient to cover anticipated losses and a reasonable reserve, and (2) include an amount for operating and administrative expenses, as determined by the Federal Crop Insurance Corporation, on an industry-wide basis as a percentage of the amount of the premium used to define loss ratio. RMA has begun the process of modifying the basic policy provisions to incorporate the changes mandated by ARPA, particularly the program integrity provisions. For example, RMA believes that data mining has provided constructive feedback to the agency. We will continue to actively monitor and provide oversight as RMA continues to implement the multitude of provisions mandated by ARPA.

Oversight by Insurance Companies and RMA – To evaluate overall program integrity and compliance on the claims for loss filed by insured producers, RMA uses a quality control (QC) review system that consists largely of reinsurance company internal reviews and periodic agency verifications. This process of oversight and monitoring procedures by the reinsurance companies and by RMA needs to be strengthened. In our current audit of the oversight and monitoring

procedures titled “Monitoring of RMA’s Implementation of Manual 14 Reviews/Quality Control Review System,” we raised the following concerns: (1) over the years, RMA has been unsuccessful at responding to recommendations regarding the establishment of an effective QC review made by both OIG and the General Accounting Office; (2) RMA abandoned its standard error rate review; (3) reinsurance company internal reviews implemented through the Manual 14 process were not reliable; (4) the QC process does not have regulatory authority; and (5) RMA’s error rate does not count all errors. RMA’s earlier stated commitment to QC has not answered basic policy questions. In our report, in addition to recommending the need to strengthen its QC review system, we also recommended that RMA identify and report the absence of a reliable QC review system as a material internal control weakness in its Federal Managers’ Financial Integrity Act (FMFIA) report.

According to RMA, this QC review system is part of a more comprehensive package of oversight and monitoring activities over the insurance companies. RMA agrees that the QC review system as being conducted by insurance companies and its oversight of this process need to be strengthened and is working closely with OIG to that end. To address our recommendations, RMA is (1) updating its Manual 14 which prescribes the type and number of internal reviews to be performed by the insurance companies and (2) evaluating alternative methods to improve its oversight responsibilities which will be included in a new Manual 14. RMA has issued a statement of work seeking non-government services of performance management experts to develop a more effective QC review system. Furthermore, before implementing any changes, RMA believes that it may need to re-evaluate the best method for implementing these changes; for example, evaluating the pros and cons for seeking statutory versus regulatory changes. We will continue to monitor this process to ensure that an effective QC review system is implemented.

### **3. Farm Security and Rural Investment Act of 2002**

The Farm Security and Rural Investment Act of 2002 (also referred to as the 2002 Farm Bill) was signed by President Bush on May 13, 2002. The Act covers the plethora of programs administered by the Department – re-authorizing many existing programs, establishing new programs and initiatives, establishing significantly higher program caps and budget authority – from fiscal year (FY) 2002 through FY 2007. However, many of the provisions are effective for the current crop year (2002). In addition to strengthening the safety net for producers, the bill also provides a major commitment to and strengthening of the conservation programs, reinforces our international trade and export programs, improves nutrition programs, and continues strong support for developing rural communities and businesses. According to the Congressional Budget Office’s recently released cost estimate, the 10-year cost of the bill is \$82.8 billion. By some estimates, it is expected to cost about \$190 billion over 10 years.

With enactment of the FAIR Act of 1996, OIG was actively involved with the Department and its agencies from the early stages of developing the then-mandated program procedures through the implementation of these programs. We believe that our initial, proactive approach as FAIR was being implemented was beneficial and efficient in ensuring that adequate management controls and procedures were timely implemented by the agencies. Based on the perceived vulnerabilities and risks in those programs, we continued to monitor and review many of those

programs. Although the 2002 Farm Bill reauthorized many of the programs from the FAIR Act of 1996, this new bill authorizes a number of new programs. Furthermore, the bill not only reauthorized many existing programs, but established significantly increased funding authority or increased program caps for many of these existing programs. Prior OIG audits have reported serious problems with some of these existing programs, particularly with respect to some smaller programs that were re-introduced. Therefore, as we previously did as FAIR was being implemented, we believe an upfront, proactive approach during the initial stages of implementing the 2002 Farm Bill will be more cost effective to the agency and to the Department.

Examples of areas in the 2002 Farm Bill where our resources need to be targeted follow.

Farm Programs - The bill continued and enhanced many of the provisions of the FAIR Act of 1996, which provided long-term planting flexibility contract payments to major program commodities plus marketing assistance loans and loan deficiency payments. To strengthen the safety net to producers against falling prices, the bill provides for new counter-cyclical payments based on established target prices. In addition to the crops authorized under the 1996 bill, the 2002 Farm Bill expanded the scope of marketing assistance loans and loan deficiency payments to new crops – wool, mohair, honey, dry peas, lentils, and chickpeas. The bill terminated the marketing quota program for peanuts, which was basically a no-cost program, by authorizing a quota buyout program, a direct and counter-cyclical program, and marketing assistance loans and loan deficiency payments for peanuts. Although limitations on program payments were not significantly changed from current levels for ongoing programs, eligibility for payments are now subject to a \$2.5 million adjusted gross income cap. Furthermore, the bill supplanted the existing regional dairy compacts by establishing a national safety-net program, Dairy Market Loss Payment Program, and continuing the Milk Price Support Program. Prior audits have reported ineligible producers resulting from comparable adjusted gross income caps in the disaster assistance programs, and have recommended discontinuing some special crop programs that have been reintroduced in the current bill. The net outlays on commodity programs in Title I of the bill alone are estimated to increase by \$49.7 billion over the next 10 years.

Conservation Programs - The 2002 Farm Bill represents the single most significant commitment of resources toward conservation on private lands in the Nation's history. The bill also establishes a balanced portfolio of tools, including technical assistance, cost-sharing, land retirement, and a new stewardship incentives program. The bill not only reauthorized the Environmental Quality Incentives Program through 2007, but also provided significant budget authority amounting to approximately \$6 billion for the period. The bill established a new Conservation Security Program to assist producers in implementing conservation practices rewarding ongoing stewardship on working lands; the new program is intended to supplement the other ongoing conservation programs. The bill reauthorized a number of other conservation programs: Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), and Farmland Protection Program (FPP). In the cases of CRP and WRP, the bill increased their overall acreage caps. And with respect to WHIP and FPP, the bill significantly increased the budget authority for these programs. Overall, the

increased budget authority for all of these changes will amount to \$17.1 billion over the 6-year time period of the bill (or additional net outlays over the 10-year time period of \$13.2 billion). Monitoring the changes, particularly in light of substantially increased funding authority and increased acreage, for the reauthorized programs and monitoring the new initiatives will require substantial audit resources. Compliance reviews will play a key role in ensuring program integrity, and our past reviews indicate that the USDA agencies will need to strengthen their monitoring and oversight activities.

## **FOOD, NUTRITION AND CONSUMER SERVICES**

### **4. Food Stamp Program**

The Food Stamp Program (FSP), administered by the Food and Nutrition Service (FNS), helps put food on the table of some 7.3 million households, about 17.3 million people. It provides low-income households with coupons or electronic benefits they can use like cash at participating grocery stores to access a healthy diet. Because of the size and vulnerability of the FSP, OIG has annually devoted a large number of staff days auditing and investigating the program.

Electronic Benefits Transfer (EBT) Systems Implementation - All States are mandated to implement EBT for food stamps by October 2002. As of July 2002, 48 States and the District of Columbia have operational systems with 45 being operational State or districtwide. About 87 percent of food stamp benefits are now issued through EBT systems. OIG has audited controls over these systems as they were implemented and it will continue to audit the remaining systems as they are implemented.

Six State agencies will not meet the October 2002 deadline including California, Delaware, Guam, Iowa, Maine, and West Virginia. With the exception of Guam, all have negotiated a contract for a statewide EBT system and are in the development phase. While FNS has made great strides in getting EBT systems implemented, the remaining States will provide a challenge, in particular California with its county-centered organizational structure.

Improper Payments – FNS has had a quality control (QC) system in place for a number of years to measure the accuracy of States' certification of participants. Between FY's 1993 and 2001, the annual error rates have fluctuated between 10.81 percent and 8.7 percent, which include both overpayments and underpayments. In FY 2001, the latest year testing was completed, the total erroneous payments were \$1.33 billion. At the time of OIG's audit in 1997 to review FNS' efforts to reduce the error rate through reinvestment of QC penalties, it was thought that the high error rate was attributable to large increases of participation without a corresponding increase in State certification personnel. However, between 1995 and 2001, there was a significant decline in the number of participants and program outlays (34 percent in program dollars). While there was a decline in certification errors, about 8 percent for the same period, the decline in participation did not result in a corresponding drop in the certification errors. The Under Secretary for Food, Nutrition and Consumer Services noted in his testimony in March 2002, that while payment accuracy was at its highest level, 91.3 percent, this also meant that 8.7 percent of the payments were erroneous. His testimony indicated that FNS' budget proposes revamping the QC system and having it focus sanctions on States with the most serious problems and consistently high error rates.

Retailer Abuses – Curbing the incidence of unlawful transactions (trafficking) by authorized and unauthorized retailers remains an area of significant mutual concern for FNS and OIG. FNS' latest estimate is over \$600 million annually. Over the past several years, OIG and FNS have explored and developed a series of corrective measures to address trafficking. Conversion to EBT systems has allowed for more timely information to identify possible violations. However, further reducing the amount of trafficking will remain a challenge.

## **5. National School Lunch and School Breakfast Programs**

Eligibility Determinations for Free and Reduced-Price Meals – In its FY 2003 budget, FNS estimates that the National School Lunch Program (NSLP) outlays will be about \$6 billion with the School Breakfast Program (SBP) approaching \$1.7 billion. Both programs share common eligibility requirements for free and reduced-price meals. For FY 2001, the latest reporting year, almost 57 percent of lunches were served free or reduced-price, while 83 percent of breakfasts were served free or reduced-price. Eligibility is based on income with households submitting applications to school food authorities for eligibility determinations at the beginning of each school year. To ensure that households correctly report their income, school food authorities (SFA) are required to sample applications to verify the information. Two sampling methods are provided by regulations, and most SFAs select a random sampling method of the lesser of 3,000, or 3 percent of the applications.

In August 1997, OIG issued a report concerning Illinois' application verification process for the NSLP. While SFAs were generally following regulations, SFAs did not expand sampling when high error rates were found. Overall, Illinois had a 19 percent error rate of households underreporting income or failing to respond to verification requests. This meant that up to \$31.2 million per year, 18.9 percent of \$165.1 million Illinois received from FNS for free or reduced-price lunches, was potentially paid out for households that were not eligible. OIG recommended

that FNS establish a threshold for the maximum percentage of errors allowable during the verification process and require additional sampling when that percentage is exceeded. OIG further recommended that States be required to monitor SFA verification efforts and take appropriate followup action.

FNS did not initially agree to make regulatory change based only on Illinois, but subsequently revised this position when information it gathered on additional States showed an average error rate of 26 percent. FNS will publish a proposed rule requiring State agencies to collect, analyze, and act on verification results of SFAs annually. FNS currently has pilot projects underway in 23 SFAs to assess 3 different options to address the verification process and the current high error rate. The Under Secretary for Food, Nutrition and Consumer Services noted in his testimony before the House Subcommittee on Agriculture, Rural Development, Food and Drug and Related Agencies, in March 2002, that the evidence is strong that more students are certified for free or reduced-price school meals than appear to be eligible with the most recent data showing it to be 27 percent. He also noted that the issue is complicated because certification data is used to distribute billions of dollars in education aid. FNS and OIG both agree that the eligibility determination and verification process is a management challenge that must be addressed.

## **FOOD SAFETY**

### **6. Food Safety Issues**

Food safety and quality issues have received considerable attention over the last few years, including the implementation of the Hazard Analysis and Critical Control Point (HACCP) inspection system. OIG issued four audits in FY 2000 on the Food Safety and Inspection Service's (FSIS) Implementation of the Hazard Analysis and Critical Control Point System; FSIS Laboratory Testing of Meat and Poultry Products; FSIS' Imported Meat and Poultry Inspection Process, Phase I; and FSIS' District Enforcement Operations Compliance Activities. FSIS generally agreed with our findings and recommendations with the exception of two recommendations in the Imported Meat and Poultry Inspection Process, Phase I. The two recommendations concerned reporting control weaknesses in the equivalency determination process as a material internal control weakness for FSIS and establishing a followup process to obtain annual certifications from foreign countries that failed to timely submit them.

OIG currently has two audits underway reviewing additional facets of FSIS' responsibilities for imported meat and poultry products. Countries may export meat and poultry products to the United States if their meat and poultry inspection systems are determined to be equivalent to the U.S. inspection system. Individual plants within a country may then be approved to export to the United States. Product entering the United States is subject to FSIS reinspection before entering U.S. commerce.

- One audit is focusing on FSIS' reinspection process and whether it has effective procedures and controls to provide FSIS with a means of ensuring that only wholesome,

unadulterated and properly labeled product enters U.S. commerce. The fieldwork has been completed and OIG has determined there are reportable conditions warranting FSIS' corrective action.

- The second audit is also underway and concerns the equivalency determinations FSIS makes of foreign inspection systems. In the Phase I audit cited above, OIG reviewed equivalency determinations for Sanitation Standard Operation Procedures (SSOP) and E. coli testing. At that time, the HACCP and Salmonella testing requirements were not in place. The audit is focusing on equivalency determinations for HACCP and Salmonella.

## **MARKETING AND REGULATORY PROGRAMS**

### **7. Animal and Plant Health Inspection Service (APHIS)**

APHIS carries out inspections at U.S. ports-of-entry to prevent the introduction of foreign plant and animal pests and diseases which are harmful to our country's agriculture. It engages in cooperative programs to control pests of imminent concern to the United States and carries out surveys in cooperation with States to detect harmful plant and animal pests and diseases. The programs also help determine if there is a need to establish new pest or disease eradication programs. Through APHIS' Wildlife Services program, it protects agriculture from detrimental animal predators.

The importance of APHIS' mission and challenges has been highlighted over the past few years as Asian longhorn beetle, citrus canker, and Karnal bunt found their way into the United States and foot and mouth disease (FMD) broke out in the United Kingdom. The foreign terrorist attack on the U.S. mainland alerted USDA to the need for increased vigilance to protect U.S. agriculture from potential threats of terrorism to agriculture. OIG has reviews underway, some which began prior to September 11, 2001, to assess APHIS' activities to protect U.S. agriculture, as well as safeguarding APHIS' assets which could be used to further terrorist activities.

- In July 2001, OIG issued a report detailing a review of the Department's controls to ensure that the Nation was adequately protected against the increased threat of an FMD outbreak from abroad. We determined the Department needed more stringent controls to ensure meat products entering the United States were free of FMD. Communications between APHIS and FSIS were weak. Both agencies initiated action to address the weaknesses. OIG currently has a review underway focusing on APHIS' policies and procedures for (1) identifying and assessing risk among the various types of imported goods to prevent the entry of exotic pests and diseases; (2) conducting inspections at airports, seaports, and land-border crossings; (3) providing inspection coverage at all major ports-of-arrival of cargo and passengers, particularly during times of high-volume traffic; and (4) ensuring that sealed transportation and exportation shipments entering the United States exit the country under seal as required. We have issued Management Alerts to APHIS on weaknesses that needed to be immediately addressed.

- In protecting agriculture from animal predators, APHIS' Wildlife Services uses pesticides, drugs, and other hazardous materials which in the wrong hands could be harmful to people and animals alike. In a review begun prior to September 11, 2001, OIG found APHIS could not account for 60 pounds of strychnine-treated bait and over 2,000 capsules containing sodium cyanide. Transfers of agents between locations were not documented. A second phase of this review is now underway with specific focus on pesticide and drug accountability. We will determine if the missing strychnine and cyanide have been accounted for, as well as 13 other restricted-use compounds.
- APHIS' Plant Protection and Quarantine and Veterinary Services divisions each have separate permit systems for the importation and domestic transfer of specified plant and animal pathogens and other restricted materials. Anthrax is one example of a pathogen which would fall under the permit requirements. OIG currently has a review underway to evaluate APHIS' controls over permits issued to colleges and universities, public and private laboratories, and other users. An adequate control structure is needed to ensure that the pathogens and restricted materials are not made available to terrorists or others intent on harming U.S. citizens or agriculture.

## **NATURAL RESOURCES AND ENVIRONMENT**

### **8. Forest Service (FS) Management and Program Delivery Issues**

Management issues within the FS have proven resistant to change. We attributed part of this to the agency's decentralized management structure. The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure policies established by top management are followed. The use and accuracy of management performance information is severely limited. As a result, agency actions often run counter to the intent of top management. Following are some of the areas where recent audits and evaluations have identified significant issues.

- Our reviews of the agency's administration of grants to State and nonprofit organizations have disclosed significant weaknesses in all aspects of management of the program. These weaknesses increase the likelihood that program objectives will not be achieved and Federal funds were spent for unauthorized purposes.
- We identified serious weaknesses in the controls over the preparation and implementation of the environmental analyses required for timber sales. These weaknesses could result in environmental damage that could be either mitigated or avoided. In addition, weaknesses in the FS' environmental analyses process have resulted in successful appeals of FS management decisions. This has halted or delayed FS efforts at ecosystem management. It has also resulted in successful lawsuits for monetary damages from the timber industry and exposed the FS to significant future damages.

- FS has not developed agency-wide policies for dealing with partnerships with private parties. As the agency moves to increased use of partnerships with private groups to meet its mission requirements, direction is needed to ensure these relationships comply with existing laws.
- FS' Strategic and Annual Plans have lacked meaningful goals and objectives with relevant performance measures. Past performance measurement data has been irrelevant and lack basic accuracy.

FS has reported initiating management action to address many of these challenges. However, at this time OIG has not verified the extent or effectiveness of these corrective actions.

## **9. Forest Service National Fire Plan**

As a result of the devastating 2000 wildfire season the President and Congress directed and funded the "National Fire Plan" (NFP). The NFP included objectives to prepare to fight future forest fires, rehabilitate burned lands, actively reduce fuel loads in vulnerable areas, and assist local communities. In October 2000, Congress provided FS over \$1.1 billion of additional funding. This increased funding has continued and is projected to continue for at least 10 years. This program has support from both State and local governments. The dramatic increase in funding has presented FS with challenges in effectively and efficiently implementing the NFP. Our initial survey identified issues regarding the agency's ability to accurately project funding requirements and ensure funds were spent for only authorized purposes. Our survey work indicates that this area is vulnerable to waste and misuse of funds.

## **10. Grant and Agreement Administration**

FS has not effectively managed grants agreements to ensure that funds appropriated by Congress were expended for their intended purposes and grantees complied with applicable financial management standards. Our reviews identified the following issues.

- Funds were used for purposes not authorized under the enabling legislation.
- Grantees were not matching Federal funds with required private funding.
- Unauthorized expenditures were paid with Federal funds.
- Accounting records were not adequate to allow for audits.
- Records were not adequate to determine if the grants achieved their intended purpose.
- FS created a new agreement "Participating agreements" that did not conform to the Federal Grants and Cooperative Agreements Act or to the Office of Management and Budget (OMB) and departmental regulations, to transfer funds without obtaining

contractual assurance that the recipient will use the funds for intended purposes and without the provisions necessary for effective FS oversight.

FS officials have taken some actions to address these issues. Our future audits will address the adequacy of these actions.

## **RURAL DEVELOPMENT**

### **11. Rural Rental Housing (RRH)**

Portfolio Management - The Rural Housing Service (RHS) RRH program provides low-cost apartments to residents with low incomes in rural areas. The 2003 budget reflects a decision by the Administration to conduct a thorough review of alternatives for both making new loans and servicing the existing portfolio of over 17,000 RRH projects that contain about 460,000 housing units, with indebtedness of almost \$12 billion. A substantial portion of this portfolio is over 20 years old. The FY 2003 proposed budget does not include funding for the direct loans for new RRH projects, although funding for RRH construction may be reinstated. However, it does include \$60 million in direct loans for repair and rehabilitation of the current portfolio. RHS faces a major challenge to maintain its current portfolio in good repair so that it will provide safe, decent, and affordable housing for rural Americans.

Guaranteed RRH Program - We reported that during the first 4 years of the pilot program RHS reported to Congress, and included in their Government Performance and Results Act (GPRA) accomplishment report, the construction of over 6,000 apartment units. Our audit found that as of August 25, 2000, the pilot program had completed construction of only 222 units. RHS had reported apartment units that were obligated *to be built*, as being built. RHS restated the GPRA report to reflect the status of the units proposed for construction rather than built. We need to continue to monitor the program's growth and success and whether RHS has implemented sufficient controls to ensure accurate reporting of units built.

Rental Assistance - The RRH rental assistance program was increased from \$707 million in FY 2002 to \$712 million in FY 2003. This assistance makes up the difference between what the tenant pays and the rent required for the project owner to meet debt servicing and other costs. Tenants receiving this assistance are mostly elderly and have very low incomes. Most recipients pay only a small portion of the average \$300 monthly rent.

Currently, there are proposed regulatory changes that will require project owners to increase the balances in the RRH reserve accounts used to fund the increasing demands for repair and rehabilitation of aging projects. The increased reserves will be funded by increased rents. For those tenants on rental assistance, their basic rent will not increase. To match the increased rents, the amount of rental assistance needed to make up the difference between what the tenant pays, and the actual rent necessary for the project owner to meet expenses, will increase. Thus, the cost to the Government will increase because funding for rental assistance will need to increase. RHS needs to plan for these increased funding requirements.

RRH Projects Leaving the Program - As the RRH portfolio continues to mature, the possibility that project owners will want to pre-pay their loans will increase. Loans made between 1979 and 1989 can pre-pay their loans after 20 years. Projects obligated after 1989 cannot pre-pay. However, the majority of the over 17,000 projects in the portfolio are over 20 years old. The incentives for owners to pre-pay includes increasing repair costs, loss of tax credits, and the possibility of higher rents from more affluent tenants, if they left the program.

RHS offers incentive payments for project owners to stay in the program. The payments are equal to the equity value in the property at the time pre-payment is planned. To be eligible for the incentive payment, owners must maintain the property in good physical condition and they must continue to serve lower income rural residents. RHS and OIG need to monitor the number of incentive payments and ensure that once made, project owners continue to participate in the program and meet the conditions of the incentive payment.

Unallowable and Excessive Expenses Charged to RRH Projects - RRH programs are vulnerable to program fraud and abuse because of the large cashflows involved. OIG has worked with RHS to detect fraud and abuse and remove from participation those who abuse the program. The report titled “Uncovering Program Fraud and Threats to Tenant Health and Safety,” described the results of our team approach to identify and act on the worst offenders. We found 18 owners who misused over \$4.2 million while neglecting the physical condition of the properties, some of which threatened the health and safety of tenants. Our audits continue to disclose unallowable and excessive expenses charged to RRH projects. Currently, RHS has proposed major regulatory revisions, which are intended to resolve 19 open recommendations from OIG audits that address improper RRH project expenses and program deficiencies. The proposed regulation is intended to bring consistency and better controls to the RRH program, as well as resolving the open recommendations. We are working with RHS to ensure that the proposed regulation adequately addresses the open recommendations, or that appropriate alternative corrective actions, such as program handbooks to supplement the proposed regulation, are issued along with the regulation. Continued monitoring of the agency’s implementation of the new regulation is needed to ensure the desired results are achieved.

## **12. Rural Business-Cooperative Service (RBS)**

Business and Industry (B&I) Loan-making and Servicing Procedures - RBS loan-making and -servicing procedures in the B&I guaranteed loan program are not being properly administered/adhered to by some State office and field office program staff. In a few cases, States have had their loan-making and -servicing authority rescinded by the National office, due to concerns pertaining to compliance with rules and regulations. We are in the process of conducting a nationwide review of RBS' B&I program and have, so far, issued 13 reports on the guaranteed B&I program with monetary findings of \$32 million. Six more reports on the B&I program have yet to be issued, with two reports due on the direct B&I loan program. An additional \$30 million in monetary findings is projected. We have found serious conditions with the B&I loans including borrowers with insufficient collateral to secure the loan, businesses that default within months after the loan is made, and loan proceeds used for unauthorized purposes. We are working with the RBS National office to resolve these issues.

Waivers of Internal Controls - The previous Administrator of RBS endangered the integrity of the B&I Program by granting waivers to B&I loan regulations. Based on these waivers many improper B&I loans were made which resulted in large dollar losses to the Government. RBS' internal review programs and future OIG reviews should focus on any waivers to established regulations and instances where internal control mechanisms have been eliminated or bypassed. Our report recommended the re-establishment of loan review controls, which had been waived by a former RBS Administrator, requiring National Office Executive Loan (NOEL) oversight committee and participation by the Office of the General Counsel (OGC) to review and comment on large dollar loans, or loans that may be questionable for any reason. In response to our review, RBS also established internal instructions which require that OGC, NOEL, and the Under Secretary for Rural Development's office concur with the rationale and support for the waiver. We need to continually monitor future use of waiver authority to ensure that these established controls are not circumvented.

## **ADMINISTRATION**

### **13. Civil Rights Complaints**

The Director of the Office of Civil Rights (CR) has full responsibility for investigating, adjudicating and resolving complaints of discrimination arising out of USDA employment activities or in the context of federally assisted or federally conducted programs. This includes complaints made by USDA employees, applicants for employment and USDA program participants and customers. During fiscal years 1997 through 2000, OIG performed seven reviews of CR's operations relating to program and employment complaint processing at the requests of the Secretary and the Assistant Secretary for Administration.

Our reviews resulted in 7 reports and 1 Confidential Memorandum with 94 recommendations to address the weaknesses reported. As of April 17, 2002, management decision had been reached on 84 recommendations, but 10 recommendations in 4 reports and the Confidential Memorandum remain without management decision. These recommendations involved things

such as: (1) designing corrective actions to address civil rights review results in 2 counties; (2) finalizing operating procedures to ensure recipients of USDA financial assistance comply with civil rights laws and regulations; (3) vetting of settlements with OIG to ensure there are no outstanding fraud or criminal actions involving the complainant; (4) re-review of 70 civil rights cases to assess their proper disposition; and (5) review of employment-related casefiles to assess whether necessary documents are available and accounted for. Until action plans are drafted, and timeframes developed to implement the actions, CR activities will remain a management challenge at USDA.

## **CHIEF FINANCIAL OFFICER**

### **14. Financial Management**

Financial management in the Department is of major importance; USDA's balance sheet, for example, exceeds \$127 billion. Financial management within the Department has not, however, been sufficient to provide assurances that its consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles. For the past 8 years our disclaimer of opinion means the Department does not know whether it correctly reported all collected monies, the cost of its operations, or other meaningful measures of financial performance.

The Office of Chief Financial Officer (OCFO) has taken extraordinary strides, however, in the past year to resolve these longstanding issues. According to the Chief Financial Officer, among the initiatives consummated or in process are the following.

- Providing effective leadership and talent from OCFO to USDA's agencies and the National Finance Center (NFC) to capture break-through rather than incremental value from extensive changes in financial management accountability and accounting operations.
- Implementing effective operational accounting processes within the branches of the NFC, problem agencies, and OCFO while transferring knowledge through documentation and training.
- Successfully completing the implementation of a standard accounting system at USDA.
- Renovating related corporate administrative systems during FY 2002 with focused, disciplined effective projects.
- Resolving Credit Reform deficiencies and maintaining improvements.
- Transforming the Forest Service into operating as an effective, sustainable accountable, financial management function.

- Correcting real and personal property accounting and stewardship inadequacies.
- Developing cost accounting capabilities.
- Enhancing decision-making and cash management of USDA's Working Capital Fund.
- Providing guidance on USDA's lending function.
- Installing the leadership and management structure to support sustained excellence within USDA's financial management and accounting operations.

Although many of these have been completed, others await audit verification (which we will focus upon in our upcoming audit of the FY 2002 Departmentwide financial statements).

## **CHIEF INFORMATION OFFICER**

### **15. Information Resources Management**

As the Department continues to expand its use of information technology (IT) for program and service delivery, this component of USDA's infrastructure has become a key element for operational integrity and control. One of the more significant dangers the Department faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gain. The Department has numerous information assets, which include market-sensitive data on the agricultural economy and its commodities, signup and participation data for programs, personal information on customers and employees, agricultural research, and Federal inspection information ensuring the safety of the food supply, as well as accounting data. The information and related systems face unprecedented risk from intentional or accidental disruption, disclosure, damage or manipulation.

Public confidence in the security and confidentiality of the Department's information and technology is essential. Our audit of USDA Information Technology, required by the Government Information Security Reform Act, found that USDA had initiated actions to strengthen information security in the Department. The Department, through its Chief Information Officer (CIO) has established a Departmentwide security program, implemented a departmental security incident response program, and strengthened its oversight function through review of USDA agencies' security programs. In this report we stated that the Department and its agencies had other IT security weaknesses that included:

- The Department is not fully compliant with several requirements of OMB Circular A-130 and Presidential Decision Directive 63 that require all Federal departments and agencies (1) prepare and test contingency and business continuity plans, (2) have certified the security controls in place on their systems, and (3) assess the risks to their systems and establish plans to mitigate those risks.

- Networks and systems vulnerable to internal and external intrusion.
- Inadequate physical and logical access controls to ensure that only authorized users can access critical agency data.
- Inadequate oversight to ensure that contractors have the proper security clearances and background checks and they are sufficiently trained in Federal security requirements.

OCIO has reported that many of these items have been mitigated but more needs to be done.

# THE OIG MISSION

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The Office of Inspector General was legislatively established in 1978 with the enactment of the Inspector General Act (Public Law 95-452). The act requires the Inspector General to independently and objectively

- perform audits and investigations of the Department's programs and operations;
- work with the Department's management team in activities that promote economy, efficiency, and effectiveness or that prevent and detect fraud and abuse in programs and operations, both within USDA and in non-Federal entities that receive USDA assistance; and
- report OIG activities to the Secretary and the U.S. Congress semiannually as of March 31 and September 30 each year.

We accomplish this mission by

- investigating allegations of criminal activity;
- using preventive audit approaches, such as reviews of systems under development;
- conducting audits of the adequacy and vulnerability of management and program control systems; and
- auditing the adequacy of large USDA payments, such as insurance and deficiency payments, major loans, and reimbursements for school breakfasts and lunches.

OIG is headquartered in Washington, D.C., and has regional offices located in Atlanta, Georgia; Beltsville, Maryland; Chicago, Illinois; Mission, Kansas; New York, New York; San Francisco, California; and Temple, Texas. Our Financial and Information Technology Operations regional office is also located in Mission, Kansas, as is our Computer Forensics Unit. Our offices in Mission, Kansas, are scheduled to move to Kansas City, Missouri, during the first quarter of FY 2003.

We emphasize service to management at all levels of the Department by briefing senior Department officials on major audits and investigations. We also work with agency managers, as part of a consolidated team, by directly encouraging management input into the audit and investigative process to help resolve difficult problems impacting program management and operations. As a member of the President's Council on Integrity and Efficiency (PCIE), we participate with other Inspectors General in multiagency projects where the issues are crosscutting and need to be addressed Governmentwide.

## **AUDIT AND INVESTIGATIVE UNIVERSE**

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The audit and investigative universe comprises all programs, functions, and organizations, and the contractors and grantees for which USDA is responsible. USDA's FY 2003 proposed budget contains a broad agenda of budget programs to support the Department's agencies and program operations. The annual program level, over \$105 billion, represents the value of benefits provided to the public by USDA. These benefits may be in the form of financial assistance through grants, payments, guaranteed or direct loans, cost-sharing, professional services such as research or technical assistance, or in-kind benefits such as commodities.

USDA programs are delivered in every State, county, and city in the Nation by over 110,000 Federal and non-Federal government employees. In addition, the Secretary of Agriculture has appointed agricultural ministers, attaches, and officers to 80 U.S. embassies, consulates, and trade offices covering over 100 countries. USDA is involved in extensive food quality and safety issues, food aid and assistance programs, market development activities, rural development initiatives, environmental and biotechnology issues, and a wide range of export promotion programs.

## **BUSINESS PROCESS RE-ENGINEERING**

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During FY 2002, OIG embarked on a full agencywide review of our business practices to determine how we could achieve greater efficiencies in carrying out our operations and activities. Our goals were to streamline our processes and implement more modern business practices through the use of state-of-the-art information technology (IT) to free our employees to do more of the work they are uniquely qualified to do. The major portion of our Business Process Reengineering (BPR) review has now been completed, and we have identified a number of ways to improve efficiencies in our operations. As a result of our review, the agency has developed a detailed, 3-year strategic plan to equip our employees with state-of-the-art technologies and train them in the use of these new automated tools.

We have recently established a number of task forces, composed of representatives from all parts of the agency, to work on recommendations affecting the agency as a whole. During FY 2003, these task forces will make determinations on how best to implement needed changes in information technology, OIG's website, recruitment, management development, and a number of other areas. In addition, Investigations and Audit will continue to explore recommendations that affect only themselves. We will also continue to review OIG processes to achieve additional efficiencies and economies.

Our IT infrastructure and security changes will support the President's e-Government Management Agenda initiative. Consistent with the President's outsourcing initiative, our BPR review identified possibilities for contracting out certain activities, such as financial statement audit work, an IT helpdesk, and other IT support for our regional offices. Many Governmentwide studies support our conclusion that it is far more effective to contract out certain work than to perform it internally. Further, our review will enable us to better manage our vital human capital resources – another critical Presidential Management initiative – by redirecting and realigning them to the tasks most critical to the agency and providing them with the latest equipment, technologies, and training available to perform these tasks. Finally, the BPR results will enable us to better relate our performance to OIG's budget expenditures as required under the Government Performance and Results Act.

## **STRATEGIC PLANNING**

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Our strategic approach to planning and prioritizing audit and investigative activities enables us to focus our resources on those programs most vulnerable to criminal activity, or those where the largest dollar losses are most likely to occur. In each strategic area, we establish goals and plans for both short- and long-term emphasis. We work closely with agency management to identify those areas where we could provide assistance in resolving difficult issues.

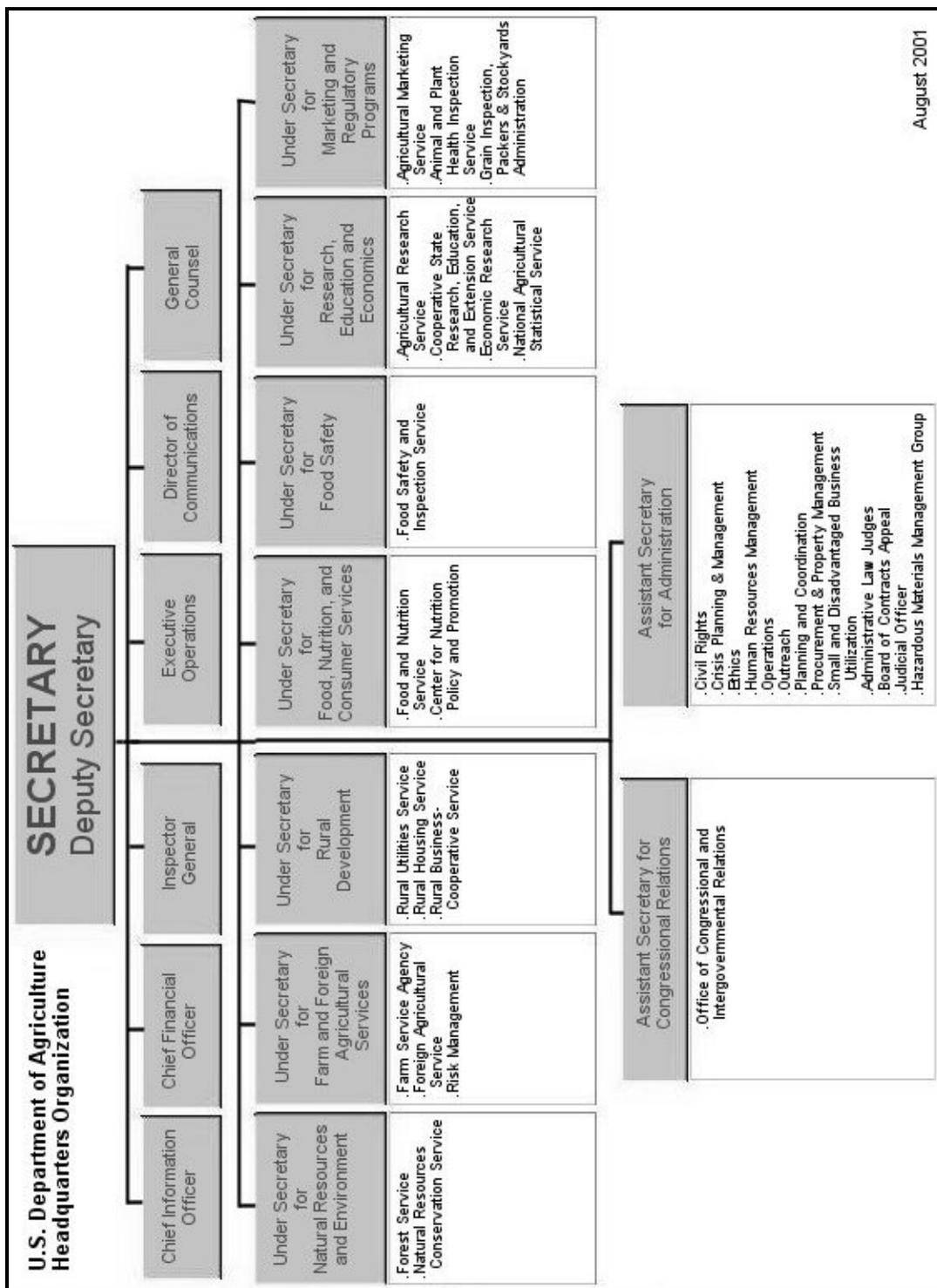
In addition, we took into consideration the goals and objectives of the FY 2002 President's Management Agenda (PMA) and the Department's 5-year Strategic Plan (draft as of August 2002) in formulating our strategies. We strive to connect the audits planned for the upcoming fiscal year to the goals and objectives reflected in these two critical documents. Following is a matrix of OIG's strategic areas that reflect the initiatives and key outcomes noted in both the PMA and the Strategic Plan.

| <b>USDA's 5-year Strategic Plan Key Outcomes</b>   | <b>OIG's Strategic Areas</b>  |
|--|---|
| <b>Goal 1: Provide Effective Services to USDA Constituents</b>   |   |
| Key Outcome 1.1: Implement the Farm Security and Rural Investment Act  | Farm Programs<br>Market Development<br>Natural Resources Conservation Service<br>Rural Development                    |
| Key Outcome 1.2: Expand Market Opportunities for U.S. Agriculture  | Market Development  |
| Key Outcome 1.3: Meet Responsibilities for Homeland Security Effectively   | Homeland Security<br>Protecting U.S. Food Supply and Agriculture<br>Forest Service<br>Information Technology/Security |
| Key Outcome 1.4: Provide Risk Management and Credit/Financial Tools to Support Production Agriculture and Improve Quality of Life in Rural Areas | Risk Management<br>Rural Development  |
| Key Outcome 1.5: Protect the Nation's Agriculture and Food Supply  | Homeland Security<br>Protecting U.S. Food Supply and Agriculture  |
| Key Outcome 1.6: Ensure Food and Nutrition Security for Low-Income Americans   | Entitlement Programs  |
| Key Outcome 1.7: Provide Sensible Management of Our Natural Resources  | Natural Resources Conservation Service<br>Forest Service<br>Management/Control of Environmental Hazards               |
| <b>Goal 2: Enhance USDA Operations through the President's Management Agenda **</b>  |   |
| Key Outcome 2.1: Improve Human Capital Management  | Program Compliance, Economy, and Efficiency   |
| Key Outcome 2.2: Improve Financial Management  | Accounting and Financial Management<br>Information Technology/Security<br>Program Compliance, Economy, and Efficiency |
| Key Outcome 2.3: Expand Electronic Government  | Information Technology/Security   |
| Key Outcome 2.4: Establish Budget and Performance Integration  | Government Performance and Results Act<br>Information Technology/Security   |
| <b>President's Management Agenda</b>   |   |
| Governmentwide Initiative 2: Competitive Sourcing  | Program Compliance, Economy, and Efficiency   |
| Program Initiative 13: Reform of Food Aid Programs   | Market Development  |

\*\* Key Outcomes of the Department's second goal emulates four of the five Government-wide initiatives of the FY 2002 President's Management Agenda.

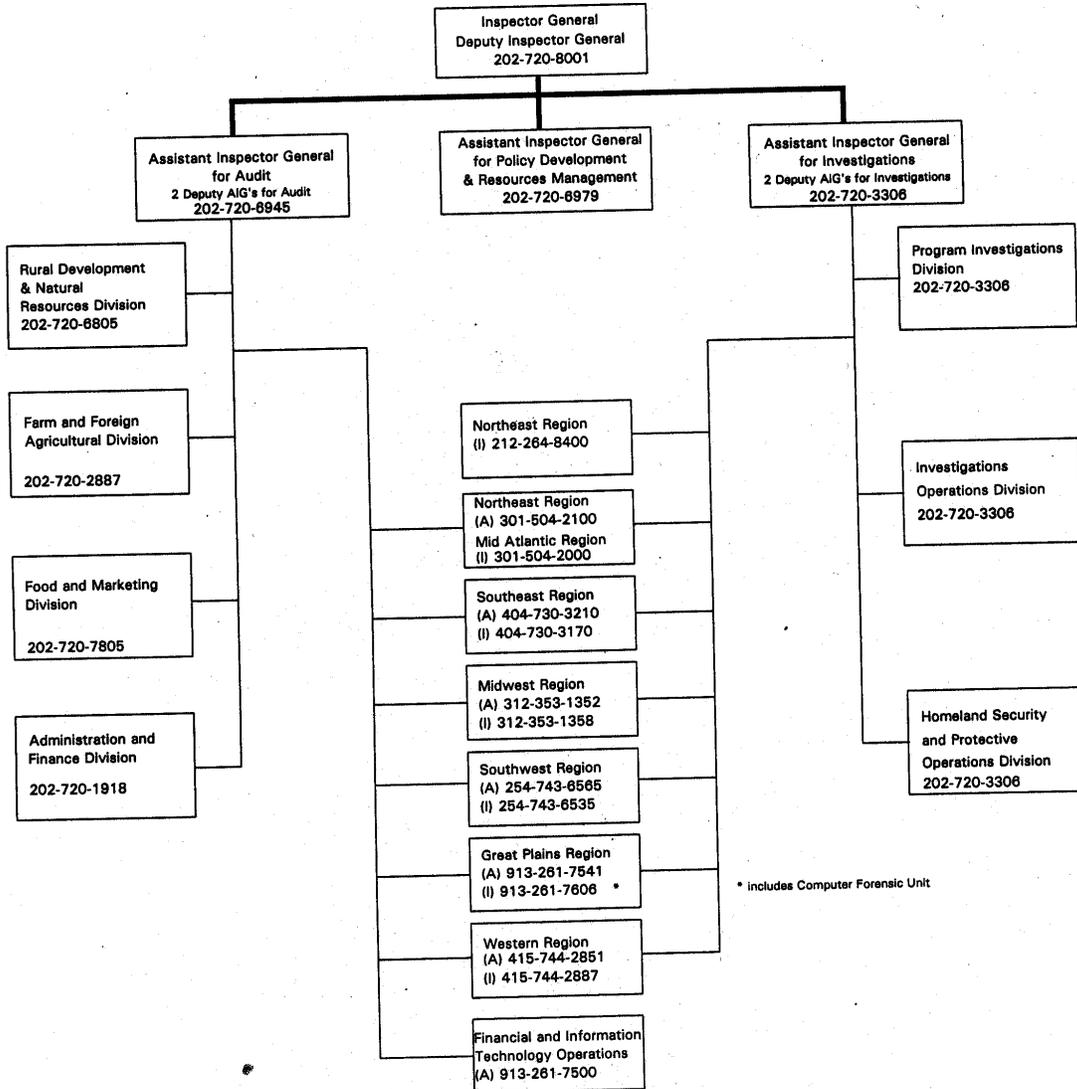
Descriptions of our strategies and examples of planned audit and investigative work within the strategies are described in more detail in appendix I. A description of major audits and a complete list of all audits planned can be found in appendices II and III.

# USDA ORGANIZATIONAL CHART



# OIG ORGANIZATIONAL CHART

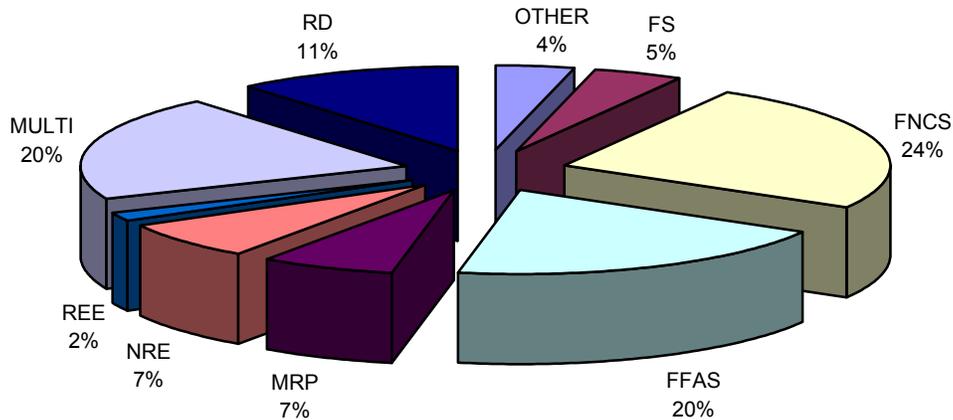
As of August 2002



\* includes Computer Forensic Unit

OIG's mission is to conduct audits, investigations, and evaluations of USDA programs and operations to effect positive changes.

**FY 2003 ANNUAL PLAN  
DISTRIBUTION OF OIG RESOURCES  
BY UNDER AND ASSISTANT SECRETARIES**



**LEGEND**

|              |  |
|--------------|--|
| <b>NRE</b>   | <b>Under Secretary, Natural Resources and Environment</b>      |
| <b>FFAS</b>  | <b>Under Secretary, Farm and Foreign Agricultural Services</b> |
| <b>RD</b>    | <b>Under Secretary, Rural Development</b>                      |
| <b>FNCS</b>  | <b>Under Secretary, Food, Nutrition, and Consumer Services</b> |
| <b>FS</b>    | <b>Under Secretary, Food Safety</b>                            |
| <b>REE</b>   | <b>Under Secretary, Research, Education, and Economics</b>     |
| <b>MRP</b>   | <b>Under Secretary, Marketing and Regulatory Programs</b>      |
| <b>OTHER</b> | <b>Includes Administration, OCIO, and OCFO</b>                 |

| <b>DISTRIBUTION OF OFFICE OF INSPECTOR GENERAL RESOURCES<br/>PERCENTAGE BY AGENCY<br/>FY 2003 PLANNED</b>               |  |      |
|---|--|------|
| <b>NATURAL RESOURCES AND ENVIRONMENT</b>  | Forest Service   | 5.6  |
|   | Natural Resources Conservation Service                       | 1.6  |
| <b>FARM AND FOREIGN AGRICULTURAL SERVICES</b>   | Farm Service Agency  | 12.9 |
|   | Foreign Agricultural Service                                 | .7   |
|   | Risk Management Agency                                       | 6.1  |
| <b>RURAL DEVELOPMENT</b>  | Rural Utilities Service                                      | 1.5  |
|   | Rural Housing Service  | 5.6  |
|   | Rural Business-Cooperative Service                           | 3.9  |
| <b>FOOD, NUTRITION, AND CONSUMER SERVICES</b>   | Food and Nutrition Service                                   | 25.0 |
| <b>FOOD SAFETY</b>  | Food Safety and Inspection Service                           | 4.5  |
| <b>MARKETING AND REGULATORY PROGRAMS</b>  | Agricultural Marketing Service                               | 1.8  |
|   | Animal and Plant Health Inspection Service                   | 4.5  |
|   | Grain Inspection, Packers and Stockyards Administration      | .3   |
| <b>RESEARCH, EDUCATION, AND ECONOMICS</b>   | Agricultural Research Service                                | .5   |
|   | Cooperative State Research, Education, and Extension Service | 1.3  |
|   | National Agricultural Statistics Service                     | *    |
| <b>MULTIPLE AGENCY</b>  |  | 20.3 |
| <b>OTHER</b>  | Administration; OCFO; OCIO                                   | 3.9  |
| *No Audit time planned for this agency; however it may be included in multi-agency reviews and/or other unplanned work. |  |      |

# **INVESTIGATIONS**

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Investigations are authorized inquiries to gather the facts needed to resolve an allegation that someone has violated a law or regulation pertaining to USDA programs or operations.

OIG Special Agents are criminal investigators who specialize in the investigation of crimes involving USDA programs. Each investigator receives initial training at the Federal Law Enforcement Training Center (FLETC) in Glynco, Georgia. Additional training in law enforcement procedures, investigative techniques, and USDA program regulations is provided throughout the career of the investigator.

Computer Forensic Unit computer specialists are uniquely trained members of our investigative team who assist Special Agents during investigative activities involving electronic/digital evidence collection and analysis. These specialists have received in-depth training through FLETC and other specialized providers relating to the investigation of high-tech criminal activity.

## **INVESTIGATIVE PLANNING**

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The investigative planning process focuses on identifying program vulnerabilities and investigative priorities, which establishes the general guidelines for the allocation of our investigative resources. It includes an analysis of historical patterns, trends, and results; a review of recent legislative, regulatory, and program changes; consideration of U.S. Department of Justice prosecutive guidelines; consideration of budgetary and staffing restrictions; and coordination with audit activities. Through the investigative planning process, we have identified priorities that include the timely investigation of

- threats to the health and safety of the public, agriculture infrastructure and USDA employees, such as the sale of tainted food products, food product tampering, the introduction or dissemination of animal and plant diseases through intentional acts or inadvertently through the smuggling of prohibited plants, animals, and other products, homeland security issues, as well as threats against and assaults of USDA employees;
- issues involving allegations of USDA employee bribery, conflict of interest, embezzlement, theft, misuse of computers, including Internet fraud and accessing child pornography, or collusion with program participants; and
- other criminal activity in the loan, regulatory, and benefit programs.

In preparing our plan for FY 2003, we analyzed data on requests for investigations received in previous years, the number of cases opened, and the results of those investigations. We reviewed recent legislative, regulatory, and program changes, and contacted agencies within USDA for suggestions and recommendations. We also reviewed audit plans for FY 2003 and considered

our budget and anticipated staffing. Based on these considerations, we developed general guidelines for emphasizing areas for investigation.

Our regional managers will review these guidelines during FY 2003 before they decide which referrals to take on as active cases. They will also consider the potential program impact, the likelihood of criminal prosecution, the likelihood of large civil monetary recovery, and the deterrent value.

The majority of the investigations are based on referrals from USDA agencies. Departmental Regulation 1700-2, "OIG Organization and Procedures," requires that USDA agencies expeditiously report known or suspected violations of law or regulations to OIG. Activities, which must be reported to OIG, include:

- alleged violations of Federal criminal statutes,
- allegations of criminal conduct or serious misconduct involving any USDA employee.

## **THE INVESTIGATIVE PROCESS**

The investigative process usually begins with the receipt of an allegation of criminal activity from any source, including the OIG USDA Hotline, USDA agency officials, other government agencies, or the public. Investigations are opened in OIG regional offices in accordance with priorities and general guidelines established at the headquarters level.

After an investigation is opened, it is assigned to a Special Agent who plans the investigation. This planning process includes a review of the criminal and civil statutes, program regulations, and departmental or agency policies that may be involved. The Special Agent then conducts the investigation, which may require interviewing witnesses, reviewing and analyzing records, obtaining physical evidence, and conducting surveillance and undercover operations. If the Special Agent determines that a crime has been committed, he or she will discuss the investigation with a Federal and/or local prosecutor to determine if prosecution will be pursued. Upon completion of the investigation, the Special Agent prepares an investigative report summarizing the facts disclosed during the investigation.

The investigative report is distributed to prosecuting attorneys and agency officials who may have an official interest in the results of the investigation. If the prosecuting attorney decides to proceed with a criminal or civil prosecution, the Special Agent assists the attorney in any preparation for court proceedings that may be required. This assistance may include serving subpoenas, locating witnesses, executing arrest and search warrants, and testifying before a grand jury and at trial.

At the conclusion of any court actions, we advise the administrative agency involved of the court results and monitor any corrective or disciplinary action that may be taken by the agency. OIG

collects data summarizing the court and administrative results of its investigations and includes this data in its semiannual report to the U.S. Congress.

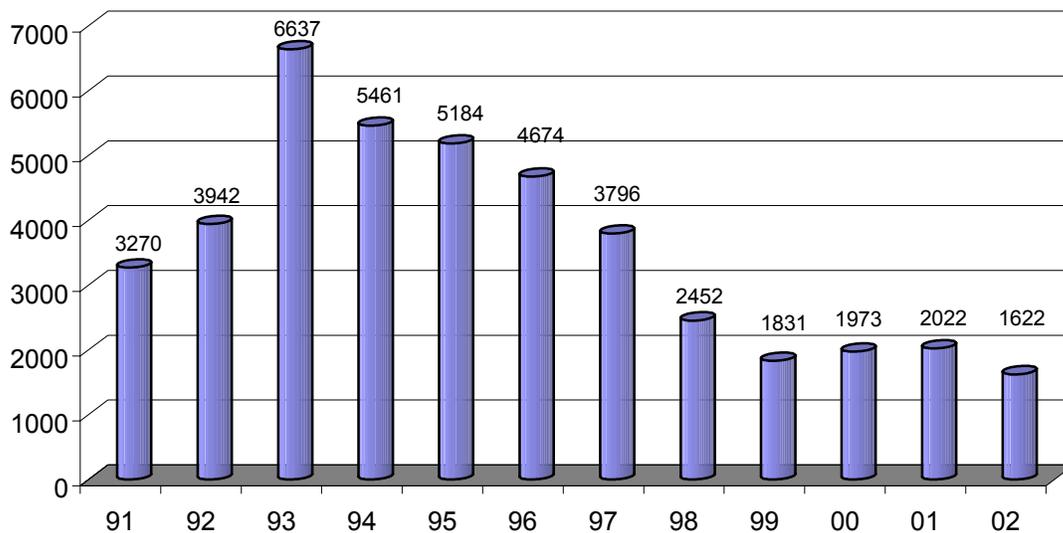
## **HOTLINE**

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Established under the provisions of the Inspector General Act of 1978, OIG operates the USDA Hotline in accordance with procedures recommended by the PCIE. Allegations received through the Hotline may involve any agency, program, or employee of USDA. The OIG USDA Hotline staff review and analyze each complaint and refer them for inquiry and appropriate action. Complaints are referred to OIG Audit or Investigations, to the USDA agency responsible for the program, or to the responsible Federal, State, or local agency. For complaints requiring a response back to OIG, the Hotline staff must determine whether the USDA agency's response to the complaint is adequate and whether to recommend further investigative or audit work by OIG. Significant audit findings, investigative results or administrative program changes have been obtained based on information received through this critical function.

During FY 2001, the USDA Hotline received, reviewed, and processed 2,022 complaints from USDA employees and the general public. In the first 9 months of FY 2002, 1,622 complaints were received. The following graph depicts the Hotline activity over the last 12 years.

**HOTLINE COMPLAINTS RECEIVED FY's 1991-2002\***



\* FY 2002 – First 9 months.

The USDA Hotline has a toll-free telephone number for reporting fraud, mismanagement, or waste in a USDA program or misconduct by a USDA employee. Callers may choose to remain anonymous or may request that OIG keep their identity confidential. OIG will also pay a cash reward for information leading to convictions of persons defrauding USDA programs.

We have three Hotline numbers established for use by the public and departmental employees. These numbers can be called while complaint analysts are on duty 8:00 a.m. to 4:00 p.m., eastern time, Monday through Friday. Complainants may also write to the OIG Hotline at P.O. Box 23399, Washington, D.C. 20026. USDA Hotline contact information is provided to USDA employees and the public via formal training, posters, and business cards. In addition, this information can be found on the USDA and OIG home pages via the Internet ([www.usda.gov/oig/hotline.htm](http://www.usda.gov/oig/hotline.htm)).



800-424-9121

This is a toll-free number to be used outside Washington, D.C.



202-690-1622

This number is to be used in the Washington, D.C., metropolitan area.



202-690-1202

This number connects to a telecommunications device for the hearing impaired.  
(NO TOLL FREE NUMBER, CALL COLLECT)

# **SPECIAL REPORTING OF BRIBES OR GRATUITIES**

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Many USDA employees serve as inspectors and graders of meat, poultry, dairy products, eggs, and produce or distribute USDA program services and benefits. These employees are occasionally subject to offers of bribes and gratuities to influence their official duties. Also, USDA employees' duties on occasion can lead to confrontations, which may lead to threats or violence against the USDA employee. USDA employees who receive bribe offers or threats may contact OIG via the direct line telephone number indicated below. Special Agents respond 24 hours a day. Complainants may also write to the Office of Inspector General at P.O. Box 23399, Washington, D.C. 20026.



202-720-7257

This number is to be used by USDA employees to report offers of bribes or gratuities



888-620-4185

24 hours a day.

# **OIG INVESTIGATIONS EMERGENCY CONTACTS**

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## **HEADQUARTERS**

Duty Hours (8am – 4pm)  
(202) 720-7257

24-Hour Duty Agent Pager  
(888) 620-4185

## **REGIONAL OFFICE LOCATIONS**

**Northeast Region**  
New York, NY

|            |                |                |
|------------|----------------|----------------|
| Phone      | (212) 264-8400 | (8am – 5:00pm) |
| Duty Pager | (888) 437-9575 | (24 hrs)       |
| Fax        | (212) 264-8416 |                |

Areas Served: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont

**Mid-Atlantic Region**  
Beltsville, MD

Phone (301) 504-2000 (7am - 5:00pm)  
Duty Pager (888) 436-6158 (24 hrs)  
Fax (301) 504-2025

Areas Served: Delaware, District of Columbia, Maryland, North Carolina, Pennsylvania, Virginia, and West Virginia

**Southeast Region**  
Atlanta, GA

Phone (404) 730-3170 (24 hrs)  
Fax (404) 730-3181

Areas Served: Alabama, Florida, Georgia, Puerto Rico, South Carolina, Tennessee, and U.S. Virgin Islands

**Midwest Region**  
Chicago, IL

Phone (312) 353-1358 (7:30am - 5:00pm)  
Duty Pager (888) 803-8174 (24 hrs)  
Fax (312) 353-8963

Areas Served: Indiana, Kentucky, Michigan, Ohio, eastern district of Wisconsin, and the northern district of Illinois

**Southwest Region**  
Temple, TX

Phone (254) 743-6535 (7:30am - 5:00pm)  
Duty Pager (800) 752-3307 + 618-2305 (24 hrs)  
Fax (254) 298-1358

Areas Served: Arizona, Arkansas, Louisiana, Mississippi, New Mexico, Nevada (Las Vegas, Clark County), Oklahoma, and Texas

**Great Plains Region**  
Mission, KS  
(to move to Kansas City, MO, in FY 2003)

Phone (913) 261-7606 (24 hrs)  
Fax (913) 261-7699

Areas Served: Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wyoming, Utah, western district of Wisconsin, and southern district of Illinois

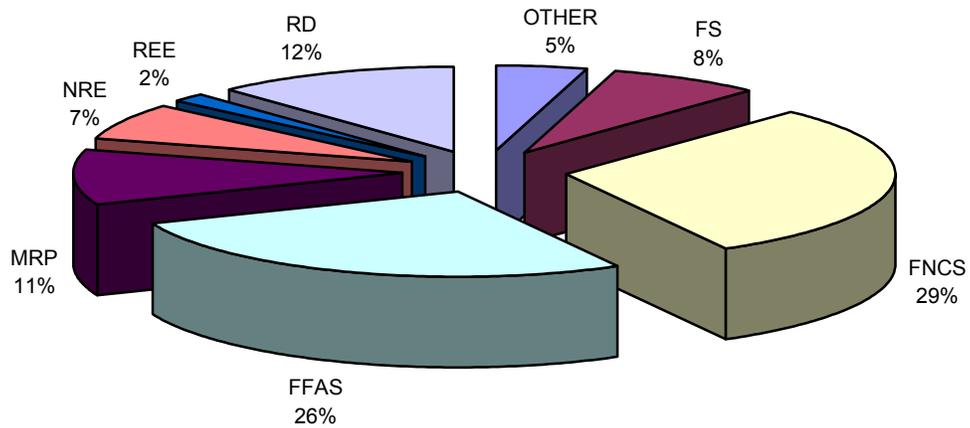
**Western Region**  
San Francisco, CA

Phone (415) 744-2887 (24 hrs)  
Fax (415) 744-2896

Areas Served: Alaska, California, Hawaii, Idaho, Nevada, Oregon, Territory of Guam, U.S. Trust Territories of the Pacific, and Washington

[Updated as of 09/01/2002]

**FY 2003 ANNUAL PLAN  
DISTRIBUTION OF INVESTIGATIVE RESOURCES  
BY UNDER AND ASSISTANT SECRETARIES**



**LEGEND**

|              |  |
|--------------|--|
| <b>NRE</b>   | <b>Under Secretary, Natural Resources and Environment</b>      |
| <b>FFAS</b>  | <b>Under Secretary, Farm and Foreign Agricultural Services</b> |
| <b>RD</b>    | <b>Under Secretary, Rural Development</b>                      |
| <b>FNCS</b>  | <b>Under Secretary, Food, Nutrition, and Consumer Services</b> |
| <b>FS</b>    | <b>Under Secretary, Food Safety</b>                            |
| <b>REE</b>   | <b>Under Secretary, Research, Education, and Economics</b>     |
| <b>MRP</b>   | <b>Under Secretary, Marketing and Regulatory Programs</b>      |
| <b>OTHER</b> | <b>Includes Administration, OCIO, and OCFO</b>                 |

**DISTRIBUTION OF INVESTIGATIVE RESOURCES  
PERCENTAGE BY AGENCY  
FY 2003 PLANNED**

|   |  |      |
|---|--|------|
| <b>NATURAL RESOURCES AND ENVIRONMENT</b>      | Forest Service   | 5.0  |
|   | Natural Resources Conservation Service                       | 2.0  |
| <b>FARM AND FOREIGN AGRICULTURAL SERVICES</b> | Farm Service Agency  | 19.0 |
|   | Foreign Agricultural Service                                 | .5   |
|   | Risk Management Agency                                       | 7.5  |
| <b>RURAL DEVELOPMENT</b>                      | Rural Utilities Service                                      | .5   |
|   | Rural Housing Service  | 6.5  |
|   | Rural Business-Cooperative Service                           | 5.0  |
| <b>FOOD, NUTRITION, AND CONSUMER SERVICES</b> | Food and Nutrition Service                                   | 30.0 |
| <b>FOOD SAFETY</b>                            | Food Safety and Inspection Service                           | 7.5  |
| <b>MARKETING AND REGULATORY PROGRAMS</b>      | Agricultural Marketing Service                               | 3.0  |
|   | Animal and Plant Health Inspection Service                   | 7.0  |
|   | Grain Inspection, Packers and Stockyards Administration      | .5   |
| <b>RESEARCH, EDUCATION, AND ECONOMICS</b>     | Agricultural Research Service                                | 1.0  |
|   | Cooperative State Research, Education, and Extension Service | .5   |
| <b>OTHER</b>                                  | Administration; OCFO; OCIO; OIG; Other                       | 4.5  |

# AUDIT

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Audit is the examination and verification of the economy and efficiency of an agency's operations, its effectiveness in achieving program results, its compliance with applicable laws and regulations, and its fairness in reporting its financial operations. We also routinely conduct evaluations. An evaluation is a review, study, or analysis of USDA's programs or activities for the purpose of providing information to managers for decision-making; for making recommendations for improvements to programs, policies, or procedures; and for administrative action. In addition to audits performed by OIG staff, we contract with certified public accountants for some audits and oversee the quality of the work of auditors under contract to other agencies of the Department.

OIG auditors conduct their work in accordance with the "Government Auditing Standards: 1994 Revision" (Yellow Book), as amended, published by the U.S. General Accounting Office (GAO), and in accordance with the professional standards set by the American Institute of Certified Public Accountants. We have established and implemented a program to ensure that our staff maintains professional proficiency through continuing education and training. Training directly related to the Government auditing environment is provided to newly hired, intermediate, and advanced level OIG auditors through in-house audit academies.

Government Auditing Standards, as prescribed by GAO, describes the types of audits that Government and non-Government organizations conduct and the audit standards to be followed. Government audits are classified as financial or performance audits.

## FINANCIAL AUDITS

**Financial statement audits** provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position and results of operations in accordance with generally accepted accounting principles.

**Financial related audits** determine whether financial reports and related items, such as elements, accounts, or funds, are fairly presented; whether financial information is presented in accordance with established or stated criteria; whether the entity has adhered to specific financial compliance requirements; and whether the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

## PERFORMANCE AUDITS

**Economy and efficiency audits** determine whether the entity is acquiring, protecting, and using its resources economically and efficiently; what the causes of any inefficiencies or uneconomical practices are; and whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

**Program audits** determine whether the desired results or benefits established by the legislature or any other authorizing body are being achieved; whether the organizations, programs, activities, or functions are effective; and whether the entity has complied with laws and regulations applicable to the program.

## AUDIT PLANNING

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Each year, we begin the planning process by soliciting audit suggestions from the Under and Assistant Secretaries, agency heads, and OIG staff. In prioritizing the suggestions for inclusion in the FY 2003 Annual Plan, we considered

- current and potential dollar magnitude;
- audit requirements established by law;
- statutory and regulatory requirements;
- adequacy of internal control systems;
- newness, changed conditions, or sensitivity of the organization, program activity, or function;
- extent of Federal participation in terms of resources or regulatory authority;
- management needs to be met;
- prior audit history;
- prior investigation history; and
- timeliness, reliability, scope, and results of audits or evaluations performed by others.

# **THE AUDIT PROCESS**

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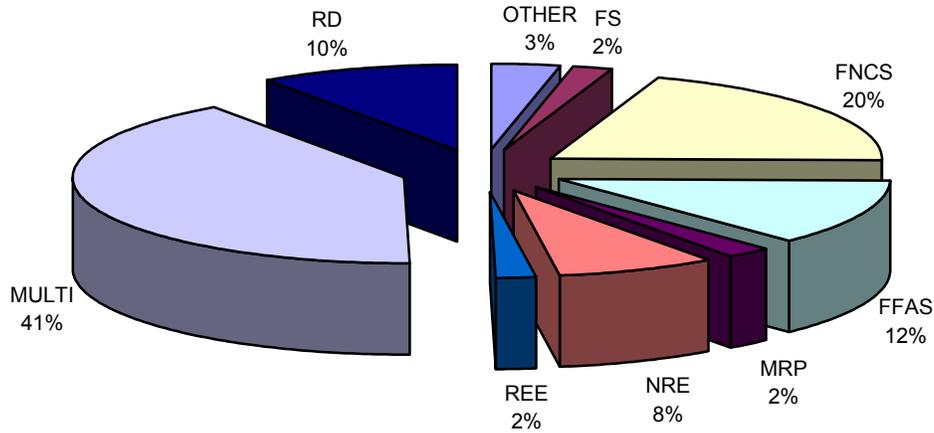
The phases of the audit process include the following

|  |   |
|--|---|
| <b>Audit Approach</b>                              | Development of an audit approach includes determining the reasons for selecting the audit subject, overall audit objectives and scope, locations to be audited, OIG staff who will perform the audit, staff-days needed, other resources required (e.g., specialists with timber or banking expertise) to perform the audit, and benefits anticipated from the audit. |
| <b>Audit Notification</b>                          | Audit notification to the appropriate USDA agency or office informs auditees of our intent to begin an audit.   |
| <b>Entrance Conference</b>                         | OIG staff hold entrance conferences with agency officials to discuss and obtain input on the purpose and objectives of the audit, its scope, and the general methodology and procedures to be followed.   |
| <b>Survey Work</b>                                 | Auditors perform survey work to gather information and identify problems.   |
| <b>Field Audit Work</b>                            | Detailed audit testing and interviewing are undertaken if the survey indicates the need to learn more about conditions noted.   |
| <b>Management Alert</b>                            | During the course of an audit, issues may arise which require the immediate attention of management. This interim report furnishes the vehicle to provide management the information needed to initiate immediate corrective action.  |
| <b>Discussion Draft Report and Exit Conference</b> | At the conclusion of an audit, OIG holds a formal exit conference with the agency's principal officials to review the audit results presented in a discussion draft report. This gives management an opportunity to confirm information, to ask questions, and to provide any necessary clarifying data.  |
| <b>Official Draft Report</b>                       | After the exit conference, OIG makes necessary changes to the draft report and presents it as an official draft report to the agency for final written comments. The agency is generally given 30 days to respond to the official draft report.   |
| <b>Final Report</b>                                | OIG prepares and issues a final report which contains the agency's written response.  |

**Management  
Decision and  
Final Action**

A management decision (agreement to take action on an audit recommendation) must be reached on all report recommendations within 6 months of issuance of the report. OIG tracks management's actions through the achievement of management decision; the Office of the Chief Financial Officer tracks actions from the achievement of management decision to completion of final action. The status of management decisions is included in OIG's semiannual report to the U.S. Congress. The status of final actions, including those not completed within 1 year of the management decision, is reported in the semiannual Secretary's Management Report to the U.S. Congress.

**FY 2003 ANNUAL PLAN  
DISTRIBUTION OF AUDIT RESOURCES  
BY UNDER AND ASSISTANT SECRETARIES**



**LEGEND**

|              |  |
|--------------|--|
| <b>NRE</b>   | <b>Under Secretary, Natural Resources and Environment</b>      |
| <b>FFAS</b>  | <b>Under Secretary, Farm and Foreign Agricultural Services</b> |
| <b>RD</b>    | <b>Under Secretary, Rural Development</b>                      |
| <b>FNCS</b>  | <b>Under Secretary, Food, Nutrition, and Consumer Services</b> |
| <b>FS</b>    | <b>Under Secretary, Food Safety</b>                            |
| <b>REE</b>   | <b>Under Secretary, Research, Education, and Economics</b>     |
| <b>MRP</b>   | <b>Under Secretary, Marketing and Regulatory Programs</b>      |
| <b>OTHER</b> | <b>Includes Administration, OCIO, and OCFO</b>                 |

**DISTRIBUTION OF AUDIT RESOURCES  
PERCENTAGE BY AGENCY  
FY 2003 PLANNED**

|   |  |      |
|---|--|------|
| <b>NATURAL RESOURCES AND ENVIRONMENT</b>      | Forest Service   | 6.7  |
|   | Natural Resources Conservation Service                       | 1.1  |
| <b>FARM AND FOREIGN AGRICULTURAL SERVICES</b> | Farm Service Agency  | 6.8  |
|   | Foreign Agricultural Service                                 | .9   |
|   | Risk Management Agency                                       | 4.7  |
| <b>RURAL DEVELOPMENT</b>                      | Rural Utilities Service                                      | 2.5  |
|   | Rural Housing Service  | 4.7  |
|   | Rural Business-Cooperative Service                           | 2.7  |
| <b>FOOD, NUTRITION, AND CONSUMER SERVICES</b> | Food and Nutrition Service                                   | 20.1 |
| <b>FOOD SAFETY</b>                            | Food Safety and Inspection Service                           | 1.4  |
| <b>MARKETING AND REGULATORY PROGRAMS</b>      | Agricultural Marketing Service                               | .5   |
|   | Animal and Plant Health Inspection Service                   | 1.9  |
|   | Grain Inspection, Packers and Stockyards Administration      | *    |
| <b>RESEARCH, EDUCATION, AND ECONOMICS</b>     | Agricultural Research Service                                | *    |
|   | Cooperative State Research, Education, and Extension Service | 2.0  |
|   | National Agricultural Statistics Service                     | *    |
| <b>MULTIPLE AGENCY</b>                        |  | 40.6 |
| <b>OTHER</b>                                  | Administration; OCFO; OCIO                                   | 3.4  |

\*No Audit time planned for this agency; however it may be included in multi-agency reviews and/or other unplanned work.

## OIG STRATEGIES

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The FY 2003 Strategies are:

- \* FARM PROGRAMS
- \* MARKET DEVELOPMENT
- \* CIVIL RIGHTS
- \* NATURAL RESOURCES CONSERVATION SERVICE
- \* ENTITLEMENT PROGRAMS
- \* FOREST SERVICE
- \* RESEARCH AND TECHNOLOGY TRANSFER
- \* INTEGRITY OF USDA PERSONNEL
- \* HOMELAND SECURITY
- \* PROTECTING U.S. FOOD SUPPLY AND AGRICULTURE
- \* RISK MANAGEMENT
- \* GOVERNMENT PERFORMANCE AND RESULTS ACT
- \* ACCOUNTING AND FINANCIAL MANAGEMENT
- \* INFORMATION TECHNOLOGY/SECURITY
- \* RURAL DEVELOPMENT
- \* MANAGEMENT/CONTROL OF ENVIRONMENTAL HAZARDS
- \* PROGRAM COMPLIANCE, ECONOMY, AND EFFICIENCY

Descriptions of the strategies, with examples of audit and investigative work recently performed and planned for FY 2003, are presented on the following pages.

## **FARM PROGRAMS**

The Farm Programs strategy encompasses a variety of farm commodity, farm credit, and conservation programs administered by the Farm Service Agency (FSA). The programs are funded primarily through the Commodity Credit Corporation (CCC), a Government entity for which FSA provides operating personnel. The principal activities of FSA are the administration of farm commodity programs; farm ownership, operating, and emergency loans; conservation and environmental programs; emergency and disaster assistance; and domestic and international food assistance and international export credit programs. Outlays for these activities increased from \$19.7 billion in FY 1999 to a record high of \$32.6 billion for 2000 and then declined to \$25.1 billion in 2001. The high levels of spending between 1999 and 2001 are generally attributed to higher marketing assistance loan program outlays associated with low market prices and to authorized emergency spending, which totaled over \$5 billion in 1999, about \$14 billion in 2000, and approximately \$10.5 billion in 2001. Total outlays are projected to be about \$20.1 billion in 2002 and \$23.8 billion in 2003. No emergency supplemental assistance has been authorized, except for about \$200 million in special assistance provided in the 2002 Agriculture Appropriations Act and the Farm Security and Rural Investment Act of 2002 (FSRIA – the 2002 Farm Bill) for apple and onion producers and other minor programs.

### **AUDIT**

Our strategy is designed to ensure overall farm program integrity, efficiency, and effectiveness. Emphasis on farm programs is needed because of the magnitude of funding (FSA's 2003 program level budget comprises nearly 31 percent of the Department's total); prior audit results and known internal control problems; enactment of the 2002 Farm Bill and implementation of its programs; continued emergency spending; the pending administrative convergence of the FSA, Natural Resources Conservation Service, and Rural Development mission area staffs; reductions in FSA staff; the decentralized delivery system; and the critical nature of the programs to the agency's mission.

In FY 2002, we audited FSA's implementation and administration of the Quality Loss Program (QLP) and the QLP for Apples and Potatoes (QLP-AP). We focused on the development and testing of the automated systems, the establishment of quality adjustment factors, sign-up operations in selected State and county FSA offices, eligibility determinations, and FSA county committee determinations. We concluded FSA procedures were generally effective in administering QLP and QLP-AP. We also tested crop insurance linkage requirements for the 2000 Crop Disaster Program (CDP); prior audits had disclosed that producers did not comply with disaster program crop insurance linkage requirements and were not properly assessed liquidated damages by FSA. We found for the 2000 CDP, applicants met the crop insurance

linkage requirements. Additional farm program initiatives begun in FY 2002, such as assessment of the 2002 Farm Bill, continue into FY 2003.

In FY 2003, OIG will continue monitoring implementation of the 2002 Farm Bill and intends to conduct early reviews of affected farm programs. Among the reviews planned for FSA in FY 2003 are audits of the newly enacted Peanut Quota Buyout and Direct and Counter-Cyclical Programs (QBOP and DCP). For QBOP we will review controls to ensure program participants are eligible quota holders. Under DCP, we will test the base and yield options selected by farmers and review calculations of the national average market prices and loan rates for computing payments. Additional planned work includes an assessment of FSA's internal end-of-year payment limitation review process, as well as examinations of borrower eligibility and security for emergency disaster loans and producer compliance with Conservation Reserve Program provisions.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.1, Implement the Farm Security and Rural Investment Act.

## **INVESTIGATIONS**

The major emphasis of our Farm Programs investigative strategy has been to investigate allegations of fraud. Historically, our major concerns in FSA programs have been the unauthorized disposition of property mortgaged to the Government, fraud by warehouse operators, false statements by commodities producers and exporters, and false statements by borrowers in order to obtain more or greater dollar value loans or debt write-downs than those to which they are actually entitled.

Our decision to initiate an investigation is based on several factors, including the likelihood of criminal prosecution or large civil monetary recovery, determined primarily in consultation with the appropriate U.S. Attorney's office. Another factor which influences the decision to open a case for investigation is the deterrent value of the Government bringing court actions against a producer. Those matters not investigated by OIG are referred back to FSA for appropriate administrative action. The agency also has the option of resubmitting a request for an investigation based on additional or updated information.

Our regional offices have always maintained a close working relationship with FSA State offices to ensure timely referral of investigative matters and to develop an understanding of FSA's priorities, resources, and needs. Headquarters informs the regional offices of significant program changes, develops national guidelines for referral of investigative matters, and alerts top agency managers to any program provisions that allow a potential for abuse.

Approximately 19 percent of our investigative resources will be spent on FSA programs in FY 2003.

## MARKET DEVELOPMENT

The President, Secretary of Agriculture, and Congress have repeatedly emphasized the need for developing additional domestic and foreign markets for agricultural commodities.

U.S. agriculture looks overseas to expand sales and boost incomes. Exports also generate additional economic activity that ripples through the domestic economy. According to USDA's Economic Research Service, every dollar of exports creates another \$1.47 in supporting activities to process, package, ship, and finance agricultural products. This means that agricultural exports, expected to reach \$53.5 billion in 2002, will generate an additional \$79 billion in supporting business activities. Exports also mean jobs: jobs that pay higher than average wages and are distributed across many communities and professions, both on the farm and off, in urban and rural communities. Agricultural exports currently provide employment for 765,000 Americans.

The Foreign Agricultural Service (FAS) administers a variety of programs designed to promote U.S. agricultural exports, develop long-term markets overseas, and improve world food security. These activities are consistent with a primary tenet of the Administration's review of the U.S. food and agriculture system in the 21st century, which highlights the critical importance of the global marketplace and trade expansion for the long-term health and prosperity of the agricultural sector. With 96 percent of the world's population outside the United States, future growth in demand for food and agricultural products will occur primarily in overseas markets. The Administration's report, *Food and Agricultural Policy: Taking Stock for the New Century*, makes clear that enhancing the competitiveness of U.S. food and agriculture in global markets must be one of the primary objectives of U.S. farm policy. To achieve this goal, the proper program tools must be provided so that American producers and exporters can capture the benefits of expanding overseas markets. FAS' international activities play a critical role in helping to open new markets and in facilitating U.S. competitiveness and, by doing so, help the future growth and development of American agriculture.

To implement the USDA Long-Term Agricultural Trade Strategy, USDA has designed program delivery that involves providing subsidies, credit guarantees, and long-term loans; publishing magazines and reports; advertising; engaging in trade negotiations; setting quality standards; regulating markets; entering into grants and cooperative agreements; and participating in trade fairs and international conferences. Agricultural trade offices are making potential foreign customers aware of our farm products. To carry out the diverse programs, USDA works with State and foreign governments, producer groups, nonprofit commodity groups, agricultural processors, exporters, land-grant colleges, county extension agents, and individual producers. Export promotion includes business counseling, training, market research information, trade missions and fairs, and export finance and assistance. Due to high domestic inventory levels of farm commodities resulting in depressed commodity prices, there has been a renewed effort to develop export markets. Major programs follow.

**CCC Export Credit Guarantee Programs.** CCC provides payment guarantees for the commercial financing of U.S. agricultural exports. These programs facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.

**Market Development Programs.** CCC funds are used to reimburse participating organizations for a portion of the costs of carrying out overseas marketing and promotional activities, such as direct consumer promotions.

**Export Subsidy Programs.** Bonus payments are made available to exporters of U.S. agricultural commodities to enable them to be price competitive and thereby make sales in targeted overseas markets where competitor countries are making subsidized sales.

**Public Law 480 (P.L. 480).** Assistance provided under the authority of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480) is the primary means by which the United States provides foreign food assistance. P.L. 480 has three components.

- **Title I** provides for sales of U.S. agricultural commodities on concessional credit terms to government and private entities in developing countries.
- **Title II** provides for donations of humanitarian food assistance to needy people in foreign countries in response to malnutrition, famine, and other extraordinary relief requirements to meet economic development needs.
- **Title III** provides food assistance on a grant basis to least developed countries through government-to-government agreements.

**Food for Progress.** The Food for Progress Act of 1985 authorizes U.S. agricultural commodities to be provided to developing countries and emerging democracies that have made commitments to introduce and expand free enterprise in their agricultural economies.

**Section 416(b) Donations.** Section 416(b) of the Agricultural Act of 1949 authorizes the donation of surplus CCC-owned commodities in order to carry out programs of assistance in developing countries and friendly countries.

The 2002 Farm Bill continues and, in some cases, bolsters authorizations for the Department's export promotion, market development, and foreign food assistance programs through 2007. Specifically, the bill renewed the long-standing U.S. commitment to alleviating global hunger and malnutrition, by reauthorizing P.L. 83-480 and Food for Progress programs, but calling for more streamlined program management and operation of these activities. This latter initiative is very much congruent with the President's program initiatives.

## AUDIT

Our audit strategy is to evaluate the trade agreement activities and oversight of private voluntary organizations within FAS to determine whether programs and activities are being properly implemented and helping the Department achieve its goal of increased exports.

During FY 2003 we plan to review FAS' oversight of private voluntary organizations (PVO). This will be a follow-up audit to review grant fund accountability for Food for Progress, Global Food for Education, and Section 416(b) programs. We will determine whether prior report recommendations were implemented. We will also identify and test controls designed to ensure that PVO's use commodities and funds provided for direct distribution and monetization programs in accordance with program regulations. We expect to complete a performance audit to determine whether funds provided for market development programs were properly expended. These programs were designed to support the development, maintenance, and expansion of commercial export markets for U.S agricultural commodities and products, which FAS accomplishes through reimbursements and cost share agreements with various trade organizations. We will also evaluate USDA's efforts at (1) implementing the 2002 Farm Bill provisions within existing food and trade programs and establishing newly authorized programs and (2) working with other Departments and agencies that administer food aid programs to streamline these programs in keeping with the President's initiatives.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.1, Implement the Farm Security and Rural Investment Act; key outcome 1.2, Expand Market Opportunities for U.S. Agriculture; and to the President's Management Agenda program initiative No.13, Reform of Food Aid Programs.

## INVESTIGATIONS

We will continue to work closely with OIG-Audit and FAS to ensure allegations involving FAS programs are reviewed in a timely manner. One area that we expect to receive more attention in FY 2003 involves potential fraud by FAS employees in activities relating to the issuance of visas. We anticipate that available staff workdays devoted to FAS cases will be approximately .5 percent.

## **CIVIL RIGHTS**

The Civil Rights Act of 1964, Title VI, states: “No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.”

Since the passage of Title VI, several other statutes have been enacted to expand the prohibition against discrimination. Title IX of the Higher Education Amendments Act of 1972 prohibits gender-based discriminatory practices. Section 504 of the Rehabilitation Act of 1972 prohibits discrimination against persons with disabilities. The Age Discrimination Act of 1975 prohibits discrimination based upon age. Also, Title VII of the Civil Rights Act of 1964 prohibits discrimination in employment based on race, color, religion, sex, or national origin.

The Department’s civil rights functions have undergone major restructuring. Secretary’s Memorandum 1010-4, dated May 16, 1997, gave the Assistant Secretary for Administration the full authority for the performance and oversight of all civil rights functions within the Department. The Assistant Secretary for Administration has the authority to delegate civil rights functions to agency heads, as appropriate, and to rate the agency heads on their performance of civil rights functions. The memorandum also established the Office of Civil Rights and mandated that it be headed by a Director who reports to the Assistant Secretary for Administration.

The Director of Civil Rights has full responsibility for investigation, adjudication, and resolution of complaints of discrimination arising out of USDA employment activities or in the context of federally assisted or federally conducted programs, including complaints made by USDA employees, applicants for employment, and USDA program participants and customers.

The 2002 Farm Bill authorizes the Secretary of Agriculture to establish the position of Assistant Secretary for Civil Rights within USDA. A working group has been established to make recommendations to the Secretary as to the mission, responsibilities, and operating structure of this new office.

## AUDIT

We continue to meet with Office of Civil Rights and program officials to resolve the outstanding recommendations from OIG reports issued between September 1998 and March 2000. These reports reviewed the Office of Civil Rights' efforts to: reduce the backlog of Program complaints, implement settlements, implement prior recommendations, and manage employment complaints.

## **NATURAL RESOURCES CONSERVATION SERVICE**

The Natural Resources Conservation Service's (NRCS) mission is to provide national leadership in a partnership effort to help people conserve, improve, and sustain the Nation's natural resources and environment. NRCS directs its financial and technical assistance programs to land users through the USDA Service Centers and through local conservation districts, which are units of State or local governments organized for the purpose of developing and carrying out local conservation programs. USDA has entered into a Memorandum of Understanding with each conservation district, and these formal agreements provide a basis for the Department's working relationship with each district.

NRCS proposes to eliminate under performing or ineffective programs that have a limited scope, that have goals that can be addressed through other existing or reformed programs, or that are more appropriately carried out by the non-Federal sector. All emergency watershed planning and operations work will no longer be funded in order to redirect staffing resources to higher priority and emerging environmental concerns. NRCS is seeking \$111 million in appropriated funding for the Emergency Watershed Protection Program, which will enable the Department to provide immediate assistance to farmers and communities in the event of a natural disaster. Since emergency activities are difficult to predict and vary from year to year, this proposal will be an important level of stability and security to rural areas to help address sudden, urgent, unforeseen, and non-permanent expenditures. Major programs follow.

- **Conservation Operations (CO).** NRCS is seeking \$897 million for CO, which included \$787 million for Conservation Technical Assistance. This will maintain the agency's activities that support locally led, voluntary conservation through the unique partnership that has developed over the years within each conservation district
- **Watershed and Flood Protection Operations.** NRCS proposes to eliminate funding for non-emergency watershed-related work.
- **Watershed Surveys and Planning.** NRCS works with local sponsoring organizations to develop plans on watersheds dealing with quality, flooding, water and land management, and sedimentation problems.
- **Resource Conservation and Development (RC&D).** The purpose of the RC&D program is to encourage and improve the capability of State and local units of

government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for RC&D.

- **Environmental Quality Incentives Program (EQIP).** The purpose of EQIP is to provide flexible technical, educational, and financial resources to landowners that face serious natural resource challenges that impact soil, water and related natural resources, including grazing lands, wetlands, and wildlife habitat management.
- **Wetlands Reserve Program (WRP).** WRP is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement.
- **Conservation Reserve Program (CRP).** CRP is USDA's largest conservation/ environmental program. The purpose of CRP is to assist farm owners and operators in conserving and improving soil, water, air, and wildlife resources by retiring environmentally sensitive land from agricultural production and keeping it under long-term resource-conserving cover. CRP participants enroll acreage for periods of 10 to 15 years in return for annual rental payments and cost-share and technical assistance for installing approved conservation practices.

The 2002 Farm Bill represents the single most significant commitment of resources toward conservation on private lands in the Nation's history. The bill not only authorized a major new program (Conservation Security Program), but also reauthorized many of the above programs at significantly higher funding authorization levels and/or significantly increasing acreage caps on these programs.

## AUDIT

Our audit strategy is to evaluate NRCS' administration of and management controls over its conservation programs. Our prior audits of NRCS' responsibilities (e.g., producer compliance with the conservation provisions and the reduction in soil loss through conservation compliance) disclosed weaknesses in the agency's management controls. Recent OIG audits of NRCS' responsibilities for Highly Erodible Land and Conservation Reserve Enhancement Program showed program controls should be strengthened. Continued emphasis on the conservation provisions is needed because of the significance of prior audit findings and the 2002 Farm Bill's goal to address high-priority environmental concerns.

Major reviews of NRCS activity planned for FY 2003 include an audit of NRCS' Conservation Security Program - Highly Erodible Land, in which we expect to evaluate the implementation of the newly-mandated Conservation Security Program and evaluate its implementation of the Highly Erodible Land program provisions and conservation compliance procedures. We also expect to audit EQIP where we will evaluate the administration of EQIP based on increased funding and changes in funding methodology as specified in the 2002 Farm Bill.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcomes 1.1, Implement the Farm Security and Rural Investment Act; and 1.7, Provide Sensible Management of Our Natural Resources.

## **INVESTIGATIONS**

We will continue to work closely with NRCS and OIG Audit to ensure that necessary investigative services are provided. We estimate that about 2 percent of our investigative resources will be dedicated to NRCS matters.

## ENTITLEMENT PROGRAMS

The Food and Nutrition Service (FNS) administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). These three major entitlement programs will account for approximately \$40 billion in estimated expenditures in FY 2003. The States, through agreements with FNS, administer these programs with a few minor exceptions. The States, in turn, enter into agreements with county and project offices to deliver program benefits.

### AUDIT

Our audit strategy includes both FNS' overall administration of the programs, especially the FSP, and the adequacy of controls and systems FNS has in place to manage the programs. During FY 2002 our audits of FNS programs focused on the FSP and CNP since they are the largest of the entitlement programs.

**Food Stamp Program** - We completed Electronic Benefits Transfer (EBT) systems audit work in three States, and found that controls needed to be strengthened in some areas including controls over EBT access and ensuring benefits are updated prior to issuance. We evaluated Florida's corrective action plan for reducing food stamp payment error rates and its management of food stamp claim activities for FYs 1999 and 2000 and concluded that the State's plans did not contain mandatory elements and components to detail deficiencies, corrective actions, and results. Due to concerns over the widespread collection and sharing of personal information, and occurrences of identity theft, we also initiated an audit of controls over the access, disclosure, and use of social security numbers (SSN) in the FSP and concluded that overall controls were in place; however, in some instances States needed to limit access to SSN's. Finally, we reviewed FSP administrative costs claimed by California to determine the accuracy and the allowability of those costs and found that claims were not always accurate and costs were not always supportable.

**Child Nutrition Programs** - We performed a database analysis for six large Child and Adult Care Food Program (CACFP) sponsors. Our analysis showed that improvements are needed in the computer system controls over program payments and operations. In New York City, we determined that the school district's eligibility verification process for the National School Lunch Program did not provide reasonable assurance that children served meals were correctly classified as eligible for free or reduced-price meals.

Since FNS programs have large cash outlays, the potential exists for fraud and large dollar losses. In FY 2003, we will emphasize audits of FNS programs, particularly FSP, to ensure that critical internal control checks are in place to guarantee efficiency, effectiveness, and economy. We will continue to monitor EBT systems as they are implemented. Additionally, our plan calls for audits of the administration and management of the WIC program, the Summer Food Service Program, and security issues in food service programs.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.6, Ensure Food and Nutrition Security for Low-Income Americans.

## **INVESTIGATIONS**

We expect to focus a considerable amount of our investigative efforts on stores with high redemptions or stores involved in conspiracies to purchase food stamps or EBT food benefits at less than face value for redemption at full value to USDA (trafficking). As almost all States are now distributing benefits through EBT, we expect a growing proportion of our food stamp investigations to make use of the tools provided by EBT to detect trafficking and to compile evidence against traffickers. We spent some time in FY 2002 investigating authorized stores suspected of laundering proceeds to terrorist organizations overseas and expect this activity will continue in FY 2003. At the same time, we expect to continue to reduce time spent on food stamp trafficking investigations involving unauthorized individuals or entities. Also, we will continue our investigative initiative that was started in FY 1998 to enforce provisions added to the Food Stamp Act by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This initiative, known as Operation Talon, includes computer matches of fugitive felons against the rolls of the FSP and, in conjunction with cooperating State and local authorities, the arrests of the fugitives.

We also anticipate continuing our investigations of fraud in the WIC, CACFP, and the National School Lunch Program.

In FY 2003, we plan to use approximately 30 percent of staff workdays on FNS programs, primarily FSP.

## **FOREST SERVICE**

The Forest Service (FS) has the responsibility for providing leadership in the management, protection and use of the Nation's forests and rangelands. The agency's overall mission is to achieve quality land management under the sustainable multiple-use concept. Through the National Forest System, the agency is responsible for managing more than 192 million acres of public land. These lands are distributed among 46 States, commonwealths, and territories. The agency administers these lands through over 700 offices. Through its State and Private organizations, FS cooperates with State and local government and private landowners in the management of forest resources, and through its research organization, the agency provides leadership in forest and rangeland research. The total FY 2003 budget for FS is projected at \$4.85 billion while receipts generated through timber sales and other activities on the public lands are estimated at about \$655 million. Congress has significantly increased FS funding to implement the National Fire Plan. These funding increases are continuing, with the long-term goal of reducing the threat of catastrophic fire on public and private lands.

### **AUDIT**

During FY 2002, FS contracted with a large CPA firm to conduct the annual financial statement audit. OIG acts as the Contracting Officer's Technical Representative (COTR) and monitors the completion of the audit. During the fiscal year we completed our audit work related to the agency's land adjustment program and concluded that the controls implemented in response to our previous audits were working effectively. We initiated survey work related to FS' efforts to implement the National Fire Plan. Our survey identified two issues we reported to the agency. We found that budget estimates made by FS had not included all applicable costs and therefore, the agency's ability to fully implement the plan were in question. We also found that the agency had not implemented adequate controls to ensure funds designated for rehabilitating burned over areas were properly spent. We also initiated work related to homeland security issues within the FS. We found that the agency needed to take more aggressive action to safeguard its owned and leased aircraft.

For FY 2003 we will continue to monitor the CPA audit of FS' financial statements. We will also continue our review of FS' implementation of the National Fire Plan. Since significant financial resources are being dedicated to implementation of the fire plan our audit will emphasize how effectively the agency has accomplished budget and performance integration. We will continue our work related to reviewing homeland security issues within FS operations. We also plan on initiating work related to FS management of the National Environmental Protection Act process and on agency actions to prevent timber theft.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcomes 1.3, Meet Responsibilities for Homeland Security Effectively; and 1.7, Provide Sensible Management of Our Natural Resources.

## **INVESTIGATIONS**

Our FS investigations have typically focused on embezzlement and theft of Government funds and property, as well as cases involving the FS' contracting for goods and services. During FY 2002, OIG investigators have also been involved in investigations relating to potential arson in forest fires. Recently enacted legislation (P.L. 107-203) requires the USDA's OIG to perform an independent investigation of any FS firefighter deaths that are caused by wildfire entrapment or turnover. In part because of this new statutory requirement, we estimate that we will be spending approximately 5 percent of our investigative resources on FS cases in FY 2003.

## RESEARCH AND TECHNOLOGY TRANSFER

USDA is the lead agency for the Federal investment in agricultural research and development and for programs that introduce new and improved technologies to the production, processing, and marketing of agricultural and forestry products.

The principal agencies of the Department's research and technology transfer effort are:

- the **Agricultural Research Service (ARS)**, which supports direct Federal research and provides information (including the National Agricultural Library) on new and improved technologies on problems of national impact in production, processing, and marketing of agricultural and forestry products;
- the **Cooperative State Research, Education, and Extension Service (CSREES)**, which administers the Federal partnership with the State Land Grant system and other public and private institutions for science capacity building, basic and applied research, and the dissemination of information and technology;
- the **Economic Research Service (ERS)**, which provides economic and social science information and analysis to public and private decision makers for improving agricultural profitability and the rural economy;
- the **National Agricultural Statistical Service (NASS)**, which is USDA's source for the collection and publication of the Nation's agricultural production statistics; and
- the **Forest Service Research programs**, which are designed to improve resource conservation, productivity, and protection of 1.6 billion acres of private- and publicly-owned forests and rangelands through direct research and the sharing of scientific information with other Government agencies, colleges and universities, businesses, and private landowners.

### ARS

ARS provides access to scientific data, conducts research to develop new scientific knowledge, and transfers technology to the private sector to solve technical agricultural problems of broad scope and high national priority. ARS houses the National Agricultural Library (NAL), the Nation's major information resource in the food, agricultural and natural resource sciences. ARS has over 100 locations throughout the U.S. and abroad. Beltsville, Maryland, is the site of the world's largest multi-disciplinary agricultural research facility. ARS is comprised of seven programmatic objectives as follows:

- Soil, Water, and Air Sciences;
- Plant Science;
- Animal Science;
- Commodity Conversion and Delivery;
- Human Nutrition;
- Integration of Agricultural Systems; and
- Information and Library Services.

The ARS 2003 budget includes over \$1 billion to support ongoing research and activities in high priority areas. ARS has recently increased funding for the following priority research areas:

- **Emerging, Reemerging, and Exotic Diseases of Animals.** Program initiatives in 2003 will target Bovine Spongiform Encephalopathy (BSE) or “mad cow disease,” Foot and Mouth Disease (FMD), Marek’s Disease, Porcine Respiratory Disease Complex, and Exotic Newcastle Disease in poultry.
- **Emerging and Exotic Diseases of Plants.** ARS research will provide the technology to identify, characterize, control, and prevent exotic plant diseases, as well as address emerging diseases offshore.
- **New Uses for Agricultural Products.** ARS research in this area will be coordinated with other Federal agencies and will focus on the development of industrial and bioenergy products that offer the opportunity to meet environmental needs and expand market opportunities.
- **Agricultural Genomes.** ARS research in this area will include challenges facing the U.S. agricultural systems, such as environmental regulations that complicate agricultural production, new pests and pathogens, and diminishing or inaccessible genetic resources that can only be met by harnessing the inherent potential of genetic resources.

## **CSREES**

CSREES has primary responsibility for providing linkages between the Federal and State components of a broad-based, national agricultural research, extension, and higher education systems. CSREES provides funding for projects conducted in partnership with the State Agricultural Experiment Stations, State Cooperative Extension Systems, land-grant universities, colleges and other research and education institutions. Federal funds are distributed to universities and institutions by statutory formula funding, competitive awards, and special grants. CSREES is responsible for administering USDA's primary competitive research grants program, the National Research Initiative (NRI), which supports investigator-initiated research with strong potential to contribute to major breakthroughs in agricultural science.

CSREES has a budget, which totals just over \$1 billion, which provides funding for ongoing programs and key provisions of the Agricultural Research, Extension, and Education Reform Act of 1998 (the Reform Act). The NRI is the Nation's premier competitive peer reviewed research program for fundamental and applied sciences in agriculture. The 2003 budget includes an increase of \$120 million for NRI, which will contribute to research on issues such as food safety, bio-based products, global change, human nutrition, invasive species, emerging diseases, and genetic resources.

**National Research Initiative (NRI).** Producers and consumers of agricultural products – which include every citizen – face a wide array of challenges on a daily basis, including growing concerns over potential terrorist threats to the safety of the food supply. Producers are contending with new pest and disease threats, stronger competition in world markets, growing awareness and concern over environmental issues and rising input costs. Consumers also face new threats to food safety and are increasingly concerned with methods used to produce food and with nutrition issues. The President's budget recognizes that a significant boost in research is needed now to provide the technology to address this list of challenges. A proposed doubling of the NRI will provide increased resources, which will be targeted to the most highly, qualified projects to address critical issues in key priorities:

## **ERS**

ERS provides economic and other social science information and analysis on agriculture, food, environment, and rural development. ERS supplies such information and analyses for use by the general public and to help policymakers develop, administer and appraise agricultural and rural policies and programs.

**Agricultural Resources Management Survey (ARMS).** ERS will support joint efforts with NASS to improve this annual national survey of farms, which provides data and analysis to characterize the economic conditions and rapidly changing structure of the agricultural sector. ARMS is the primary source of information about the financial condition, production practices, use of resources, and economic well being of America's farmers.

**Initiative on the Effects of Invasive Pests and Diseases on the Competitiveness of U.S. Agriculture.** The results of this initiative will provide information that can be used to help guide resource allocation for efforts to exclude and control invasive species.

## **NASS**

The mission of NASS is to provide timely, accurate, and useful statistics in service to U.S. agriculture. NASS statistics provide the information necessary to keep agricultural markets stable and efficient and help maintain a "level playing field" for all users of agricultural statistics.

**Agricultural Resources Management Survey (ARMS).** A joint initiative of ERS and NASS, this funding will improve ARMS, which provides data and analysis to characterize the economic conditions and rapidly changing structure of the agricultural sector.

**The Census of Agriculture.** The census provides comprehensive data on the agricultural economy with national, State, and county level details.

**Locality Based Agricultural County Estimation Program.** Funding is used to develop an annual integrated locality based agricultural county/small area estimation program. Private industry, Federal, State, and local governments and universities currently use these statistics.

**NASS Computer Security and e-Government.** Support e-Government data dissemination and electronic data reporting for NASS to initiate actions to address the Government Paperwork Elimination Act (GPEA) mandate. GPEA requires the acquisition and use of information technology, including alternative information technologies that provide for electronic submission, maintenance, or disclosure of information as a substitute for paper and for the use and acceptance of electronic signatures.

## AUDIT

For this strategy, the audit objectives are (1) determine the adequacy of the National Plant Germplasm System storage and laboratory facilities controls that ensure genetically engineered organisms are properly identified, inventoried, and controlled; (2) determine whether the 1862 Land Grant Institutions have implemented the Agricultural Research, Extension, and Education Reform Act of 1998; (3) determine whether CSREES has adequate controls over the disposition of intellectual property designed, and/or developed with CSREES grant funds; (4) determine whether CSREES is providing adequate oversight of the competitive grant expenditures for the Initiative for Future Agriculture and Food Systems; (5) determine whether ARS and CSREES effectively use the Current Research Information System to produce reports, plan research activities, and avoid duplication of research; and (6) evaluate management controls implemented to protect the Federal Government's interest in Cooperative Research and Development Agreements and licensing arrangements to develop and market the results of Federally funded research.

## INVESTIGATIONS

Investigations will be conducted as deemed necessary, in close coordination with the respective USDA agencies and OIG-Audit. In particular, OIG will continue to investigate and monitor the location and security for high profile labs to insure that USDA programs are not compromised. Additionally, we will monitor, along with the agencies, visiting scholars and scientists to ensure that USDA security is not compromised.

## **INTEGRITY OF USDA PERSONNEL**

The integrity of USDA personnel is essential to maintain the public's confidence that tax dollars and resources are adequately protected. A myriad of laws, Executive orders, and regulations prescribe what is expected of public servants before, during, and after Government employment. During employment, public servants are held to high ethical standards, including prohibitions against acceptance of gifts and gratuities, private compensation, and the appearance of a conflict of interest. Certain prohibitions also apply after an employee leaves the Government. For example, the Federal Procurement Policy Act (41 U.S.C. § 23) imposes a 1-year restriction prohibiting individuals from representing a contractor in the negotiation or performance of a contract if that individual was personally and substantially involved in either the negotiation or review and approval of that same contract as a Government representative.

### **INVESTIGATIONS**

The prompt investigation of allegations of criminal activities involving the integrity of USDA employees continues to be a high priority of OIG. Employee misconduct most often involves allegations of embezzlement, bribery, and conflict of interest. We have made a significant commitment to ensure that allegations of employee criminal misconduct are investigated timely, in order that corrupt public servants may be brought to justice and the agencies involved may proceed expeditiously with appropriate administrative action. We also expect an increase in the number of investigations involving employees misusing their government computers, including accessing and downloading child pornography.

We intend to continue our commitment to employee integrity investigations by spending about 10 percent of investigative time in this area.

## **HOMELAND SECURITY**

OIG's Homeland Security and Biological Security Program was established to provide interagency response coordination for bio-security and agriculture threat events. OIG has met with numerous USDA and State agency officials, State food and agriculture councils, State emergency boards, State and local audit and law enforcement organizations, other Federal Inspector General offices, and private industry groups. OIG has also participated in homeland security exercises and drills, and provided presentations to such agriculture-related organizations concerning OIG's role and responsibilities in the event of an agricultural attack or outbreak.

OIG has established and is training and outfitting emergency response teams (ERTs) to participate in interagency responses to bio-security and agriculture threat events, and to act as the USDA law enforcement component within the incident command structure during such events. The ERTs will respond to reports of threats, attacks, perceived attacks, or outbreaks. The ERTs, augmented as needed with additional OIG law enforcement and audit personnel, will:

- Coordinate with USDA veterinarian staff for the proper handling, packaging, and transportation of samples to the appropriate laboratory for testing and forensic analysis.
- Assist in the enforcement of quarantines.
- Enforce the Secretary of Agriculture orders.
- Protect USDA employees and facilities.
- Coordinate security for the movement of quarantined animals.
- Coordinate and work with other law enforcement and non-law enforcement agencies on the local, State, and Federal levels.
- Conduct criminal investigations and provide other investigative assistance.
- Coordinate criminal referrals, or as needed, other issues with local, State, and Federal prosecutors.

OIG has begun an aggressive outreach initiative to contact USDA, Federal, State, and local agriculture, law enforcement, and emergency preparedness officials. The goal was to expand and/or establish the liaisons necessary to respond in the event of an agricultural bio-security/bio-terrorism event. OIG has also cooperated with USDA in the development of the Federal

Emergency Response Plan for Foot-and-Mouth Disease and Other Highly Contagious Diseases. OIG also reached out to industry groups that interact with and/or impact agriculture-related activities. After the events of September 11<sup>th</sup>, OIG expanded this initiative and embarked on an awareness campaign to encourage our counterparts to actively identify and report suspicious activities impacting USDA programs and assets, the American food supply, and the consuming public.

OIG's efforts in Homeland Security have been undertaken with three basic objectives: (1) to identify and protect USDA assets, both physical and cyber-based; (2) to prevent USDA assets from being used against the United States; and (3) to preclude USDA programs from being used to finance terrorism. For example, high on a list of potential weapons are the biological agents that USDA laboratories use for research on plants and animals. Last spring, OIG issued an audit report on the Department's controls over the security of its biological agents. In general, we found that responsibility for dealing with security was fragmented, no policies or procedures were in place to identify the type and location of the pathogens, security in general at the laboratories needed improvement, and personnel access to these laboratories needed to be restricted. Subsequently, OIG actively worked with and provided comments to the Department as it drafted the policies and procedures addressing our recommendations. Recently, the Secretary signed off on these policies and procedures as Departmental Regulation.

This past year, OIG had a number of efforts evaluating (with respect to the three above-cited objectives) the spectrum of USDA agencies' Homeland Security activities and initiatives that extend from protecting our natural resources to ensuring the health and safety of our agriculture economy and the food supply. We also completed a review of security provided by the FS over aircraft, including air tankers used for aerial dispersal of flame retardant chemicals and other fire suppression activities, because of its potential use as a weapon. As a result, FS agreed to conduct a threat assessment at the air bases and analyze the countermeasures needed to mitigate the threat. Other efforts include the following: evaluating APHIS' role in monitoring vulnerable ports of entry; a review of APHIS' permit system involving the importation and domestic transshipment of biological agents; a review of APHIS' agricultural imports inspection system; a review of security over FS' munitions supply; and a review of controls and procedures over chemicals and radioactive materials at USDA facilities.

As part of our strategy in Homeland Security, OIG continues to spend considerable time and resources reviewing the Department's operation to prevent the entry of Foot and Mouth Disease and other diseases and contaminated food products into the United States (see also section on "Protecting U.S. Food Supply and Agriculture" for more information in this area).

Communications and information technology are among the Department's primary assets and have been a target of hackers in the past. To date, we have reviewed or are in the process of reviewing a number of information systems within the Department. Our reviews found several weaknesses in the security of information technology. Increased cyber security remains a priority in the Department (see also section on "Information Technology/Security" for more information). Recently, OIG issued a report to the Department citing the need for the

Department and its agencies to review for and to remove sensitive information from their websites.

OIG audit and law enforcement have worked closely with the Department and its agencies to review and strengthen USDA's controls for visiting foreign scientists, researchers, and physicians sponsored through USDA programs. OIG has provided extensive feedback and comments on the agencies' draft procedures, which are preliminary to getting the USDA sponsorship program reinstated. OIG has also worked closely with other Federal Offices of Inspector General to coordinate Homeland Security issues that are crosscutting among the Federal departments and to identify other potential issues for OIG to follow up within the Department.

## AUDIT

OIG's audit strategy in Homeland Security is to ensure that the Department and its agencies have established controls to meet the three above-mentioned objectives. We are continuing a number of efforts that were initiated in the past year: a review of controls over chemicals and radioactive materials at USDA facilities; a review of controls over biological agents, chemicals, and radioactive materials at USDA-funded research facilities; a review of APHIS' permit system involving the importation and domestic transshipment of biological agents; and a review of FS security over sensitive infrastructure. To ensure that the impetus from our earlier review of biological agents at USDA laboratories is carried forth effectively, we will be performing followup fieldwork reviews to evaluate and verify whether USDA laboratories have properly implemented their corrective actions, particularly in light that the Department has approved the issuance of the policies and procedures as Departmental Regulation. We will be initiating a number of new efforts this fiscal year, such as reviewing the use of supplemental funding that Congress appropriated for Homeland Security activities in the Department. Our objective is to ensure that such funds were used for the intended purposes and were timely expended. We also have planned a number of efforts to protecting the food supply from deliberate contamination: to review controls to protect food supply stored in USDA warehouses that are intended for school feeding programs, and to review controls to prevent livestock/poultry injected or exposed to diseases from entering the food supply.

For other upcoming reviews relating to the food supply and information technology, see sections on "Protecting U.S. Food Supply and Agriculture" and "Information Technology/Security."

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.3, Meet Responsibilities for Homeland Security Effectively; and key outcome 1.5, Protect the Nation's Agriculture and Food Supply.

## INVESTIGATIONS

We established a Biological Security Program to respond to intentional or catastrophic biological security threats to U.S. agriculture. It was established to address OIG's increasing investigative workload involving the attempted introduction of specific diseases or chemically contaminated agricultural products. A part of this program is OIG ERT, which will respond to immediate threats and attacks directed against the U.S. agriculture infrastructure. Due to OIG's knowledge of USDA programs, these teams will coordinate efforts with other local, State, and Federal law enforcement agencies in the event of a terrorist or catastrophic incident.

OIG Special Agents continue to assist Joint Terrorism and Financial Task Forces throughout the United States in support of "Operation Green Quest." Operation Green Quest is a national project ordered by the President in Executive Order 13224 to target money transfer businesses sending funds overseas to terrorist groups. Since September 11, 2001, OIG has opened a number of investigations related to counterterrorism and/or homeland security.

## **PROTECTING U.S. FOOD SUPPLY AND AGRICULTURE**

Protecting the food supply and agriculture within the Department includes those activities designed to ensure that the food the consumer eats is safe and properly labeled and graded, and the Nation's plant and animal resources are safeguarded. These activities are performed by the Food Safety and Inspection Service (FSIS); Agricultural Marketing Service (AMS); Animal and Plant Health Inspection Service (APHIS); and the Grain Inspection, Packers and Stockyards Administration (GIPSA). The activities include inspecting all domestic establishments that prepare meat and poultry products for sale or distribution; reviewing foreign inspection systems and establishments; inspecting and quarantining animals and plants at U.S. ports-of-entry; controlling agricultural losses caused by predatory animals; developing standards for licensing and testing veterinary biologics; establishing grading standards for eggs, tobacco, livestock, dairy products, poultry, fruits, vegetables, and grain; and performing weighing and inspection services to ensure the standards are met. The public depends on these agencies to ensure a safe food supply; farmers depend upon these agencies to protect agricultural resources and maintain consumer confidence in the market for their products. OIG's response to protecting the food supply and agriculture encompasses:

- Threats to spread foot and mouth disease, anthrax, and other animal and plant diseases.
- Product contamination and tampering.
- Auditing information technology and cyber security.
- Smuggling of prohibited agricultural products.
- Evaluating the security of biological agents and pathogens.
- Domestic acts of terrorism against USDA facilities and employees.

### **AUDIT**

Food safety and quality issues have received considerable attention over the last few years. In addition, increased foreign trade has become a key economic objective. Our strategy is to assess management control systems which ensure that the Department is effectively protecting both the consumer and the agricultural resources of the Nation. Our strategy focuses on the intensified

activities in food safety to identify and implement new meat, poultry, and egg inspection technologies.

During FY 2002 we completed audits of APHIS' safeguards to prevent the entry of prohibited pests and diseases into the country, and controls over the citrus canker monitoring and eradication efforts in Florida. We also focused on evaluating controls over permits to import hazardous materials, and continued a review of the Wildlife Service's controls over hazardous material.

In addition, our FY 2002 efforts included reviews of FSIS' imported meat and poultry reinspection processes, the initial equivalency process, and product recall operations. We completed an audit of FSIS' controls over overtime charged by plant inspectors.

For FY 2003, we plan to audit controls over APHIS' Animal Care Program and controls and procedures for the Investigation and Enforcement Services. In FSIS we will continue our efforts in assessing the steps that FSIS is taking to reorganize and overhaul the meat and poultry food safety inspection system; as part of that effort we plan to follow up on recommended actions identified in the Food Safety Initiative Meat and Poultry Products report. Under our ongoing Food Safety efforts we will continue to monitor the implementation of the Hazard Analysis and Critical Control Points (HACCP) regulation along with evaluating very small meat and poultry establishments' compliance with HACCP requirements and review FSIS' food safety automated information systems. In addition, we will conduct work to review the Egg Processing Inspection activity. We also plan to audit AMS' controls over the National Organic Program, controls over meat grading, and assess the validity of sources and accuracy of data reported in its Market News Reports.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcomes 1.3, Meet Responsibilities for Homeland Security Effectively; and 1.5, Protect the Nation's Agriculture and Food Supply.

## INVESTIGATIONS

Investigations into threats to or attacks on the health and safety of the agricultural sector and consumers remain our highest priority. When such threats are identified, we immediately begin an investigation. We coordinate our efforts with the responsible regulatory agency to ensure corrective action is taken to protect the public.

**Food and Consumer Products.** We continue to be concerned both about health and safety cases (i.e., those involving potential sale or movement in interstate commerce of uninspected or adulterated products, and those involving tampering with food products) and about economic impact cases. We intend to continue regular meetings with FSIS compliance officials to ensure the wholesomeness of meat products in U.S. commerce and conduct criminal investigations where indicated. We will work more closely with them especially as future FSIS compliance

offices are planned to be moved contiguous with OIG Investigations offices and in order to ensure better communication and facilitate additional joint investigations.

**Animal and Plant Health Protection.** We intend to continue our proactive investigations of smuggling and other criminal violations of law that could endanger the health and welfare of our citizens as well as our Nation's agricultural economy. We also intend to expand our intelligence base to detect threats to animal and plant health, and to interdict potentially diseased and/or pest-ridden smuggled animal and plant products before they can cause disease or pest outbreaks.

We estimate that our commitment of investigative resources to AMS, FSIS, APHIS, and GIPSA will be about 18 percent in FY 2003.

## **RISK MANAGEMENT**

The risk management strategy encompasses a variety of Federal Crop Insurance Corporation (FCIC) programs administered by the Risk Management Agency (RMA). FCIC receives funds from four main sources: capital stock subscriptions from the U.S. Treasury, premium income from producers purchasing insurance policies, administrative fees paid by producers purchasing catastrophic risk protection insurance, and appropriations for Federal premium subsidies and operating expenses. The principal activities of RMA/FCIC included in this strategy are the administration and management of the various crop insurance programs established by Congress. These programs make crop insurance available to producers through private companies that RMA “reinsures.” The estimated insurance in force for the 2003 crop year is over \$34 billion in risk protection on about 208 million acres, or about 77 percent of the Nation’s acres planted to principal crops. RMA’s premium income is estimated at \$2.8 billion, of which \$1.7 billion is in the form of premium subsidy, and the remaining \$1.1 billion is producer-paid premiums. The major estimated FY 2003 program expenses are: \$3 billion in indemnities, \$639 million in delivery expenses, \$64.5 million in Agricultural Risk Protection Act (ARPA) initiatives, and \$76 million in administrative and operating expenses.

The US. Department of Agriculture’s FY 2003 budget summary contained the following statement:

“As a result of the increased premium subsidies provided by the Federal Government, participation in the Crop Insurance Program has increased significantly and participants are purchasing higher levels of coverage. Consequently, the crop insurance companies have experienced a windfall. In recent years, underwriting gains have increased about 400 percent from the levels seen in the early 1990’s. Therefore, included in the 2003 budget request is a proposal to cap underwriting gains at 12.5 percent of the retained premium. This proposal is expected to save about \$115 million in 2003.”

### **AUDIT**

Our strategy is designed to ensure overall program integrity, prevent and detect program/ insurance losses, provide a visible audit presence, ensure program objectives are being accomplished, and assist program managers to find solutions for known or potential program weaknesses. Emphasis on crop insurance programs is needed because of the significance of prior audit findings; the expansion (i.e., new types of insurance) and revision of major insurance programs; the reliance placed upon the Federal Crop Insurance Programs by Congress to be the “safety net” for American farmers; and the mandated changes under ARPA.

Our FY 2002 audits continued to disclose problems with RMA's administration of the FCIC programs in the areas of crop loss claims (preparation and loss adjustment), implementation of new pilot programs, producers' reporting of production, conflicts of interest within the reinsured companies and/or representatives, and establishment of a reliable quality control system.

Among the major audits of RMA planned for FY 2003 are the FCIC Financial Statements audits and program audits or evaluations to assess the Nursery Crop Insurance Program, RMA's administration of optional units policy, management of RMA's established yields, RMA's compliance with GPRA and FMFIA requirements, and FCIC/RMA's corporate accounting system controls.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.4, Provide Risk Management and Credit/Financial Tools to Support Production Agriculture and Improve Quality of Life in Rural Areas.

## **INVESTIGATIONS**

Our investigative strategy in risk management is to investigate apparent fraud involving Federal crop insurance programs and to continue working closely with the RMA risk compliance division to ensure the timely referral of matters of interest and to strengthen the effectiveness of the compliance unit. We expect to increase the number of investigations we conduct in this area in FY 2003, and anticipate devoting over 7 percent of our investigative resources to it.

# **GOVERNMENT PERFORMANCE AND RESULTS ACT**

The Government Performance Results Act (GPRA) of 1993 requires that all Federal departments and agencies establish performance measures that measure outcomes of their programs. USDA is one of largest cabinet level departments and includes agencies that have very diverse missions. These missions include management of traditional farm programs, private lands conservation, domestic food assistance, agriculture research and education, agricultural marketing, international trade, meat and poultry inspection, forestry and rural development programs. Under GPRA, USDA and its agencies develop annual performance plans that establish performance goals and measures covering the fiscal year and provide direct linkages between USDA's longer-term goals and the agencies' day-to-day activities. USDA agencies prepare annual performance reports that are incorporated into the Department's Annual Performance and Accountability Report.

USDA has developed two strategic goals with 11 key outcomes related to the important mission areas of the Department. The two goals and associated outcomes are as follows:

## Goal No. 1: Provide effective services to USDA constituents

Key Outcomes: (1) Implement the Farm Security and Rural Investment Act; (2) expand market opportunities for U.S. agriculture; (3) meet responsibilities for homeland security effectively; (4) provide risk management and credit/financing tools; (5) protect the Nation's agriculture and food supply; (6) ensure food and nutrition security for low-income Americans; and (7) provide sensible management of our natural resources.

## Goal No. 2: Enhance USDA Operations through the President's Management Agenda

Key Outcomes: (1) Improve human capital management; (2) improve financial management; (3) expand electronic government; and (4) establish budget and performance integration.

The strategic goals and outcomes have a number of performance goals that must be met before the Department accomplishes them. The General Accounting Office (GAO) has issued two reports that evaluated USDA's progress in accomplishing its established program outcomes. Based on its review of USDA's FY 2000 performance report and its FY 2002 performance plan, GAO concluded that USDA still needed to take additional actions on its established program outcomes. However, GAO concluded that USDA had made some improvements over its FY 1999 performance report and FY 2001 performance plan. The FY 2002 performance plan, as

stated by GAO, “presented USDA as single department with clear missions, rather than a collection of separate agencies with a diversity of loosely related roles.”

## **AUDIT**

In FY 2000, we issued an audit report that reviewed the Forest Service’s (FS) Implementation of GPRA. Our review found that FS’ FY 1999 annual performance report was based on flawed data and assumptions to the extent that the report did not provide reliable information about actual performance or the agency’s progress in meeting its goals and objectives. In addition, we found that internal controls over performance measures were inadequate as designed and implemented. FS has no way of reviewing and correcting improper reporting of performance accomplishments submitted by its field units. We recommended that FS develop and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data. Our audit of FS’ FY 2000 Financial Statements found that it had developed a comprehensive strategy to collect and report accurate, complete and meaningful performance measures but had not fully implemented procedures.

In FY 2001, we issued an audit report that reviewed Rural Development’s (RD) implementation of GPRA. Our review found that performance data contained in RD’s FY 1999 Annual Performance Report was inaccurate or unsupported and targets established were not always documented, resulting in a report that was of little or no utility. In addition, we found RD included performance measures that were not relevant to its mission goals and, therefore, those measures did not provide meaningful information for assessing performance. We recommended RD develop procedures to implement GPRA that include processes that ensure collecting and reporting of accurate, complete, and meaningful performance data. RD agreed with our recommendations and stated that it would establish a GPRA committee to document and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data.

In FY 2002, we also issued an audit report that reviewed the implementation of GPRA in the Farm Service Agency (FSA). Our review found that FSA’s performance measures need to be improved to show what progress is being made in achieving its strategic goals. The OIG auditors found that 18 of 21 performance measures were output oriented (expressed in terms of a quantitative result), rather than outcome oriented (expressed in terms of a program result), which is preferred under GPRA to assess the benefit of a program activity. The auditors also reported three errors in reported results for performance measures. We recommended that FSA develop performance measures that are outcome oriented, linked to the achievement of its long-term goals, and for which results reported would indicate the degree to which the long-term goals are being met. We also recommended that FSA implement written procedures to ensure internal controls over the collection, calculation, and reporting of performance plans are in place and operating. FSA agreed with our recommendations and has initiated corrective actions.

For FY 2003, our audit strategy will use a significant amount of OIG audit resources to review USDA’s and its agencies’ implementation of GPRA. All financial statement and performance

audits will include procedures to review the internal controls over the audited agencies' collecting and reporting of their performance data. In FY 2003, we will be performing a review of USDA's Departmentwide GPRA planning and reporting. The objectives of this review will be to evaluate the system of controls over departmental performance planning and reporting for GPRA. We will assess the development of performance measures and the reporting of applicable results to determine if they support the Department's strategic goals and key outcomes. We will also gauge the extent to which those goals and outcomes are being achieved. We will evaluate the source and support for results reported by the Department and evaluate the controls in place to ensure the validity and verifiability of the reported performance data.

This portion of our audit strategy has some connection (depending on the particular performance measures being assessed) to all of the Department's strategic goals and key outcomes, but it is most directly linked to Goal 2, key outcome 2.4, Establish Budget and Performance Integration. Our audit work in this area will provide a means of assessing how well the Department is progressing in its implementation of budget and performance integration. It will also provide an indication of the quality of USDA's reporting on its progress toward meeting the aforementioned strategic goals and key outcomes.

This portion of our audit strategy ties to the fifth Presidential Management Government-wide Initiative "Budget and Performance Integration." This Presidential Management Agenda Initiative is designed to provide a greater focus on performance in budget-making decisions. Our review of the Departmentwide GPRA process will provide information as to how well the Department is doing in assessing and reporting on USDA's performance in key programmatic areas of significance to the budget-making process.

## **ACCOUNTING AND FINANCIAL MANAGEMENT**

The Chief Financial Officers (CFO) Act of 1990 designated USDA as part of the pilot program to prepare and audit financial statements, beginning with the FY 1990 statements. The Government Management Reform Act of 1994 further defined the CFO Act requirements for agencies to submit audited financial statements to OMB. Financial statements are now being prepared each year covering all departmental activities, including all revolving and trust funds and programs that perform substantial commercial functions.

The President's Management Agenda (PMA) has placed more emphasis on improving financial management in all Federal Departments, not just USDA. Over the last 9 years, OIG has been unable to express and has not expressed an opinion on USDA's annual Consolidated Financial Statements. We have consistently identified problems with the Department's processes for calculating and recording financial information in the accounting systems. According to OMB, USDA is the second largest component of the Federal Government's Consolidated Balance Sheet and represents one of the largest remaining barriers to the government receiving an unqualified opinion on the combined financial statements. The Department has made significant improvements and these efforts may soon allow it to obtain an unqualified opinion on its annual Consolidated Financial Statements.<sup>1</sup> The Secretary of Agriculture, through the Draft Strategic Plan, has also placed emphasis on improving USDA's financial management.<sup>2</sup> The Department has taken actions to enhance internal controls, improve financial data integrity, obtain additional management expertise and improve decision-making. These actions may help the Department improve its audit opinion and give program managers access to timely financial and operating information. Significant barriers remain, however, to an improved opinion, most notably longstanding material weaknesses in the Forest Service.

In its FY 2001 financial statements, the Department reported net assets of over \$127 billion and total liabilities of approximately \$117 billion. In addition to the reported assets, the Department is responsible for over 192 million acres in stewardship land. Other account balances in the FY 2001 financial statements included almost \$74 billion in net loans receivable and approximately \$80 billion in long-term debt owed by USDA. Financial management systems maintained by the Department are used to process all transactions for USDA. These systems also provide financial reports to agency managers as well as to nondepartmental entities. The systems are maintained on large-scale computers at either the National Information Technology Center (NITC) or the National Finance Center (NFC).

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<sup>1</sup> Draft outline of PMA goals, prepared by OMB and dated July 3, 2002.

<sup>2</sup> USDA Draft Strategic Plan, provided to OMB and dated July 8, 2002

## AUDIT

Our audit strategy encompasses the Department's financial statements, as well as the financial management systems and the responsibilities of the Office of Chief Financial Officer (OCFO). OCFO provides leadership, expertise, coordination, and evaluation in the development of departmental and agency programs in financial management, accounting, Federal assistance, and performance measurements. OCFO also provides, through NFC, central accounting and/or administrative services for all USDA agencies and about 86 other Federal agencies/bureaus outside USDA.

In FY 2002, we performed audits or provided oversight of audits of the FY 2001 financial statements for CCC, FCIC, FNS, FS, and the Rural Development (RD) mission area, including the Rural Telephone Bank (RTB), as well as the FY 2001 consolidated USDA financial statements. All entities received an unqualified opinion except FS, which received a disclaimer. We also completed an audit of the FY 2001 financial statements for the Department's working capital fund. These financial statements also received a disclaimer. In addition, we monitored implementation of the USDA Foundation Financial Information System (FFIS).

In FY 2003, we plan to audit the FY 2002 financial statements for CCC, FCIC, FNS, FS, and the RD mission area, including RTB, as well as the consolidated USDA financial statements. We also plan to audit the USDA working capital fund financial statements for FY 2002, USDA's compliance with the Federal Activities Inventory Reform (FAIR) Act, as well as complete our review of USDA's compliance with improper payment reporting requirements. We will continue to monitor the implementation of FFIS, audit NITC's General Controls, review NFC's internal control structure, and monitor USDA's implementation of a cost accounting system. In addition, we plan to continue our review and validation of cash flow models associated with credit reform activities involving RD, CCC, and FSA. FS and CCC contracted with a large CPA firm to conduct their FY 2002 financial statement audits. These contracts have subsequent option years that could be exercised upon the agreement of FS, CCC and OIG. We serve as the Contracting Officer's Technical Representative (COTR) and monitor and review all audit work performed by the firm. FNS and the RD mission area will also contract their FY 2003 financial statement audits.

Our efforts to work with and provide technical assistance to the Department in the area of accounting and financial management will continue into FY 2003. OIG is a member of the USDA Accounting Policy and Financial Statements Coordinating Committee; through this committee we provide our views and technical assistance to the working groups. We also meet with work teams, task forces, and review boards to deal with subjects on USDA's FFIS, cash management, cost accounting, credit reform, and other financial management issues. We strive to become partners with OCFO in order to improve operations. We coordinate with OCFO on general control reviews and system audits, training, and the resolution of issues with OMB and GAO.

This audit strategy relates most closely the USDA Strategic Goal 2, key outcome 2.2, Improve Financial Management. Department managers must have access to timely financial and operating information, in order to make program decisions, protect USDA assets and conserve scarce budget resources. Our audits provide necessary information about the timeliness and accuracy of USDA financial information.

This audit strategy applies most closely to the PMA on improved financial performance as it relates to our annual financial statement and other financial related audits. Our audit efforts help determine if USDA's financial systems provide accurate and timely information to the Department's management.

## **INFORMATION TECHNOLOGY/SECURITY**

Information technology (IT) is critical to the delivery of USDA's programs. The use of the Web-based technology, commonly referred to as e-Government, offers the Department the opportunity to improve the processes it uses to conduct business and achieve its mission objectives. The Department currently uses the Internet for program delivery including sharing of trade information, signup procedures, and outreach activities. Additional e-Government initiatives remain under development. As technology has enhanced the ability to share information instantaneously among computers and networks, it has made organizations more vulnerable. The Department's mission critical information systems and networks are now exposed to an unprecedented level of risk including equipment failures, human errors, physical and electronic cyber attacks. The Department has established a Departmentwide security program; however, it has not reached its goal of adequately securing the Department's critical resources.

Congress and the President continue to emphasize making Government services available via Web-based technology. The Government Paperwork Elimination Act (P.L. 105-277) directs OMB to develop procedures to provide for (1) the option of electronic submission, maintenance and disclosure of information, and (2) the use and acceptance of electronic signatures. The Freedom to e-File Act (P.L. 106-222) requires USDA to establish an electronic filing and retrieval system to enable farmers to file forms. The President's Management and Performance Plan for FY 2002 identified electronic government as one of five Governmentwide initiatives.

Congress recognizes the Government will need to protect the confidentiality, integrity, and availability of information in a networked environment. The Government Information Security Act (GISRA) (P.L. 106-398) provides a framework for Federal agencies to make information systems more secure. Among other features, the legislation requires each Government agency to implement a computer security plan, undergo an annual information security audit, report intrusions, and train workers in security awareness.

The Chief Information Officer (CIO) has overall responsibility for establishing departmental security policy and ensuring the Department's IT management is consistent with security requirements standards. However, each USDA agency remains responsible for managing its own security operations. In August 1999, the CIO issued "An Action Plan to Strengthen USDA Information Security," which identified weaknesses and made recommendations for improving the IT security of the Department. The CIO is addressing the issues identified in the plan but additional work is needed.

The major issues surrounding USDA's IT activities include the use of Web-based technology, the adequacy of security and control over IT systems and resources, and the lack of integration of many disparate systems. Of current major significance in USDA are:

- IT security as the Department implements Web-based technologies to deliver services and operate the Department's programs.
- Migration and conversion of data and operations from existing legacy systems to new Web-based systems.
- Business reengineering initiatives to ensure the Department has adequately modified its processes to assure it can adequately deliver its services in an electronic environment.
- Implementation of the Corporate Administrative Strategy, which seeks to eliminate and consolidate legacy accounting, procurement, payroll, and human resources systems.
- Capital planning and investment control requirements from the Clinger-Cohen Act through guidance issued by OMB.
- Management and control over information placed on the Department's websites to ensure that no information is posted that could assist in the production of weapons of mass destruction, or endanger USDA employees, property, or the public.

## AUDIT

This strategy highlights USDA's increasing reliance upon Web-based technology to deliver and manage its operations, the significant investment in and use of automated resources, the importance of careful planning to ensure that the resources acquired are needed and prudently obtained, and the importance of designing and implementing effective security and control measures.

In FY 2002, we completed (1) audits of the IT security programs, including access, physical, and network controls at several USDA agencies; (2) an evaluation of the Department's overall information security program as required by GISRA; (3) reviews of NFC and NITC general controls including selected aspects of automated data processing security; and (4) an assessment of USDA's controls over website security. We reported that the Department and most component agencies have not assessed the risks to their systems and established mitigation plans. Further, the agencies have not prepared and/or tested contingency and business continuity plans. We used commercial off-the-shelf software products to assess selected USDA network components. Our scans disclosed a large number of potential vulnerabilities that could be exploited from within the Department's networks and from the Internet. We determined that the agencies have not established adequate physical and logical access controls to ensure that only authorized users can access critical agency data. We continued to monitor the development and

implementation of the Department's new financial system, the Foundation Financial Information System.

In FY 2003, we will perform a review of the NITC's General Controls, to assess whether general controls are in place and operating effectively. We will also perform a review of security over USDA IT resources as is mandated by the GISRA. Currently, electronic government (E-GOV) initiatives are in place in 20 USDA programs. We will be performing a review of these initiatives to evaluate the security controls in place, and to assess whether data integrity and confidentiality may be compromised. We will be performing a review of application controls on critical USDA systems to determine whether there is an effective level of security built-in to protect data integrity and confidentiality. We will also be performing a review to evaluate security controls and the overall management of information technology assets at select agencies. Prior audits have identified significant weaknesses in physical and logical access controls, and a lack of adequate system documentation and contingency planning.

This audit strategy relates most closely to USDA Strategic Goal 2, key outcome 2.2, Improve Financial Management; key outcome 2.3, Expand Electronic Government; and key outcome 2.4, Establish Budget and Performance Integration. IT resources provide key data to government managers for decision-making and secure public access for electronic government. Our audits will provide necessary information on the security of these IT resources.

This audit strategy applies most closely to the PMA on expanded electronic government as it relates to our planned audit of USDA's E-GOV efforts, and to the PMA on improved financial performance in so far as our audit efforts help ensure the delivery of secure accurate financial information to management.

## **INVESTIGATIONS**

We are very concerned about unauthorized access to departmental computer systems and data. The CIO, as the departmental agency responsible for collecting information regarding computer intrusions, refers these violations to OIG. In FY 2003, we will continue to investigate intrusions where warranted.

In recognition of the major role computers play in all aspects of departmental operations, Investigations has established a Computer Forensics Unit (CFU). CFU information technology experts provide assistance in investigations throughout the country in which electronic evidence must be secured and preserved for possible use in judicial proceedings. They also represent Investigations in agency planning activities involving future information technology needs, including as they pertain to progress in E-GOV initiatives. In FY 2003, we expect to expand this unit and to further equip CFU staff to expeditiously perform their duties.

## **RURAL DEVELOPMENT**

USDA's Rural Development enhances rural communities' ability to grow and to improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential. The three Rural Development mission areas are Rural Business-Cooperative Service, Rural Housing Service, and Rural Utilities Service.

The Rural Business-Cooperative Service (RBS) provides leadership in building competitive businesses including sustainable cooperatives that can prosper in the global marketplace. Through direct, intermediary or guaranteed loans and grants, RBS invests in financial resources and provides technical assistance establishing strategic alliances and partnerships, which leverage public, private, and cooperative resources to create jobs and stimulate rural economic activity. RBS' Cooperative Service staff provides technical assistance to existing or planned cooperatives, conducts research, and produces information to market and distribute agricultural products.

The Rural Housing Service (RHS) provides credit assistance primarily through direct and guaranteed loans for housing programs, both single and multifamily. RHS also funds community facilities to build and improve other types of essential public services such as health care facilities, schools and libraries, child and adult day care centers, community centers, transportation services, and fire and police stations. RHS provides to borrowers (who have the minimum required number of low and moderate-income families) interest credit subsidies that lower rents to tenants. RHS provides additional housing subsidies to borrowers with low- and moderate-income in the form of rental assistance, furthering lower tenant rental costs.

The Rural Utilities Service (RUS) makes direct and guaranteed loans to nonprofit associations, public bodies, for-profit entities, and rural cooperatives to finance construction of distribution lines and systems in rural areas for electric, telecommunications, and water and waste facilities. RUS awards grants to schools, libraries, hospitals, and medical facilities for distance learning and telemedicine and for the improvement and management of water resources and waste disposal systems

### **AUDIT**

In FY 2002, many of OIG's resources were focused to ensure the integrity of homeland security, including reviews of physical assets such as generation and transmission of cooperative electrical assets, rural water systems, communication channels, and website security. Where appropriate, we shared concerns with agency personnel.

As part of our FY 2002 reviews, OIG evaluated the insurance costs charged by one broker, who provided coverage to 6 management companies responsible for over 900 RRH projects in 23 States and the Virgin Islands. We determined that for 728 RRH projects the property loss deductibles exceeded the maximum USDA allowed by about \$15.5 million. In addition, two management companies overcharged \$181,000 in 1999 and 2000 unemployment insurance.

In the last year, we issued four RBS program audit reports. When reviewing the direct loan program, we determined RBS personnel did not always perform collateral inspections, or collateral appraisals, or file the liens on security property. For the guaranteed program, we determined the lenders did not always ensure the borrower complied with loan requirements, ensure the loan collateral secured the loan, or account for all collateral at liquidation.

In prioritizing the work to be performed during FY 2003, we will continue our focus on areas that have historically been “high risk” and will add coverage to monitor the effects of major shifts in program policy, large dollar increases in appropriations and program levels, and new programs.

For FY 2003, we plan to complete our work on Rural Rental Housing insurance expenses by addressing RHS’ internal controls at the national level as related to our finding reported in the first three insurance audits. Additionally, we plan to complete our nationwide report on RBS’ Business and Industry (B&I) loan program. We plan to complete our B&I liquidation audit which is in process.

Finally, we will again audit Rural Development’s FY 2002 financial statements and continue to oversee the contracted audit work for the Rural Telephone Bank financial statements.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.4, Provide Risk Management and Credit/Financial Tools to Support Production Agriculture and Improve Quality of Life in Rural Areas.

## **INVESTIGATIONS**

We continue to investigate allegations of fraud in RHS’ single-family housing and RRH programs. Single-family housing fraud typically involves the borrower’s failure to accurately report household income, or composition, or both. RRH fraud investigations primarily involve housing project managers’ theft or misuse of funds from reserve accounts, falsification of records of tenants or occupancy, and “layering” of management functions and costs in order to siphon off money without justification and for personal gain. RBS investigations most frequently involve falsified applications for guaranteed and direct loans, including false appraisals of collateral, and misuse of loan proceeds for unauthorized purposes.

During FY 2003, we expect some increase in the number of investigations into RHS program fraud. In addition, we anticipate a substantial increase in time spent on investigations involving

RBS guaranteed and direct loan fraud. We will expend about 9 percent of our investigative resources on RD programs.

## **MANAGEMENT/CONTROL OF ENVIRONMENTAL HAZARDS**

This strategy brings together a wide range of agency programs and operations under a general concern for the protection of the environment and the abatement of any environmental hazards that result from practices in agriculture and forestry. Agricultural production is considered to be a major contributor to the Nation's pollution problems. The Department has adopted a comprehensive policy that guides efforts for correcting these problems and reducing future environmental damage from farming and forestry.

Agencies of the Federal Government are required to identify and remedy their noncompliance with Federal, State, and local standards for environmental quality. Noncompliance could include pollution from noise, the use of pesticides and chemicals, and toxic and radioactive wastes. USDA operates over 21,000 buildings at more than 15,000 locations and controls nearly 193 million acres of land. Violations of Federal or State standards at Government-owned or -operated facilities subject agencies to legal and administrative actions which may result in the criminal prosecution of Federal employees, the loss of program funds, or delayed projects.

USDA works with the U.S. Environmental Protection Agency to schedule problem areas for remedial action. These plans are coordinated and presented as a single funding item under the budget for departmental administration. Major areas of funding are associated with actions to prevent and remedy environmental damage from active and abandoned mines on the public lands that are under the stewardship of USDA. Other pollution abatement and prevention issues are conducted through the program efforts of numerous agencies. Among the responsibilities of these agencies is the assurance that environmental program funds and activities are distributed without discrimination due to race or income.

USDA's management and control of environmental hazards is coordinated through the Hazardous Materials Management Program, which provides for the efficient management and cleanup of hazardous materials on facilities and lands under the jurisdiction, custody, and control of the Department and prevention of releases of hazardous substances from USDA facilities. The program is funded, at approximately \$16 million, through a central appropriation and agency funds.

## **AUDIT**

In FY 2002, we completed our evaluation of the Hazardous Materials Management Fund and Hazardous Materials Management Program. In FY 2003, our strategy is to review the Department's controls for assessing environmental liabilities prior to the acquisition or disposal of land. We will review the application of the requirements of agencies' land transactions (sales, trades, or other conveyances), and examine the adverse impact from inadequate, negligent, or false certifications of hazardous environmental conditions.

This audit strategy links most closely to the USDA Strategic Goal 1, key outcome 1.7, Provide Sensible Management of Our Natural Resources.

## **PROGRAM COMPLIANCE, ECONOMY, AND EFFICIENCY**

The Program Compliance, Economy, and Efficiency strategy incorporates all programs and activities not included in other strategic areas. It includes special requests; audit followup; developmental audits; single audits of States, local governments, and nonprofit organizations; and the quality of audits performed by non-Federal auditors.

### **AUDIT**

During any year, issues develop which we cannot anticipate during the planning process. These issues usually develop from Secretarial, agency, congressional, or OIG concerns regarding fraud, waste, or abuse. In order to respond to these concerns, OIG reserves time for any unanticipated requests.

We also set aside time in our plan to monitor the management decisions made for audit recommendations presented in our audit reports. The purpose of management decisions is to ensure that the auditee and OIG agree on the actions to be taken to correct deficiencies. Once OIG agrees with the management decision, management is responsible for implementing final actions. Final actions are monitored and tracked by OCFO.

Our FY 2003 plan includes time for ensuring the quality of audits performed by non-Federal auditors in accordance with OMB Circular A-133, as well as those submitted to USDA agencies under program-specific requirements. When substandard audit work is identified, we refer the independent auditor to the State Board of Licensing Authorities and the American Institute of Certified Public Accountants.

We also plan in FY 2003 to perform an audit of USDA's compliance with the requirements of the Federal Activities Inventory Reform (FAIR) Act. This review will include an examination of the agencies' recordkeeping to determine whether estimated costs for Federal processes to the taxpayer are being appropriately maintained, and are complete and accurate. The review will also incorporate steps to assess whether the agencies' recordkeeping provides sufficient data to permit a comparison of the cost of performing the work by the government versus by the private sector. The FAIR Act requires that agencies provide an inventory of procedures performed by Federal workers that is reported to the OMB and Congress. We will verify the completeness and accuracy of the inventory.

This proposed audit is linked to USDA's Strategic Goal 2, key outcomes 2.1 and 2.2: Improve Human Capital Management and Improve Financial Management, respectively, by providing an assessment as to whether USDA agencies are appropriately implementing the FAIR act to minimize the cost of its operations.

This proposed audit is linked to Presidential Management Initiative No. 2 "Competitive Sourcing" in that it will provide an assessment of how USDA is doing in implementing the intent of the PMA

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**MAJOR AUDITS PLANNED FOR  
FISCAL YEAR 2003**

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Below are brief descriptions of major audits and initiatives planned for FY 2003. A complete listing of audits planned for the upcoming year is provided in appendix III.

**NATURAL RESOURCES AND ENVIRONMENT**

**Forest Service (FS)**

**TITLE:** Timber Theft Prevention Controls

**OBJECTIVE(S):** Determine if FS has implemented past OIG recommendations regarding controls needed to prevent theft of timber from the National Forest System.

**TITLE:** FS Security Over Sensitive Infrastructure

**OBJECTIVE(S):** Conduct a survey to become familiar with all laws, regulations, policies, and procedures pertaining to the FS' role in safeguarding the sensitive infrastructure assets located within the National Forest System such as water treatment plants, dams and reservoirs, oil and gas pipelines and facilities, communications sites, etc. Identify key internal controls pertaining to the security of these infrastructure assets as well as determine issues that warrant future audit coverage.

**TITLE:** FY 2002 FS Financial Statements  
FY 2003 FS Financial Statements

**OBJECTIVE(S):** Determine if FS' financial statements are presented fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if FS complies with applicable laws and regulations. (FS has contracted the FY 2002 audit to a large CPA firm and the audit will remain contracted for FY 2003. OIG will serve as the contracting officer's technical representative for both contracts.)

**TITLE:** National Fire Plan (NFP) Hazardous Fuel Reduction and Rehabilitation and Restoration Programs

**OBJECTIVE(S):** Assess whether the projects FS is selecting under the NFP meets established criteria. Verify that selected projects are accomplished as planned. Review the database FS is currently developing to track funding and accomplishments for these NFP projects.

**Natural Resources Conservation Service**

**TITLE:** Conservation Security Program - Highly Erodible Land

**OBJECTIVE(S):** Evaluate the implementation of the newly-enacted Conservation Security Program and evaluate its implementation with the Highly Erodible Land Program provisions and the conservation compliance procedures.

**FARM AND FOREIGN AGRICULTURAL SERVICES**

**Commodity Credit Corporation (CCC)**

**TITLE:** FY 2002 CCC Financial Statements  
FY 2003 CCC Financial Statements

**OBJECTIVE(S):** Determine if CCC's financial statements are presented fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if CCC complies with applicable laws and regulations. (CCC has contracted the FY 2002 audit to a large CPA firm, and it will remain contracted for FY 2003.)

**Foreign Agricultural Service Agency (FAS)**

**TITLE:** Oversight of Private Voluntary Organizations (PVO) Operations

**OBJECTIVE(S):** In follow-up to a prior audit of FAS PVO grant fund accountability for Food for Progress, Global Food for Education, and Section 416(b) programs, determine if the prior report's recommendations were implemented. Identify and test FAS controls designed to ensure that PVO's use commodities and funds provided for direct distribution and monetization programs in accordance with program objectives.

**TITLE:** FAS Market Development Programs

**OBJECTIVE(S):** Determine whether funds provided for market development programs were properly expended. These programs are designed to support development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. Determine whether FAS accomplished program objectives through reimbursements and cost share agreements with various trade organizations with the \$120 million it invested in market development programs.

**Farm Service Agency (FSA)**

**TITLE:** End-of-Year Payment Limitation Reviews (EOYR)

**OBJECTIVE(S):** Determine, across State lines, whether FSA EOYR's are adequate to detect errors and irregularities and whether FSA collects sufficient competent evidence to support EOYR conclusions.

**TITLE:** Implementation of the New Peanut Program

**OBJECTIVE(S):** Determine whether payments were issued to eligible quota holders.

**TITLE:** Direct and Counter-Cyclical Program (DCP) Under the 2002 Farm Bill

**OBJECTIVE(S):** Determine whether DCP payment bases and yields are proper for the 2002 through 2007 program years and test calculated national average market prices and loan rates.

**Risk Management Agency (RMA)**

**TITLE:** Federal Crop Insurance Corporation (FCIC)/RMA's Corporate Accounting System Controls

**OBJECTIVE(S):** Define corporate accounting system and components; evaluate the effectiveness and applicability of financial reports; identify whether additional or improved controls are needed over RMA's corporate accounting system and components; determine whether RMA's corporate accounting system and components meet Joint Financial Management Improvement Program core financial systems requirements and Federal Financial Management Improvement Act standard general ledger requirements; and ascertain whether RMA's accounting system is in full compliance with OMB Circulars A-123, A-127, and A-130.

**TITLE:** RMA Optional Units

**OBJECTIVE(S):** Quantify potential abuse and/or program savings caused by the use of optional units. Optional units allow producers, with little chance of detection, to shift production to increase losses and actual production histories (APH).

**TITLE:** Management of RMA's Established Yields

**OBJECTIVE(S):** Determine if APH and T-yields are sound. This would include yields for traditional and non-traditional crops such as forage. Also review the propriety of yields and acreages for catastrophic policies.

**TITLE:** Nursery Crop Insurance Programs

**OBJECTIVE(S):** Determine if the nursery crop insurance program has been administered in compliance with the reinsurance agreement. Specifically to identify any weaknesses and improprieties in the crop insurance program that allows producers to improperly maximize indemnities caused by policy weaknesses instead of crop loss.

**TITLE:** FY 2002 FCIC Financial Statements  
FY 2003 FCIC Financial Statements

**OBJECTIVE(S):** Determine if FCIC's financial statements are presented fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if FCIC complies with laws and regulations. (OIG has contracted the FY 2002 FCIC Financial Statement Audit, and it will remain contracted in FY 2003.)

## **RURAL DEVELOPMENT**

**TITLE:** Delta Regional Authority

**OBJECTIVE(S):** Determine if the Delta Regional Authority's management controls are in place to ensure funds appropriated by Congress are safeguarded against waste and abuse.

**TITLE:** Northern Great Plains Regional Authority

**OBJECTIVE(S):** Determine if the Northern Great Plains Regional Authority's management controls are in place to ensure funds, when appropriated by Congress, are safeguarded against waste and abuse.

**TITLE:** FY 2002 Rural Development Financial Statements  
FY 2003 Rural Development Financial Statements

**OBJECTIVE(S):** Determine if Rural Development's consolidated financial statements are prepared fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if Rural Development complies with applicable laws and regulations. (Rural Development will contract for its FY 2003 Financial Statement Audit.)

**Rural Business-Cooperative Service (RBS)**

**TITLE:** Business and Industry (B&I) Loans – Liquidations

**OBJECTIVE(S):** Determine if lenders submitted required documentation (liquidation plans) to RD in a timely manner. Determine if RD reviewed the information submitted and sufficiently followed up on the status of the loan liquidation plans and collection of proceeds from liquidation. Determine if regulations were followed relating to liquidation of loans and collateral proceeds obtained during the liquidation were correctly reported and applied to the guaranteed loans.

**Rural Housing Service (RHS)**

**TITLE:** Appraisals of B&I Loan Collateral

**OBJECTIVE(S):** Determine if policies and procedures for completing appraisals of loan collateral are adequate; lenders and appraisers are following appraisal procedures; appraisals reflect the true value of loan collateral; and lenders evaluate appraisals to ensure that pledged collateral adequately secures the B&I loan.

**TITLE:** Rental Assistance Paid to Rural Rental Housing (RRH) Projects in Florida

**OBJECTIVE(S):** Determine if RRH project management is properly determining tenants eligibility for rental assistance. Determine if RHS officials properly monitor RRH projects and the rental assistance program.

**TITLE:** Rollup of RRH Program – Oversight of Insurance Expense and Coverage

**OBJECTIVE(S):** Perform a review of RHS' controls over insurance expenses and coverages for RRH projects. Assess RHS' management and internal controls over insurance expenses and coverages at the national level.

**TITLE:** Rural Rental Housing Construction Costs

**OBJECTIVE(S):** Determine that loan funds were used for authorized purposes and reported correctly.

**TITLE:** Rural Rental Housing Project Management

**OBJECTIVE(S):** Evaluate RHS' implementation of corrective actions to issues disclosed in the joint 1998 – 1999 Presidential initiative review of RRH projects.

**Rural Utilities Service (RUS)**

**TITLE:** FY 2002 Rural Telephone Bank Financial Statements  
FY 2003 Rural Telephone Bank Financial Statements

**OBJECTIVE(S):** Determine if RTB's financial statements are presented fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if RTB complies with laws and regulations. (OIG contracted the FY 2002 RTB Financial Statement Audit with a CPA firm, and it will remain contracted for FY 2003.)

**FOOD, NUTRITION AND CONSUMER SERVICES**

**Food and Nutrition Service (FNS)**

**TITLE:** WIC – Vendor Monitoring

**OBJECTIVE(S):** Assess States' compliance with recent WIC rules regarding (retailer) food delivery systems that were to be implemented no later than February 2002. Determine if States are properly identifying high-risk vendors, performing required compliance (undercover type) investigations, applying appropriate sanctions for vendors and participants, and safeguarding food instruments or other means of benefit delivery.

**TITLE:** FNS FY 2002 Financial Statements  
FNS FY 2003 Financial Statements

**OBJECTIVE(S):** Determine if FNS' financial statements are prepared fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if FNS complies with applicable laws and regulations. (FNS will contract for its FY 2003 Financial Statement Audit.)

**TITLE:** Monitoring of Electronic Benefit Transfer (EBT) Operations

**OBJECTIVE(S):** Review and assess various EBT system databases to identify opportunities to improve operations. Specifically, examine retailer, client, and transaction databases and selected management reports.

**TITLE:** Administration and Management of the New York WIC Program

**OBJECTIVE(S):** Determine if: (1) proper corrective action has been taken; (2) management evaluation reviews are being performed as required and used to identify and correct local agency operating weaknesses; (3) there was accountability and security over food instruments, and (4) administrative costs are allowable and properly supported.

**TITLE:** FNS' Summer Food Service Program

**OBJECTIVE(S):** Evaluate the adequacy of FNS' and State agencies' administration of the Summer Food Service Program. Determine whether program sponsors complied with applicable laws and regulations.

**TITLE:** National Security Issues in Food Service Programs

**OBJECTIVE(S):** Determine if FNS has developed specific security provision to protect food stored in USDA warehouses for the National School Lunch Program, Child and Adult Care Food Program, and Summer Food Service Program from deliberate contamination. Also, determine if the security at processing and storage facilities is adequate, and determine if the background of employees are verified.

## FOOD SAFETY

### Food Safety and Inspection Service (FSIS)

**TITLE:** Review of Food Safety Information Systems

**OBJECTIVE(S):** Determine if FSIS effectively uses its information systems, such as the Field Automation and Information Management and Performance Based Inspection System (PBIS), to manage inspection and labeling activities, to ensure necessary actions are taken when plant inspections identify serious deficiencies, and when unsafe meat and poultry product enter the marketplace. Evaluate FSIS implementation of prior audit recommendations for the improvement of PBIS.

**TITLE:** Hazardous Analysis and Critical Control Points (HACCP) – Compliance by Very Small Plants

**OBJECTIVE(S):** Evaluate FSIS' and plants' effectiveness in implementing and monitoring HACCP in very small plants (plants with 10 or fewer employees).

**TITLE:** Food Safety Initiative Meat and Poultry Products – Followup on Recommended Actions

**OBJECTIVE(S):** Assess whether FSIS has followed up and implemented recommended controls based on our prior audits and evaluate the effectiveness of these controls.

**TITLE:** Egg Processing Inspections

**OBJECTIVE(S):** Determine whether FSIS' monitoring of sanitation and processing in egg product plants is adequate.

## **RESEARCH, EDUCATION, AND ECONOMICS**

### **Cooperative State Research, Education, and Extension Service (CSREES)**

**TITLE:** Implementation of Agricultural Research, Extension, and Education Reform Act (AREERA) of 1998 at 1862 Land Grant Institutions

**OBJECTIVE(S):** Determine whether the 1862 Land Grant Institutions have implemented AREERA.

**TITLE:** Management of the Initiative for Future Agriculture and Food Systems (IFAFS) Competitive Grant Expenditures

**OBJECTIVE(S):** Determine whether CSREES is providing adequate oversight of the competitive grant expenditures for IFAFS.

## **MARKETING AND REGULATORY PROGRAMS**

### **Animal and Plant Health Inspection Service (APHIS)**

**TITLE:** Investigation and Enforcement Services

**OBJECTIVE(S):** Evaluate APHIS' Investigation and Enforcement Service's controls and procedures to ensure timely investigation of referrals and the assessment of fines and penalties for inspections and animal care activities at universities and research facilities.

**TITLE:** Controls Over APHIS Issuance of Genetically Engineered Organisms Release Permits

**OBJECTIVE(S):** Determine if controls over APHIS' issuance of genetically engineered organisms release permits are adequate and ensure compliance with current laws and regulations.

**TITLE:** Animal Care Programs – Western States

**OBJECTIVE(S):** Evaluate inspections and animal care activities at universities and research facilities.

**TITLE:** Controls Over Permits to Import Biohazardous Materials

**OBJECTIVE(S):** Evaluate APHIS' controls over permits issued to colleges/universities and others to import biohazards. Review operations at various APHIS locations. In addition, review APHIS' process for evaluating applicants' suitability for issuance of a permit and APHIS' system for tracking biohazards imported under permit.

#### **OFFICE OF THE CHIEF FINANCIAL OFFICER**

**TITLE:** FY 2002 USDA Working Capital Fund Financial Statements

**OBJECTIVE(S):** Determine if USDA's Working Capital Fund (WCF) financial statements are presented fairly in all material respects in accordance with applicable accounting principles, if internal accounting controls are adequate, and if WCF complies with applicable laws and regulations.

**TITLE:** FY 2002 National Finance Center Internal Control Structure Review  
FY 2003 National Finance Center Internal Control Structure Review

**OBJECTIVE(S):** Determine whether NFC's internal control structure is appropriately documented and provides reasonable assurance that data is processed properly.

#### **OFFICE OF THE CHIEF INFORMATION OFFICER**

**TITLE:** FY 2003 National Information Technology Center's (NITC) General Control Review

**OBJECTIVE(S):** Determine if the general controls at NITC are in place and operating effectively.

## MULTIPLE AGENCY AUDITS

- TITLE:** Departmentwide Government Performance and Results Act (GPRA) Planning and Reporting
- OBJECTIVE(S):** Evaluate the system of controls over departmental performance planning and reporting for GPRA and assess the development of performance measures and reporting of the applicable results.
- TITLE:** Application Controls on Critical USDA Systems
- OBJECTIVE(S):** Conduct a Nationwide review of application controls in the Department's most critical systems as identified by OCIO and the Department. Also, evaluate security over IT resources at selected USDA agencies.
- TITLE:** E-GOV Security
- OBJECTIVE(S):** Currently, electronic government (E-GOV) initiatives are in place in 20 USDA programs. Perform a review of these initiatives to evaluate the security controls in place on these initiatives and pilot programs to ensure the integrity and confidentiality are not compromised.
- TITLE:** Government Information Security Reform Act (GISRA) of 2003
- OBJECTIVE(S):** Perform an annual review of the Department's information security performed by conducting audit procedures at OCIO and select agencies in accordance with mandated requirements by GISRA.
- TITLE:** Implementation of the 2002 Farm Bill – the Farm Security and Rural Investment Act of 2002
- OBJECTIVE(S):** Perform both program audits and economy and efficiency audits of various programs enacted under the 2002 Farm Bill.
- TITLE:** Allocation and Use of Homeland Security Funds
- OBJECTIVE(S):** Determine whether the funds and other resources are being appropriately used to help USDA attain the high level of security needed.
- TITLE:** Followup Review of the Security Over Biological Agents at USDA Facilities

**OBJECTIVE(S):** Evaluate the Department’s implementation of corrective action relative to our prior audit of controls over security of biological agents. Examine the implementation of new departmental policies and procedures pertaining to centralized inventories and biosecurity controls.

**TITLE:** Controls Over Chemicals and Radioactive Materials at USDA Facilities

**OBJECTIVE(S):** Determine what controls USDA has over chemical and radioactive materials at USDA facilities. Assess the adequacy of USDA/agency management control systems for ensuring USDA facility compliance with requirements for handling, storage, and disposal of chemical and radioactive materials. Determine if personnel who have access to these materials have the proper clearances and controls minimize the opportunities that exist for access and unauthorized removal of chemicals and radioactive materials.

**TITLE:** Controls Over Biological Agents, Chemicals, and Radioactive Materials at USDA Funded Research Facilities

**OBJECTIVE(S):** Evaluate controls over biological agents, chemicals, and radioactive materials at universities and colleges, that receive USDA financial assistance for research. Examine universities’ and colleges’ compliance with APHIS permits requirements for transfer of biological agents: determine whether personnel who have access to university and college labs have proper clearances; and evaluate controls that exist for personnel safety and unauthorized access.

**TITLE:** USDA’s Compliance with the Requirements of the Federal Activities Inventory Reform (FAIR) Act

**OBJECTIVE(S):** Perform an audit of USDA’s compliance with the requirements of the FAIR Act. This review will include an examination of the Department’s agencies’ recordkeeping to determine whether estimated costs for Federal processes to the taxpayer are being appropriately maintained, and are complete and accurate.

**TITLE:** Controls Over Assessing Environmental Liabilities

**OBJECTIVE(S):** Examine controls for assessing environmental liabilities prior to the acquisition or disposal of land. Review the application of the requirements of agencies land transactions (sales, trades, or other conveyances), and examine the adverse impact from inadequate, negligent, or false certifications of hazardous environmental conditions.

- TITLE:** Controls to Prevent Livestock Injected with Human Diseases from Entering the Nation's Food Supply
- OBJECTIVE(S):** Identify the controls USDA has to prevent livestock/poultry that has been injected or otherwise exposed to human viruses or diseases and milk or byproducts from such animals from entering the Nation's food supply. Examine the application of current laws and regulations to determine if USDA needs additional authority to protect consumers from meat or byproducts from exposed animals.
- TITLE:** International Food and Trade Programs
- OBJECTIVE(S):** Evaluate USDA's efforts at (1) implementing the 2002 Farm Bill provisions within existing food and trade programs and establishing newly authorized programs, and (2) working with other Departments and agencies that administer food aid programs to streamline these programs in keeping with the President's initiatives.
- TITLE:** Environmental Quality Incentives Program (EQIP)
- OBJECTIVE(S):** Evaluate the administration of EQIP based on increased funding and changes in funding methodology as specified in the 2002 Farm Bill.
- TITLE:** Biosecurity Grant Funding
- OBJECTIVE(S):** Review grants made available through Agricultural Research, Education and Extension funds to determine grants' effectiveness of reducing the vulnerability of the U.S. food and agricultural system to chemical or biological attack and whether funds were used for their intended purposes.
- TITLE:** Monitoring of USDA Implementation of Cost Accounting System
- OBJECTIVE(S)** Monitor USDA's implementation of a cost accounting system and determine whether the system meets the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No. 4.

**TITLE:** FY 2002 USDA Consolidated Financial Statements  
FY 2003 USDA Consolidated Financial Statements

**OBJECTIVE(S):** Determine if USDA's consolidated financial statements are presented fairly in all material respects in accordance with applicable accounting policies, including proper elimination of all interagency transactions and proper conversion of all agencies to accrual accounting. Also determine if the Department's internal control structure is adequate, and if USDA complies with laws and regulations in all material respects for the items reviewed.

**TITLE:** Controls Over Plant Variety Protection and Germplasm Storage

**OBJECTIVE(S):** Determine the adequacy of the National Plant Germplasm System storage and laboratory facilities controls that ensure genetically engineered organisms are properly identified, inventoried, and controlled. Determine whether security at the facilities is adequate.

## APPENDIX III

### FISCAL YEAR 2003 AUDITS PLANNED

| AGENCY | TITLE  | LEAD REGION | ASSIST REGIONS | STAFF DAYS |
|--------|--|-------------|----------------|------------|
| AMS    | ADEQUACY OF MEAT GRADING PROCEDURES  | CH          |                | 100        |
|        | MARKET NEWS COMMODITY REPORTS  | AT          |                | 100        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 90         |
|        | SUBTOTAL 290   |             |                |            |
| APHIS  | INVESTIGATION AND ENFORCEMENT SERVICES   | CH          |                | 100        |
|        | CONTROLS OVER APHIS ISSUANCE OF<br>GENETICALLY ENGINEERED ORGANISMS<br>RELEASE PERMITS | TE          |                | 300        |
|        | ANIMAL CARE PROGRAMS - WESTERN STATES  | SF          |                | 250        |
|        | CONTROLS OVER PERMITS TO IMPORT<br>BIOHAZARDOUS MATERIALS                              | CH          |                | 100        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 338        |
|        | SUBTOTAL 1088  |             |                |            |
| CCC    | FY 2002 CCC FINANCIAL STATEMENTS   | FM          |                | 150        |
|        | FY 2003 CCC FINANCIAL STATEMENTS   | FM          |                | 150        |
|        | REVIEW OF CCC CHECK ACCOUNTING AND<br>PAYMENT CONTROL SYSTEMS                          | FM          |                | 50         |
|        | GSM GUARANTEED LOAN ACCOUNTING<br>SYSTEM   | FM          |                | 50         |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 180        |
|        | SUBTOTAL 580   |             |                |            |
| CIO    | FY 2003 NITC GENERAL CONTROLS  | FM          |                | 300        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 135        |
|        | SUBTOTAL 435   |             |                |            |
| CSREES | IMPLEMENTATION OF AREERA AT 1862<br>LAND GRANT INSTITUTIONS                            | TE          |                | 300        |
|        | CONTROLS OVER DISPOSITIONS<br>OF INTELLECTUAL PROPERTY                                 | TE          |                | 100        |

| AGENCY | TITLE  | LEAD REGION | ASSIST REGIONS | STAFF DAYS |
|--------|--|-------------|----------------|------------|
|        | MANAGEMENT OF IFAFS COMPETITIVE GRANT EXPENDITURES                                       | AT          | KC SF          | 400        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 360        |
|        | SUBTOTAL 1160  |             |                |            |
| FAS    | OVERSIGHT OF PVO OPERATIONS  | AT          |                | 200        |
|        | FAS MARKET DEVELOPMENT PROGRAMS  | AT          |                | 150        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                | 158        |
|        | SUBTOTAL 508   |             |                |            |
| FNS    | NSLP - HANDLING AND CREDIT FOR COMMODITIES   | KC          |                | 200        |
|        | ACCOUNTABILITY OF VENDORS PARTICIPATING IN FARMER'S MARKET PROGRAMS                      | TE          |                | 200        |
|        | REVIEW OF STATE'S ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION PROGRAMS IN MIDWEST REGION | CH          |                | 200        |
|        | WIC VENDOR MONITORING  | CH          |                | 150        |
|        | FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM   | SF          |                | 50         |
|        | FY 2002 FNS FINANCIAL STATEMENTS   | HY          | CH SF          | 1325       |
|        | FY 2003 FNS FINANCIAL STATEMENTS   | HY          |                | 1600       |
|        | FNS NONTRADITIONAL RETAILERS   | TE          |                | 200        |
|        | FNS FIELD OPERATIONS   | SF          |                | 50         |
|        | FLORIDA FSP CLAIMS MANAGEMENT  | AT          |                | 50         |
|        | FNS VENDOR SANCTION POLICIES   | AT          |                | 50         |
|        | FSP WORKER INTEGRITY   | AT          |                | 50         |
|        | NEW MEXICO HUMAN SERVICES DEPARTMENT AUTOMATED DATA PROCESSING PROJECT                   | TE          |                | 200        |
|        | ADMINISTRATION OF THE EMPLOYMENT AND TRAINING PROGRAM IN TEXAS                           | TE          |                | 200        |
|        | AUDIT SURVEY OF THE NUTRITION EDUCATION PROGRAM IN THE SOUTHWEST REGION                  | TE          |                | 100        |
|        | EVALUATE CONTROLS OVER AND ADEQUACY OF FSP FRAUD CONTROL COSTS IN NEW YORK STATE         | HY          |                | 300        |
|        | FSP ERROR RATE REDUCTION - CALIFORNIA  | SF          |                | 300        |
|        | USE OF FOOD STAMP PROGRAM ENHANCED FUNDING BY STATES                                     | TE          |                | 200        |
|        | MONITORING OF EBT OPERATIONS   | HY          | SF             | 400        |
|        | ADMINISTRATION AND MANAGEMENT OF THE NEW YORK WIC PROGRAM                                | HY          |                | 255        |
|        | FNS' SUMMER FOOD SERVICE PROGRAM   | HY          | AT CH SF TE    | 1050       |
|        | FNS COMPLIANCE WITH FMFIA REPORTING REQUIREMENTS   | CH          |                | 100        |

| AGENCY | TITLE  | LEAD<br>REGION | ASSIST<br>REGIONS | STAFF<br>DAYS |
|--------|--|----------------|-------------------|---------------|
|        | NATIONAL SECURITY ISSUES IN FOOD SERVICE PROGRAMS  | SF             |                   | 75            |
|        | NSLP - COMPASS/CHARTWELLS FOOD SERVICE MANAGEMENT COMPANIES - NATIONWIDE                 | KC             | AT CH HY SF TE    | 400           |
|        | EFFECTIVENESS OF COMPLIANCE BRANCH OPERATIONS  | CH             |                   | 100           |
|        | EBT ISSUANCE AND CERTIFICATION PROCEDURES  | CH             |                   | 200           |
|        | FOOD STAMP DATABASE ANALYSIS - EBT AGED ACCOUNTS   | KC             |                   | 150           |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL            |                   | 3678          |
|        | SUBTOTAL 11833   |                |                   |               |
| FS     | FS PROCUREMENT OF NEW FIREFIGHTING LEAD PLANES   | SF             |                   | 100           |
|        | ASSESSMENT OF FS PROGRAMS FOR FUTURE AUDIT COVERAGE                                      | SF             |                   | 50            |
|        | ASSESSING FS' PROGRESS WITH GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) IMPLEMENTATION | AT             |                   | 50            |
|        | FS TRUST FUNDS   | SF             |                   | 50            |
|        | FS MANAGEMENT OF NEPA PROCESS  | SF             |                   | 50            |
|        | COOPERATIVE FORESTRY   | TE             |                   | 200           |
|        | TIMBER THEFT PREVENTION CONTROLS   | TE             | HY SF             | 700           |
|        | FS USE OF CATEGORICAL EXCLUSIONS IN NEPA PROCESS   | SF             |                   | 200           |
|        | FS FIRE FIGHTING INCIDENT MANAGEMENT   | SF             |                   | 100           |
|        | FS SECURITY OVER SENSITIVE INFRASTRUCTURE  | SF             |                   | 175           |
|        | FY 2002 FS FINANCIAL STATEMENTS  | FM             | AT                | 250           |
|        | FY 2003 FS FINANCIAL STATEMENTS  | FM             |                   | 350           |
|        | NATIONAL FIRE PLAN HAZARDOUS FUEL REDUCTION AND REHABILITATION AND RESTORATION PROGRAMS  | SF             |                   | 400           |
|        | FS USE OF COLLABORATIVE VENTURES AND PARTNERSHIPS WITH NON-FEDERAL ENTITIES              | SF             |                   | 50            |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL            |                   | 1229          |
|        | SUBTOTAL 3954  |                |                   |               |
| FSA    | EVALUATION OF ELIGIBILITY AND SECURITY FOR EMERGENCY DISASTER LOANS                      | CH             | TE                | 250           |
|        | CONSERVATION RESERVE PROGRAM - COST SHARE CLAIMS   | CH             |                   | 100           |
|        | VERIFICATION OF FSA'S DEBTS EXCLUDED FROM TREASURY COLLECTION                            | FM             |                   | 50            |

| AGENCY | TITLE  | LEAD REGION | ASSIST REGIONS    | STAFF DAYS |
|--------|--|-------------|-------------------|------------|
|        | IMPLEMENTATION OF NEW PEANUT PROGRAM   | AT          |                   | 200        |
|        | END OF YEAR PAYMENT LIMITATION REVIEWS   | AT          |                   | 200        |
|        | PAYMENT LIMITATIONS - MISSISSIPPI  | AT          |                   | 100        |
|        | EMERGENCY GRAZING ON CONSERVATION RESERVE PROGRAM (CRP) ACREAGE                            | TE          |                   | 200        |
|        | SURVEY OF NONINSURED ASSISTANCE PROGRAM  | KC          |                   | 150        |
|        | FSA APPLE MARKET LOSS ASSISTANCE PAYMENT PROGRAM   | SF          |                   | 50         |
|        | REVIEW OF FSA'S EMERGENCY SUPPLEMENTAL APPROPRIATIONS                                      | FM          |                   | 150        |
|        | IMPLEMENTATION OF E-LDP (LOAD DEFICIENCY PAYMENTS) SYSTEM                                  | FM          |                   | 100        |
|        | ESTABLISHMENT OF THE NATIONAL AVERAGE LOAN RATE FOR COMPUTING THE COUNTER CYCLICAL PAYMENT | KC          |                   | 50         |
|        | DIRECT AND COUNTER CYCLICAL PAYMENT PROVISIONS UNDER THE 2002 FARM BILL                    | KC          | AT CH HY SF TE    | 750        |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                   | 1060       |
|        | SUBTOTAL 3410  |             |                   |            |
| FSIS   | REVIEW OF FOOD SAFETY INFORMATION SYSTEMS  | CH          |                   | 100        |
|        | HACCP - COMPLIANCE BY VERY SMALL PLANTS  | AT          |                   | 200        |
|        | FSIS STATE OPERATED INSPECTION PROGRAMS  | AT          |                   | 100        |
|        | FOOD SAFETY INITIATIVE MEAT AND POULTRY PRODUCTS - FOLLOWUP ON RECOMMENDED ACTIONS         | AT          | CH                | 105        |
|        | EGG PROCESSING INSPECTION  | CH          |                   | 75         |
|        | AUDIT MANAGEMENT AND LIAISON   | ALL         |                   | 262        |
|        | SUBTOTAL 842   |             |                   |            |
| MULTI  | DEPARTMENTWIDE GPRA PLANNING AND REPORTING   | CH          |                   | 300        |
|        | FY 2003 INFORMATION TECHNOLOGY SECURITY REVIEW   | FM          | AT CH HY KC SF TE | 1400       |
|        | APPLICATION CONTROLS ON CRITICAL USDA SYSTEMS  | FM          | AT CH HY KC SF TE | 1400       |
|        | E-GOV SECURITY   | FM          |                   | 200        |
|        | GOVERNMENT INFORMATION SECURITY REFORM ACT FY 2003   | FM          |                   | 200        |
|        | FEDERAL RESEARCH TRANSFER PROGRAM  | CH          |                   | 150        |
|        | SURVEY OF CURRENT RESEARCH INFORMATION SYSTEM  | AT          |                   | 100        |
|        | IMPLEMENTATION OF THE 2002 FARM BILL   | HQ          | AT CH HY KC SF TE | 180        |

| AGENCY | TITLE   | LEAD REGION | ASSIST REGIONS    | STAFF DAYS |
|--------|---|-------------|-------------------|------------|
|        | ALLOCATION AND USE OF HOMELAND SECURITY FUNDS   | AT          | CH FM HY          | 500        |
|        | FOLLOWUP REVIEW OF THE SECURITY OVER BIOLOGICAL AGENTS AT USDA LABORATORIES                       | AT          | CH HY KC SF TE    | 650        |
|        | CONTROLS OVER CHEMICALS AND RADIOACTIVE MATERIALS AT USDA FACILITIES                              | AT          |                   | 50         |
|        | CONTROLS OVER BIOLOGICAL AGENTS, CHEMICALS & RADIOACTIVE MATERIALS - USDA FUNDED RESEARCH         | AT          |                   | 100        |
|        | USDA'S COMPLIANCE WITH THE REQUIREMENTS OF THE FEDERAL ACTIVITIES INVENTORY REFORM ACT            | HQ          |                   | 200        |
|        | NATIONAL ORGANIC PROGRAM, AMS, FSIS   | AT          |                   | 150        |
|        | SURVEY OF USDA PROGRAMS IN PUERTO RICO AND VIRGIN ISLANDS   | AT          |                   | 350        |
|        | CONTROLS OVER ASSESSING ENVIRONMENTAL LIABILITIES   | AT          |                   | 100        |
|        | CONTROLS TO PREVENT LIVESTOCK INJECTED WITH HUMAN DISEASES FROM ENTERING THE NATION'S FOOD SUPPLY | AT          |                   | 50         |
|        | INTERNATIONAL FOOD AND TRADE PROGRAMS   | AT          |                   | 150        |
|        | EFFECTIVENESS OF QUALITY CONTROL SYSTEMS IN ASSESSING PRODUCER COMPLIANCE                         | KC          | AT CH HY SF TE    | 550        |
|        | USDA COMPLIANCE WITH IMPROPER PAYMENTS REPORTING REQUIREMENTS                                     | CH          |                   | 125        |
|        | ENVIRONMENTAL QUALITY INCENTIVES PROGRAM  | KC          |                   | 125        |
|        | IMPLEMENTATION OF AGRICULTURAL RISK PROTECTION ACT OF 2000  | KC          | AT CH HY SF TE    | 550        |
|        | BIOSECURITY GRANT FUNDING   | KC          |                   | 150        |
|        | MONITORING OF USDA IMPLEMENTATION OF COST ACCOUNTING SYSTEM                                       | FM          |                   | 50         |
|        | FY 2002 USDA FINANCIAL STATEMENTS   | FM          |                   | 400        |
|        | FY 2003 USDA FINANCIAL STATEMENTS   | FM          | AT CH HY KC SF TE | 1500       |
|        | CONTROLS OVER PLANT VARIETY PROTECTION AND GERMPLOASM STORAGE                                     | TE          |                   | 200        |
|        | FARM SECURITY AND RURAL INVESTMENT ACT OF 2002 IMPLEMENTATION                                     | KC          | AT CH HY SF TE    | 225        |
|        | ACTIVITIES TO RENEGOTIATE THE STANDARD REINSURANCE AGREEMENT                                      | KC          |                   | 100        |
|        | INFORMATION TECHNOLOGY RESOURCE LAB   | FM          |                   | 50         |
|        | CONTRACT AUDIT ADMINISTRATION   | HQ          |                   | 50         |
|        | SINGLE AUDIT MANAGEMENT   | KC          | AT CH HY SF TE    | 150        |
|        | DEVELOPMENTAL AUDITS  | ALL         |                   | 3670       |
|        | AUDIT FOLLOWUP  | ALL         | (EXCEPT FM)       | 510        |
|        | SPECIAL REQUESTS  | ALL         | (EXCEPT FM)       | 1395       |

| AGENCY | TITLE   | LEAD REGION | ASSIST REGIONS       | STAFF DAYS |
|--------|---|-------------|----------------------|------------|
|        | CAPTAIN/LAN/ARGOS MAINTENANCE   | ALL         | (EXCEPT AT HY KC TE) | 425        |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL         |                      | 7421       |
|        | SUBTOTAL 23876  |             |                      |            |
| NRCS   | CONSERVATION SECURITY PROGRAM –<br>HIGHLY ERODIBLE LAND                                   | KC          |                      | 250        |
|        | SURVEY OF NRCS CONTROLS OVER CENTERS<br>AND INSTITUTES                                    | TE          |                      | 200        |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL         |                      | 203        |
|        | SUBTOTAL 653  |             |                      |            |
| OCFO   | FY 2002 AGREED UPON PROCEDURES:<br>RETIREMENT, HEALTH AND LIFE<br>INSURANCE AND HEADCOUNT | FM          |                      | 40         |
|        | REVIEW OF PUBLIC KEY INFRASTRUCTURE AT<br>OCFO/NFC  | FM          |                      | 50         |
|        | FY 2002 USDA WORKING CAPITAL FUND<br>FINANCIAL STATEMENTS                                 | FM          |                      | 50         |
|        | FY 2002 NFC INTERNAL CONTROL STRUCTURE<br>REVIEW  | FM          |                      | 25         |
|        | FY 2003 NFC INTERNAL CONTROL STRUCTURE<br>REVIEW  | FM          |                      | 750        |
|        | REVIEW OF UNSUPPORTED AND IMPROPER<br>PAYMENTS AT OCFO/NFC                                | FM          |                      | 150        |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL         |                      | 480        |
|        | SUBTOTAL 1545   |             |                      |            |
| RBS    | BUSINESS & INDUSTRY LOANS - LIQUIDATIONS  | SF          |                      | 100        |
|        | RURAL DEVELOPMENT - BUSINESS & INDUSTRY<br>LOANS  | AT          |                      | 25         |
|        | RBS VALUE ADDED AGRICULTURAL PRODUCT<br>MARKET DEVELOPMENT GRANTS (VADG)                  | KC          |                      | 100        |
|        | RURAL DEVELOPMENT, BUSINESS AND<br>INDUSTRY GUARANTEED LOAN PROGRAM,<br>NON-TRADITIONAL   | AT          |                      | 75         |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL         |                      | 135        |
|        | SUBTOTAL 435  |             |                      |            |
| RD     | VERIFICATION OF RD'S DEBTS EXCLUDED<br>FROM TREASURY COLLECTION                           | FM          |                      | 50         |
|        | DELTA REGIONAL AUTHORITY  | AT          |                      | 50         |
|        | NORTHERN GREAT PLAINS REGIONAL<br>AUTHORITY   | KC          |                      | 50         |
|        | RD FY 2002 FINANCIAL STATEMENTS   | FM          | CH                   | 900        |

| AGENCY | TITLE   | LEAD<br>REGION | ASSIST<br>REGIONS | STAFF<br>DAYS |
|--------|---|----------------|-------------------|---------------|
|        | RD FY 2003 FINANCIAL STATEMENTS   | FM             | AT CH HY KC SF TE | 1310          |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL            |                   | 1064          |
|        | SUBTOTAL 3424   |                |                   |               |
| RHS    | RURAL DEVELOPMENT'S ESCROW PROCESS FOR<br>SINGLE FAMILY HOUSING BORROWERS     | CH             |                   | 150           |
|        | CENTRALIZED SERVICING CENTER SERVICING<br>ACTIONS                             | CH             |                   | 150           |
|        | APPRAISALS OF B&I LOAN COLLATERAL   | AT             |                   | 75            |
|        | RENTAL ASSISTANCE PAID TO RRH PROJECTS IN<br>FLORIDA                          | AT             |                   | 50            |
|        | RECAPTURE OF RHS SINGLE FAMILY HOUSING<br>SUBSIDIES                           | SF             |                   | 150           |
|        | SINGLE FAMILY HOUSING PROGRAM - MAINE   | HY             |                   | 100           |
|        | RURAL RENTAL HOUSING PROJECT<br>REHABILITATION                                | KC             |                   | 50            |
|        | ROLLUP OF RRH PROGRAM - OVERSIGHT OF<br>INSURANCE EXPENSES AND COVERAGES      | KC             |                   | 25            |
|        | RURAL RENTAL HOUSING PROJECT<br>MANAGEMENT                                    | CH             |                   | 150           |
|        | RURAL RENTAL HOUSING CONSTRUCTION<br>COSTS                                    | CH             |                   | 100           |
|        | SINGLE FAMILY HOUSING REPAIR DIRECT<br>LOAN/GRANT - ELIGIBILITY DETERMINATION | CH             |                   | 150           |
|        | AUDIT MANAGEMENT AND LIAISON  | ALL            |                   | 519           |
|        | SUBTOTAL 1669   |                |                   |               |
| RMA    | FCIC/RMA'S CORPORATE ACCOUNTING SYSTEM<br>CONTROLS                            | KC             |                   | 200           |
|        | PILOT PROGRAMS  | TE             |                   | 200           |
|        | RMA OPTIONAL UNITS  | SF             |                   | 300           |
|        | MANAGEMENT OF RMA'S ESTABLISHED YIELDS  | KC             |                   | 250           |
|        | NURSERY CROP INSURANCE PROGRAMS   | AT             |                   | 150           |
|        | RMA - SALES AGENTS CHANGING INSURANCE<br>COMPANIES                            | AT             |                   | 75            |
|        | RMA-COTTON PREMIUM RATES  | AT             |                   | 75            |
|        | CROP INSURANCE FOR SWEET POTATOES   | AT             |                   | 100           |
|        | RMA - LOSS ADJUSTMENT EXPENSE PAYMENTS  | AT             |                   | 75            |
|        | INSURANCE COMPANIES' CATASTROPHIC RISK<br>PROTECTION (CAT)                    | AT             |                   | 100           |
|        | FCIC CIGAR TOBACCO INDEMNITY LOSSES   | HY             |                   | 60            |
|        | FY 2002 FCIC FINANCIAL STATEMENTS   | FM             |                   | 40            |
|        | FY 2003 FCIC FINANCIAL STATEMENTS   | FM             |                   | 60            |
|        | DATA ACCEPTANCE SYSTEM PROCESSING<br>CONTROLS                                 | KC             |                   | 50            |

| AGENCY                   | TITLE  | LEAD<br>REGION | ASSIST<br>REGIONS | STAFF<br>DAYS |
|--------------------------|--|----------------|-------------------|---------------|
|                          | RMA COMPLIANCE WITH GPRA AND FMFIA<br>REQUIREMENTS   | KC             |                   | 150           |
|                          | AUDIT MANAGEMENT AND LIAISON   | ALL            |                   | 850           |
|                          | SUBTOTAL 2735  |                |                   |               |
| RUS                      | RUS ELECTRIC PROGRAM POWER GENERATION<br>LOAN SECURITY, IDENTITY OF INTERESTS<br>AND PEAK ENERGY DEMAND INITIATIVE | KC             |                   | 150           |
|                          | FY 2002 RTB FINANCIAL STATEMENTS   | FM             |                   | 40            |
|                          | FY 2003 RTB FINANCIAL STATEMENTS   | FM             |                   | 60            |
|                          | AUDIT MANAGEMENT AND LIAISON   | ALL            |                   | 113           |
|                          | SUBTOTAL 363   |                |                   |               |
| <b>GRAND TOTAL 58800</b> |  |                |                   |               |