



United States Department of Agriculture
Office of Inspector General





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



DATE: March 12, 2012

AUDIT
NUMBER: 01099-0032-Hy

TO: David Shipman
Acting Administrator
Agricultural Marketing Service

ATTN: Frank Woods
Internal Controls and Audits Branch Chief
Agricultural Marketing Service

FROM: Gil H. Harden
Assistant Inspector General
for Audit

SUBJECT: Oversight of Federally Authorized Research and Promotion Board Activities

This report presents the results of the subject audit. Your written response to the official draft report, dated January 13, 2012, is included in its entirety at the end of the report. Excerpts of your response and the Office of Inspector General's position are incorporated into the relevant sections of the report.

Based on your response, we accept management decision on all of the report's recommendations. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer. Also, Departmental Regulation 1720-1 requires that Final Action be taken within 1 year of management decision to prevent being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Oversight of Federally Authorized Research & Promotion Board Activities (01099-0032-HY)

Executive Summary

The Office of Inspector General conducted work beginning in 2009 that identified concerns about the possibility of weak oversight controls over the research and promotion boards.¹ At that time, AMS' former Administrator requested that we thoroughly assess the agency's oversight activities. Consequently, we initiated this audit of the Agricultural Marketing Service (AMS), the Federal agency responsible for overseeing the activities of the various research and promotion boards (boards) that administer checkoff funds.² Our objective was to evaluate AMS' oversight of the various boards. Thus, we focused our review on the internal controls AMS established to oversee the boards' activities. We did not test boards' activities. We concluded that AMS could strengthen internal controls related to its oversight of board activities.

Agricultural growers, handlers, producers, importers, and others in the marketing chain (stakeholders) join together and pool resources to advance the demand for their commodities through generic marketing and research. Because these commodities are homogenous, promoting the commodity as a whole can be more effective than promoting individual brand names. Together, these stakeholders have successfully promoted such domestic slogans as "Got Milk?," "Beef. It's What's for Dinner" and "Pork. The Other White Meat" to domestic consumers.³ These marketing promotions are directed by 18 different boards. They are funded by checkoff dollars, which stakeholders pay through regular business activities. In 2009, stakeholders paid approximately \$528 million in assessment fees to the boards. AMS oversees the boards' operations including: board membership appointments, approval of budgets, financial activities, contracts, and promotional activities.

We analyzed AMS' guidance, processes, and policies, and determined that the agency needs to improve its governance over the boards.⁴ Specifically, it needed to improve the guidelines describing AMS' oversight policies and procedures as they lacked information that would facilitate oversight. Prior to November 2010, AMS had not provided sufficient clarity about the various roles and responsibilities it had in overseeing checkoff funds.⁵ In addition, AMS did not always ensure that boards provided critical information needed to accurately assess their activities. The revised guidelines released in November 2010, clarified the Agency's oversight role by reinforcing its management reviews of Boards and strengthening policies on various administrative functions, among other improvements. AMS could further improve its processes by developing standard operating procedures to ensure consistency in staff oversight

¹ An Investigative Report was issued in July, 2010.

² Checkoff funds are assessments collected by a research and promotion board from producers, growers, importers, and handlers to promote and conduct research of an agricultural commodity.

³ These stakeholders also support campaigns for the various commodities in foreign countries.

⁴ Governance is defined as the mechanism an organization uses to ensure that established processes and policies are followed.

⁵ In November 2010, AMS revised its guidance to specify the agency's role for most of the areas listed in the guidance.

responsibilities. Furthermore, we concluded that AMS needs to improve its monitoring of the five program areas that oversee the various boards' activities.⁶ These improvements will help AMS detect or prevent potential fraud, waste, and abuse of checkoff funds.

Recommendations in Brief

AMS needs to develop and implement standard operating procedures and provide instructions to its staff members responsible for conducting board oversight. Lastly, AMS needs to develop and implement periodic internal reviews of the agency's program areas that oversee the boards in order to ensure they are complying with regulatory and legislative requirements.

Agency Response

In its response dated January 13, 2012, AMS agreed with all of the findings and recommendations in the report. We have incorporated excerpts of the response, along with our position, in the applicable sections of this report. AMS' response to the official draft report is included in its entirety at the end of this report.

OIG Position

Based on AMS' response, we have accepted management decision on all the recommendations in this report.

⁶ Fruit and Vegetable, Poultry, Dairy, Livestock and Seed, and Cotton and Tobacco.

Background and Objectives

Background

Producers, handlers, growers, importers, and others in the marketing chain (stakeholders) of agricultural commodities have created 18 different research and promotion boards (boards). The individuals on the boards are nominated by its members and appointed by the Secretary of Agriculture. The purpose of the boards is to strengthen a commodity's position in the marketplace through promotion, research and information programs. They work to increase overall demand for the commodity and expand markets in the United States and abroad. They also seek to expand the agricultural product's uses through research. Domestic marketing campaigns such as: "Got Milk?," "Beef. It's What's for Dinner," and "Pork. The Other White Meat," are examples of promotion activities initiated by such boards.⁷

The first agricultural commodity board was created in 1966, following authorization by Congress.⁸ Over the next four decades, Congress enacted laws authorizing the creation of another 11 commodity boards.⁹ In 1996, Congress granted the Department of Agriculture authority to establish the creation of commodity boards and provided generic legislation for these activities.¹⁰ Based on this legislation, the Secretary of Agriculture created six additional boards.¹¹ Commodity groups have the option to request individual authorizations from Congress establishing a board if they prefer not to use the generic legislation provided by the 1996 Act.

The boards collect assessments, termed checkoff funds, from stakeholders as a result of financial transactions involving applicable commodities.¹² The assessments are pooled into funds that support the research and promotion of a given commodity. Executive boards within each research and promotion board are responsible for administering the funds. In 2009, the boards collected approximately \$528 million in assessments from stakeholders.

The Secretary of Agriculture has delegated authority to oversee and monitor the various boards' domestic activities to the Agricultural Marketing Service (AMS). The Foreign Agricultural Service is responsible for oversight of international activities. AMS provides governance for the

⁷ These stakeholders also support campaigns for the various commodities in foreign countries.

⁸ Cotton Research and Promotion Act of 1966.

⁹ Eleven boards were created under the following Acts: Potato Research and Promotion Act of 1974; Egg Research and Consumer Information Act of 1974; Dairy Production Stabilization Act of 1983; Beef Promotion and Research Act of 1985; Pork Promotion, Research, and Consumer Information Act of 1985; Watermelon Research and Promotion Act of 1985; Fluid Milk Promotion Act of 1990; Mushroom Promotion, Research, and Consumer Information Act of 1990; Soybean Promotion, Research, and Consumer Information Act of 1990; Popcorn Promotion, Research and Consumer Information Act of 1996; and Hass Avocado Promotion, Research and Information Act of 2000.

¹⁰ Title V of the Federal Agricultural Improvement and Reform Act of 1996.

¹¹ Boards were created for the following commodities under the Commodity Promotion, Research and Information Act of 1996: blueberry, honey packers and importers, lamb, mangos, peanuts, and sorghum.

¹² Funds are collected from foreign importers during the importation of applicable commodities.

18 research and promotion boards.¹³ Specifically, AMS apportions the oversight into five program areas. These program areas are represented in a functional committee and are:¹⁴

- Fruit and Vegetable;
- Poultry;
- Dairy;
- Livestock and Seed; and
- Cotton and Tobacco.

AMS' primary oversight objective is to ensure that boards use checkoff funds in accordance with legislative and regulatory requirements. Agency officials in the five program areas are responsible for overseeing the boards' operations, which means that they do not make executive decisions, but ensure boards' decisions and operations are in accordance with applicable legislation. For instance, AMS is responsible for approving board budgets (including amendments and the shifting of funds); reviewing administrative expenses; and reviewing and approving contracts and promotional activities. In addition, AMS reviews the annual financial audits performed by Certified Public Accountants and monitors boards' referendum activities.

We initiated this audit after the Office of Inspector General (OIG) conducted an investigative review of several allegations regarding activities within the United Soybean Board (USB) and the United States Soybean Export Council. The investigative report, issued in July 2010, stated that there was insufficient evidence to support the allegations made by the complainant. However, agents working on the investigation were concerned that the allegations were in areas overseen directly by AMS, but had not been detected by agency officials. During the planning stage of the audit, AMS' former Administrator requested that we thoroughly assess the agency's oversight activities.

Objective

Our overall objective was to evaluate AMS' oversight of Federally authorized boards. Specifically, we evaluated the agency's internal controls designed to ensure that boards comply with all applicable legislation.

¹³ Governance is defined as the mechanism an organization uses to ensure that established processes and policies are followed.

¹⁴ AMS created a functional committee to standardize the activities performed by the agency's individual program areas and to address issues common to all boards.

Findings and Recommendations

Finding 1: AMS Needs to Improve Oversight of Research and Promotion Board Operations

We concluded that AMS' oversight controls need to be improved to prevent or detect the misuse of board checkoff funds. Specifically, AMS' oversight policies were unclear regarding the agency's roles and responsibilities and the specific oversight procedures AMS staff must perform. In addition, staff did not always enforce the agency's guidelines. As a result, AMS' staff misinterpreted and inconsistently applied those policies when overseeing the activities and operations of the various boards. This condition increases the risk that funds could be misused by boards.

Congress authorized the establishment of the 18 boards to strengthen the position of agricultural commodity industries in the marketplace. These boards are responsible for using funds collected from stakeholders to develop, finance, and carry out promotion, research, and information activities relating to the agricultural commodity.¹⁵ AMS is responsible for overseeing the implementation, administration, and operation of these boards.¹⁶ Some critical responsibilities include ensuring that boards and their employees do not: (1) engage in actions that would be a conflict of interest; (2) use checkoff funds to influence any legislation or governmental action; and (3) promote any false or misleading advertisements or advertisements that disparage another agricultural commodity.¹⁷

A recent OIG investigative review reported that a subcontractor of the USB, the United States Soybean Export Council, used subcontracts as a mechanism for paying employees unauthorized bonuses totaling approximately \$302,000.¹⁸ The Council's executives did not obtain authorization from the USB to pay the bonuses. The Council requested funds, but did not specify the purpose or use of the funds. The USB became aware of the bonuses when the Council made another request for funds at yearend, due to its poor financial situation. An independent review of checkoff funds at another board uncovered charges for unallowable travel expenses as well as unsupported charges. AMS officials stated these charges were misallocated and later refunded to the checkoff board. However, these incidents contributed to our concern that AMS' oversight controls were not adequate to prevent or detect the potential misuse of funds.

AMS developed guidance in the early 1990s to assist its staff in overseeing the activities of the various boards. It also developed and provided guidance to the boards on the proper methods to allocate funds to programs in a manner that complied with legislative authority.¹⁹ The guidance was compiled into one document and used by industry officials as direction for proper use of checkoff funds, and by agency officials as the baseline requirement for monitoring the activities of the

¹⁵ Commodity Promotion, Research and Information Act of 1996, Sections 512 (b), 515(c)(6), and 517.

¹⁶ Commodity Promotion, Research, and Information Act of 1996, Section 515 (e)(2)(B), Sec 525.

¹⁷ Commodity Promotion, Research and Information Act of 1996, Section 515(d).

¹⁸ Letter issued to Senator Charles E. Grassley, July 23, 2010.

¹⁹ The guidance title was "Guidelines for AMS Oversight of Commodity Research and Promotion Programs" (the Guidelines).

boards. The guidance was the only formal document the agency had in place to oversee the boards.²⁰

The guidance that AMS used prior to 2009 did not define the agency's role and responsibilities for each section listed in the document. The Guidelines also did not provide clear instruction on how to monitor board activities, or standard operating procedures to use during reviews of board activities. In short, the Guidelines were too general, which resulted in the inconsistent application of agency policy by its program staff overseeing the activities of the various boards. Consequently, AMS did not always provide adequate oversight of board activities, particularly when it came to enforcing regulatory requirements.

After discussions with OIG, AMS revised its guidance in November 2010. The revisions provided a clear delineation of the agency's role for most of the oversight areas listed in the guidance. The steps taken by AMS officials were a significant improvement from the prior version of the agency's guidance. The revisions increased consistency with respect to the lines of authority for AMS approval of budgets and the procedures for issuing contracts used by the boards; reinforced AMS' management reviews of boards with more consistent processes as well as requirements for recordkeeping; strengthened AMS policy on various administrative activities such as investment of funds, board bylaws, policy statements, and annual reports; and clarified requirements for approving various types of expenditures by the boards. The following subsections describe how AMS could further improve its oversight of research and promotion boards.

Roles and Responsibilities Not Documented

AMS did not clearly state its numerous roles in overseeing board activities. While the Guidelines adequately describe the boards' responsibilities, they did not describe the agency's role in eight sections of the document.²¹

Two of AMS' roles not adequately defined are its responsibilities to prevent checkoff funds from being used for lobbying activities and its responsibilities to monitor subcontracts awarded by the various boards.

The legislation for all of the boards explicitly prohibits influencing legislation and/or government policy. Thus, it is important that AMS define its role in preventing the use of checkoff funds for lobbying activities. Current AMS guidelines, for the boards, merely define lobbying and explain prohibited activities.

AMS officials stated that they attend board meetings, and review board documents, to identify any potential attempt to influence legislation and government policy. They also review the boards' contracts to ensure that they include a non-influencing clause.

²⁰ AMS uses authorizing legislation and associated orders (regulations) to determine how each individual board should function.

²¹ The following areas lacked clearly defined statements of AMS' role and responsibilities: Refund Requirements, Independent Evaluation, Influencing Legislation and/or Government Policy, Policy on Brand Names, Board Administrative Expenses, Prohibited Expenditures, Debt Management, and Unemployment Practices.

However, they acknowledged that their role as overseers of these activities was not explicitly stated in the agency guidelines. Moreover, AMS officials agreed these procedures were not described in any formal agency document.

We also concluded that AMS did not recognize in the Guidelines that its oversight role extends to monitoring subcontracts.²² Boards often enter into subcontract agreements in order to carry out their regular activities, therefore, the activities of subcontractors should be reviewed with equal scrutiny since they perform some board functions. Although AMS officials stated that they review some of these transactions when they conduct management reviews, the Guidelines did not formally state this responsibility. It is important for AMS to formally recognize this role to prevent problems involving subcontracts.²³

AMS revised its guidance on November 4, 2010, to address the concerns OIG brought to its attention. Our review of the revisions disclosed that the agency specified its role for each section.

Oversight Procedures Were Unclear

The Guidelines did not provide adequate information about standard operating procedures to be used by staff in performing oversight reviews of board activities. We concluded that the Guidelines did not explain how to perform 32 of 35 oversight procedures; for example, management reviews. Further, the agency did not have an alternate document, such as a manual or standard operating procedures, for its staff to use to perform reviews.²⁴

Because agency management did not provide specific instructions about the procedures, staff members in each of the five AMS program areas interpreted the Guidelines differently and, in some instances, developed internal policies according to their interpretation. In some instances, there were as many as five different interpretations of the same guidelines. We did not test any board activities. Thus, we did not determine the effectiveness of the undocumented process.

One of the key procedures with inadequate instructions pertains to management reviews, a monitoring requirement that is critical to AMS oversight of board operations. AMS program area staff performs management reviews to confirm that boards adhere to required policies and maintain adequate records of their operations.²⁵

²² A subcontract is created when a contractor of a board enters into a legal agreement with a third party for specific goods or services for the purpose of fulfilling the original contract with the board.

²³ In addition, AMS needs to evaluate the risk of subcontracting activities for each board to determine the depth of review needed of these activities.

²⁴ The 2004 version of the Guidelines did not provide instructions in 18 out of the 21 sections it contained.

²⁵ Management reviews include assessments of the following board activities: travel expenses and reimbursements, financial management and accounting, and compliance with prohibitions involving influencing government policy or action.

The Guidelines in effect during the period of our audit stated that AMS conducts periodic management reviews of the boards' operations, but the document did not define how frequently AMS staff must conduct these reviews. As a consequence, each of the five program areas established review schedules according to its interpretations of the Guidelines. The Fruit and Vegetable program area defined "periodic" as every three years, while the Poultry program area defined it as every five years. The Livestock and Seed program area, by contrast, had a policy to conduct a management review when a complaint or concern arose.²⁶

We found that the Livestock and Seed program area had not conducted a management review of any of its boards in at least five years.²⁷ Program area officials said that they had not received a complaint or had any concerns during that time period. If the Livestock and Seed program area officials had conducted management reviews at standard intervals, there is a reasonable likelihood that they would have identified discrepancies similar to those found during reviews by external parties.

AMS' revision of the Guidelines in November 2010 required that management reviews be conducted every three years. We agree with the revision. AMS also needs to provide its staff with guidance on how to document and report any findings that result from management reviews. We found that the five program area officials took different approaches to documenting and reporting the results of their management reviews. For example, one program area listed only negative findings while another program area produced a report that discussed the work performed along with the issues noted during the review.

Correspondingly, the five program areas have developed different management review follow-up procedures. For example, when it comes to compelling responses and corrective actions from the various boards, there is little consistency across agency program areas. Some program areas required the various boards to submit a written response of corrective action taken while others merely accepted a verbal confirmation (via telephone or while attending a meeting) that the board had addressed the issue. In addition, we concluded that the program areas did not have a clear understanding about how to best document and report the results of management review work to the boards. We based this conclusion on interviews with the staff and examination of the management reports. To strengthen the agency's controls, the program areas should obtain written confirmation from the boards about how they intend to address issues identified during a management review.²⁸

²⁶ The program area interpreted the Guidelines to mean, "conduct a review when a complaint or issue arises." Officials in this program area stated that they felt their daily monitoring of contracts, budget documents, and promotional material, among other monitoring procedures, was sufficient oversight of the board.

²⁷ We did not find records of any review conducted by the Livestock and Seed program before our audit was started in 2009. However, in 2009, the Livestock and Seed program area conducted its last review of the Indiana Soybean Alliance.

²⁸ AMS guidance issued on November 4, 2010, requires agency program areas to issue a written report and obtain a written response from each board.

Since AMS distributes the Guidelines to the various boards, it may not be the best document for providing specific review procedures to its staff. We recommend that AMS develop an internal document, such as a standard operating procedures manual, for this purpose. AMS did share with us an internal document entitled “Research and Promotion Programs Management Review Guidelines” that it created for its staff to follow when conducting management reviews. We found this document to be inadequate because, although it listed the areas staff should review, it did not explain what should be included in reports to the various boards and how the boards were to report their corrective action plans. AMS could expand this document to provide its staff with the proper steps to take when conducting management reviews, including how to plan, conduct, and report the results of the review, and how to follow-up to ensure that corrective actions were taken by the boards.

Program Areas Did Not Consistently Enforce Agency Guidelines

AMS program area staff did not always require the various boards to comply with agency guidelines. For example, AMS program area staff did not receive detailed information about boards’ administrative expenses.²⁹ AMS needs this information in order to verify that boards are operating in compliance with regulations and legislation. Although the agency’s Guidelines state that boards should provide a detailed breakdown of administrative expenses, program area staff allowed boards, especially those without an administrative expense threshold, to submit inadequate information about administrative expenses. We found program area staff accepted budgets, in 12 of 18 instances, even though the boards provided only a lump sum amount or provided limited breakdowns of administrative expenses. Thus, program area staff did not have enough information to determine that the administrative expenses incurred by these boards were in compliance with the legislation requirements.

When we discussed this issue with program area officials, they stated that one focus when reviewing board financial reports was on the total administrative expenses and a comparison to the total amount listed in the boards’ budgets. Our conclusion is that this method does not achieve an appropriate level of scrutiny over the administrative expense category and does not satisfy the requirement stated in the agency’s Guidelines. Not enforcing its own guidelines can prevent AMS from identifying questionable expenses hidden within the administrative expense category.

Further, AMS did not ensure that independent auditor reports included required statements of assurance on board compliance with specific regulatory and legislative requirements. AMS requires that the independent audit reports include statements of assurance about whether or not:

- Checkoff funds were used for lobbying;
- The board adhered to AMS’ investment policy;
- Internal controls over checkoff fund accounts met accounting standards; and

²⁹ The underlying statutes for most boards place limitations on administrative expenses.

- Checkoff funds were used only for projects and other expenses authorized in a budget approved by USDA.

Our analysis of the 18 boards' independent audit reports disclosed that none included the required statements. AMS officials did not ensure that the independent audit reports included these statements. When we discussed our concern with AMS officials, they stated that the independent auditors were addressing agency guidelines because their reports included a general statement that the boards were in "compliance with laws and regulations." We met with the independent auditors, who performed the audit engagement for the largest board, to determine what the "compliance with laws and regulations" encompassed. AMS staff stated that this statement demonstrated that the board had complied with the administrative expense ratio required by regulations. The independent auditor stated they had not listed the four required assurances in their report because the board had not asked them to perform such work. They also informed us that only minimal adjustments would be needed to their current audit procedures to provide the four assurances. Although obtaining these four assurances does not guarantee the absence of waste, fraud, and mismanagement in board activities, we believe that it helps AMS to better manage the risk associated with these areas.³⁰

We found that AMS had not designed and implemented an internal control structure which provided adequate supervision of its program area staff to ensure the programs followed and enforced the agency's guidelines. In addition, AMS had not been monitoring the effectiveness of management controls associated with its programs. Management controls are critical to ensuring the independent assessment of agency policies. For example, as discussed earlier, program area staff had approved boards' budgets even though they did not provide detailed board administrative expenses. Moreover, each agency program area was conducting different management reviews at different intervals.

We questioned agency officials about internal reviews of its program areas to ensure they were providing adequate oversight of the various boards. The officials stated that they were unable to conduct this type of review because their Planning and Accountability Division had only two employees. They added that the division's limited resources could not extend to a consistent internal review process because of other priorities, such as completing the agency's financial control testing. The division's role was to provide support for research management, internal control audits, and financial audits. They stated that the division conducts internal reviews of program area staff only at the request of the Deputy Administrator. Moreover, the officials stated that this program was considered low risk because it did not involve Federal funding and the boards had other controls in place, such as annual financial audits, to ensure boards were meeting the guidance. We concluded that establishing controls for the boards to follow does not provide assurance to AMS that its own staff enforces such controls, as discussed earlier.

We recognize the Planning and Accountability Division's staff limitations. However, it is critical that the agency review the activities of its program areas. AMS needs to use other resources within its organization that have the knowledge and ability to perform internal reviews.

³⁰ AMS guidance issued on November 2010, states that AMS staff will review the board's letter of engagement with the auditors and participate in entrance and exit conferences as well as in the resolution of findings.

AMS could identify alternative methods for ensuring program areas are complying with agency policies by creating an internal peer review process that involves cross-checking among program areas.

When we discussed our findings with AMS management, they agreed that completing internal reviews of its program areas would be beneficial for the agency. Such internal reviews would ensure the agency is meeting its responsibilities, including oversight of the boards' operations. They also agreed that program areas would enforce the guidelines more consistently and conduct better oversight if an external party was reviewing their work. Moreover, regular monitoring and testing of its program area allows AMS to further strengthen policies and procedures.

Recommendation 1

Develop and implement standard operating procedures that provide detailed instructions for performing oversight activities and obtain the information needed to assess board activities. The document should address all areas listed in the agency's Guidelines.

Agency Response

AMS concurs with the recommendation. AMS agreed that standard operating procedures would be helpful to ensure appropriate oversight is applied consistently across programs, and formed a task force to prepare such guidance. This action will be completed by March 31, 2012.

OIG Position

We accept management decision on this recommendation.

Recommendation 2

Develop and implement guidance to conduct periodic internal reviews of program area operations to ensure the enforcement of AMS Guidelines.

Agency Response

AMS concurs with the recommendation. AMS will prepare a guidance document that addresses periodic management reviews, which ensures that independent internal reviews are conducted. This action will be completed by June 30, 2012.

OIG Position

We accept management decision on this recommendation.

Scope and Methodology

We performed our fieldwork from March 2010 through July 2011 at AMS' research and promotion program offices in Washington, D.C. The period of our review was fiscal years 2006 through 2009. We reviewed the boards' oversight performed by AMS' five program areas. AMS is responsible for overseeing the activities of 18 boards to ensure compliance with authorizing legislation. The Fruit and Vegetable program area oversees the blueberry, Hass avocado, honey packers and importers, mushroom, mango, popcorn, potato, peanuts, and watermelon boards. The Livestock and Seed program area oversees the beef, pork, soybean, lamb, and sorghum boards. The Dairy program area oversees the fluid milk and dairy boards. The Cotton and Tobacco program area oversees the cotton board. The Poultry program area oversees the egg board.

To accomplish our audit objectives we:

- Reviewed pertinent Federal research and promotion laws and regulations as well as AMS' "Guidelines for Oversight of Research and Promotion Programs" to gain familiarity with the current requirements, scope, and AMS process for overseeing boards.
- Interviewed AMS program area officials to gain an understanding for their roles and responsibilities regarding the oversight process of boards.
- Reviewed supplemental guidelines provided to boards and approved by AMS to determine if the documents were in compliance with AMS' oversight guidelines.
- Reviewed and analyzed board budgets, independent auditor reports, management reviews, and other documents to ensure compliance with the Federal research and promotion laws, Code of Federal Regulations and AMS Guidelines for Oversight of the Research and Promotion Programs.
- Interviewed AMS Compliance and Analysis officials, including the Planning and Accountability Division, to gain an understanding of their roles and responsibilities regarding the oversight process for boards.

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

During the course of our audit we did not verify information in any AMS electronic information system, and make no representation regarding the adequacy of any agency computer systems or the information generated from them.

Abbreviations

AMS.....	Agricultural Marketing Service
Boards.....	Research and Promotion Boards
Guidelines.....	“Guidelines for AMS Oversight of Research and Promotion Boards”
OIG.....	Office of Inspector General
USB.....	United Soybean Board

**USDA'S
ACTING ADMINISTRATOR FOR
AGRICULTURAL MARKETING SERVICE
RESPONSE TO AUDIT REPORT**



1400 Independence Avenue, SW.
Room 3071-S, STOP 0201
Washington, DC 20250-0201

DATE: January 13, 2012

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

FROM: David Shipman /s/
Acting Administrator

SUBJECT: AMS' Response to OIG Audit #01099-32-Hy: "AMS' Oversight of Federally
Authorized Research & Promotion Board Activities

We have reviewed the subject audit report and agree with the recommendations. Our detailed response, including actions to be taken to address the recommendations, is attached.

If you have any questions or need further information, please contact Frank Woods, Internal Controls and Audits Branch Chief, at 202-720-8836.

Attachment

Agency Response to OIG report: “AMS’ Oversight of Federally Authorized Research and Promotion Board activities” (Report #01099-0032-HY) January 5, 2012

AMS appreciates the efforts of OIG and we agree with the recommendations made in the subject report. We are confident that our oversight responsibilities will be enhanced as a result of this review and we are aggressively moving forward to address the two recommendations made.

OIG Recommendation #1:

Develop and implement standard operating procedures that provide detailed instructions for performing oversight activities and obtain the information needed to assess board activities. The document should address all areas listed in the agency’s Guidelines.

AMS Response:

AMS agrees that standard operating procedures would be helpful to ensure appropriate oversight is applied consistently across programs, and a task force has been formed to prepare such guidance. We estimate having this documentation completed for internal review by senior management no later than February 1, 2012. We plan to have the documentation for OCFO’s review and concurrence by no later than March 31, 2012. AMS, however, reserves the right to prepare this documentation in consideration of the significant variety among these programs and their underlying governing legislation. A “one size fits all” approach cannot be expected to address all of the points in our Guidelines for Boards.

OIG Recommendation #2:

Develop and implement guidance to conduct periodic internal reviews of program area operations to ensure the enforcement of AMS Guidelines.

AMS Response:

AMS will prepare a guidance document that addresses periodic management reviews by June 30, 2012, which ensures that independent internal reviews are conducted.

Informational copies of this report have been distributed to:

Administrator, AMS, **Attn:** Agency Liaison Officer (2)

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer
Director, Planning & Accountability Division (1)

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