USDA Management Challenges

August 2018

OFFICE OF INSPECTOR GENERAL
OFFICE of INSPECTOR GENERAL

Our mission is to help ensure economy, efficiency, and integrity in USDA programs and operations through the successful execution of audits, investigations, and reviews.

STRATEGIC GOALS

1. Strengthen USDA’s ability to implement and improve safety and security measures to protect the public health, as well as agricultural and Departmental resources.

2. Reduce program vulnerabilities and strengthen program integrity in the delivery of program assistance.

3. Provide USDA with oversight to help it achieve results-oriented performance.
Message from the

INSPECTOR GENERAL

To help the United States Department of Agriculture (USDA) provide the best possible service to the American public and domestic agriculture, we must work together to recognize agency programs and core management functions that may be vulnerable to waste, fraud, abuse, and mismanagement. Such vulnerabilities could affect the ability of USDA to achieve its mission.\(^1\) Since the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) has annually reported on the Department’s progress in addressing its most critical management challenges.\(^2\) I have had the opportunity to issue these annual reports starting in 2002, with the goal of supporting USDA’s efforts to ensure the efficiency and effectiveness of its programs.

Since 2015, we have focused on seven major challenges for USDA and its specific programs. These challenges represent areas where USDA could improve its efforts to achieve overall excellence for the Department. Consistent with our prior year’s report, we have highlighted the Department’s progress towards addressing each challenge, referencing audit reports issued from June 2017 to May 2018, as well as audits discussed in the previous year. We also reviewed the Office of the Chief Financial Officer’s (OCFO) monthly report of open recommendations, as of June 14, 2018, to determine the status of relevant recommendations. We highlighted individual open and closed recommendations in the narrative of each challenge; these recommendations were selected for perceived relevance and potential impact to the challenge.\(^3\)

\(^3\) We consider recommendations “open” when final action has not been accepted by OCFO. Recommendations with no management decision (i.e., no agreement between the agency and OIG as to the actions to take regarding the recommendations and the timeframe for completing the actions) are considered “open” for the purpose of our analysis. In the case of closed recommendations, we have not verified the implementation of the Department’s corrective actions.
We recognize that the audit recommendations highlighted in this report represent only a small fraction of USDA’s progress as well as areas that still need attention. For example, as of March 31, 2018, OCFO reported 454 recommendations pending corrective action. As the Department strives to meet certain management challenges through corrective actions, USDA should continue its efforts to implement outstanding audit recommendations in order to protect the health of the American public, information technology (IT) security, financial management, and the integrity of its many programs.

In closing, we would like to express our sincere appreciation to the Secretary and the Deputy Secretary for their support of our mission and their steadfast commitment to excellence across USDA. We look forward to working with the Department and its agencies to further address these management challenges in the coming year.

If you have any questions or would like to discuss these management challenges, please contact me (202-720-8001). You or your staff may also contact Audit’s Assistant Inspector General, Gil H. Harden (202-720-6945), or Investigations’ Assistant Inspector General, Ann Coffey (202-720-7431).

Phyllis K. Fong

INSPECTOR GENERAL

cc: Subcabinet Officials,
Agency Administrators
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Challenge 1:

USDA Needs to Improve Oversight and Accountability for its Programs

Challenge for the Department

USDA, much like other agencies and departments throughout the Government, faces challenges in overseeing its many programs. USDA employs nearly 100,000 employees in 16 agencies and 19 staff offices; in total, these employees operate approximately 300 programs responsible for delivering about $143 billion in public services annually. Overseeing these programs to ensure that every dollar spent accomplishes its intended results for U.S. agriculture and the American public poses significant challenges for USDA program managers.
Background

USDA managers are responsible for establishing an effective internal control system, ensuring a culture of compliance with those controls, and holding employees accountable for implementing those controls. Managers use internal controls to ensure programs achieve intended results efficiently and effectively, and they provide for program integrity and proper stewardship of USDA’s resources. Ultimately, as the U.S. Government Accountability Office (GAO) states, “People are what make internal control work.” Since systemic control flaws can yield systemic program weaknesses, managers must continuously assess and improve their internal control systems. If management does not emphasize those controls, then Federal programs will not function as intended.

The Department’s Progress

The Department has made progress in improving oversight and accountability for its programs when OIG or other third parties, such as GAO, have identified deficiencies. One example of the Department’s progress relates to its assignment of a Departmental entity to oversee the planning and development of the standardized, data collection effort known as the Acreage Crop Reporting Streamlining Initiative (ACRSI). As we were reviewing the coordination and data-sharing efforts to assess compliance within related farm programs across the Farm Service Agency (FSA), the Risk Management Agency (RMA), and the Natural Resources Conservation Service (NRCS), we found that the participating agencies’ lack of adequate planning and coordination in their development of ACRSI resulted in an information management system that did not fully achieve its intended goals. The goals of ACRSI were to provide a streamlined data collection method and data repository to

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reduce the reporting burden on producers, and to share common farm program data across participating agencies. However, we found that the development efforts did not include: (1) adequate project management, (2) a schedule to track measures and milestones, and (3) OCIO’s involvement on a regular basis. Agencies concurred with our recommendation to assign oversight of ACRSI to a Department-level entity and to update the ACRSI charter to reflect this new role. This recommendation is now closed.6

Another example of the Department’s progress in improving oversight and accountability of its programs is through the development of controls regarding interagency transfers of appropriated funds. In 2014, OIG published an audit reviewing how USDA transfers funds between agencies, known as “green book” transfers. We found that USDA transferred appropriated funds improperly, and we questioned $43 million of those transfers.7 Agencies could not support whether they complied with Economy Act requirements or how funds were used for 11 of the Economy Act agreements we reviewed.8 OCFO officials agreed with our finding and stated that OCFO was working to build an online system to track its documents. This recommendation was recently resolved.

6 We consider recommendations “closed” when OCFO has determined that all agency actions are completed and has accepted final action.
7 Audit Report 50099-0001-23, USDA’s Controls Over Economy Act Transfers and Greenbook Program Charges, Sept. 2014.
Closed Recommendation

Implement a control mechanism for tracking all interagency agreements that transfer appropriated funds to USDA’s Departmental Management, including identifying the legal authority for the agreement (i.e., the Economy Act, USDA’s Greenbook authority, the Working Capital Fund authority).

What Remains to be Done

While the Department has made progress addressing this management challenge, OIG continues to identify the need for stronger oversight and accountability over USDA programs. For example, a 2017 review of the National Organic Program (NOP) disclosed that the Agricultural Marketing Service (AMS) needs to strengthen its controls over the approval and oversight of international trade arrangements and agreements for the import of organic products into the United States. In one finding, OIG concluded that AMS’ process for determining the equivalency of organic standards of foreign countries when compared to U.S. standards lacks transparency. NOP officials maintained documentation of the process to resolve differences between U.S. and foreign organic standards, but they did not have a methodology in place to disclose the results of that process to stakeholders.9

Open Recommendation

Prior to issuance of future U.S. equivalence determination letters, develop and implement a procedure to document and disclose the final resolution of all foreign country organic standards identified as having differences from USDA organic standards.

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Another opportunity for progress relates to the Summer Food Service Program (SFSP), which is administered by the Food and Nutrition Service (FNS). In a recent audit that examined FNS’ controls over SFSP to determine whether its controls were sufficient, OIG found several areas for improvement. One such area was its monitoring and oversight procedures; specifically, that the management evaluations—FNS’ primary monitoring control for ensuring SFSP integrity—lacked the necessary documentation to confirm whether they were completed correctly and contained valid conclusions.\(^\text{10}\)

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**Open Recommendation**

Modify the SFSP management evaluations (ME) review guidance to ensure MEs contain documentation to support reviewers’ assessments that the State agency did or did not comply with SFSP administration and oversight requirements. The ME documentation should be presented in sufficient detail to allow FNS managers not associated with the review and external parties, such as OIG, to verify that the ME review was properly conducted and that its results are valid.

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In addition to the newly identified areas for improvement, some recommendations from previous years unfortunately remain open. For example, in March 2017, OIG published an audit reviewing the Office of Homeland Security and Emergency Coordination’s (OHSEC) actions related to agroterrorism preparedness. We found that OHSEC had not adequately overseen and coordinated USDA’s efforts to prevent, detect, and respond to agroterrorism.\(^\text{11}\)

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Open Recommendation

Develop and implement a written process for how OHSEC oversees and coordinates USDA’s agroterrorism prevention, detection, and response activities. At a minimum, this process should include steps to: (a) perform a USDA-wide vulnerability assessment for agroterrorism preparedness every 2 years, and (b) integrate, coordinate, and communicate response plans for agricultural disease emergencies and agroterrorist acts.

Anticipated Future Work

- **Controls over Inspection of Exported Grain**
  The objective of this audit is to evaluate and test controls over the inspection and weighing process for exported grains.

- **USDA Agency Activities for Agroterrorism Prevention, Detection, and Response**
  Our objective is to determine if the agencies have developed plans and initiated actions to prevent, detect, and respond to agroterrorism threats or attacks.
Challenge 2:

Information Technology Security Needs Continuous Improvement

Challenge for the Department

As technology advances, so do the threats to IT security. While USDA has taken actions to improve its IT security, the Department continues to display weaknesses in planning, managing, and overseeing its cybersecurity initiatives. This, in turn, affects USDA’s compliance with standards for safeguarding IT systems, as directed in the Federal Information Security Modernization Act of 2014 (FISMA). USDA senior management needs to ensure that agencies and offices understand that their individual IT security posture directly affects the degree to which USDA complies with

FISMA and other security guidance. For USDA to attain a sustainable and secure IT posture, all 35 of its agencies and offices must consistently implement Departmental policy based on a standard methodology. When every agency and office complies with USDA’s policies, USDA as a whole will be compliant with FISMA and, more importantly, have a sustainable security posture.

Background

USDA must efficiently manage vast amounts of data to accomplish its mission of providing benefits and services to the American public. Critical information stored in USDA IT systems includes agriculture statistics that drive domestic and global markets or data from inspection systems that ensure food safety. USDA employees must be able to access, use, and communicate this information reliably and timely. Members of the public apply for and access many USDA programs, benefits, and other services through online or mobile portals, which can require the transfer of personal information. USDA has a responsibility to safeguard this information by protecting the security, confidentiality, and integrity of its IT infrastructure.

OIG has annually reviewed the Department’s cybersecurity initiatives, including those that shield IT equipment and systems from theft, attack, and intrusion, since 2002. Our reviews have consistently found that the Department faces great challenges in complying with FISMA.

The Department’s Progress

The Department has made progress in continuously improving its IT security when OIG or other third parties, such as GAO, have identified deficiencies. One example of the Department’s progress is reflected in our most recent report on FISMA, which
reviewed activities in fiscal year (FY) 2017. In this report, we recognized that OCIO is taking positive steps toward improving the Department’s security posture. For instance, OCIO continues to implement the Congressionally-mandated, Department of Homeland Security Continuous Diagnostics and Mitigation (CDM) program within USDA. The CDM program represents a dynamic approach to fortifying the cybersecurity of USDA networks and systems. CDM should provide USDA with capabilities and tools that identify cybersecurity risks on a continual basis, prioritize these risks based upon potential impacts, and enable cybersecurity personnel to mitigate the most significant problems first. Once CDM is fully implemented and the Department has an accurate inventory of hardware and software in use on the USDA networks, the Department will be in a better position to secure its assets and data.

Specifically, USDA has made progress in developing a strategy to ensure the CDM program is effectively implemented, maintained, and funded across the entire Department.

**Closed Recommendation**

USDA needs to develop a strategy to attain adequate resources to ensure the CDM program is effectively implemented, maintained, and funded across the entire Department for the life of the program.

In addition to actions taken to implement the CDM program, OCIO agreed with our assessment of the Department’s IT security posture and has since committed to address the prior year’s OIG FISMA audit recommendations, with a goal to close at least 50 percent of the overdue recommendations in FY

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2018. Additionally, the Department developed a 5-year strategic plan for Information Security Continuous Monitoring (ISCM) to improve cybersecurity across all agencies and has included OIG recommendations, CDM program milestones, and several other critical activities and operations that are essential to achieving program objectives.\textsuperscript{15}

\textbf{Closed Recommendation}  

\textbf{Define within the ISCM Strategic Plan (or other formal document) USDA’s process for collecting and considering lessons learned to improve ISCM processes.}

\textbf{What Remains to be Done}

While the Department has made progress addressing this management challenge, OIG continues to identify the need for continuous improvement in IT security at USDA. Unfortunately, many recommendations from previous years remain open; if these recommendations were corrected, they would address significant, existing security vulnerabilities. Furthermore, in our most recent FISMA report released in October 2017, we identified lingering weaknesses in 5 of the 40 recommendations that were previously closed.\textsuperscript{16} Due to the open recommendations and weaknesses we previously identified related to IT and FISMA, we continue to report a material weakness in USDA’s IT security that should be included in the Department’s annual Federal Managers Financial Integrity Act report. We concluded that USDA’s information security program is ineffective. Further, OCIO has not implemented corrective actions, as agreed, in response to prior


OIG recommendations. In our FY 2017 FISMA report, we found that from FYs 2009 through 2016, we made 67 recommendations for improving the overall security of USDA’s systems. Although OCIO has made progress in implementing corrective action, 27 recommendations are still open, and 26 of these are overdue and require OCIO to issue critical policy and corrective action. If the planned corrective actions to close out these recommendations are no longer achievable due to budget cuts or other reasons, then OCIO should update those corrective action plans and request a change in management decision, in accordance with Departmental guidance.

In the FY 2016 report and our most recent FY 2017 FISMA report, we also found that policies and programs designed to address FISMA requirements have not been completed or successfully implemented, and USDA has not fully developed an organizational perspective that includes a comprehensive governance structure and organization-wide risk management strategy. Governance is a set of processes that ensures that IT is used effectively and efficiently to enable an organization to achieve its goals. A nonexistent governance structure will continue to leave USDA’s IT security program in a reactive state, continuously struggling to adapt to changing conditions. To resolve these far-reaching IT security problems, senior USDA management needs to develop a governance structure that will encourage compliance at both the agency and Departmental level. This should improve the Department’s overall security posture and FISMA score.

Open Recommendation

Implement a governance structure in accordance with the risk management framework, using tools that exist and have been implemented as well as those under development.

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Anticipated Future Work

- **FY 2018 Federal Information Security Modernization Act Audit**
  In OIG’s annual review of the Department’s compliance with FISMA, we will evaluate the status of USDA’s overall IT security program by evaluating USDA’s cybersecurity framework security functions.

- **Security Over Select USDA Agencies’ Networks and Systems FY 2018**
  OIG will assess the security of USDA’s IT resources by reviewing selected controls at all agencies and entities based on OIG-selected National Institute of Standards and Technology (NIST) controls and common industry standards.
Challenge 3:
USDA Needs to Strengthen Program Performance and Performance Measures

Challenge for the Department

Designing, developing, and implementing programs that reliably achieve their intended results has been a recurring challenge for the Department. OIG has found that agencies do not have adequate reviews or controls in place to supply the metrics necessary to evaluate program performance. In some programs, the strategy for measuring performance is missing altogether. As a result, some agencies are using inaccurate or unreliable data in program performance reports.
**Background**

Currently, USDA manages approximately 300 programs that provide a variety of services and financial assistance to the American public. This diverse portfolio of programs means that for the Department to serve as a diligent steward of Federal funds, USDA must have well-designed programs with clear goals and performance measures.

The Government Performance and Results Modernization Act of 2010 set requirements for regular and recurring program performance assessment.\(^{18}\) In keeping with the law, an agency should have controls in place that allow it to regularly review a program’s performance, and then compile reports that allow it to measure that performance. These reports allow the Department to evaluate fairly its programs’ successes and failures.

**The Department’s Progress**

The Department has made progress in measuring the success of its programs through its continual development and improvement of outcome-based performance measures. One example of the Department’s progress has been in the Energy Efficiency Improvements (EEI) Guaranteed Loan and Grant Program, administered by the Rural Business-Cooperative Service (RBS). The EEI Guaranteed Loan and Grant Program provides grants and loans to agricultural producers and small rural businesses for EEI projects. EEI projects typically involve facility, building, equipment, or process improvements that significantly reduce energy consumption and EEI project recipients are required to report the actual amount of energy saved due to the EEI. In a 2016 audit, we found that the EEI Guaranteed Loan and Grant Program could benefit from providing recipients with: (1) performance report templates, (2) examples for the most common types of the program’s projects, and (3) training to assist with the calculation of energy savings.\(^{19}\) While RBS had

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taken steps to address issues with project outcome accuracy, RBS officials agreed that they needed to do more to educate recipients on how to accurately compute energy savings. As a result of our 2016 report, RBS has since provided training to recipients on implementing the performance report templates for use in calculating and reporting energy savings.

Another example of the Department’s progress to strengthen program performance has been its improved data sharing and collaboration efforts related to the Conservation Stewardship Program (CSP). CSP is administered by NRCS and can determine program eligibility using much of the same information that FSA uses to determine eligibility for its own programs. In a recent followup review, we found that NRCS did not use FSA data to the extent needed to verify information used to determine program eligibility, payment amounts, and participant compliance with contracts.\textsuperscript{20} As with a prior audit report,\textsuperscript{21} NRCS did not have sufficient processes in place to coordinate with and use other USDA agencies’ data to validate information provided by applicants. We also found that NRCS did not have adequate controls to detect erroneous participant-reported CSP information affecting eligibility and payment amounts. We recommended that NRCS incorporate specific and ongoing collaboration with other USDA agencies in its compliance strategy to identify common information that could be of use to multiple programs. We also recommended that NRCS develop

\begin{itemize}
  \item \textbf{Closed Recommendation}
  
  Provide training to recipients on implementing the newly created performance report templates for use in calculating and reporting the yearly energy savings by completed EEI projects.
\end{itemize}
a compliance strategy that integrates and capitalizes on such information to improve program efficiency, compliance, and integrity. NRCS agreed that continued agency collaboration would help NRCS and FSA better serve customers and develop policy to address each agency’s needs. NRCS’ strategic capitalization of other agencies’ data should provide a higher level of assurance that CSP is being carried out as intended, ensure records are consistent across all USDA programs, and more effectively identify potential improper payments.

**Closed Recommendation**

Incorporate in NRCS’ compliance strategy ongoing, specific, and concerted collaboration with other USDA agencies on at least an annual basis to identify common information used by the agencies in the administration of their programs. Also, develop an NRCS compliance strategy that integrates and capitalizes upon such information to improve program efficiency, compliance, and integrity.

**What Remains to be Done**

While the Department has made progress addressing this management challenge, OIG continues to identify the need for stronger program performance and performance measures at USDA. Unfortunately, some recommendations from previous years remain open. For example, in 2013, we found that the Foreign Agricultural Service (FAS) had not updated its Country Strategy Statements (CSS) to align with the goals and objectives contained in the new Strategic Plan.22 CSS are a fundamental piece of FAS’ international trade framework, which provide

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22 Audit Report 50601-0001-22, Effectiveness of FAS’ Recent Efforts to Implement Measureable Strategies Aligned to the Department’s Trade Promotion and Policy Goals, Mar. 2013.
important information that is used to help identify countries with the largest potential for increasing trade, as well as specific barriers that interfere with trade at each country. Since the Strategic Plan is updated every 5 years, measurable goals within the CSS would show the agency where it is meeting its objectives and where its efforts should be focused in future years to reach agency goals. To address this issue, OIG recommended that FAS incorporate clear, outcome-based performance measures into its 2013 CSS that align with the FAS and USDA strategic goals.

Another area for improvement from previous years’ recommendations relates to OIG’s 2013 recommendation that FAS coordinate with the Department to update the performance measures related to trade policy and trade promotion in the Performance Accountability Report (PAR). Similar to our 2013 finding regarding FAS’ CSS, we found that FAS had not updated its corresponding performance measures in the Department’s PAR so that they align with the goals and objectives contained in the new Strategic Plan. By working with the Department to improve measures that are reported in the PAR, FAS can increase transparency in USDA reporting and show how FAS, in reaching its goals, is contributing to USDA’s overarching goal of increasing prosperity in rural communities.

23 Audit Report 50601-0001-22, Effectiveness of FAS’ Recent Efforts to Implement Measureable Strategies Aligned to the Department’s Trade Promotion and Policy Goals, Mar. 2013.
Open Recommendation

Coordinate with the Department to update the performance measures related to trade policy and trade promotion in the PAR and Annual Performance Plan to better capture overall agency effectiveness and achievements and include goals related to U.S. market share.

Anticipated Future Work

- **Controls Over Conservation Innovation Grants**
  One of our audit objectives will be to determine if recipients’ matching funds are being utilized in proportion to the conservation innovation grant funds. We will also determine if grant funds are expended for eligible program purposes and in accordance with applicable regulations and grant agreements.

- **USDA’s Management Over the Misuse of Government Vehicles**
  OIG will assess whether the Office of Property & Fleet Management effectively enforces controls to prevent and detect USDA employees from misusing Government vehicles. This work will be a followup to a 2017 audit of FSIS’ process for resolving employee vehicle misuse complaints.
Challenge 4:

USDA Needs To Strengthen Controls over Improper Payments and Financial Management

Challenge for the Department

USDA continues to be noncompliant with Federal requirements for improper payments. Also, USDA needs to address internal control deficiencies to resolve ongoing problems with financial management and reporting.
Background

The Department’s annual financial reports provide the public, Congress, and the President with information about the nearly $143 billion spent on public services every year. These reports account for USDA’s costs and revenues, assets and liabilities, and other information, such as improper payments. OIG reviews the Department’s financial reports annually, as required by law, to verify accuracy and compliance with Federal rules regarding high-dollar overpayments and improper payments. Improper payments occur when funds go to the wrong or ineligible recipient, the proper recipient receives an incorrect amount of funds or uses funds in an improper manner, or documentation is not available to support a payment. Not all improper payments involve fraud or waste; payment errors are sometimes inadvertent or based on missing documentation. Regardless of origin, improper payments affect the integrity of Federal programs.

In addition, on an annual basis, OIG either conducts or oversees audits of the financial statements for the Department and five component agencies to: (1) determine if the statements are fairly presented in accordance with generally accepted accounting principles, (2) review internal controls over financial reporting, and (3) test compliance with applicable laws and regulations.24

The Department’s Progress

The Department has made progress in strengthening controls over improper payments and financial management when OIG or other third parties, such as GAO, have identified deficiencies. For example, last year, in OIG’s annual review of USDA’s compliance with improper payment requirements, we found that USDA did not comply with all requirements set by the Improper Payments Information Act of 2002, as amended, for a sixth consecutive

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24 Five component agencies are required to have standalone financial statement audits: Rural Development, FNS, the Commodity Credit Corporation (CCC), NRCS, and the Federal Crop Insurance Corporation.
year.\textsuperscript{25} Of USDA’s 18 high-risk programs, 9 programs did not comply with 1 or more of the following requirements: publishing an improper payment estimate as required, meeting annual reduction targets, or publishing gross improper payment rates of less than 10 percent.\textsuperscript{26} We also found discrepancies between supporting documentation and information reported in the Agency Financial Report (AFR) due to ongoing internal control weaknesses in the quality review process. We recommended that OCFO and senior officials for each noncompliant component agency set aggressive goals to help USDA achieve compliance with the Improper Payments Information Act of 2002, as amended.

\begin{VerbatimBox}[width=\textwidth]{Closed Recommendation}
OCFO should revise the Department’s current quality review process to ensure it includes a well-defined process to review, identify, and resolve discrepancies for the final publication of the Agency Financial Report.
\end{VerbatimBox}

What Remains to be Done

While the Department has made progress addressing this management challenge, OIG continues to identify the need for stronger controls over improper payments and financial management at USDA, and USDA continues to face significant challenges with reducing its improper payments. In our recent audit of USDA’s 2017 financial management and reporting, we found that—for the seventh consecutive year—USDA did not comply with improper payment requirements as set forth by the Improper Payments Information Act of 2002, as

\begin{footnotesize}\begin{enumerate}
\item \textsuperscript{25} Audit Report 50024-0011-11, \textit{USDA’s Fiscal Year 2016 Compliance with Improper Payment Requirements}, May 2017.
\item \textsuperscript{26} In FY 2016, USDA reported improper payment information for 18 programs identified by the Office of Management and Budget (OMB) as “high-risk,” or susceptible to significant improper payments.
\end{enumerate}\end{footnotesize}
This year, USDA reported improper payment information for 10 programs identified as susceptible to significant improper payments (thus considered high-risk programs), and complied with three of six requirements. However, we found that 6 of the 10 high-risk programs did not comply with one or more of the following requirements: (1) publishing an improper payment estimate as required, (2) meeting annual reduction targets, and/or (3) publishing gross improper payment rates of less than 10 percent.

Because some USDA programs have been noncompliant for a number of years, USDA is required to report the actions it will take to move these programs towards compliance, including important programs such as FNS’s Supplemental Nutrition Assistance Program (SNAP) and FSA’s Noninsured Crop Disaster Assistance Program (NAP).

Open Recommendation

In accordance with OMB guidance, within 30 days of the determination of noncompliance, FNS should submit to Congress proposed statutory changes to bring SNAP into compliance.

Open Recommendation

In accordance with OMB guidance, within 90 days of the determination of noncompliance, FSA should submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB describing the actions that the agency will take to make NAP compliant.


Another opportunity for progress relates to the need for additional oversight over financial reporting controls. In our annual review of USDA’s internal controls over financial reporting, we identified three significant deficiencies, two of which are material weaknesses. Specifically, two of USDA’s component agencies need to make further improvements to their overall financial management. Additionally, USDA needs to improve its IT security and controls, as many long-standing weaknesses remain. Moreover, USDA needs to improve its controls over financial reporting, as our review, again, disclosed deficiencies related to obligations.\textsuperscript{29}

\begin{open_recommendation}
Provide additional oversight to ensure that financial reporting controls over unliquidated obligations are strengthened and maintained.
\end{open_recommendation}

In addition to the newly identified areas for improvement, some recommendations from previous years unfortunately remain open. For example, during the review of USDA’s consolidated balance sheet for FY 2016,\textsuperscript{30} we noted certain matters involving internal controls that we consider significant deficiencies.\textsuperscript{31} Specifically, we identified weaknesses in USDA’s overall financial management, the security program for IT, and controls over financial reporting. We deemed the first two deficiencies as

\textsuperscript{31} A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
material weaknesses.\textsuperscript{32} The Department concurred with our findings and generally agreed with our recommendations.

The Department’s material weakness in financial management reflects the ongoing material weaknesses found in the annual financial reviews of the Commodity Credit Corporation (CCC) and NRCS. CCC demonstrated material weaknesses in its accounting estimates and the maintenance of its accounting records due to continued deficiencies with internal controls.\textsuperscript{33} NRCS has deficiencies in internal controls in accounting for obligations and expenses, which are considered material weaknesses. Both agencies have made significant gains toward resolving financial management problems that have been reported by OIG for the previous 5 fiscal years, but some corrective actions remain in process.\textsuperscript{34} We continue to find these same problems in our most recent audit and therefore provided the same recommendations as we did in FY 2016.\textsuperscript{35}

\begin{figure}[h]
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\begin{tcolorbox}
\textbf{Open Recommendation}

CCC should design and implement processes, procedures, and controls to ensure data used in its accounting estimates are complete and accurate.
\end{tcolorbox}
\end{figure}

\textsuperscript{32} A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected or corrected, on a timely basis.


Anticipated Future Work

- **USDA’s FY 2018 Compliance with Improper Payment Requirements**
  As mandated by Congress, OIG will review USDA’s FY 2018 AFR and accompanying information to determine whether the Department is compliant with the improper payment requirements.

- **Agency Financial Statements for FYs 2018 and 2017**
  As mandated by Congress, OIG will complete annual reviews of the financial statements for FY 2018 for USDA and component agencies to express opinions about fair presentation of those statements, identify significant deficiencies or material weaknesses, and report on the Department’s compliance with the Federal Financial Management Improvement Act.
Challenge 5:

USDA Needs to Improve Outreach Efforts

Challenge for the Department

USDA has emphasized its efforts to improve outreach to new and beginning farmers and ranchers, local and regional food producers, minorities, women, and veterans. As part of those efforts, the Department has stressed the importance of civil rights, highlighting that significant progress needs to be made in working with communities when addressing past civil rights issues. Due to the public’s perception of how USDA has historically treated members of socially disadvantaged groups, the Department is continually challenged to find effective ways to encourage and support all citizens in their agribusiness endeavors, especially those within underrepresented groups.
Background

The Secretary of Agriculture is required to provide outreach and technical assistance to encourage socially disadvantaged farmers and ranchers to own and operate farms and to participate in the full range of agricultural programs offered by the Department. However, due to limited budgets and staffing, in addition to historical obstacles impeding trust by members of socially disadvantaged groups, the Department faces challenges in earning credibility in this area and therefore accomplishing its objectives. Furthermore, if a USDA agency is not marketing its programs to all intended recipients and targeted groups, then some producers may not receive the information and assistance they need to succeed and the agency could be criticized for inequity—resulting in potential litigation.

USDA has emphasized its efforts to improve outreach to socially disadvantaged farmers, including new and beginning farmers and ranchers, local and regional food producers, veterans, disabled individuals, women, and minorities as defined by the Federal civil rights or Americans with Disabilities legislation. FSA conducts outreach through planned activities that raise awareness of FSA programs. Traditional outreach methods include activities such as: (1) publishing articles in newsletters and local newspapers; (2) making announcements through local radio and television stations; and (3) partnering with community-based groups, non-governmental organizations, or other USDA agencies to organize or attend public meetings, fairs, or other farm-related events. FSA’s approach to program outreach also includes the use of innovative marketing methods that specifically target underrepresented groups in order to: (1) educate the public about FSA programs and services, (2) eliminate participation barriers, and (3) increase program participation.

One of FSA’s programs whose equity and effectiveness depends on conscious, targeted outreach is the Microloan Program. FSA’s Microloan Program is designed to better serve the unique financing needs of beginning, niche, and small family farms.

operations, including those owned by socially disadvantaged farmers. Furthermore, the Agricultural Act of 2014 created a permanent authorization for the Microloan Program and made additional changes such as exempting beginning and military veteran producers from term limits and providing these producers with an optional lower interest rate (applicable in years when regular interest rates are higher). The Microloan Program offers flexible access to credit and serves as an attractive loan alternative for smaller farm operations, including non-traditional farm operations that often face limited financing options.

**The Department’s Progress**

The Department has made progress in improving its outreach efforts when OIG or other third parties, such as GAO, have identified deficiencies. For example, since our 2015 review of the Microloan Program, FSA has improved its outreach efforts through its recent requirement that the Director of FSA’s Outreach Program periodically conduct formal evaluations and report on the outcome of States’ outreach activities to the Administrator. When we reviewed FSA’s loans from FY 2013 through 2014, we found that FSA had not fulfilled the outreach requirements of the Microloan Program and had measured its outreach efforts based on estimates and not actual figures. This was due to limited budgets and staffing and because of the limited emphasis on conducting outreach activities geared toward targeted groups. Since our review, the FSA national office not only reports its outreach efforts to the Administrator quarterly, but has also added an outreach component performance measure to all field employees’ evaluations, allotted outreach funding to States, and increased funding to States to cover outreach-related travel expenses. Regular reporting of these enhanced outreach efforts will provide transparency and an opportunity for FSA to conduct ongoing performance assessments to assess effectiveness and identify areas for further improvement.

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Closed Recommendation

Require the director of FSA’s Outreach Program to formally evaluate States’ outreach activities on a periodic basis, and report evaluation results, including making recommendations to the administrator to address weaknesses when necessary.

Anticipated Future Work

AMS Oversight of the Farmer’s Market and Local Food Promotion Program
One of our objectives will be to determine whether the AMS Farmers Market and Local Food Promotion Program’s outreach activities are effective.

Forest Service (FS) Initiatives To Address Workplace Misconduct
Our objective will be to determine whether the actions FS took in response to complaints of sexual misconduct and harassment in the workplace were (1) effectively implemented as outlined in the joint agreement with the Office of General Counsel and the Office of the Assistant Secretary for Civil Rights, and (2) sufficiently addressed workplace concerns.
Challenge 6:

Food Safety Inspections Need Improved Controls

Challenge for the Department

The Food Safety and Inspection Service (FSIS) takes action to improve food safety and the humane handling of animals at the plants FSIS inspects. However, we have found that FSIS continues to face challenges gathering reliable data to help ensure safety verification tasks are completed, effective, and consistent. FSIS also continues to face challenges in training, documenting, tracking, overseeing, testing, and verifying that the Nation’s commercial supply of meat, poultry, and egg products complies with regulatory requirements.
Background

FSIS inspectors verify that the Nation’s commercial supply of meat, poultry, and egg products are safe, wholesome, and correctly handled, processed, labeled, and packaged. FSIS has approximately 9,600 employees, which includes inspection personnel stationed at approximately 6,500 Federally-inspected establishments. Slaughter and processing facilities are responsible for implementing FSIS’ directives for controlling hazards in food production. To assess the overall effectiveness of the establishments’ food safety systems, inspectors verify whether an establishment is meeting its regulatory requirements and has addressed the relevant food safety hazards for all of its processes, products, and intended uses.

The Agency ensures food safety through mandated activities such as food inspections and the proper labeling of ingredients. For example, the Agency ensures food safety in poultry products through the authority of the Poultry Products Inspection Act and has amended its poultry products regulations by promulgating the Modernization of Poultry Slaughter Inspection Final Rule. This rule mandates that all poultry establishments take steps to prevent contamination, rather than reactively address contamination after it occurs.

The Agency also ensures safety through the regulation of food ingredients. For example, the Federal Meat Inspection, Poultry Products Inspection, and Egg Products Inspection Acts authorize FSIS to regulate food ingredients used in the production of meat, poultry, and egg products. According to these acts, any meat, poultry, or egg product intended for human consumption must have proper labeling declaring major allergens in any amount, even trace amounts. FSIS has implemented a number of actions to alert and protect the American public by ensuring the proper identification and labeling of allergens in meat, poultry, and egg products. Proper identification and labeling of potential allergens in food products is critical to FSIS’ ability to protect vulnerable populations with food allergies and sensitivities.

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The Department’s Progress

The Department has made progress in improving controls over its food safety inspections when OIG or other third parties, such as GAO, have identified deficiencies. For example, in a 2017 audit regarding FSIS’ controls over the critical responsibility of properly identifying ingredients that are classified as allergens in the ingredient list on food labels, we found (1) inconsistencies between FSIS’ directive and the instructions within the Public Health Information System (PHIS) and (2) inadequate training from the agency to help inspectors understand the new requirements.\(^{40, 41, 42}\) Unless inspectors performed these required tasks, FSIS would not have assurance that plants were labeling products properly and consistently. In order to mitigate this issue, FSIS needed to improve how it verified the accurate disclosure of potential allergens on the labels of meat, poultry, and egg products. Therefore, any ingredient used in producing meat, poultry, and egg products and intended for human consumption must have proper labeling to declare the inclusion of any of the eight major (“Big 8”) allergens defined by the Federal Food, Drug, and Cosmetic Act.\(^{43}\)


\(^{42}\) PHIS provides information about the appropriate tasks for the plants, their relative priorities based on their expected impact on public health, and their expected frequencies.

\(^{43}\) The “Big 8” refers to the following allergens: milk, eggs, fish, crustacean shellfish, wheat, soybeans, peanuts, and tree nuts.
Another example of the Department’s progress relates to the oversight of equivalency assessments of exporting countries. We found that FSIS officials used, but did not consistently document, non-performance-related factors to select countries for ongoing equivalence verification audits. As a result, FSIS officials did not audit equivalent countries on an adequate basis in compliance with policy. OIG recommended that FSIS develop and document, as part of its annual equivalence verification audit planning process, how foreign countries are selected for ongoing equivalence verification audits. FSIS officials agreed that policies and procedures should be updated to reflect the implementation of the equivalence program as it relates to ongoing equivalence oversight.

**Closed Recommendation**

Develop and document, as part of its annual ongoing equivalence verification audit planning process, how foreign countries are selected for ongoing equivalence verification audits.

**What Remains to be Done**

While the Department has made progress addressing this management challenge, OIG continues to identify the need for improved controls for USDA food safety inspections. Specifically, we continue to report weaknesses in how FSIS oversees the plant inspection process, collects critical information, complies with humane handling requirements, and schedules food safety assessments. Unfortunately, some recommendations from previous years concerning important controls remain open. In reports issued in FYs 2007 and 2008, OIG made 60 recommendations to improve how FSIS ensures inspectors

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were completing requirements.\textsuperscript{45} In a followup audit that reviewed 47 of the prior recommendations, OIG found that for 14 of these recommendations, FSIS did not always follow corrective actions designed to prevent reported conditions from recurring.\textsuperscript{46} FSIS officials either did not effectively monitor or did not hold their staff accountable when these actions did not correct the problems identified. As a result, the deficiencies identified for these 14 recommendations continue to exist.

\begin{open_recommendation}

\textbf{Open Recommendation:} ________________

Require the Office of Investigation, Enforcement, and Audit to augment their current process to include periodic reviews on the effectiveness of the Districts’ implementation of corrective actions from prior audit recommendations in the 2007 and 2008 audit initiatives.

\end{open_recommendation}

Another example of a previously reported recommendation that remains open relates to the labeling of food allergens. As food allergens are a critical health issue for an increasing number of Americans, especially children, the proper identification and labeling of allergens in meat, poultry, and egg products need prioritizing. We found that FSIS must enhance its methods of verifying labels for undeclared allergens to a more robust approach.\textsuperscript{47} While FSIS has systems in place concerning proper labeling for allergens, we found that personnel were inconsistent with documenting tasks. Therefore, OIG concluded that FSIS needs to improve how it monitors and documents food safety tasks specific to allergens.

\begin{footnotes}


\end{footnotes}
Open Recommendation:

Determine which additional directives and notices provide instructions regarding allergens to FSIS inspectors. Review and update the material as necessary to ensure consistency among the documents and consider stating that allergen verification is a priority 3 task.

[FSIS ranks tasks by priority, from 1 to 6, with 1 as the highest priority and 6 as the lowest.]

Anticipated Future Work

- **FSIS’ Oversight of the New Poultry Inspection System (NPIS)**
  Our objective will be to examine the policies and procedures FSIS used to implement NPIS and determine if FSIS could improve its oversight at the national-office-level.

- **Cooperative Interstate Shipment Program**
  Our objective will be to evaluate FSIS’ compliance with the Cooperative Interstate Shipment (CIS) program requirements for the interstate shipment of certain State-inspected meat and poultry products. Specifically, we will determine if: (1) FSIS has provided adequate oversight and enforcement of the CIS program; (2) States are providing inspection services in the same manner that complies with the Federal Meat Inspection and Poultry Products Inspection Acts; and (3) establishments are operating in compliance with the Federal Meat Inspection and Poultry Products Inspection Acts.
Challenge 7:

FNS Needs to Strengthen SNAP Management Controls

Challenge for the Department

Although FNS has endeavored to improve management controls for SNAP, weaknesses continue to exist in controls over benefit distribution and quality control (QC) processes. The potential exists for billions of dollars of taxpayer-funded assistance not to be delivered or used as intended.
Background

As the largest benefit program within USDA and one of the largest in the Federal Government, SNAP presents a unique challenge for the program’s managers. In FY 2017, SNAP provided monthly food assistance for over 42 million low-income individuals and disbursed almost $64 billion in benefits.

Given SNAP’s size and significance, fraud, waste, and abuse are critical concerns. OIG’s audit work focuses on improving the efficiency of program administration and maintaining the integrity of Federal funds. Further, USDA loses hundreds of millions of dollars every year to fraud and crime associated with SNAP and other FNS food assistance programs. OIG devotes significant investigative resources to recover that money and pursue the prosecution of criminals engaged in SNAP fraud. In the first half of FY 2018, OIG’s investigative efforts related to SNAP resulted in 191 indictments, 200 convictions, and 174 arrests, with a total dollar impact of $51.5 million.48

The Department’s Progress

USDA has made progress in strengthening SNAP management controls when OIG or other third parties, such as GAO, have identified deficiencies. One example of the Department’s progress relates to improved oversight over State and county financial management regarding certain reimbursable SNAP administrative costs. In FY 2016, OIG reviewed FNS and State oversight and monitoring of reimbursable SNAP administrative costs from county-administered programs and found that weaknesses in State and county financial management controls and a lack of effective FNS oversight led to inaccurate program financial reporting and questioned costs.49 Specifically, the Ohio Department of Job and Family Services did not correctly report expenditures for reimbursement from

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48 Convictions include pre-trial diversions.

SNAP employment and training (E&T) funds in the counties’ accounting system and the State and county expenditures were commingled. As a result, over $3.5 million of these expenditures were questionable. FNS agreed with our recommendation to review these expenditures and determine if they are eligible for reimbursement.

**Closed Recommendation:**

Review the $3,575,424 in FY 2014 E&T Grant expenditures from the Ohio Department of Job and Family Services to determine if any of these funds are eligible for reimbursement and establish an account receivable from the State as needed.

**What Remains to be Done**

While the Department has made progress addressing this management challenge, OIG continues to identify the need for stronger SNAP management controls. OIG’s audit work focuses on improving the efficiency of SNAP administration at the Federal and State levels. Although FNS has made progress in improving SNAP administration, many recommendations unfortunately remain open. For example, as reported last year, we continue to find weaknesses in FNS’ quality control process. In 2015, OIG found that States weakened the QC process by using third-party consultants and error review committees to mitigate QC-identified errors instead of reporting them. As a result, States reported inaccurate QC rates. Since FNS’ current two-tier process is vulnerable to State abuses, does not meet SNAP regulatory requirements, and does not have sufficient FNS oversight, OIG recommended that FNS consider switching to a one-tier system in which only FNS or an unaffiliated third party reviews QC cases for errors.

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Open Recommendation

Perform an analysis of the cost/benefit of changing the QC process from a two-tier process that relies on the States to make error determinations to a one-tier process where only FNS or an unaffiliated contracted third party reviews cases for errors. If determined cost beneficial, establish a timeline for implementing the change.

Such a system would help ensure that State and national QC error rates are more accurate.

Another open recommendation relates to the need for more effective oversight and administration of SNAP transactions. A 2017 audit reviewed SNAP retailer and participant transaction data using analytical and geospatial software to identify potential SNAP fraud and found weaknesses in administration controls over transaction data for SNAP retailers.\(^5\) When we reviewed the data—representing approximately $23 billion in transactions—for potential fraud, we found that some authorized SNAP retailers listed owners whose Social Security numbers belonged to people who were either deceased or underage. These ineligible retailers processed SNAP transactions representing over $3 billion. In addition, FNS uses two information systems to administer SNAP. Both systems should reflect the same monetary data from SNAP retailers, but OIG found discrepancies in information that totaled about $43 million. We concluded that FNS’ controls over these data were insufficient to identify the problems we found and recommended that FNS should: (1) design controls that allow the data to reveal these types of problems, and (2) finalize procedures to identify and reconcile discrepancies between its two information systems.

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Open Recommendation

Review the list of 1,819 owners on the Death Master File to verify the identity of these owners, and take necessary action to correct data that are incorrect, and remove any owners who are indeed no longer living.

Open Recommendation

Design and implement a control to identify owners whose information matches that of deceased persons, and correct or update this information as needed.

Another open recommendation relates to the need for FNS to strengthen its management evaluations and clarify compliance matters to States. Specifically, OIG recommended FNS clarify the importance of FNS and State agency compliance with FNS Instruction 113-1 Civil Rights Compliance and Enforcement – Nutrition Programs and Activities. FNS’ clarification should be in the form of a memo and place special emphasis on establishing timeliness requirements as well as requirements for the content of complainant notifications regarding the receipt and final decision of complaints.52

Open Recommendation

Issue a clarification memorandum reiterating the importance of FNS and State agency compliance with FNS Instruction 113-1 Civil Rights Compliance and Enforcement – Nutrition Programs and Activities, with special emphasis on establishing requirements for timeliness and content of notifications to complainants for receipt and final decision of complaints.

Anticipated Future Work

➤ States’ Compliance with Requirements for the Issuance and Use of SNAP Benefit Requirements (7 C.F.R., Part 274)
We have contracted with an independent certified public accounting firm to conduct an engagement at five selected States and provide FNS with recommendations to enhance SNAP efficiency and effectiveness. Our objective will be to assess States’ compliance with selected aspects of 7 C.F.R., Part 274, Issuance and Use of Program Benefits.

➤ Review of FNS Disaster Relief Efforts Providing Nutrition Assistance to U.S. Territories as a Result of Hurricanes Irma and Maria
Our objective will be to evaluate FNS’ oversight of disaster relief providing nutrition assistance to U.S. territories as a result of Hurricanes Irma and Maria.

53 Selected States include Illinois, Iowa, Louisiana, Maryland, and Massachusetts.
## Appendix A: Audits Referenced in This Report

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## Appendix B: Abbreviations and Acronyms

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<td>Energy Efficiency Improvements</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>Government Accountability Office</td>
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<td>Information Security Continuous Monitoring</td>
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OFFICE OF INSPECTOR GENERAL

STRATEGIC GOALS

Our mission is to help ensure economy, efficiency, and integrity in USDA programs and operations through the successful execution of audits, investigations, and reviews.

1. Strengthen USDA’s ability to implement and improve safety and security measures to protect the public health, as well as agricultural and Departmental resources.

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