APPENDIX A – MANAGEMENT CHALLENGES

INSPECTOR GENERAL'S STATEMENT

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong
Inspector General SEP 12 2003

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General (OIG) to identify and report annually the most serious management challenges the Department and its agencies face. To identify these management challenges, we (1) examined previously issued audit reports where corrective actions have not been implemented, (2) assessed ongoing audit and investigative work to identify issues where significant vulnerabilities have been identified, and (3) analyzed new programs and activities, which could pose significant challenges due to their breadth and complexity. We discussed these challenges with USDA officials to obtain their input.

This year, we have summarized USDA's most serious management challenges by issue area, rather than by mission. USDA's major management challenges frequently cross organizational lines within the Department and should be dealt with on a coordinated basis. The management challenges OIG identified last year fall under one or more of the general issue areas we have identified this year. While progress has been made in each challenge facing USDA, more can be done to strengthen management controls, ensure USDA benefits go to those intended, and protect the integrity of USDA's programs and activities. Also, we have identified three new emerging issues that either mandate new requirements or that have not been effectively dealt with on a Department-wide coordinated basis. OIG has identified 10 Department-wide and 2 agency-specific challenges we believe are the most significant management issues facing USDA.

While the Department has begun actions to address these challenges, OIG audits and investigations have shown that additional actions are necessary. We look forward to working with the Department to evaluate actions taken to address these weaknesses and will make recommendations, where necessary, for further improvements.

If you have any questions or would like to discuss these management challenges, please contact me at 720-8001, or have a member of your staff contact Richard D. Long, Assistant Inspector General for Audit, at 720-6945.

Attachment

cc:
Deputy Secretary
Secretary's Subcabinet
Chief Financial Officer
Agency Administrators

OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(September 2003)

DEPARTMENT-WIDE CHALLENGES

1. HOMELAND SECURITY CONSIDERATIONS SHOULD BE INCORPORATED INTO PROGRAM DESIGN AND IMPLEMENTATION

The events of September 11, 2001, and subsequent heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's missions to ensure the safety and abundance of the Nation's food supply, from the farm to the table, and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. USDA must now readily identify its assets, perform security risk assessments, and design and implement appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must also ensure that the current inspection and safeguard processes for the unintentional introduction of pests, diseases, and contaminants on imported products is not overlooked. While the Department has been both proactive and responsive to specific vulnerabilities identified by OIG, it is still challenged in its efforts to: shift from a focus on safety goals to both safety and security in each of its mission areas; foster effective coordination and communication across jurisdictional lines to better define roles and responsibilities; and increase Departmental oversight of, and accountability by, USDA agencies.

The Department, in response to our audit recommendations, has taken significant steps to incorporate these approaches in restructuring some of its mission activities. However, more needs to be done to provide assurance that established policies and procedures are consistently implemented and that effective inter- and intra-agency coordination and communication continues.

This year, there was a significant transfer of responsibilities and personnel from USDA to DHS. A major challenge now faced by USDA is timely and effective coordination and communication, not only within USDA, but also with DHS. Prior audits disclosed material weaknesses within USDA when certain functions were solely the responsibility of USDA. Therefore, it is imperative that USDA continue to work with DHS to design the appropriate control systems and processes to ensure timely communication and coordination.

2. INCREASED OVERSIGHT AND MONITORING OF FOOD SAFETY INSPECTION SYSTEMS ARE NEEDED TO MEET HACCP'S GOALS

In 1998, the Department, through the Food Safety and Inspection Service (FSIS), implemented a major change to its food safety system and created a new regulatory system for meat and poultry safety within the meat and poultry plants it regulates. The Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) rule is the centerpiece of the new regulatory approach because it mandates HACCP, sets certain food safety performance standards, establishes testing programs to ensure those standards are met, and assigns new tasks to inspectors to enable them to ensure regulatory performance standards are met. In 2000, OIG reported on FSIS' implementation of HACCP, concluding that while FSIS had taken positive steps in its implementation of the science-based HACCP system, HACCP plans were not always complete; FSIS needed to place greater emphasis on pathogen testing; and it needed to define its oversight role in the HACCP system, and hold plants accountable for noncompliance. During 2002, USDA experienced some of the largest recalls in its history. OIG's reviews of two of these recalls in the past year indicate that FSIS still faces significant challenges to ensure the successful implementation of HACCP. Most critical to this process are: FSIS' assessment of plant HACCP plans and resolution of any deficiencies; establishment of management controls to accumulate and analyze data to monitor and assess the adequacy of food safety systems; establishment of criteria to initiate enforcement actions; baseline studies to define the goals, objectives, and performance measurements for pathogen testing programs; and better supervision and oversight of field inspection processes. Also, FSIS must reassess its recall process, including traceback policies, to identify the product source, and improve monitoring to ensure timely notification of the recall and maximum recovery of the product. While FSIS has generally been responsive to these issues and has made some changes to its inspection policies and procedures, complete corrective actions and estimated timeframes for addressing these weaknesses are not yet known.

An additional challenge for FSIS is to complete its proposed actions in response to OIG's prior audit of the imported meat and inspection process. OIG's followup review reinforced the need for FSIS to complete an in-depth assessment of its organizational structure and establish a system of control objectives and processes to ensure the goals of the import inspection process are achieved.

3. RISK MUST BE EXAMINED AND IMPROPER PAYMENTS MINIMIZED WITHIN USDA – EMERGING ISSUE

USDA faces a new management challenge with the implementation of the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires each Federal agency head to: (1) review all programs and activities and identify those which are susceptible to significant improper payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce improper payments; and (4) annually report the estimates and progress made in reducing improper payments. Compliance with this Act will require sustained intensive effort and commitment by the Department. Successful implementation will require a strong internal control structure, to include management commitment and the necessary

resources, quality control processes, and information systems to measure the extent of erroneous payments. The ultimate challenge will be to design internal control systems to detect and prevent improper payments before "they go out the door." The challenges we reported last year relating to ineligible payments in the food assistance programs, as well as in the crop insurance program (lack of an effective quality control process over reinsurance companies in the determination of indemnities for losses), should be corrected when the requirements of this Act are fully implemented and measures have been taken to reduce improper payments to an acceptable level.

4. FINANCIAL MANAGEMENT – IMPROVEMENTS MADE BUT ADDITIONAL ACTIONS STILL NEEDED

In the fiscal year (FY) 2002 financial statements, USDA reported assets of over $123 billion and program costs of over $72 billion. Actions taken by the USDA Office of the Chief Financial Officer (OCFO) and the agencies' financial management staff resulted in the Department achieving its first unqualified audit opinion on the FY 2002 Consolidated Financial Statements. While the achievement of an unqualified opinion represents a major accomplishment, USDA needs to continue to improve its underlying financial management systems, with less reliance on extensive ad hoc efforts to produce timely financial data. Also, USDA should continue to review its legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. This is especially critical in light of the accelerated timeframes for producing audited financial statements, as well as for directing limited resources to other critical needs. OCFO has initiatives underway to (1) renovate the Department's corporate administrative systems, (2) establish and implement cost accounting principles and methodologies, (3) improve the process for accounting for real and personal property, and (4) enhance overall financial management accountability and control. These are significant actions that demonstrate USDA's recognition of the challenge it faces.

5. INFORMATION TECHNOLOGY SECURITY – MUCH ACCOMPLISHED, MORE NEEDED

USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains. While the Department and its agencies continue to strive to improve the security over IT resources, significant progress is still needed toward establishing an effective security program. Specifically, increased management involvement and commitment at the agency level is needed to effectively implement a strong IT security program. Despite the efforts of OIG and the Office of the Chief Information Officer (OCIO) during the past several years to heighten awareness of security issues, our reviews in 10 agencies during this year continue to show that the Department and its agencies are not yet in compliance with Office of Management and Budget (OMB) Circular A-130, Appendix III. This noncompliance includes preparing security plans for all major applications, conducting risk assessments, establishing disaster recovery plans, and implementing a system certification/ authorization process. We also continue to find that agencies do not have strong physical and

logical access controls over IT resources and have not yet effectively used the vulnerability scanning tools provided by the Department to identify and mitigate known security vulnerabilities in their systems.

6. CONTROLS OVER GERMPLASM STORAGE MATERIAL AND GENETICALLY ENGINEERED ORGANISM FIELD TESTING ARE CRITICAL TO U.S. MARKETS – EMERGING ISSUE

The use of biotechnology-derived or genetically engineered crops has grown significantly over the past decade, particularly in the United States. In 2001, approximately 88 million acres of such crops were planted in the United States. For the 2003 crop year, as much as 80 percent of the planned 73.2 million acres for soybeans and approximately 38 percent of the planned 79 million acres for corn were planted with genetically engineered seeds. These two crops constitute a major portion of American exports of agricultural production. The acceptance of genetically engineered crops in the world market, however, is mixed. The loss of these major export markets could seriously impact the American agricultural economy. Critics have questioned the effect of long-term consumption of such genetically engineered crops on the health of humans and livestock, but so far, the evidence to support such a determination is still pending. Countering such criticisms are the benefits of such genetically engineered crops: boosting yields; lowering costs; reducing pesticide use; and making crops more resistant to disease, pests, and drought.

USDA plays a major role in regulating and monitoring genetically engineered crops – from the storing of germplasm used to produce seeds for such crops, to approving field testing of genetically engineered crops, to providing assistance for export of American agricultural production. The Department must balance the goals of: (1) maintaining adequate accountability and integrity of genetically engineered versus non-genetically engineered seeds and crops; (2) ensuring the health and safety of the American food supply; and (3) maintaining the export levels of American agricultural production against the added costs to implement such controls and the uncertainty of the effects of genetically engineered crops. In our recent review of the Department's germplasm storage system, we found the need for increased accountability and tracking controls over genetically engineered germplasm if USDA is to provide assurance to other markets. USDA must also address public concerns that field-testing applications have been properly reviewed, field testing is adequately monitored, and proper surveillance is in place to preclude such crops from entering the human food process.

7. CIVIL RIGHTS COMPLAINTS PROCESSING STILL A CONCERN AT USDA

In March 2000, OIG reported that minimal progress had been made in overcoming inefficiencies in processing civil rights program and employment complaints. Deficiencies disclosed in OIG's five prior audit reports had not been corrected. The March 2000 report noted that the Office of Civil Rights (CR) did not reengineer its complaint resolution process, its database and file room remained poorly managed, and a large backlog of cases was stalled in the "intend-to-file" category and/or may not have received due care. To correct these long-standing problems, OIG recommended that CR implement a management plan that would address effective leadership,

change the organizational culture, focus on customers, and reengineer its processes. Until that plan is fully implemented, resolving civil rights complaints will remain a management challenge for USDA. In September 2002, the General Accounting Office reported that the processing of program complaints continued to exceed required timeframes. The Department has demonstrated the importance it places on civil rights when the first Assistant Secretary for Civil Rights was sworn into office on April 1, 2003. OIG will continue to work with the Department to strengthen the operations of the civil rights program.

8. RESEARCH MISCONDUCT POLICY NOT CONSISTENTLY IMPLEMENTED – EMERGING ISSUE

USDA plays a major role in U.S. agricultural research activities, providing well over $1 billion annually for research to increase American agriculture production and to protect and treat American agricultural crops against foreign plants and animal pests and diseases. Research integrity is critical to the mission of USDA. In December 2000, the President's Office of Science and Technology Policy issued a Federal policy to establish uniformity among Federal agency definitions and treatment of research misconduct. USDA, however, has not implemented a coordinated Department-wide policy or procedures for the treatment of research misconduct; responsibility for implementing the Federal policy was delegated to each agency within USDA. In an ongoing OIG review, we found that most USDA agencies have not implemented any research misconduct policies and procedures. In those agencies that had implemented a policy, procedures were inconsistent and relied primarily on in-house resources to review allegations of research misconduct. In the absence of consistent policies, USDA has no assurance that potential research misconduct involving USDA funds is being timely referred, independently adjudicated, and appropriately resolved, including determining whether criminal investigation is warranted.

9. USDA FACES MAJOR CHALLENGES IN IMPLEMENTING THE 2002 FARM BILL AND DISASTER ASSISTANCE LEGISLATION

The multi-billion dollar Farm Bill, the Farm Security and Rural Investment Act of 2002 (Act), enacted new or reauthorized existing farm income, commodity support, and conservation programs for crop years 2002 through 2007. This Act made significant changes in the support of production agriculture. Efficient and effective performance and management of these programs are critical to the missions of the Farm Service Agency (FSA) and the Department and necessitated by the magnitude of funding for the programs (program outlays for the Commodity and Conservation provisions are estimated to be about $63 billion over the duration of the Act). For example, new Direct and Counter-Cyclical Program payments through 2007 are based on one-time base and yield options that producers selected by April 1, 2003. If errors and irregularities in the bases and yields are not prevented or timely detected, resultant improper payments may be perpetuated throughout the 6-year life of the program.

The Agricultural Assistance Act of 2003 provided $3.1 billion for qualifying 2001 or 2002 disaster losses of crops, livestock, and grazing in addition to the "regular" farm program assistance under the Farm Bill. Such ad hoc disaster assistance programs are particularly

susceptible to fraud, waste, or abuse in that they are not implemented timely to coincide with the physical evidence of loss and greater reliance must be placed on producers' self-certifications of qualifying damage or loss. Prior audits of similar ad hoc disaster assistance programs have identified ongoing concerns with payments to ineligible recipients or for ineligible or overstated losses.

USDA's challenge is to effectively work across organizational lines to ensure that data is shared, discrepancies are resolved in automated systems, and problems found in internal reviews and audits are coordinated and analyzed for their impact on program payments in each affected agency.

10. INTEGRITY OF THE FEDERAL CROP INSURANCE PROGRAMS POLICYHOLDERS' DATABASE MUST BE STRENGTHENED

The Federal crop insurance programs, administered by the Federal Crop Insurance Corporation (FCIC) in conjunction with the Risk Management Agency (RMA), have become the American producers' primary "safety net." Over the years, as Congress mandated changes to the programs, the Federal crop insurance programs have grown significantly, particularly after the passage of the Agricultural Risk Protection Act of 2000 (ARPA). Under ARPA, Congress encouraged participation by American producers by increasing the level of subsidized premiums. By crop year 2002, crop insurance coverage increased to 216 million acres with a total Government insurance liability of over $37 billion. However, indemnity payments and subsidy reimbursements have also increased: for the 2000 crop year, indemnity payments totaled approximately $4 billion, while the Government's subsidized share of the insurance premium totaled approximately $1.7 billion. At the same time, RMA has not been able to determine the level of improper or erroneous payments under its programs. To ensure the integrity of its program payments, RMA must continue to improve and strengthen its policyholders' database by effectively implementing all of the provisions under ARPA, and improving its Data Acceptance System (DAS). ARPA mandated that additional methods of ensuring Federal crop insurance program compliance integrity be developed and implemented, including a plan for FSA to assist RMA in the ongoing monitoring of crop insurance programs. RMA has not yet fully implemented the required data reconciliation between FSA records and RMA records. Data mining was also stipulated under ARPA; RMA has acknowledged that data mining has provided constructive feedback to the agency. RMA's DAS is intended to perform as a series of edits on information submitted by the insurance companies before it is incorporated into RMA's electronic Policyholder Database. Audit results, however, have shown that the information contained in the system and used to drive RMA's accounting system may not be reliable and/or compliant with OMB core and Federal financial system requirements.

AGENCY-SPECIFIC CHALLENGES

11. STRONG INTERNAL CONTROL STRUCTURE IS CRITICAL TO THE DELIVERY OF FOREST SERVICE PROGRAMS

The Forest Service (FS) needs to continue to improve its system of internal controls to ensure the agency is accountable for the efficient and effective delivery of its programs. The decentralized organizational structure of the FS makes it imperative that a well-defined system of controls be in place and effectively operating. For example, a strong internal control structure is essential to FS's challenge of implementing the National Fire Plan to deal with recent catastrophic fires. Our initial work found that controls were not adequate to ensure that funds were spent as intended and budget estimates provided by the agency for the implementation of the fire plan accurately reflected its needs. These issues are consistent with the control weaknesses found in other programs administered by FS, such as grant award and administration, timber environmental analyses, and the agency's implementation of the Government Performance and Results Act. FS has begun actions to resolve individual issues; however, a comprehensive evaluation of its systems of internal controls has not been completed. These weaknesses have impeded FS' ability to effectively prioritize its work and fund those projects most essential to its mission.

12. IMPROVEMENTS AND SAFEGUARDS NEEDED FOR RURAL MULTI-FAMILY HOUSING PROGRAM

A substantial portion of the Rural Housing Service's (RHS) current Rural Rental Housing (RRH) loan portfolio involves properties over 20 years old. RHS faces a major challenge to maintain its portfolio in good repair so that it will continue to provide safe, decent, and affordable housing for low to moderate income rural residents. RHS needs to address several challenges in its management of the Multi-Family Housing (MFH) program. RHS needs to: inspect and repair its aging portfolio; accurately report to Congress the units built in its guaranteed MFH program; plan for future increases in rental assistance costs; implement wage matching to identify excessive rental assistance costs; fairly use equity incentives to keep RRH projects in the program; and continue to implement regulatory and other internal controls to address deficiencies that have been identified in the program.

MANAGEMENT'S RESPONSE TO THE OIG REPORT ON MAJOR USDA MANAGEMENT CHALLENGES (SEPTEMBER 2003)

USDA has made many significant accomplishments to address weaknesses identified by the Office of Inspector General (OIG) during FY 2002. In some instances, the challenges identified in the prior OIG report remained a challenge for the Department during FY 2003. USDA is working with other Federal Government departments, Congress and the General Accounting Office to eliminate or reduce the risk associated with each challenge. The following are management responses to challenges identified by USDA's OIG during FY 2003. Each challenge is followed by management's accomplishments and planned actions to address each issue. Additional accomplishments are listed in the next section of this report.

Department-wide Challenges

1. Homeland Security Considerations Should be Incorporated Into Program Design and Implementation

Management's Response:

One of the most important steps taken to secure American agricultural production and the food supply was the "Select Agents Rule" mandated by the Agriculture Bioterrorism Protection Act of 2002. USDA and the U.S. Department of Health and Human Services (HHS) issued complementary regulations that established new safeguards for the possession, use and transfer of certain toxins and biological agents. These safeguards reduce the chance of terrorists acquiring dangerous pathogens and toxins.

USDA has begun a pilot version of a National Animal Health Laboratory Network (NAHLN). NAHLN is a network of Federal and State resources intended to enable a rapid and sufficient response to animal-health emergencies, including foot and mouth disease and other exotic animal diseases. It reconfigures the Nation's animal-health diagnostic services by positioning the National Veterinary Services Laboratories in Ames, Iowa, to be the lead animal-health laboratory. NAHLN also allows certain State-operated laboratories and some universities to cooperate in exotic animal-disease surveillance and related services. Such an arrangement enhances the Nation's animal-health diagnostic services, speeds response efforts should an exotic animal disease be detected in the U.S. and lends greater credibility to the Department's animal-health export certifications. A similar effort is underway to build a laboratory network for plants.

USDA has developed guidance documents for distribution to farmers and ranchers to advise them on how to secure their operations. Information was posted on the USDA Web site and distributed through the Department's Extension system to reach constituents throughout the Nation.

The Department conducted vulnerability assessments for domestic and imported food, and threat assessments to ensure the security of food. The assessments also addressed food purchased by USDA for Federal feeding programs, shipping procedures and storage.

Two of USDA's highest homeland security priorities are the improvement of communication channels between the Department and the intelligence community, and the development of a more sophisticated way of communicating sensitive information to the private sector. Thus, when there are incidents, warnings or threats, the private sector can assist the Department in preventing or mitigating a problem. USDA is working with the Department of Homeland Security (DHS) to

coordinate its communications programs to better protect agricultural production and the food supply. One such joint effort is the DHS-USDA-HHS project to organize the food and agriculture sectors. An organized sector can provide assistance to the industry by suggesting guidelines and best practices, and providing a means for sharing information.

2. Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed to Meet HACCP's Goals

Management's Response:
The Food Safety and Inspection Service will:

- Update Directive 10010.1 "Microbiological Testing Program For Escheria Coli 0157:H7" to provide direction in the collection and processing of traceback samples;
- Update Directive 6420.1 "Livestock Post-Moretum Inspection Activities-Enforcing the Zero Tolerances for Fecal Material, Ingesta and Milk" with explicit instructions for handling and re-inspecting contaminated carcasses;
- Implement revised *Listeria monocytogenes* rule for Ready-to-Eat products;
- Update industry guidance on planning for recalls; and
- Conduct baseline studies to determine the nationwide levels of various pathogenic microorganisms in raw meat and poultry.

3. Risk Must be Examined and Improper Payments Minimized Within USDA – Emerging Issue

Management's Response:
On August 11, 2003, the Department's Chief Financial Officer issued a policy memorandum to all USDA agencies. The memorandum provided instructions for implementing program reviews to identify erroneous payments. USDA's component agencies will develop statistically valid estimates for all programs identified as susceptible to significant erroneous payments. They also will implement an action plan to reduce erroneous payments. Additionally, agencies will report erroneous payment estimates and reduction goals to the President and Congress in USDA's *Performance and Accountability Report* beginning in FY 2004 and annually thereafter.

Specific erroneous payment reduction initiatives are included in the Management Discussion and Analysis section and Appendix B of this report.

4. Financial Management – Improvement Made but Additional Actions Still Needed

Management's Response:
In FY 2003, USDA received a clean opinion on five stand-alone audits and the FY 2002 Consolidated Financial Statements. USDA has provided timely and accurate quarterly financial statements to the Office of Management and Budget, which met the accelerated time frames for financial statements. The Department completed implementation and conversion of all USDA agencies to a standard and compliant administrative financial-management system. USDA is using data warehousing technology to provide consolidated reporting to meet the integrated financial system requirements at USDA for both administrative and program data.

The Office of the Chief Financial Officer will establish effective funds control and work with USDA agencies to prevent Anti-Deficiency Act violations. Key performance standards have been established for accounting operations. These standards are monitored against actual performance regularly. The Department will obtain a clean audit opinion for all agencies and USDA on a consolidated basis in FY 2004 and beyond. USDA will continue successful completion of the feeder system renovation initiative and implementation of the new Integrated Acquisition System and Corporate Property Automated Information System.

5. Information Technology Security – Much Accomplished, More Needed

Management's Response:
During FY 2004, the USDA's Office of the Chief Information Officer (OCIO) will receive copies of the agencies' scan reports monthly to monitor their system/network vulnerabilities. OCIO plans to continue to expand and improve the Department's Intrusion Detection System, conduct annual Federal Information Security Management Act (FISMA) self-assessments and develop plans of action for any weaknesses found. To secure sensitive data and improve contingency planning, configuration management and physical security, OCIO will certify and accredit USDA's major systems. To comply with Federal Security guidance, the OCIO will engage the Department of Homeland Security to conduct a project review. USDA will continue to assess its risk to critical information-technology systems by engaging contractors to perform independent risk assessments and annual FISMA self-assessments. The OCIO will issue policy for background checks of information-technology personnel.

6. Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets – Emerging Issue

Management's Response:
There are 450,000 samples managed by the National Plant Germplasm System (NPGS) maintained in relatively small quantities (i.e., individual small envelopes and bags) in genebanks. These small quantities help conserve crop genetic diversity and encourage the use of that diversity by crop researchers and breeders. These samples are distributed for research and educational purposes to researchers, breeders and other requesters in "research quantities." These quantities generally are about 100 seeds, or significantly fewer cuttings or roots per sample. These materials are for the most part specialized research tools like special genetic lines. The materials also could be noncommercial materials like traditional farmers' varieties. Both primarily are useful to only scientists or breeders. A small proportion also may be legal vouchers of commercial, elite lines. These lines are maintained (but generally not distributed) in the high-security National Center for Genetic Resource Preservation in Fort Collins, Colorado, at the request of USDA's Agricultural Marketing Service's Plant Variety Protection Office. Germplasm in the NPGS is disseminated in completely different distribution channels than commercial seeds for planting or bulk commodity grain shipments. The recipients of NPGS germplasm generally maintain them as research tools separate from any commercial materials that would enter the marketplace.

Associated with these samples are identification information and descriptive evaluation data. This data are maintained in an extensive on-line database known as the Germplasm Resource Information Network (GRIN). While the amount of information associated with each sample is highly variable, it generally is extensive for advanced genetic stocks or elite germplasm maintained as legal vouchers. The less-than-10 percent of total NPGS inventory samples that usually are genetically-engineered generally belong to the preceding categories. Because many of these are legal vouchers, an even smaller percentage of the total is distributed to requesters. Since de-

tailed information, which could include pedigrees, accompanies the material, a knowledgeable requestor and germplasm curator can determine whether or not the materials are genetically-engineered. All distributions of NPGS germplasm, whether genetically engineered or not, are tracked by the GRIN database. Thus, the information is readily retrievable. Additionally, genetically engineered materials that are research tools are distributed only to requesters who hold valid USDA Animal and Plant Health Inspection Service permits. These permits authorize them to maintain and conduct experiments with that material.

7. Civil Rights Complaints Processing Still a Concern at USDA

Management's Response:

Four initiatives have been proposed to address concerns about complaint processing:

- **Complaint Inventory Reduction (Program and Employment).** This initiative will reduce the total number of open complaints and implement significant institutional changes to prevent excess inventories in the future. The strategy supporting this initiative relies on the estimation of and planning for incoming complaints. It also depends on the aggressive use of Alternative Dispute Resolution (ADR) techniques, when appropriate, in an attempt to resolve complaints at the informal stage.

- **Increasing Informal Equal Employment Opportunity Complaint Resolution Rates**. This initiative expands the use of ADR, when appropriate, as an integral part of USDA's informal equal-employment opportunity complaint-resolution process. Interim policy guidance is expected to be issued by December 1, 2003, with implementation commencing January 1, 2004. Agencies will begin reporting the impact of this initiative by February 15, 2004. A final policy reflecting the results of the initiative will be issued March 1, 2004.

- **Prevention of Program Complaints.** The Office of Civil Rights plans to develop, implement and evaluate a proactive approach to prevent program-delivery complaints. This initiative ensures that all USDA customers, particularly those who are socially and economically disadvantaged, receive timely and meaningful technical assistance regarding program benefits and application requirements. The Department will conduct a series of hands-on technical assistance and training workshops conducted throughout FY 2004. This initiative began in October 2003, with the forming of an implementation team. The evaluation phase of this initiative ends September 30, 2004.

- **Prevention of Equal Employment Opportunity Complaints.** This initiative will reduce the number of complaints filed annually by employees and job applicants. The goal is to enhance USDA's image as an *"employer of choice."* The Department also wants to reduce the complaints inventory to a more manageable level. USDA will assess the work force, identifying actual and perceived barriers to equal-employment opportunities. It also will recommend management actions to alleviate, mitigate and preclude management actions that impact adversely or generate a negative image of USDA as an equal-opportunity employer. Implementation of this initiative began in October 2003, with the formation of an implementation team. The evaluation phase of this initiative begins April 5, 2004, and ends June 30, 2004.

8. Research Misconduct Policy Not Consistently Implemented – Emerging Issue

Management's Response:
In December 2000, the President's Office of Science and Technology Policy (OSTP) issued a Federal policy to establish uniformity among agency definitions and treatment of research misconduct. Implementation of the Federal policy was delegated to each USDA agency. USDA's Agricultural Research Service (ARS) worked closely with OSTP in developing the Federal policy. The policy was patterned after the Agency's written policies and procedures, which have been in place for more than 10 years. On June 10, 2003, ARS updates *Research Misconduct Policies and Procedures* maintaining the agency's compliance with the Federal policy.

9. USDA Faces Major Challenges in Implementing the 2002 Farm Bill and Disaster Assistance Legislation

Management's Response:
To help ensure efficient and effective program performance and management, USDA's Farm Service Agency (FSA) has:

- Provided queries and procedures to State and county offices in August 2003. The offices then conducted spot checks of production evidence when Direct Counter-Cyclical Payment (DCP) yields were established based on actual yields;
- Instituted daily reports to monitor progress of DCP enrollments in counties;
- Evaluated the accuracy of certifications of Average Adjusted Gross Income certificates as part of payment-limitation eligibility end-of-year reviews;
- Posted critical program information and deadlines on USDA and FSA Web sites;
- Made program fact sheets available online and at county offices; and
- Developed queries to calculate the quality of 2001/2002 Crop Disaster Program for peanuts and cotton.

USDA planned actions include:

- Developing *FSA Handbook 4-RM*. This handbook deals with Federal Crop Insurance Corporation program integrity. It is being amended to require FSA State and county offices to notify and provide information to the Risk Management Agency (RMA) dealing with concerns raised through both internal and external audits. The procedure will instruct State and county FSA offices to provide details of case-specific information or overall program administration concerns, as applicable, to the Regional RMA Compliance Office; and
- Generating letters to producers who have not filed acreage reports of all cropland on the farm as required by the Farm Security and Rural Investment Act of 2002.

RMA has issued procedures and instructions outlining how problems found in internal reviews and audits are to be communicated to FSA.

10. Integrity of the Federal Crop Insurance Programs Policyholders' Database Must be Strengthened

Management's Response:
RMA control processes and oversight responsibilities of insurance providers are outlined in Manual-14, Guidelines and Expectation for the Delivery of the Federal Crop Insurance Program,

FCIC-14010. Manual-14, issued in September 1997, needs to be updated to incorporate changes required by the passage of the Agricultural Risk Protection Act. RMA recognizes the need for a more efficient and effective process. Thus, it has contracted to update Manual-14. The contract is for the development of a quality-assurance and performance-measurement system for evaluating an insurance provider's effectiveness of program delivery. The system will include a system of sanctions and incentives.

RMA has implemented the majority of provisions relative to Agricultural Risk Protection Act. The remaining major initiatives include Renegotiating the Standard Reinsurance Agreement (SRA) and Reconciling Producer Information. RMA expects to complete SRA renegotiation by July 2004. The Deputy Undersecretary for Farm and Foreign Agricultural Services, and the RMA and FSA Administrators have established a cross-functional team to implement a Common Information System (CIS). CIS will eliminate the need for producers to report the same information to FSA and reinsured companies. This will create efficiencies for producers, the agencies and reinsured companies. It also will reduce the need for data reconciliation. CIS will begin as a pilot in 2004 in selected areas where the common land unit has been certified by FSA.

11. Strong Internal Control Structure is Critical to the Delivery of Forest Service Programs

Management's Response:

The Forest Service (FS) is implementing a two-step process. This process involves conducting agency risk assessments to evaluate high-risk processes within FS and reaffirming the agency's internal review process. The key milestones include:

- Conducting an agency risk assessment by June 2004;
- Issuing new policy and procedures by September 2005;
- Conducting a minimum of two "Chief Reviews" annually;
- Conducting Financial Compliance and Internal Control reviews based on the agency's highest priorities annually;
- Conducting program/activity reviews annually; and
- Conducting acquisition internal control reviews annually.

Additional planned actions include:

- Publishing final policies and procedures;
- Implementing a four-year review cycle that will cover all regions/stations;
- Participating in a requirements session for an automated solution for Grants & Agreement administration and accounting;
- Monitoring all planned actions in the Administrative Control Plan;
- Finalizing a partnership guide for communities, non-Governmental organizations and others who want to partner with the agency;
- Developing an assessment tool for the field units to assist them in determining if they have the necessary resources, personnel and skills to enter into partnerships;
- Implementing requirements for line officer/manager certification of reported accomplishments;
- Reviewing a representative sample of rehabilitation and restoration projects that regions select for National Fire Plan (NFP) funding to ensure they meet the project selection criteria;

- Reviewing and clarifying direction regarding NFP;
- Continuing to implement the Performance and Accountability System;
- Creating a system design;
- Beginning alignment and integration with other key systems; and
- Implementing the new system.

12. Improvements and Safeguards Needed for Rural Multi-Family Housing Program

Management's Response:
During FY 2004, the Rural Housing Service (RHS) plans to perform a comprehensive property assessment to determine the condition of its portfolio. The assessment is designed, at the very least, to determine the property's financial health, decide whether to continue rental housing and analyze prepayment potential. It also will assess future capital reserves and analyze prepayment incentive costs to retain properties/use restrictions. USDA created a Multifamily Advisory Group to oversee the completion of the property assessment.

OIG recommended that RHS clarify its performance measure. Thus, the current performance measure is reported as "number of units selected for funding" rather than "units built." This clarification took effect with the March 2003 publishing of the *FY 2002 Annual Performance Report*.

To enhance the proficiency of forecasting rental assistance needs and budget requests, Rural Development has taken steps to improve the rental assistance projections through a number of initiatives, including:

- Reviewing all of more than 17,000 contracts for consistency in contract language to determine if funds must continue with the contract until fully disbursed;
- Automatically computing rental assistance based on a five-year term with a fixed number of renewal units;
- Participating in the development of the forecasting model to infuse new ideas for how rental-assistance funding needs should be projected;
- Working with the General Accounting Office in its review of unliquidated obligations; and
- Publishing of Proposed Rule 3560, to assist in developing efficiency and consistency in administering rental assistance from state to state.

One of several innovations that USDA has undertaken in its Multi-Family Housing Program is the collaboration between Rural Development and States. This partnership offers a wage and benefit matching program to detect unreported and underreported income. The Department sought Memoranda of Understanding between USDA and those States offering the wage-matching program.

The Office of Rental Housing Preservation in the Portfolio Management Division continues to pursue opportunities for leveraging the limited amount of financial resources available to retain properties in the portfolio. Incentives offered to owners to continue in the Section 515 program include:

- Providing an equity loan;
- Increasing rental assistance;
- Increasing return on investment;

- Releasing excess reserve funds; and
- Reducing loan interest rates through an interest credit provision.

Multi-Family Housing is developing operating manuals for each of its discrete processes. The manuals will cover rental-assistance allocation and processing, prepayment and preservation management, and inventory property disposition. Servicing goals have been established for each State office. Through technology and regular reporting, the Portfolio Management Division is monitoring activities related to the portfolio. Information technology systems have improved over the last year. Reporting systems from the portfolio properties directly to the Financial Management Division will ensure that subsidy-voucher requests are verified and processed independently.

The development and implementation of a Web-based subsidy voucher computer program, and the Management Interface Connectivity Network, will enable property owners and managers to input subsidy voucher requests online. The Network also will allow them to link directly to USDA's financial-management center in St. Louis, Missouri. The computerized system will eliminate most manual entries and insert additional internal controls by providing an automatic payment-validation process.

STATUS OF FY 2002 MAJOR MANAGEMENT CHALLENGES AND PROGRAM RISKS

Source: GAO REPORT entitled "Major Management Challenges and Program Risks":GAO-03-96 (January 2003)
OIG Major USDA Management Challenges (November 8, 2002)

The following table provides FY 2003 accomplishments by USDA agencies on major management challenges identified by the above sources. There will be no further reporting on challenges not repeated in the Office of Inspector General's (OIG) September 2003 report.

An asterisk (*) beside the challenge title indicates that this is a prior year management challenge that is repeated or consolidated into a Department-wide issue in the new OIG Major Management Challenges Report dated September 2003. Future plans for these challenges are included in the previous section.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Biosecurity and Biosafety controls at USDA-funded laboratories (APHIS) Minimal or no guidance involving biosecurity at USDA funded laboratories (OIG)	• Provided guidance by communicating the "disease status" change for Canada from non-affected to "BSE-affected," to all Department of Homeland Security, Customs and Border Protection personnel. The Center for Veterinary Biologics and the National Veterinary Services Laboratories continued to answer inquiries from interested parties. Information provided includes documentation of registration, permit and inspection processes as well as instruction in bio-agent security. • Published Departmental Manuals on USDA Security Policies and Procedures for Biosafety Level 3 (BSL-3) Facilities, as well as, Laboratories and Technical Facilities (excluding BSL–3 facilities). • Conducted two risk assessments and developed corrective-action plans based on the results. The plans include: restricted access for high-consequence pathogen laboratories; identification of a threat list of pathogens of concern consisting of agents with a high risk for illicit use; continued requirements for background and security checks of personnel who need access to biological agents; updated physical security at laboratories; and appropriate containment, storage and handling of the biological agents. There will be no further reporting on this challenge.
Protection against Importing Animal Diseases (APHIS, FSIS)* • Coordination and timeliness of providing guidance to protect against the possible introduction of foot and mouth disease (GAO and OIG) • Preventing entry of contaminated food products into the United States (GAO and OIG)	• Transferred APHIS' Agriculture Quarantine Inspectors to the newly created Department of Homeland Security, Customs and Border Protection to create a consolidated border inspection agency. Agreements on (1) Cooperation & Reciprocity, (2) Regulatory Coordination, and (3) Separation of Functions all have been signed. • APHIS and the Department of Homeland Security have clarified roles and designated functions, areas of responsibility and regulatory-coordination responsibilities concerning agricultural inspections. • APHIS will continue to perform risk analyses and investigate activities to identify problems that present a viable threat to the Nation's agriculture.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Security of Biological Agents at USDA Laboratories (Homeland Security Staff) • Lack of department level policies to manage and secure facilities (GAO and OIG) **Security of Biological Agents at USDA Laboratories** (Continued) • Inaccurate recording of inventory (GAO) • Lack of centralized and consolidated databases (GAO) • No alarm systems, security fences and surveillance cameras (GAO) • Lack of controlled access to biological agents by unauthorized personnel (GAO and OIG)	• Published Departmental Manuals on *USDA Security Policies and Procedures for Biosafety Level 3 (BSL-3) Facilities* and *Laboratories and Technical Facilities (excluding BSL–3 facilities)*. • Established a National Pathogen Inventory for all ARS, FSIS and AMS pathogens. Data were entered and validated by all locations during April and May 2003. • Completed security assessments on all non-BSL-3 ARS Laboratories and Research facilities. • Began physical security upgrades as funding permitted and based on order of priority of BSL-3, Select Agent BSL-2, mission critical and all other laboratories and technical facilities. • Addressed access to biological agents in Departmental manuals and various other USDA guidance. Systems are in place for public risk-level assessments on all BSL-3 positions (Government and non-Government) with appropriate background investigations. A *Federal Register Notice* has been drafted to permit similar risk determinations and background investigations for non-USDA personnel working in USDA facilities. • Validated the National Pathogen Inventory is validated annually. BSL-3 facility inventories are updated every month. Non-BSL-3 facility inventories are updated quarterly.
Resolving Discrimination Complaints (Civil Rights) * Untimely processing of discrimination complaints (GAO and OIG)	• Created a sub-cabinet-level position to oversee civil rights issues. • Conducted a post-OIG audit inspection of Equal Employment Opportunity complaint files and submitted a report of its finding to OIG. A complete file review is planned. • Developed final Standard Operating Procedures (SOP) for conducting agency civil rights evaluations in March 2003. • In cooperation with OIG, the Office of Civil Rights proposed changes to the Delegations of Authority for the Assistant Secretary of Civil Rights found at 7 CFR Part 2. These proposed changes address the negotiation of settlement agreements in program discrimination complaints and include the vetting of settlement agreements by OIG. The revised delegations should be completed by January 2004.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Food Assistance Programs (FNS) • Ineligible recipients (OIG and GAO) • Trafficking by authorized and unauthorized retailers (OIG and GAO) • Implementation of the Electronic Benefits Transfer (EBT) system (OIG and GAO)	• Created a national team of experts to monitor and evaluate payment-accuracy progress, analyze error-rate data and exchange information on payment-accuracy best practices and program-improvement strategies. • Announced FY 2002 Error Rates. • Continued to exchange best practice information through the State Exchange Program and Extranet site. • Co-sponsored, with the California State Agency, seminars for California county welfare office personnel on various aspects of payment accuracy. • Established and updated performance tiers for States (based on error-rate performance) to support effective and consistent intervention and technical assistance. • Conducted quarterly national payment accuracy work group meetings to facilitate the dissemination and use of error reduction strategies. • Co-hosted and played a major role in a Midwest annual error reduction seminar (Big Ten Conference). • Met with California officials to discuss strategy for FY 2004 error-reduction seminars. • Implemented the Watch List Computer system, which strengthened FNS' ability to account for manage critical compliance-related data concerning retailers. • Developed new standardized training material to assist retailers in complying with program requirements. • Operated EBT systems in 52 of 53 States and U.S. Territories have an operational EBT system. Forty-nine States have State-wide systems.
National School Lunch and School Breakfast Programs (FNS) * Eligibility determination and verification process (OIG)	• Received comments on proposed regulatory changes to improve State and local reporting on certification accuracy. Final Rule published September 2003. • Completed fieldwork and data-gathering activities for two studies for: 1) Fifteen large school districts and the current verification process; and 2) verification outcomes from 21 school food authorities involved in testing new procedures. Reports on these studies have not been finalized. • Proposed approaches to reduce certification errors through the Child Nutrition Program legislative reauthorization process.
Management and Program Delivery Issues (FS) * • Lack of an adequate internal control system to ensure compliance at field units (OIG) • Improper administration of grants to State and nonprofit organizations (OIG) • Inefficient controls over the environmental-analyses process for timber sales (OIG) • Development of policies for partnerships with private parties (OIG) • Lack of appropriate goals and objectives and accurate performance measures (OIG)	• Reviewed three regions to ensure compliance with agency policy and direction issued in the Quality Assurance Desk Guide (*CFO Bulletin 2003-7*). • Made presentations on partnership issues to Grants and Agreements Specialists at the National Grants and Agreements Conference. • Scheduled three quality assurance reviews to focus on internal controls. • Implemented proper controls to ensure program integrity, program planning and accountability. Developed a new more comprehensive internal review process to produce more effective results. The process was piloted in Region 3 and the Northeastern Area with positive results. • Established (through an agreement between the FS and the National Forest Foundation) the Partnership Resource Center Web site that contains the latest information on partnerships and authorities and instruments available to FS and partners to achieve goals. • Proposed legislation as part of the FY 2004 budget to clarify and expand partnership authorities. • Drafted FS Handbooks and Manuals for standard review procedures of environmental assessments and for implementing the National Environmental Policy Act (NEPA). • Completed review of 52 sales Nationwide. Each region has prepared a NEPA improvement plan and implemented a timber sale review process. • Linked annual performance goals and objectives to the annual budget. Finalized a set outcome based performance measures for inclusion in the FY 2005 budget formulation process.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
National Fire Plan (FS) * Waste and misuse of project funds (OIG)	• Used improved performance measures identified in the 10-year plan for FY 2004 with FY 2003 as a baseline for new data requirements. • Established project criteria for Rehabilitation & Restoration projects. All costs now are included in the fire model.
Improving Performance and Accountability at the Forest Service (FS) • Accountability of funds expended (GAO) • Lack of good performance measures and linkage to the budget (GAO) • Coordination with other federal agencies (GAO)	• Refined agency output measures and developed linkages to the output measures in the strategic plan for development of the FY 2005 budget and inclusion in the Agency Performance and Accountability System. • Implemented a new work-planning system that will be used in current-year work planning with consistent work activities. • Developed the budget using the Budget Formulation and Execution System (BFES). The budget is tied to specific performance measures for each BFES activity and is linked to strategic objectives and priority areas.
Grant and Agreement Administration (FS) * • Grants not used for purposes intended (OIG) • Federal funds not matched with required private funding (OIG) • Unauthorized expenditures paid with Federal funds (OIG) • Conformance with the Federal Grants and Cooperative Agreements Act or to the Office of Management and Budget and departmental regulations (OIG) • Mismanagement of accounting records (OIG)	• Issued national bulletins to clarify FFIS Project Cost Accounting (PCAS) procedures and to require use of PCAS for reimbursable agreements. These bulletins improved internal controls over grants. • Completed a financial- and acquisition-management review for Region 3, which covered grant administration issues. This review begins a four-year review cycle that will encompass all regions and stations.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Security of Aircraft (FS) • Lack of security standards (GAO) • Lack of security on air bases (GAO) • Lack of risk assessments to identify threats and misuse of aircraft by terrorists (GAO and OIG)	• Conducted consultation and coordination with the Transportation Security Administration regarding aviation security policy and procedures. • Issued a firefighter travel-safety alert that addressed security screening and travel requirements. • Initiated development of aviation security technology review and assessment procedures. Additionally, continued review of FS policy handbooks and manuals to implement changes related to aviation security. • Developed National Aviation Security Policy that contains security standards for all aviation facilities and links agency response actions to the Homeland Security Advisory System. • Developed contingency plans to implement needed security improvements at the highest priority facilities. • At each region, developed security procedures to respond to changes in the Homeland Security Advisory System threat levels. • Reclassified all pilot positions, both Government and contract, from "Low Risk" to "Moderate Risk Public Trust" positions, requiring a higher background-check level. • Developed an evaluation protocol at the Missoula Technology Development Center for security technology with aircraft. The evaluation will enable the use of new technologies to enhance security. • Finalized the National Aviation Security Policy to include a formal methodology requiring all regions to conduct risk and vulnerability assessments for all aircraft. It also requires semi-annual reviews of these assessments.
Farm Security and Rural Investment Act of 2002 (FSA) * • Ensure program integrity (OIG) • Strengthen monitoring and oversight activities (OIG) • Resources for farm and conservation programs (OIG)	• Established program compliance activities, National Internal Reviews of farm loan programs and the County Operations Review Program (CORP) to monitor program delivery and program management. • As of September 15, 2003, FSA completed 1,040 CORP target reviews, which examined specific program or administrative areas; and four comprehensive CORP reviews, which examined the majority of program and administrative operations in the county office being reviewed.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Food Safety (FSIS) * • Inspection and re-inspection of imported foods (GAO and OIG) • Ineffective implementation and enforcement of the Hazard Analysis and Critical Control Point (GAO and OIG)	• Updated the *Import Inspection Manual* with guidelines on "Automated Import Information System (AIIS) Contingency Plan". • Migrated the following information systems: LSFS/MARCIS, LEARN, and AIIS to the mainframe system, SYBASE platform. The system integration increases performance and decreases the response time between systems. • Updated time requirements and management control processes for reviewing and processing certification information in AIIS. • Completed Food Safety and Systems Correlation reviews for 10 districts. • Revised Directive 5000.1, which provides specific guidance to FSIS field personnel on properly verifying an establishment's compliance with the pathogen reduction, sanitation and HACCP regulations. • Initiated Food Safety Regulatory Essentials (FSRE) training. Eight-hundred employees completed this training. • Updated, issued and implemented procedures for annual re-certification of international meat and poultry establishments. • Implemented new procedures to verify that data exchanges between the Laboratory Sample Flow System, the Microbiological and Residue Computer Information System database and AIIS-3 are performed successfully. • Issued revised Directive 7335.1, Use of Sample Seals for Laboratory Samples and Other Applications, which provides detailed instructions to the inspectors on proper sample sealing procedures. • Issued Notice 55-02, Use of Microbial Pathogen Computer Modeling in HACCP Plans. • Issued Federal Register Notice 62325, E. coli 0157:H7 Contamination of Beef Products, to direct establishments to reassess their HACCP plans. • Established a Food Safety Risk Assessment Committee to enhance coordination and communication among USDA agencies in planning and conducting risk assessments. • Established a Technology Office to review new technologies that companies employ to ensure the usage is consistent with Agency regulations and will not adversely affect product safety, inspection procedures, or the safety of FSIS inspectors. • Established new regional training centers to bring comprehensive workforce training programs to the Agency's field employees. • Reissued Directive 7160.3 Revision 1 – Advanced Meat Recovery Using Beef Vertebral Raw Materials, to define more fully the range of follow-up actions available to the Agency when product from the Advanced Meat Recovery (AMR) system contains spinal cord tissue. • Conducted a public meeting on pre-harvest food safety issues to support publishing a best management practices document, which will help food producers reduce foodborne pathogens in beef cattle.
Information Security (OCIO)* • Agencies networks and systems are vulnerable to intrusion (GAO) • Sensitive data not protected (GAO and OIG) • Inappropriate security training (GAO) • Lack of contingency plans, physical security of facilities, and configuration management (GAO)	• Developed risk assessment tools for a wide range of platforms and operating systems. OCIO developed 12 checklists covering platforms, such as mainframes, AS/400's, Personal Electronic Devises and operating systems, such as Window 2000, Window XP and UNIX. • Provided scanning tools and training to assist agencies to identify security weaknesses. More than 150 licenses have been distributed to USDA agencies that are required to perform monthly scans and submit resulting reports. • Awarded 24 contracts for program and system assessments and awarded several contracts for security plans. • Developed guidance regarding Encryption Sensitive but Unclassified Information, Annual Security Plans, and identification and handling of sensitive information. • Site-assessment teams conducted on-site risk assessments at several key USDA computer facilities. • In conjunction with NFC and NITC, selected a Configuration Management (CM) tool for managing mainframe environmental software. Created a work group to establish a CM as a Department-wide program, established a CM tool section and configuration control board hierarchy. • Issued a Security Features User Guide. • Issued Telework and Remote Access guidance.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Information Security (Continued)	• Provided scanning tools to monitor networks to all agencies. • Implemented Department-wide contract through which agencies can purchase security patch management tools. • Held training for use and management of security patch management tools on June 12-13, 2003. • Awarded contract to populate USDA Security Architecture with tested and approved products. • Operated Department-wide Intrusion Detection System. Developed and operated a 24 x 7 capability that monitors USDA's entire backbone network system. New sensors, signatures and IDS tools were added and upgraded throughout the year. • Issued guidance for planning Computer Security Awareness and Training. • Issued guidance to provide survey of Security Awareness vendors and products. • Awarded contract to provide support for development of Department-wide Security Awareness and Training Program. Department obtained five computer security awareness training courses from the Presidential eLearning Initiative's GoLearn Project. • Conducted Certification and Accreditation Training and issued guidance to USDA component agencies. • Awarded contract for support of Disaster Recovery and Business Resumption Planning activities. • Issued guidance regarding Disaster Recovery and Business Resumption Plans. • With participation from the Office of Management and Budget, conducted a USDA Disaster Recovery and Business Resumption Kickoff Meeting. • Conducted pilot of Disaster Recovery and Business Resumption software. • Issued guidance to establish a Trusted Facility Manual. • Developed and tested disaster recovery plans for 12 major USDA systems. • Issued and drafted a number of information technology security-related policies, including: (1) mainframe security, (2) incident reporting, (3) security plan guidance, (4) security requirements for the use of private Internet access providers, (5) user ID and password requirements, (6) privacy policy on the use of customer information (i.e. cookies) and (7) server and firewall security, use of network protocol analyzers, and (8) physical security standards and use of configuration management.
Information Resource Management (OCIO)* • Noncompliance with OMB Circular A-130 and Presidential Decision Directive 63 (OIG) • Inadequate physical and logical access controls to verify authorized users (OIG) • Incomplete program risk assessment of systems and plans to eliminate or mitigate risks (OIG)	• Received final draft of IT Certification and Accreditation Methodology developed to prepare agencies to certify systems and become compliant with OMB guidance. • Received agencies' annual security plans according to OCIO guidance for security plans that comply with OMB guidance. • Worked with contractors to perform independent risk assessments of systems and programs. • Issued a follow-up contract for the support of Federal Information Security Management Act Action Plan process. • Submitted quarterly Government Information Security Reform Act security status report to OMB. • Developed security checklists for Novell and Windows EP operating systems. • Issued Risk Assessment Methodology guidance. • Conducted security self-assessments for FY 2003 Federal Information Security Act, and developed plans of actions to mitigate deficiencies. • Established department-wide policy guidance based on related guidance developed by OMB and NIST. Guidance includes: OCIO's Contingency Planning Guidance, Security Planning Guidance, Capital Planning Guide for Security, IT Certification and Accreditation Guide and Risk Assessment Methodology Guide.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Information Resource Management (Cont.) Inadequate oversight of security clearances and background checks for contractors (OIG)	• Awarded more than 35 contracts through an OCIO blanket purchase agreement that provides for independent risk assessment of information-technology systems within USDA. These contracts have resulted in detailed risk assessments of dozens of individual agency systems. • Completed the third annual assessment of USDA's Information Technology Security Program required by the Government Information Security Reform Act and the Federal Information Security Management Act. Currently, OCIO is tracking 264 individual security deficiencies and more than 4,000 action items designed to address them.
Business and Industry Loan-making and Servicing Procedures (RBS) Loan-making and servicing procedures not properly administered by some State and field office program staff (OIG)	• Entered into contract and began work with the Farm Credit Administration (FCA) to evaluate the safety and soundness of Business & Industry Guaranteed Loan Program and assure compliance with applicable laws and RBS regulations. • Completed three Business Programs Assessment Reviews and initiated several Business & Industry management control reviews. FCA will provide training to USDA's RBS staff in the examination process. There will be no further reporting on this challenge.
Waivers of Internal Controls (RBS) Granting improper and undocumented waivers to business and industry loan regulations (OIG)	• Established internal instructions regarding the waiver of loan regulation processes. • Continued rewrite of the servicing and processing regulations to define agency/lender responsibilities. There will be no further reporting on this challenge.
Federal Crop Insurance (RMA)* • Implementation of the Agricultural Risk Protection Act (OIG) • Oversight by insurance companies and the Risk Management Agency (OIG)	• Continued to initiate contracts and partnership agreements for new products mandated by the Agricultural Risk Protection Act. • Continued to work with contractors on the development of a more effective quality control review process.
Rural Rental Housing (RRH) Portfolio Management (RHS)* Maintain current portfolio in good repair to ensure safe, decent and affordable housing for rural Americans (OIG)	Published Proposed Rule June 2003 to completely restructure loan and grant programs, improve the ability to ensure properties are maintained and provide decent, safe and sanitary rental and farm labor housing. Nearly 3,000 comments were received. The estimated publication of the Final Rule is June 2004.

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
Guaranteed RRH Program (RHS)* Implement sufficient controls to ensure accurate reporting of units built (OIG)	Revised performance and results reported under the section 538 guaranteed rental program to clarify that units reported are those for which funds have been obligated to build new construction projects and the resulting units.
RRH Rental Assistance (RHS)* Development of plans for increased funding requirements (OIG)	Requested additional funding needed for the Rental Assistance program in FY 2004. Began development of a rental assistance automated program that will calculate renewal needs.
RRH Projects Leaving the Program (RHS)* Monitor incentive payments and ensure project owners continue to meet the conditions of the incentive payment (OIG)	• Improved preservation administration by implementing preservation incentive underwriting, thereby ensuring that incentive payments are fair. • Enhanced the tracking systems to determine the status of prepayments. • Implemented additional tracking systems for loans entering into the prepayment process. Improved the Agency's ability to determine the status of loans proposing prepayment and those that have been prepaid. Improved agency's ability to plan and implement preservation incentives.
RRH Unallowable and Excessive Expenses Charged to RRH Projects (RHS)* Monitor implementation of new regulation to address consistency and better controls for the RRH program and open OIG audit recommendations (OIG)	Under current agency procedures, identified unallowable and excessive expenses; made restitution. Referred cases to appropriate agency officials and OIG for action.
Improving the Delivery of Services to Farmers (NRCS, FSA, RD) • Lack of fully integrated program applications (GAO) • Lack of adequate staffing at the service centers to meet farmers' needs (GAO)	• Streamlined and improved the efficiency of servicing activities for its Direct Homeownership Program through the establishment of the Centralized Servicing Center in 1996. • Worked with the Farm Service Agency (FSA) to explore how the agency also may benefit through centralization either internally or through use of Rural Development's Centralized Servicing Center. • Rural Development's Centralized Servicing Center hosted a visit from Farm Credit - Canada. Farm Credit - Canada is looking to centralize servicing activities and purchase a state-of-the-art servicing system like the one used by Rural Development. Rural Development and Farm and Foreign Services are working to develop a plan on how the Agencies can further enhance program delivery. Signed a joint report which will be sent to the Deputy Secretary. • Made progress toward establishing a "common computing environment" within the department that is assisting Service Center agencies in complying with congressionally mandated E-Government goals. All three USDA Service Center Agencies (FSA, NRCS, and RD) have been trained and certified in accessing and using the system. • Implemented the "Common Customer" computer database known as the Service Center Information Management System (SCIMS). • Worked to deploy an operational nationwide FSA Geographic Information System. This system is particularly important because the majority

Challenges and Program Risk	Accomplishments for the Period October 1, 2002 - September, 30, 2003 (and Planned Actions, if applicable)
	of FSA's business data is geospatial in nature or referenced to a geographical location such as land records, field locations, boundaries and soil types. This critical component of the implementation is the digitization of farm field boundaries called Common Land Units (CLU). FSA has completed implementation in more than 900 counties and put in place a plan to accelerate CLU completion across the entire nation. • Continued efforts to deploy modernized Web-based application software to support FSA needs. • Established the USDA Real Estate for Sale Web site. This site allows the public to search in their local counties for either farms or houses that are being sold by the government. The site also advertises properties that will be offered at foreclosure sale by the Government. This site can be accessed from either the FSA or Rural Development home pages or the Firstgov.gov mail portal. • Staffed FSA's Federal and county offices to the maximum extent based on current appropriated funding levels. Continued to realign staffing and resources to support workload and workforce imbalances impacting program delivery on a case-by-case basis. • Began implementing the Technical Service Provider provisions of the Farm Bill. NRCS has developed final and interim rules for Technical Service Providers. An automated Technical Service Provider registry system is operating with over 700 Technical Service Providers already certified. Technical Service Providers are individuals, private groups, local Government employees and State Government employees.
USDA's Ability to Account for Its Financial Activities (OCFO)* Inability to assure that the consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles (GAO and OIG)	• Received an unqualified audit opinion on five USDA stand-alone audits and on the FY 2002 Consolidated Financial Statements. • Produced timely and accurate quarterly financial statements to OMB to meet accelerated timeframes for reporting. • Completed departmental implementation of a standard and compliant administrative financial system. • Began using data warehousing technology to provide consolidated reporting to meet integrated financial system requirements for both administrative and program data. • Completed a draft of the new *Debt Collection Regulations* which contain provisions for the optional DCIA tool of administrative wage garnishment, and published proposed rule 7 CFR Part 3, Debt Management, in the *Federal Register* with a 60- day comment period.