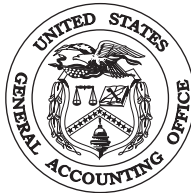


This material is part of a collection that documents the harassment, discrimination, and retaliation perpetrated against Alaska's women research scientists by their supervisor, with full knowledge (and arguably, "tacit approval") of their federal employer, the USDA Agricultural Research Service (ARS)

January 2001

Major Management Challenges and Program Risks

Department of Agriculture



Page 12 of this report addresses problems within USDA's Civil Rights Office, including "delays in processing discrimination complaints" resulting in "USDA's failure to comply with federal regulations that affect the livelihood and well-being of individuals who believe they have been discriminated against".

Pages 36-38

"Problems Persist in Processing Discrimination Complaints"



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January 2001

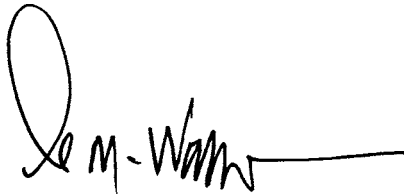
The President of the Senate
The Speaker of the House of Representatives

This report addresses the major performance and accountability challenges facing the Department of Agriculture (USDA) as it seeks to carry out its diverse missions, including ensuring the safety of the nation's food supply, providing food assistance for the needy, supporting the agricultural sector, and managing the national forests. It includes a summary of actions that USDA has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as "high risk." GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP), in November 2000.

This 2001 *Performance and Accountability Series* contains separate reports on 21 agencies—covering each cabinet department, most major independent

agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on performance and management challenges across the federal government. As a companion volume to this series, GAO is issuing an update on those government operations and programs that its work identified as “high risk” because of either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Overview

The U.S. Department of Agriculture (USDA) is one of the nation's largest federal agencies, employing over 110,000 people and managing a budget of over \$75 billion. Its 29 agencies and offices are responsible for operating more than 200 programs that, among other things, support the profitability and productivity of farming, protect the environment, ensure food safety, improve the well-being of rural America, promote domestic marketing and the export of food and farm products, conduct biotechnological and other agricultural research, and provide food assistance to Americans who need it. Managing the breadth and diversity of these responsibilities is a daunting task, but an important one. U.S. agriculture remains a vital component of our national economy, accounting for about 13 percent of the nation's gross domestic product, and is the economic heart of many rural communities. Since 1995, USDA has been engaged in a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service in the agricultural and rural areas. However, USDA still faces a number of specific performance and management challenges. The Congress also has a key role in ensuring that USDA effectively addresses these challenges.

**Performance and
accountability challenges**



- USDA's farm loan programs remain vulnerable to loss, but high-risk areas have been addressed
- Delivery of services to farmers has improved, but challenges remain
- USDA needs to effectively and efficiently provide food assistance benefits to eligible individuals while maintaining program integrity
- Fundamental changes are needed to minimize foodborne illnesses
- USDA needs to strengthen Department-wide information security
- USDA continues to lack financial accountability over billions of dollars in assets
- The Forest Service must provide the Congress and the public with a clear understanding of what it accomplishes with appropriated funds
- Problems persist in processing discrimination complaints

**Improving USDA's
Farm Loan Programs**

Since our previous report in January 1999, the financial condition of USDA's farm loan programs has improved dramatically. The unpaid principal of USDA's loan portfolio held by delinquent borrowers was reduced by about \$2.8 billion between September 1995 and September 2000. As such, we are removing the programs' high-risk designation. The decline in the amount of the loan portfolio held by delinquent borrowers in part reflects the positive actions that the Congress and USDA have taken to address the

underlying causes of the programs' past weaknesses. Specifically, the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 farm bill) contained numerous provisions, based in part on recommendations we previously made, aimed at improving the solvency of USDA's farm loan programs, including prohibiting certain high-risk loans. For example, provisions in the bill generally prohibit borrowers who caused losses on past USDA farm loans from obtaining new loans and specifically prohibit borrowers who are behind on payments on existing loans from obtaining new direct operating loans. Despite these important improvements, because of an unpaid principal of more than \$16.6 billion in direct and guaranteed farm loans, USDA and the Congress need to continue to monitor the effects of the positive actions already taken to ensure that improvements in the financial integrity of the farm loan programs continue.

Improving the Delivery of Services to Farmers

While the 1996 farm bill was aimed at reducing government involvement in maintaining the strength of the farm economy, USDA continues to have an important role in providing an effective means for distributing benefits and addressing farmers' concerns. Since 1995, USDA has been engaged in a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service. As of March 2000, USDA's effort to collocate its service centers was almost complete. While USDA collocated its county field offices, little has changed in how these offices serve their customers, and many modernization and reengineering projects have encountered delays. In August 1998, we reported that USDA lacked a comprehensive plan to guide the modernization effort and a management structure with the accountability and authority to resolve differences among the agencies. USDA is still working to address these challenges. In addition, in February 2000, we reported that the need for a change in the existing organizational culture was an

even more basic challenge that USDA needed to address before further progress could be made on each of the other modernization and reorganization initiatives. In December 2000, USDA officials told us they had made progress in changing the Department's organizational culture.

Maintaining Food Assistance Program Integrity

Since one in six Americans receives some sort of food assistance, USDA is challenged to ensure that eligible individuals receive the proper benefits from the 15 programs administered by its Food and Nutrition Service. In 2001, the Congress appropriated \$34 billion to operate these programs. This financial capacity also dictates that USDA continually address and minimize the amount of fraud and abuse occurring in these programs in order to ensure their integrity. For example, over \$1 billion in overpayments were made under the Food Stamp Program in 1999, and less than 20 percent was recovered. In addition, the trafficking of food stamps continues to be a problem. Estimates are that hundreds of millions of dollars in benefits are sold for cash annually by recipients at retail food stores and only a very small percentage of the financial penalties assessed to storeowners for trafficking is being collected, in part because of difficulties in collecting this type of debt, including problems in locating debtors and their refusal to pay. In recent reports, we have recommended various ways that USDA can improve its debt collection activities and better use electronic data to identify suspected storeowner and recipient traffickers. USDA must also take steps to develop a cost-effective strategy for the school lunch program to address the large percentage of ineligible children who are certified as eligible to receive free lunches. Since these and other food assistance programs account for almost 45 percent of USDA's fiscal year 2001 budget, it is critical that the Department implement an effective strategy to ensure that eligible individuals receive the proper benefits while minimizing the occurrence of

fraud and abuse before the programs' integrity is diminished.

**Minimizing
Foodborne Illnesses**

The level of foodborne illnesses has heightened concerns about the federal government's effectiveness in ensuring the safety of both the nation's domestic food supply and the food products imported into the U.S. marketplace. In response to a recommendation we made in an October 1997 report, USDA is implementing a new scientific system, called *Hazard Analysis and Critical Control Point*, to better ensure the safety of meat and poultry. USDA must also determine if foreign countries have implemented equivalent food safety and inspection systems before those countries can export products into the United States. However, as we have stated in numerous reports and testimonies, these requirements do not address the continuing fundamental problem facing USDA, namely, that the current food safety system is highly fragmented with as many as 12 different federal agencies administering over 35 laws regarding food safety. As we have maintained since 1992, until this fragmented system is replaced with a risk-based inspection system under a single food agency, the U.S. food safety system will continue to suffer from inconsistent oversight, poor coordination, and the inefficient allocation of resources.

**Strengthening USDA's
Information Security**

Significant weaknesses in USDA's information security program and its two major data centers place the Department's computer systems, which support billions of dollars in benefits, at significant risk. USDA has taken positive steps to improve its information security by developing its August 1999 action plan to address specific vulnerabilities and potential threats. However, little progress has been made to implement many of the components of the action plan that are critical to strengthening Department-wide information security. For example, as we reported in August 2000, at the time

of our review USDA had not established a comprehensive list of sensitive computer systems as required by the Computer Security Act of 1987. USDA also needed to develop and document a detailed strategy with time frames and milestones to fully implement the action plan and demonstrate that information security at USDA is a departmental priority.

Enhancing USDA's Ability to Account for Its Financial Activities

At headquarters, USDA continues to face major challenges in correcting severe and long-standing financial management problems and achieving financial accountability over the billions of dollars of assets required to carry out its diverse missions. Since 1991, USDA's Office of Inspector General has issued a series of unfavorable financial audit reports on USDA's consolidated financial statements. The Inspector General also reported that USDA's persistent internal control weaknesses and noncompliance with key laws and regulations have contributed to the Department's inability to achieve financial accountability. In addition, we reported in September 2000 that USDA continues to have significant problems with its electricity loan portfolio and that increased competition in the electricity industry has increased the risk that the federal government will incur future losses.

Improving Performance Accountability at the Forest Service

USDA's Forest Service is at a critical juncture in its evolution. The agency is refocusing the mix of its activities and attempting to identify where or under what circumstances it should restore degraded lands through active management. These issues are controversial and represent significant changes in the Forest Service's mission and funding priorities. It is, therefore, important for the agency to provide the Congress and the public with a better understanding of what is achieved with the funds that are being spent.

While the Forest Service has, in recent months, completed several actions and begun others to improve performance accountability, it does not appear to be fully committed to making performance accountability one of its top priorities, and major hurdles to achieving performance accountability remain. For instance, the agency has no plan to replace its existing organizational structure with one that is better linked to its strategic goals and objectives or to the way that work is routinely accomplished on the national forests.

Improving the Efficiency of USDA's Civil Rights Office

Finally, USDA's Civil Rights Office continues to experience problems in the timely processing of discrimination complaints. While some progress has been made to address identified weaknesses, USDA has not implemented a number of recommendations made by us and the Inspector General to improve its processing timeliness. Problems continue with (1) management turnover, (2) continued reorganizations within the Civil Rights Office, (3) inadequate staff and managerial expertise, (4) a lack of clear and up-to-date guidance and procedures, and (5) poor working relationships and communication within the Civil Rights Office and between the office and other USDA entities.

As we reported in January 1999, delays in processing discrimination complaints result in USDA's failure to comply with federal regulations that affect the livelihood and well-being of individuals who believe they have been discriminated against.

The Secretary of Agriculture has recently taken steps to address the Department's chronic problems in addressing discrimination complaints. However, these efforts will require sustained implementation, including additional funding for hiring and training personnel and, hence, long-term monitoring.

Major Performance and Accountability Challenges

Over the years, we, USDA's Inspector General, and others have documented problems with USDA's performance and management and have recommended reforms. This report summarizes findings from our previously issued reports on the effectiveness of USDA's efforts in (1) further reducing farm loan defaults, (2) improving the delivery of services to farmers, (3) providing food assistance benefits to eligible individuals while maintaining the food assistance programs' integrity, (4) minimizing foodborne illnesses in our nation's food supply, (5) strengthening USDA's information security, (6) effectively accounting for billions of dollars in assets and expenditures, (7) improving performance accountability at the Forest Service, and (8) addressing problems in processing civil rights complaints. We have also indicated, where applicable, actions that USDA has taken to address these management and performance problems, including actions taken that support removing the farm loan programs' high-risk designation, and areas where the Congress has a key role in ensuring that USDA effectively addresses its performance and management challenges.

Farm Loan Programs Remain Vulnerable to Loss, but High-Risk Issues Have Been Addressed

USDA's farm loan programs are intended to provide temporary financial assistance to farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms. In operating the farm loan programs, USDA faces the conflicting tasks of (1) providing high-risk borrowers with temporary credit so they can stay in farming until they are able to secure commercial credit and (2) ensuring that the taxpayers' investment is protected. The unpaid principal on USDA's farm loan portfolio totaled more than \$16.6 billion on September 30, 2000—about \$8.7 billion in direct loans and almost \$8 billion in guaranteed loans.

USDA's farm loan programs have been identified as high-risk since 1990 because of significant problems primarily with the direct loans. As we have previously reported, the farm loan programs had experienced a high rate of defaults on repayments; billions of dollars of losses had occurred and were likely to occur; and the Department had evolved into a continuous source of subsidized credit for thousands of borrowers. These problems occurred because of (1) program policies—some of which were congressionally directed—that contributed to financial risks and (2) the failure of the Department's field office officials to comply with existing loan and property management standards. For example, program policies allowed borrowers who defaulted and caused losses on past USDA farm loans to obtain new loans and allowed borrowers to obtain new direct loans for operating expenses without demonstrating their ability to pay their existing USDA debt. Also, field office lending officials approved loans on the basis of unrealistic estimates of production, income, and expenses and often failed to verify borrowers' existing debts.

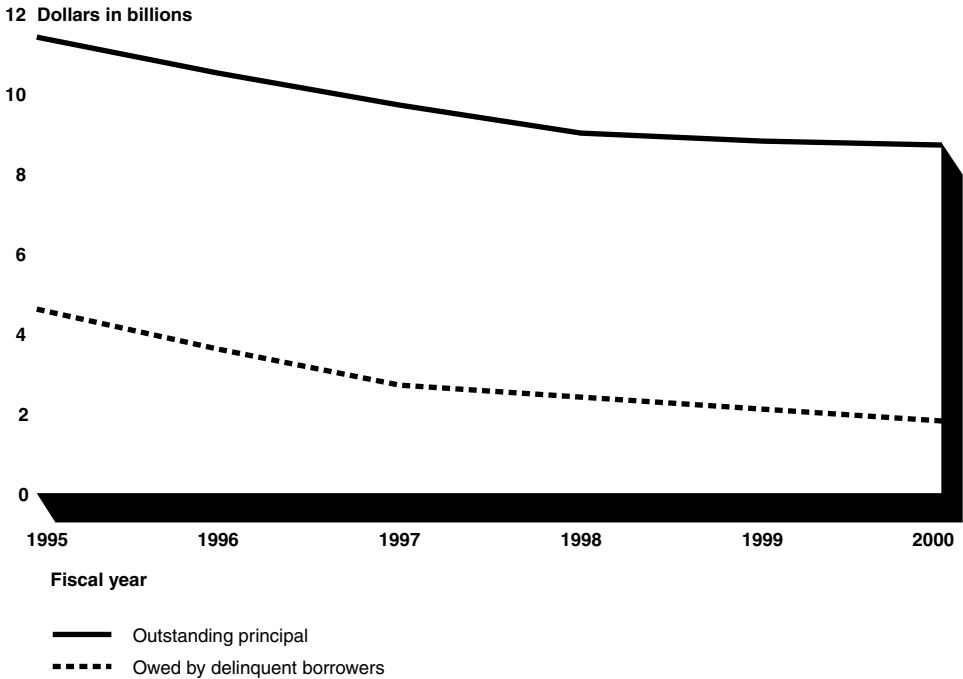
We are now removing the programs' high-risk designation. Over the last 2 years the financial condition of USDA's farm loan programs has continued to improve. The unpaid principal of USDA's loan portfolio held by delinquent borrowers was reduced by about \$2.8 billion between September 1995 and September 2000. During the early to mid-1990s, GAO made a variety of recommendations to USDA and the Congress that were aimed at improving the financial condition and operation of the farm loan programs. In addition, various pieces of legislation in recent years have had a significant impact on the operation of USDA's farm loan programs. Specifically, the 1996 farm bill made a variety of changes, based in part on recommendations we previously made, to the lending and servicing policies of USDA that were intended to reduce the risks associated with the farm loan programs. For example, it included

provisions that (1) prohibit borrowers who were delinquent on USDA direct or guaranteed farm loans from obtaining additional direct farm operating loans, (2) generally prohibit borrowers whose past defaults resulted in loan losses from obtaining new direct or guaranteed farm loans, and (3) limit borrowers to one instance of debt forgiveness on direct loans. The effect of these and other initiatives is now being recognized.

As of September 30, 2000, delinquent borrowers held more than \$1.8 billion (about 21 percent) of the outstanding principal on direct loans. This compares with about \$2.1 billion (23.5 percent) in September 1999 and \$2.4 billion (over 26 percent) in September 1998. Furthermore, the amount owed by delinquent borrowers was \$4.6 billion (about 41 percent) in September 1995. As figure 1 shows, the outstanding principal and the amounts owed by delinquent borrowers on direct farm loans have declined each year since the end of fiscal year 1995 and the enactment of the farm bill.

Major Performance and
Accountability Challenges

Figure 1: Outstanding Principal and Amount Owed by Borrowers Who Were Delinquent on Direct Farm Loans, End of Fiscal Years 1995 Through 2000



Note: The percentage of outstanding principal owed by delinquent borrowers was as follows: 40.7 percent in 1995, 34.2 percent in 1996, 28.2 percent in 1997, 26.4 percent in 1998, 23.5 percent in 1999, and 20.9 percent in 2000.

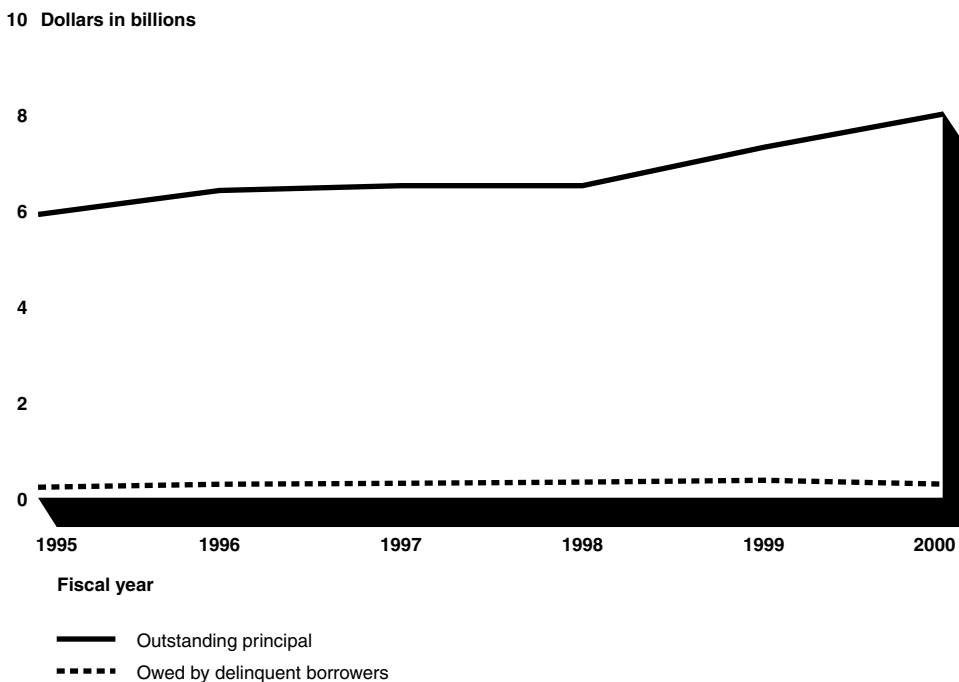
Source: GAO's analysis of information in USDA's farm loan automated databases.

In addition, delinquent borrowers held about \$282 million (3.5 percent) of the outstanding principal on guaranteed farm loans as of September 30, 2000. By comparison, delinquent borrowers owed about \$363 million (5 percent) in September 1999 and \$325 million (5 percent) in September 1998. Furthermore, the amount owed by delinquent borrowers

**Major Performance and
Accountability Challenges**

was \$218 million (about 4 percent) in September 1995. While the total outstanding principal owed on guaranteed farm loans has risen since 1995, the amount owed by borrowers who were delinquent on guaranteed farm loans has remained relatively steady (see fig. 2).

Figure 2: Outstanding Principal and Amount Owed by Borrowers Who Were Delinquent on Guaranteed Farm Loans, End of Fiscal Years 1995 Through 2000



Note: The amount and percentage of outstanding principal owed by delinquent borrowers were as follows: \$218 million, or 3.7 percent, in 1995; \$280 million, or 4.4 percent, in 1996; \$300 million, or 4.6 percent, in 1997; \$325 million, or 5.0 percent, in 1998; \$363 million, or 5.0 percent, in 1999; and \$282 million, or 3.5 percent, in 2000.

Source: GAO's analysis of information in USDA's farm loan automated databases.

**Major Performance and
Accountability Challenges**

We believe that these improvements in part reflect actions that the Congress and USDA have taken to address the underlying causes of the programs' past weaknesses. Although the programs' high-risk designation has been removed, USDA and the Congress need to monitor the effects of the lending and servicing reforms and any future legislation to ensure that improvements in the financial integrity of the farm loan programs continue.

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**Delivery of Services
to Farmers Has
Improved, but
Challenges Remain**

Since 1995, USDA has been engaged in a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service in agricultural and rural areas.¹ USDA's effort consists of five interrelated initiatives: (1) locating USDA agencies' county offices at one site within each county and state offices at one location in each state; (2) merging the administrative functions at the state and headquarters levels under a single support organization; (3) redesigning how the agencies do their work; (4) providing an updated communications network and a common computing environment so that agency employees can share information; and (5) changing the culture within the agencies to implement a seamless approach to delivering services, reaching out to meet customers' needs, and working cooperatively with state and local governments and private organizations. As of February 2000, we reported that USDA had spent over \$380 million on these initiatives and will need to invest another \$544 million through fiscal year 2004 to complete them.

USDA's progress in implementing its initiatives has been mixed. As of March 2000, efforts to collocate the Department's service centers were about 96 percent complete. USDA had also deployed personal computers and a modern telecommunications network to most of its service centers. However, as we reported in February 2000, despite these positive actions, little has changed in how USDA serves its customers in agricultural and rural areas, and many modernization and reengineering projects have encountered delays. For example, as of November 1999, the overall reengineering initiative and the initiative to modernize information technology were

¹USDA provides service in these areas through its Farm Service Agency, the Natural Resources Conservation Service, and the agencies in the rural development mission area.

both 2 years behind schedule. At that time, USDA officials attributed the delays to (1) program demands and funding constraints, (2) limited cooperation among the USDA agencies involved in the modernization and reorganization effort, and (3) some employees' resistance to change. In addition, the Congress stopped USDA from implementing the administrative convergence initiative.

In addition to these problems, we identified three related challenges that have impeded USDA's progress toward completing its overall initiatives. In August 1998, we identified two of these challenges—the lack of a comprehensive plan to guide the modernization effort and the lack of a management structure with the accountability and authority to resolve differences among the agencies. USDA is working to address these challenges. A third challenge we identified in our February 2000 report—the need to change the existing organizational culture—is even more basic and must be addressed before further progress can be made on each of the other initiatives. As we reported in February 2000, USDA has recognized the importance of this issue by making it the focus of one of the five initiatives. In December 2000, USDA officials told us they had made progress in changing the Department's organizational culture; however, USDA has not fully succeeded in overcoming resistance from affected agencies and employees.

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Department Needs
to Effectively and
Efficiently Provide
Food Assistance
Benefits to Eligible
Individuals While
Maintaining
Program Integrity

Each day, one in every six Americans receives nutrition assistance through 1 or more of the 15 programs administered by USDA's Food and Nutrition Service. These programs account for almost 45 percent of USDA's fiscal year 2001 budget and provide children and low-income adults with access to food, a healthful diet, and nutrition education. For fiscal year 2001, the Congress appropriated \$34 billion to operate these programs, including the Food Stamp Program and child nutrition programs, such as the school breakfast and school lunch programs. To determine the eligibility of millions of children and families and distribute program benefits, the Food and Nutrition Service works in public-private partnerships with over 450,000 organizations, including state and local governments, nonprofit organizations, and retail grocery stores. USDA faces some serious challenges in ensuring that eligible individuals receive the proper benefits while minimizing the amount of fraud and abuse in its programs.

These challenges are clearly evident in the operation of the Food Stamp Program—the cornerstone of USDA's nutrition assistance programs. In fiscal year 1999, this program provided 18 million individuals with about \$16 billion in benefits. Participation has decreased from about 71 percent of eligible individuals in September 1994 to about 62 percent in September 1997. As we previously reported, some state and local governments that went further than the law permits in limiting food stamp benefits may have caused some of this decrease. In addition, USDA must continue to address the challenge of accurately issuing food stamp benefits to those who are eligible under the program. In fiscal year 1999, about 7 percent (\$1.1 billion) of the benefits issued were estimated to be overpayments, while about 3 percent (\$0.45 billion) were underpayments. Moreover, welfare reform changes have increased the already complex process of determining households' eligibility and benefit levels.

In addition to ensuring that eligible individuals receive proper benefits, USDA faces the formidable challenge of minimizing the fraud and abuse associated with the misuse of the billions of dollars in food stamp benefits that are accepted by about 185,000 authorized retail food stores. For example, individuals sometimes illegally sell their benefits for cash—a practice known as *trafficking*. A recent USDA study estimated that stores trafficked about \$660 million, or about 3.5 cents of every dollar of food stamp benefits issued per year from 1996 through 1998. In addition, storeowners generally do not pay the financial penalties assessed for trafficking. For example, from 1993 through 1998, USDA and the courts assessed or levied about \$78 million in financial penalties and interest against storeowners for violating food stamp regulations. But during this period, USDA and the courts collected only \$11.5 million, or about 13 percent, of the total penalties. USDA reduced the remaining amount owed by storeowners by about \$49 million, or about 55 percent, through waivers, adjustments, and write-offs. While weaknesses in debt collection practices contribute to low collection rates, USDA officials noted that these rates also reflect the difficulties involved in collecting this type of debt, including problems in locating storeowners who have been removed from the Food Stamp Program and the refusal of some storeowners to pay their debts.

Better use of information technology has the potential to help USDA minimize fraud, waste, and abuse in the Food Stamp Program. As a result of a recommendation we made in 1998, the Congress now has a USDA report on options for a national database to track participation in federal public assistance programs, including the Food Stamp Program. Such a system could make the payment of food stamp benefits more accurate. In addition, in March 2000, we recommended that the Food and Nutrition Service make better use of data from electronic benefit transfers (EBT) to identify and assess penalties against storeowners who violate the Food

Stamp Program's regulations. Food and Nutrition Service officials agreed and have initiated actions to implement our recommendations. We also recommended that the Food and Nutrition Service work with the states to implement best practices for using EBT data to identify and take action against recipients engaged in trafficking food stamp benefits. Again, Food and Nutrition Service officials agreed and have action under way to implement our recommendation.

USDA also faces serious fraud and abuse challenges in other nutrition programs, including the \$1.6 billion Child and Adult Care Food Program (CACFP) and the \$5.5 billion School Lunch Program. In fiscal year 1999, CACFP provided subsidized meals for a daily average of 2.6 million children and 62,500 adults in the care of about 220,000 day care providers. In conducting over 55 audits and investigations since 1993, USDA's Inspector General identified case after case of the intentional misuse of federal funds, including cases in which program sponsors created fictitious day care providers and inflated the number of meals served. In November 1999, we recommended that USDA develop and implement a comprehensive plan for strengthening the controls for detecting and preventing fraud and abuse in the program. In response to our recommendation and reports of the Department's Inspector General, the Congress, in June 2000, passed legislation to strengthen management controls in this program and reduce its vulnerability to fraud and abuse.

In its strategic plan for 2000 to 2005, USDA identified the program integrity challenge it also faces in ensuring that only eligible participants are provided benefits in the School Lunch Program. This program provides nutritionally balanced, low-cost or free lunches for nearly 27 million children each school day in over 96,000 public and nonprofit private schools and residential child care institutions. In 1997, the number of children certified as eligible to receive free lunches in this

program was 18 percent greater than the estimated number of children eligible for this benefit. USDA has taken some initial steps at developing a cost-effective strategy to address this integrity issue.

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**Fundamental
Changes Are
Needed to Minimize
Foodborne
Illnesses**

Although the American food supply is regarded as one of the safest in the world, foodborne illnesses in the United States are an extensive and expensive problem. The magnitude of the problem is uncertain, however, because these illnesses are underreported and health officials cannot always determine their source. The Centers for Disease Control and Prevention estimates that unsafe foods cause as many as 76 million illnesses, 325,000 hospitalizations, and 5,000 deaths each year. According to USDA, the costs for medical treatment and productivity losses associated with seven major foodborne pathogens range from \$7 billion to \$37 billion annually. The federal government, spending over \$1 billion annually, plays a critical role in reducing the health and economic consequences of foodborne illnesses.

A number of factors have heightened concerns about the federal government's effectiveness in ensuring the safety of the nation's food supply. These include the emergence of new foodborne pathogens, the finding of old pathogens in new foods (e.g., fresh produce), the recognition of the long-term health effects of foodborne diseases, the globalization of the nation's food supply, and the growing segment of the U.S. population at increased risk to foodborne disease (e.g., the elderly and immune-compromised). These concerns in part helped

spawn a major new approach to food safety regulation. This approach, in line with our prior recommendations, requires meat, poultry, and seafood plants to use a scientific system called *Hazard Analysis and Critical Control Point* (HACCP) to better ensure the safety of their products. Under these new regulations, USDA and the meat and poultry slaughter plants conduct microbial tests for *E. Coli 0157:H7*, *salmonella*, and *Listeria monocytogenes*.

As we noted in our last Performance and Accountability Series report in January 1999, requiring HACCP and microbial testing is without question an important step toward a more scientific approach to ensuring a safer food supply. However, as we have stated in numerous reports and testimonies, these requirements do not address several other fundamental problems with our current food safety system. Most important, the current system is highly fragmented: As many as 12 different federal agencies, administering over 35 different laws, oversee food safety. Since 1992, we have advocated replacing this fragmented system with a risk-based inspection system under a single food agency. Until this is done, the current food safety system will continue to suffer from inconsistent oversight, poor coordination, and the inefficient allocation of resources, as shown in the following examples:

- Subtle differences in food products often dictate which agency regulates a product and what actions it takes. A case in point: USDA is responsible for inspecting plants that produce open-faced meat sandwiches and pizzas with meat topping. The Department conducts these inspections at least once each operating day. On the other hand, the Department of Health and Human Services' Food and Drug Administration (FDA) is responsible for inspecting plants that produce traditional meat sandwiches and nonmeat pizzas. FDA inspects the plants under its jurisdiction once every 5 years, on

average. In fiscal year 1999, more than \$145 million was spent to conduct both agencies' inspections. In other cases, different agencies have overlapping responsibilities for ensuring food safety. For example, while FDA has primary responsibility for ensuring the safe use of irradiation on all foods, USDA is responsible for the irradiation of meat, poultry, and some egg products.

- More than one-fourth of the over \$1 billion federal budget for food safety—about \$296 million—could be used more efficiently if the current requirement for carcass-by-carcass slaughter inspections were eliminated. These statutory inspections do not optimize federal resources because they do not detect the most serious health threat associated with meat and poultry—microbial contamination. Some of the funds currently used for these inspections could be better spent on other food safety activities at FDA, such as increasing inspections at nonmeat and poultry plants; conducting more laboratory tests of food products; or conducting better surveillance of imported foods, including making equivalency determinations of foreign countries' food safety systems. While USDA has tried to shift some of the burden for inspections under its carcass-by-carcass inspection program to industry personnel, recent court action continues to require USDA to conduct these expensive and time-consuming inspections using its own resources.
- Both USDA and FDA have primary responsibility for ensuring the safety of imported foods and require these foods to meet the same standards as domestic foods. However, their approaches to enforcing these requirements differ. USDA places the principal burden for safety on the exporting countries by allowing imports only from those countries with food systems it deems equivalent to the U.S. system—37 countries at the present time. FDA, on the other hand, is not required to make equivalency determinations and, as such, allows food imports

from almost any country and takes on the burden of ensuring the safety of imported foods as they arrive at U.S. ports of entry. Both of these approaches have weaknesses that need to be addressed to strengthen the safety of imported foods. For example, since USDA accepts imports from foreign food systems deemed equivalent, it focuses its inspections on shipments from exporting firms with a history of violations for such things as incorrect or missing shipping labels. Since these violations bear little relationship to food safety, USDA could redirect its resources to areas with greater potential for increasing the safety of our imported food supply. Conversely, FDA depends on resource-intensive inspections at ports of entry that require selecting, physically inspecting, and testing samples. This method has been widely discredited because individual products tested at ports of entry may not represent the health risks of the entire shipment. In addition, this labor-intensive effort resulted in the inspection of less than 1 percent of all imports in 1999.

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**Department Needs
to Strengthen Its
Information
Security**

USDA faces information security challenges in protecting its computer systems from serious threats and cyber attacks. USDA's Office of Inspector General and we found significant weaknesses in the Department's information security program and at the Department's two major data centers. These weaknesses placed USDA computer systems that support billions of dollars in benefits at significant risk. Such problems leave the Department's computer systems vulnerable to unlawful and destructive penetration and disruption.

According to USDA, attacks by hackers on its computer systems are occurring more frequently every passing month.

USDA has begun to address its information security problems, but more needs to be done. In August 2000, we reported that USDA had taken positive steps to begin improving its information security by developing its August 1999 action plan with recommendations to strengthen Department-wide information security and by hiring a new Associate Chief Information Officer (CIO) for Cyber-Security to address specific vulnerabilities and other potential threats. However, since the plan was issued in August 1999, little progress has been made to implement its other recommendations for strengthening Department-wide information security. For example, at the time of our review, USDA had not established a comprehensive list of sensitive computer systems as required by the Computer Security Act of 1987. Moreover, USDA had not developed and documented a strategy for implementing the action plan's recommendations with established priorities and the detailed steps, time frames, milestones, and total resources needed to fully carry them out.

To correct these problems, we recommended in August 2000 that USDA develop a detailed strategy for implementing the action plan and demonstrate that information security at USDA is a departmental priority by (1) directing that sufficient resources be available to fund the Department's information security improvement strategy and implementing plan, (2) holding the CIO and Associate CIO for Cyber-Security accountable for carrying out the strategy and plan, and (3) requiring quarterly reports to the Secretary of Agriculture that describe the results of these efforts. We also recommended that USDA report its information security program as a material internal control weakness under the Federal Managers' Financial Integrity Act. USDA agreed with our recommendations

for ensuring that information security is strengthened at the Department and said that dramatic changes are needed to improve cyber security. While USDA officials told us they are working to improve computer security, as of the end of December 2000, USDA had not provided its written response to our August 2000 report outlining the actions taken or planned to address our recommendations.

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**Lack of Financial
Accountability Over
Billions of Dollars
in Assets Continues**

As evidenced by the Inspector General's sixth consecutive disclaimer of opinion² on USDA's consolidated financial statements, the Department has serious accountability problems over the \$118 billion in assets and \$120 billion in budgetary resources provided for fiscal year 1999 to carry out its diverse missions. As such, USDA does not have meaningful and accurate financial information to evaluate its financial performance. Before USDA can achieve financial accountability, it or its component agencies must address a number of issues that USDA's Office of Inspector General or we have reported as serious problems.

²A disclaimer of opinion means that the auditor is unable to form an opinion on the financial statements. A disclaimer results when a pervasive material uncertainty exists or there is a significant restriction on the scope of the audit.

Since fiscal year 1994, the Inspector General has reported material weaknesses in the processes and procedures used by USDA's lending agencies to estimate and reestimate loan subsidy costs for the Department's net credit program receivables, which totaled about \$70.7 billion as of September 30, 1999. As a result, USDA has been unable to implement the Federal Credit Reform Act of 1990 and related accounting standards.³ This problem has contributed to the Inspector General's disclaimer of opinion on the Department's consolidated financial statements as well as our disclaimer of opinion on the consolidated financial statements of the U.S. government.

The Inspector General also reported that USDA was unable to reconcile its Fund Balance accounts with the U.S. Treasury's accounts.⁴ As of September 30, 1999, these USDA accounts totaled \$38 billion. Prior to May 1999, USDA merely adjusted its records to agree with Treasury's without determining which, if either, were correct. In addition, USDA did not establish or analyze the causes of the differences between its and Treasury's records before reporting its ending balance to Treasury. Since May 1999, USDA has been disclosing any differences in its reports to Treasury. While USDA made great strides during fiscal year 2000 to reconcile its Fund Balance accounts with Treasury's accounts, the Inspector General testified that the accounts remain unreconciled because of several internal control

³*Accounting of Direct Loans and Loan Guarantees*, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, as amended by *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, SFFAS No. 18.

⁴USDA records its budget authority in asset accounts called *Fund Balance* with the Department of the Treasury and increases or decreases these accounts as it collects or disburses funds.

weaknesses related to the accounting system.⁵ In addition, the Inspector General stated that USDA is working aggressively to identify and eliminate the unreconciled amounts.

The Forest Service still faces major hurdles in achieving financial accountability despite corrective measures in place to address its accounting and reporting deficiencies. For instance, the Forest Service received a disclaimer of opinion on its fiscal year 1999 financial statements—its fourth disclaimer in a row—which demonstrates that the Forest Service remained unable to reliably track and report on major assets worth billions of dollars. The Office of Inspector General reported that it could not verify the accuracy of the Forest Service’s pooled assets (such as roads and trails) valued at \$1.5 billion because the Service lacked sufficient documentation to support the purchase price of these assets, the date acquired, and the related depreciation costs. Furthermore, the independence afforded by the Forest Service’s autonomous field structure has hampered efforts to correct accounting and financial reporting weaknesses. These shortcomings mean that the Forest Service and the Congress do not have accurate financial data to track the cost of programs and activities and to help make informed decisions about future funding. Therefore, we continue to designate the Forest Service’s financial management as a high-risk area because of the serious and long-standing accounting and financial reporting weaknesses plaguing its operations.

USDA has several persistent internal control weaknesses that contributed to the Inspector General’s

⁵Testimony of Roger C. Viadero, Inspector General, Department of Agriculture, before the Senate Committee on Agriculture, Nutrition, and Forestry’s Subcommittee on Research, Nutrition, and General Legislation, September 27, 2000.

inability to form an opinion on the Department's fiscal year 1999 consolidated financial statements. Among others, the Inspector General has identified internal control weaknesses over USDA's financial management systems, food stamp recipient claims, accounting for personal property, and security controls for information technology. For example, the Inspector General has reported that USDA's financial systems do not always process and report Department-wide financial information accurately and that many of these systems are not fully integrated with other USDA systems. The Inspector General also noted that documentation supporting the purchase price of property was lacking and that numerous errors in property values were recorded in the system. For example, the Inspector General found a motor vehicle recorded in the system at over \$97 million and a microscope recorded at \$11 million.

The Inspector General also reported that USDA does not fully comply with certain key laws and regulations. For example, like most other federal agencies, USDA does not substantially comply with the three requirements of the Federal Financial Management Improvement Act—federal financial systems requirements, applicable federal accounting standards, and the Standard General Ledger at the transaction level. Furthermore, the Department has not fully addressed problems related to compliance with the Chief Financial Officers Act of 1990 (CFO Act). Specifically, USDA has not (1) implemented a fully integrated financial information system; (2) conducted required biennial reviews of the fees, royalties, and other charges for services imposed by USDA's agencies; and (3) made recommendations on revising those charges to reflect the costs incurred by the USDA agencies in providing those services, as required by the CFO Act.

In addition, USDA continues to have significant problems with its electricity loan portfolio. In

September 2000, we reported that the Department had incurred several billion dollars in loan losses and continues to experience problems with its financially troubled generation and transmission borrowers. For example, from fiscal year 1992 through July 1999, the Rural Utilities Service wrote off \$1.8 billion of debt related to financially troubled generation and transmission borrowers and, as directed by the bankruptcy courts, is in the process of writing off an additional \$3 billion in loans to one borrower. USDA has incurred additional losses totaling \$7.2 million in the form of forgiveness of interest due to the Department as a result of restructuring the loans of another financially troubled borrower. Furthermore, increased competition in the electricity industry has increased the risk that the federal government will incur future losses on loans to the Department's generation and transmission borrowers.

USDA has completed several actions and begun others that, if successfully implemented, represent important steps toward first achieving a "clean" opinion on its financial statements and ultimately obtaining overall financial accountability. USDA has also recognized the need to improve its financial systems and, according to USDA's Chief Financial Officer, has obtained additional funding to address this issue. Also, USDA has created a project team to develop the financial systems and standards necessary to implement its new accounting system and achieve reforms required by financial management legislation. Currently, USDA's key financial management goal is to achieve a "clean" opinion on its financial statements for fiscal year 2001. However, to correct many of its deeply rooted problems, USDA must sustain top management's commitment and have substantial additional resources devoted to addressing its accounting and reporting deficiencies. Moreover, if USDA is to achieve financial accountability, it must also fundamentally improve its underlying internal controls, financial management systems, and operations that

allow for the routine production of accurate, relevant, and timely data to support program management and accountability.

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**The Forest Service
Must Provide the
Congress and the
Public With a Clear
Understanding of
What It
Accomplishes With
Appropriated
Funds**

The Forest Service is at a critical juncture in its evolution. It is, therefore, important for the agency to provide the Congress and the public with a clear understanding of what is being achieved with the funds that are being spent. However, we have concluded, and the Forest Service agrees, that it is still several years away from attaining this goal.

Accountability is important because the Forest Service is refocusing the mix of its activities, shifting from producing timber and other goods and services toward restoring and protecting land health and forest resources. It is also attempting to identify where or under what circumstances it should restore degraded lands through active management rather than allow nature to take its course. These issues are controversial and represent significant changes in the agency's mission and funding priorities as well as in its management approaches. In addition, after the Forest Service promised to become more accountable for its performance, the Congress twice simplified the agency's budget structure, thus giving the Forest Service greater discretion in deciding where to spend appropriated funds. However, in neither instance did the agency fulfill its promise.

We have observed that, to provide the Congress and the public with a better understanding of what it

accomplishes with appropriated funds, the Forest Service will need to link its budget and organizational structures as well as its allocation criteria, forest plans, and performance measures to its strategic goals, objectives, and strategies. The agency has, in recent months, completed several actions and begun others to improve performance accountability. For example, it has revised its strategic plan, prepared under the Results Act, to better focus on outcomes and results to be achieved over time and to better link strategic goals and objectives to long-term measures and 5-year milestones. The agency also plans to (1) implement a new budget process for fiscal year 2003 to better link on-the-ground priorities, needs, and capabilities to the strategic plan and (2) base instructions for formulating out-year program budgets on the annual performance plan required under the Results Act.

Despite these efforts, the Forest Service does not appear to be fully committed to making performance accountability one of its top priorities, and major hurdles to achieving performance accountability remain. For instance, we have recommended that the agency revise its planning regulations to require the national forests to clearly link their plans to the Forest Service's strategic goals, objectives, and strategies. However, on November 9, 2000, the agency promulgated new planning regulations that merely require that its strategic plan be "considered" in managing the national forests, not that forest plans be clearly linked to the strategic plan. In addition, the agency has no plan to replace its existing organizational structure with one that is better linked to its strategic goals and objectives or to the way that work is routinely accomplished on the national forests. As a result, the national forests must continue to combine projects and activities from multiple programs to address issues and problems—such as reducing the risk of catastrophic wildfires to communities and natural resources—that are not aligned with the Forest Service's organizational

structure. Moreover, to date, the agency has not developed new annual performance measures or improved existing ones to better align them with its strategic goals and objectives and its long-term measures and activities.

We believe that the Congress could provide an incentive to the Forest Service to become more accountable for its performance by requiring that any further revisions to the agency's budget coincide with actions by the Forest Service to correct remaining performance-related deficiencies. The Congress could also help to expedite the process by requiring that the agency develop a firm schedule to implement these actions.

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**Problems Persist in
Processing
Discrimination
Complaints**

USDA's civil rights program has long been troubled by a variety of problems and internal discord. The Secretary of Agriculture has acknowledged that the civil rights program is in serious need of repair and has made civil rights a top priority. However, while some progress has been made in addressing identified weaknesses, many of the problems are intransigent, and civil rights continues to be a serious management challenge at USDA.

In December 1996, in response to allegations of discrimination at USDA, the Secretary appointed the Civil Rights Action Team to review civil rights issues and develop recommendations, as appropriate. The team's resulting report described serious problems in the civil rights program and made 92 recommendations to address the problems. Since then, we and USDA's Office of Inspector General have issued reports with many

recommendations concerning ongoing problems in employment and program discrimination. Specifically, in January 1999, we reported that despite efforts to process discrimination complaints more expeditiously, USDA was not processing these complaints in a timely manner. As a result, USDA was failing to comply with federal regulations that affect the livelihood and well-being of individuals who believe they have been discriminated against. We made recommendations aimed at addressing a number of long-standing problems that were impeding USDA's efforts to improve its processing timeliness. These problems included

- continuing human capital issues relating to management turnover and reorganizations in USDA's Office of Civil Rights;
- inadequate staff and managerial expertise;
- a lack of clear, up-to-date guidance and procedures; and
- poor working relationships and communication within the Office of Civil Rights and between the office and other USDA entities.

The human capital problems in USDA's Office of Civil Rights can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. See our *High-Risk Series: An Update* (GAO-01-263, January 2001) for a discussion of human capital as a newly designated governmentwide high-risk area.

The Inspector General has issued seven evaluations of the Department's civil rights program since February 1997. The most recent evaluation, issued in March 2000,⁶

⁶*Office of Civil Rights: Management of Employment Complaints* (60801-3-Hq) and *Office of Civil Rights: Status of the Implementation of Recommendations Made in Prior Evaluations of Program Complaints* (60801-4-Hq).

reported that, among other things, many of the Inspector General's prior recommendations had not been acted upon. The Inspector General also reported that the Office of Civil Rights' employment discrimination database was unreliable, its case files were chaotic, and it continued to be inefficient in processing program complaints. In testimony before the Senate Agriculture Committee in September 2000, we noted that USDA had not fully implemented any of our recommendations. Subsequent to our testimony, the Secretary stated that while USDA had made progress in addressing its problems, more needed to be done. In that regard, in October 2000, USDA published a long-term improvement plan, and the Secretary announced that the Department had hired three firms to go into those USDA field offices with high volumes of discrimination complaints to determine why the complaints persist and to identify factors that contribute to discrimination.

**Major Performance and
Accountability Challenges**

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Related GAO Products

Improving USDA's Farm Loan Programs

Farm Service Agency: Updated Status of the Multibillion-Dollar Farm Loan Program (GAO-01-222, Jan. 10, 2001)

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Farm Service Agency: Information on Farm Loans and Losses (GAO/RCED-99-18, Nov. 27, 1998).

Farm Service Agency: Status of Farm Loan Portfolio and the Use of Three Contracting Provisions for Loan Servicing (GAO/RCED-98-141, May 5, 1998).

High-Risk Series: Quick Reference Guide (GAO/HR-97-2, Feb. 1997).

Farm Loans: Information on the Status of USDA's Portfolio (GAO/T-RCED-97-78, Feb. 21, 1997).

High-Risk Series: Quick Reference Guide (GAO/HR-95-2, Feb. 1995).

High-Risk Series: Farmers Home Administration's Farm Loan Programs (GAO/HR-93-1, Dec. 1992).

Improving the Delivery of Services to Farmers

U.S. Department of Agriculture: State Office Collocation (GAO/RCED-00-208R, June 30, 2000).

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Farm Programs: Administrative Requirements Reduced and Further Program Delivery Changes Possible (GAO/RCED-98-98, Apr. 20, 1998).

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Food Assistance: Reducing the Trafficking of Food Stamp Benefits (GAO/RCED-00-250, July 19, 2000).

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Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations (GAO/RCED-99-91, May 11, 1999).

Minimizing Foodborne Illnesses

Food Safety: Overview of Food Safety and Inspection Service and Food and Drug Administration Expenditures (GAO/T-RCED-00-300, Sept. 20, 2000).

Food Irradiation: Available Research Indicates That Benefits Outweigh Risks (GAO/RCED-00-217, Aug. 24, 2000).

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Food Safety: Fundamental Changes Needed to Improve the Nation's Food Safety System (GAO/T-RCED-98-24, Oct. 8, 1997).

**Strengthening
USDA's Information
Security**

Information Security: USDA Needs to Implement Its Departmentwide Information Security Plan (GAO/AIMD-00-217, Aug. 10, 2000).

USDA Information Security: Weaknesses at National Finance Center Increase Risk of Fraud, Misuse, and Improper Disclosure (GAO/AIMD-99-227, July 30, 1999).

**Enhancing USDA's
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**Improving
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Accountability at
the Forest Service**

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Forest Service: Status of Efforts to Improve Accountability (GAO/T-RCED/AIMD-00-93, Feb. 16, 2000).

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USDA's Civil Rights
Office**

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U.S. Department of Agriculture: Problems Continue to Hinder the Timely Processing of Discrimination Complaints (GAO/RCED-99-38, Jan. 29, 1999).

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Major Management Challenges and Program Risks: Department of Agriculture (GAO-01-242)

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Major Management Challenges and Program Risks: Department of Defense (GAO-01-244)

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Agency for International Development (GAO-01-256)*

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*Major Management Challenges and Program Risks:
National Aeronautics and Space Administration
(GAO-01-258)*

*Major Management Challenges and Program Risks:
Nuclear Regulatory Commission (GAO-01-259)*

*Major Management Challenges and Program Risks:
Small Business Administration (GAO-01-260)*

*Major Management Challenges and Program Risks:
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High-Risk Series: An Update (GAO-01-263)

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