

# U.S. Department of Agriculture Office of Inspector General Financial and IT Operations Audit Report

Review of FSIS Inspector Staffing Shortages and Anti-Deficiency Act Violations



Report No. 24601-1-FM APRIL 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE:

April 4, 2001

ATTN OF:

24601-1-FM

TO:

Thomas Billy

Administrator

Food Safety and Inspection Service

This report presents the results of the subject review. Your March 29, 2001, response

to the draft report is included as exhibit A with excerpts and the Office of Inspector

General's position incorporated into the relevant sections of the report.

We have accepted your management decision for all recommendations contained in

the report.

Please follow your internal agency's procedures in forwarding final action

correspondence to the Departments' Office of the Chief Financial Officer.

/s/

ROGER C. VIADERO

Inspector General

## **EXECUTIVE SUMMARY**

# REVIEW OF FSIS INSPECTOR STAFFING SHORTAGES AND ANTI-DEFICIENCY ACT VIOLATIONS

#### **AUDIT REPORT NO. 24601-1-FM**

#### RESULTS IN BRIEF

Congress, in the Agriculture, Rural Development, Food and Drug Administration, and related agencies Appropriation Bill, 2001, directed the Office of Inspector General (OIG)

to undertake a review of the adequacy of the Food Safety and Inspection Service (FSIS) financial and project management. Specifically, we were directed to "ascertain what deficiencies resulted in recent inspector shortages and why Anti-Deficiency Act violations occurred over the last two years."

We found that inspector shortages occur because FSIS does not have a method of estimating staffing needs based upon all meaningful criteria, including projections of changes in attrition and industry production levels. In the absence of a supportable prescribed staffing level, we were unable to ascertain what the actual shortfalls were.

The Anti-Deficiency Act violations occurred because of the accounting system and control deficiencies in the prior accounting system<sup>1</sup> used by FSIS. The agency also cited the absence of compensating controls at its operating levels to preclude or detect, in a timely manner, these violations.

The FSIS described to us several positive steps they have instituted to better manage inspector resources and improve funds control. FSIS has broadened its recruitment efforts and implemented new resource management tools to plan and manage inspector staffing. FSIS also made changes in its fiscal operations and controls intended to improve its ability to track and monitor funds, and retained an outside consultant to independently assess FSIS' financial management and make recommendations for improvements.

<sup>&</sup>lt;sup>1</sup> The Centralized Accounting System (CAS). Since 1991, our audit reports on the USDA financial statements and our internal control reviews of OCFO/NFC have detailed material internal control weaknesses in CAS that resulted in unreliable information. For example, we reported that CAS does not conform to the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL, and the audit trail from the general ledger to supporting documentation, in some cases, was nonexistent. Also material weaknesses continue to exist in the area of accounting adjustments and reconciliations within the CAS.

We found that, while FSIS has taken several actions to alleviate potential staffing shortages, FSIS' resource management methods need further strengthening to better estimate staffing needs and to ensure that inspectors are deployed to areas where they are in the greatest need. FSIS' budgeting and resource allocation methods are not currently designed to identify and request budget authority to "fully" staff inspector positions at plants. Currently, budget requests and staffing allocations are based on two key variables: prior use of staff years and attrition. Thus, although some demand data is considered, production increases may not be adequately addressed. In addition, attrition estimates at both the national and district levels are based on the prior year, rather than prospectively using available data on retirement eligibility and resignations. Thus, FSIS could also improve its attrition estimates by using actual information on the age and service time of recent retirees and current inspectors.

We also found that while FSIS has taken actions to improve funds control, and progress had been made, new financial management problems have arisen associated with the agency's conversion to a new accounting system. These issues entail, as of September 30, 2000, the following: per agency officials, over \$3 million in indirect costs, like overhead, were incorrectly distributed across all accounts in the Foundation Financial Information System (FFIS), which resulted in misstated obligations for FSIS' reimbursable activities; \$37 million in differences (receipts and disbursements) between FSIS and Treasury<sup>2</sup>; and over \$430 million of transactions executed in prior years for which supporting documentation had not been located.

#### **KEY RECOMMENDATIONS**

With regard to managing inspector staffing, we recommended that FSIS develop procedures to estimate staffing needs nationally, under current inspection practices,

based upon forecasted industry production levels, and age, service and retirement eligibility data, in order to seek sufficient funds in budget requests to fulfill all inspector staffing needs

In regard to funds control, we recommended that FSIS (1) correct the problems, in consultation with the Office of the Chief Financial Officer (OCFO), that have impacted the proper allocation of costs and impeded timely reporting to oversight officials, (2) develop and implement a process to timely reconcile FSIS' Fund Balance with Treasury with the records maintained by Treasury, and (3) establish a team to immediately

<sup>&</sup>lt;sup>2</sup> FSIS records its budget spending authority in asset accounts called Fund Balance with Treasury, and increases or decreases this account as it collects or disburses funds.

research the unsupported amounts converted to FFIS from the Centralized Accounting System (CAS), and make the necessary adjustments to correct the records.

### **AGENCY RESPONSE**

In its March 29, 2001 response, the Food Safety and Inspection Service concurred with all of the report's recommendations and provided an acceptable time-phased

corrective action plan. The agency agreed to: develop and implement refined procedures to better estimate staffing needs and incorporate the results in its budget requests; and, working in tandem with the Department's Office of Chief Financial Officer, resolve the problems associated with the implementation of the Department's new accounting system.

#### **OIG POSITION**

We determined the agency's response was adequate to achieve management decision on all of the recommendations.

## **TABLE OF CONTENTS**

EXECUTIVE SUMMARY	i
RESULTS IN BRIEF	i
KEY RECOMMENDATIONS	. ii
AGENCY RESPONSE	iii
OIG POSITION	iii
TABLE OF CONTENTS	iv
INTRODUCTION	. 1
BACKGROUND	. 1
OBJECTIVES	. 3
SCOPE	. 4
METHODOLOGY	. 4
FINDINGS AND RECOMMENDATIONS	. 6
CHAPTER 1	. 6
FSIS' INSPECTION PROGRAM FORECASTING AND RESOURCE ALLOCATION METHODS NEED IMPROVEMENTS	
RECOMMENDATION NO. 1	. 9
CHAPTER 2	11
ACTIONS TAKEN HAVE IMPROVED FUNDS CONTROL; ADDITIONAL ACTION WOULD PROVIDE FURTHER STRENGTHENING	
FINDING NO. 2	11
RECOMMENDATION NO. 2	16
RECOMMENDATION NO. 3	16
RECOMMENDATION NO. 4	17
EXHIBIT A – AUDITEE RESPONSE TO DRAFT REPORT	18

## INTRODUCTION

#### **BACKGROUND**

FSIS is responsible for ensuring that meat, poultry, and egg products prepared for human consumption and distributed in commerce are safe, wholesome, and correctly labeled and

packaged. FSIS carries out its inspection responsibilities under the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act.

The meat and poultry inspection acts require FSIS, during slaughter operations, to examine each individual bird and carcass -- over 8.5 billion birds and 133 million livestock annually at over 1300 slaughter and slaughter-processing establishments. These on-line slaughter inspectors make judgments about safety and wholesomeness of carcasses based on organoleptic (sight, touch, and smell) inspection techniques and make a critical determination that the carcasses are not adulterated and are capable of use as human food. For fiscal year 2001, FSIS estimated that the agency allocated about 60 percent of its 9,800 staff year budget to these individual bird and carcass inspections. In addition, to ensure the safety, wholesomeness, and proper labeling of processed products, FSIS inspectors visit each of the approximately 5,300 processing and combination slaughter and processing establishments at least once during each operating shift. All plants shipping product interstate are subject to federal inspection.

The Hazard Analysis and Critical Control Point System (HACCP) system, which was recommended by USDA's National Advisory Committee on Microbiological Criteria for Foods and endorsed by the scientific community, established seven principles for plants to implement in their food safety system. It replaced FSIS' longstanding program of meat and poultry inspection. Under the pre-HACCP system, the production of meat and poultry products was monitored at every stage by Government employees rather than by in-plant production managers. HACCP-oriented food safety inspection changed the approach of FSIS' overseeing the safety of meat and poultry products. Under this new approach, FSIS relies less on after-the-fact detection of product and process defects and more on verifying the effectiveness of processes and process controls designed to ensure food safety. FSIS restructured its inspection

-

<sup>&</sup>lt;sup>3</sup> 21 U.S.C. 601 et. sea., 21 U.S.C. 451 et. sea., and 21 U.S.C. 1031 et. sea., respectively.

procedures to determine that production systems prevent the production of unsafe meat and poultry products. Industry was required to implement a HACCP system that identified and controlled (1) physical, chemical, and biological hazards to the production process and (2) a program of ongoing microbial testing that served as verification that the system is working.

The implementation of HACCP could impact how FSIS allocates its resources to carry out slaughter inspection activities. In 1997, FSIS began to design new inspection models that would realign the HACCPbased roles and responsibilities of both the industry and the federal inspection force through its HACCP-based Inspection Models Project (HIMP). In October 1999, FSIS began testing new slaughter inspection procedures under HIMP, which establishes food safety performance standards for plants. To meet the standards, plants extend their HACCP systems to address food safety conditions in ante-mortem and postmortem production operations; the plants are responsible for identifying and removing carcasses that do not meet the standards. FSIS inspectors are responsible for ensuring that the plants are meeting regulatory requirements and that their products are safe and unadulterated; verification is provided by observation, examination, sampling and records review. FSIS expects that the new slaughter inspection procedures, if ultimately adopted, will allow the agency to redistribute its inspection staff more efficiently, freeing inspectors to fill critical vacancies, perform additional food safety tasks within plants, and verify the safety of products after they leave the plant. However, a group of FSIS inspectors, their union, and a consumer group filed a lawsuit challenging the models project. FSIS redesigned the inspection model based on an appellate court finding that the inspection acts require that FSIS inspectors continue to inspect each individual carcass. The most recent court decision in January 2001 found that the redesigned inspection model met statutory requirements. The plaintiffs have appealed this latest decision.

#### **FUNDS CONTROL**

For fiscal year 2001, FSIS officials estimated that staffing costs account for 82 percent of the agency's total budget, grants to states (for cost sharing of cooperative state programs) account for 5 percent and travel costs account for 4 percent. Further, the agency's travel budget is primarily for inspectors' local travel between plants to perform their inspection tasks. Over half of the remaining 9 percent of FSIS' funds are allocated to largely fixed cost items such as supplies, equipment, rent,

<sup>-</sup>

<sup>&</sup>lt;sup>4</sup> United States District Court for the District of Columbia, decision on remand, January 17, 2001, in Civil Action No. 98-893 (RCL), American Federation of Government Employees, AFL-CIO, et. al., v. Daniel R. Glickman, Secretary of Agriculture, et. al.

communications, printing and utilities. This allocation shows that FSIS is a labor-intensive agency – salaries and benefits are by far the greatest share of expenditures. Discretionary funds, on the other hand, comprise a relatively small share of the agency's budget. As a result, FSIS is relatively inflexible in its ability to deobligate funds from one area to compensate for over obligation in another. This makes funds control especially critical in preventing over obligations.

For fiscal years 1997 and 1998, FSIS obligated more money than Congress appropriated, thereby violating the Anti-Deficiency Act<sup>5</sup>. As required by the Act<sup>6</sup>, FSIS reported those violations to the President and the Congress. FSIS reported over obligations of \$4.0 and \$3.9 million in fiscal years 1997 and 1998, respectively, and a subsequent FSIS analysis showed over obligations in travel, benefits and other operating expenses.

The Anti-Deficiency Act states, in part, that an officer or employee of the United States Government may not-

- (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation;
- (B) involve government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law;
- (C) make or authorize an expenditure or obligation of funds required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985; or
- (D) involve government in a contract or obligation for the payment of money required to be sequestered under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

If an officer or employee of an executive agency violates section 1341(a) or 1342 of this title, the head of the agency shall report immediately to the President and Congress all relevant facts and a statement of actions taken.

#### **OBJECTIVES**

The Congress, concerned about FSIS' financial and program management, directed OIG, through its USDA appropriations for fiscal year 2001, to report on the reasons for

recent inspector shortages and why Anti-Deficiency Act violations occurred at FSIS in fiscal years 1998 and 1997.

-

<sup>&</sup>lt;sup>5</sup>The Act further requires that the head of each executive agency prescribe a system of administrative control to restrict obligations and expenditures to amounts available (31 U.S.C. 1514(a)).

<sup>6</sup> 31 U.S.C. 1517(b).

<sup>&</sup>lt;sup>7</sup> H.R Report 106-619.

#### **SCOPE**

We performed our review, between July 2000 and February 2001, in conjunction with our audit of the USDA financial statements. The audit was conducted in accordance with

generally accepted government auditing standards. We conducted our work at FSIS headquarters in Washington, D.C., and its Financial Processing Center in Des Moines, Iowa, the National Finance Center in New Orleans, Louisiana, and the Office of the Chief Financial Officer (OCFO) in Washington, D.C. We also visited FSIS district office officials and contacted departmental and FSIS staff responsible for budgeting, accounting, personnel, and legal functions, as appropriate.

#### METHODOLOGY

The methodology followed during our audit to accomplish our objectives included:

- Documented controls at both the headquarters and field office levels
- Tested specific financial transactions and the supporting accounting records for receivables, payables and property
- Interviewed FSIS officials and obtained and analyzed data on FSIS budgetary, financial and program management and controls
- Reviewed selected legislation and agency regulations and guidance related to meat and poultry inspection, and applicable documents pertaining to budget formulation, resource allocation, funds control, inspector vacancies, proposed regulatory changes and recent court cases
- Analyzed staffing trends and procedures used by FSIS to ensure staffing levels were sufficient to accomplish its mission
- Interviewed responsible FSIS officials to ascertain operational processes relating to staffing key mission area jobs
- Assessed actions taken by FSIS to identify and then fix the problems that caused Anti-Deficiency Act violations
- Analyzed select Foundation Financial Information System (FFIS) operations to determine impact of FSIS operational issues on FSIS financial management

•	Reviewed to FFIS.	conversion	activity	from	the	Central	Accounting	System

## FINDINGS AND RECOMMENDATIONS

## **CHAPTER 1**

FSIS' INSPECTION PROGRAM FORECASTING AND RESOURCE ALLOCATION METHODS NEED IMPROVEMENTS

#### **FINDING NO. 1**

Although FSIS has formally acknowledged to Congress the existence of inspector staffing shortages, our review disclosed that the agency does not have an adequate method in

place to fully identify its staffing needs. FSIS regulations (9 CFR 381.67, 381.68, and 381.76) prescribe a methodology to compute slaughter-staffing levels. The method employed to support budget requests, however, consists of estimates based upon prior year data and does not consider critical factors such as production forecasts. Although a process was implemented in November 1999 which should address this matter, FSIS previously did not have an adequate system to monitor staffing at the over 1,300 slaughter and slaughter processing plants across the country. FSIS acknowledged to Congress that inspector staffing shortages occurred in FY 1999 and noted that the shortages "were not generalized, but rather they were widely dispersed. These concerns were brought to the Agency's attention by individual plants, by industry representatives, and by congressional representatives on behalf of their constituents." No mention was made in the report that disclosures of this type were internally identified.

According to FSIS officials, industry growth and recruitment difficulties were the two primary causes of inspector shortages in fiscal year 1999. FSIS officials cited an unexpected six percent increase in poultry production for the year as a primary cause. In addition, the officials advised that higher-than-normal monthly variations in livestock production added to staffing difficulties. Further complicating this matter, transformations in the use of inspection personnel are contemplated through HACCP. Proposed inspection models under the HIMP have been stymied however, by legal challenges and interpretations of legal requirements regarding what can be done to operate efficiently while meeting statutory provisions.

FSIS reported that recruiting difficulties were largely related to a strong national economy and competition in the employment market. The demanding work, strict physical requirements, and limited pay and benefits were also cited as obstacles to filling vacant positions and as a cause of high attrition. FSIS noted that these difficulties in hiring are amplified in remote

locations due to the sparse population and the fact that many applicants are ineligible due to conflicts of interest such as close relatives' employment at the plants.

To address the inspector shortages, FSIS informed us that it undertook a number of initiatives to hire more inspectors and improve resource management:

- FSIS began broadening its recruitment efforts in fiscal year 1999, and developed a variety of employment incentives. Recruitment efforts included extensive national and local advertising, recruiter visits to educational institutions and career conventions, and the scheduling of food inspector tests in hard-to-fill locations. Employment incentives included signing bonuses and payment of travel expenses for over 30 hard-to-fill locations. FSIS also studied retention incentives such as accelerated promotions and the waiver of annuity reduction for reemployed annuitants.
- Starting in fiscal year 2000, resource management was given a greater emphasis according to FSIS. Tools to plan and manage inspector staffing were developed for use by FSIS district offices, and representatives from FSIS headquarters and the human resources field office visited district offices to provide on-site assistance in using the tools<sup>8</sup>. In fiscal year 2000 FSIS began using the tools to gather data from the districts on actual use and expected demand for inspector staffing.

The Agriculture Appropriations Bill for fiscal year 2000 provided FSIS with an increase of \$11 million to fill inspector vacancies and hire new inspectors. By the end of fiscal year 2000, FSIS had used this additional funding to raise permanent full-time in-plant staffing from 7440 to 7643 employees. though inspector shortages were reduced, industry officials have continued to raise concerns about the inspection program's ability to keep pace with increased workload. FSIS expects the increased funding provided in fiscal year 2000 for in-plant staffing to be sufficient to address industry growth through 2001, and noted that the first quarter of fiscal year 2001 reflected a slight decrease in the demand for inspection services. However, USDA economists project poultry production to increase by 2.9 percent in 2002 over 240 million birds; this equates to over 100 additional inspection personnel under current inspection practices. Absent hiring more inspectors, the potential growth in poultry and livestock production could continue to stress FSIS' resource use.

-

<sup>&</sup>lt;sup>8</sup> These tools consist primarily of spreadsheets in which District offices enter actual and estimated data on staffing – such as accessions, attrition, vacancies, hiring plans, and travel – and other operating expenses such as supplies, equipment, rent, communications, and printing. Headquarters accesses the spreadsheets through FSIS' wide area network.

Despite the actions taken by FSIS officials, as discussed above, our review showed that FSIS' resource management methods need further strengthening to better estimate staffing needs, and to ensure that inspectors are deployed to areas that have the greatest need. District officials are asked to estimate expected attrition and demand based on their own projections of industry production levels, and to input those estimates in spreadsheets accessible by headquarters. However, staffing allocations among districts are based on two key variables: each district's use of staff years in the prior fiscal year and expected attrition. Therefore, although some demand data is considered, production increases may not be adequately addressed. Although many factors can affect the development of a "full-staffing" budget, the omission of production estimates in the development of FSIS' budget reduces decisionmakers' options in making funding decisions for meeting the critical inspections aspect of FSIS' mission. In addition, district projections of industry production levels are not compared to national projections, such as those prepared by USDA economists, and the national projections are not used to formulate annual staffing and budget requests.

OIG was unable to evaluate the reasonableness of FSIS' projections for inspector attrition or industry production levels by district to actual levels because FSIS does not have data prior to fiscal year 2000. However, FSIS bases attrition estimates on the prior year's number, rather than using available data on retirement eligibility and resignations. Because, according to FSIS, about half of inspector attrition is due to retirement, we believe that FSIS could improve its attrition estimates by using actual information on the age and service time of recent retirees and current inspectors.

FSIS also was not able to provide us with quarterly planned employment levels for key inspection positions for the three years prior to fiscal year 2000, although FSIS officials stated that the districts were provided inplant employment targets. FSIS officials stated that in fiscal year 1996 many of the resource management monitoring and reporting systems were discontinued or used only sporadically until new tools were developed and put into use for fiscal year 2000.

FSIS officials emphasized that budget requests are subject to review by program and policy officials within the agency, Department, OMB and Congressional review, and that budgets are prepared to support the highest in-plant employment levels possible, subject to funding and policy constraints. According to FSIS officials, due to an emphasis on cost control, budget requests are not based on staffing all vacant inspector positions, and calculations are not made to determine the additional inspectors needed to meet projected industry production levels. Instead, budget requests are generally based on prior staff-year usage and expected attrition; vacancies

due to attrition are expected to be filled through redeployment of other agency resources as well as hiring. FSIS stated that the agency was expected to meet increases in the demand for inspection services through business process and technological improvements in the inspection program. Until 2000, FSIS had only one increase in in-plant inspection staff years since 1993, and had reduced non-inspection agency activity by 20 percent.

FSIS officials also stated that in November 1999 the agency began using the Slaughter Staffing and Vacancy Tracking System, which is intended to provide bi-weekly data on each plant that has on-line slaughter positions that are not permanently staffed. The district office and the inspector-in-charge at the plant provide information on vacancies and on how the position is being filled temporarily, and estimate both the minutes lost due to the vacancies and the potential adverse impact to industry.

We discussed our concerns with FSIS officials who advised us that reductions in inspector staffing problems and improved resource management are potentially available through HIMP. In October 1999, FSIS began testing new slaughter inspection procedures under HIMP. FSIS expects that the new procedures, if ultimately adopted, will allow the agency to redistribute its inspection staff more efficiently, freeing inspectors to fill critical vacancies. However, by FSIS' own estimation, regulatory changes would take two years or more. In addition, while the HIMP pilot testing has tried to realign the HAACP-based roles and responsibilities of both the industry and the federal inspection force, court decisions in January 2001 have required that FSIS inspectors continue to inspect each individual carcass.

#### **RECOMMENDATION NO. 1**

Develop and implement procedures to estimate staffing needs, under current inspection practices, based upon forecasted industry production levels, and age, service

and retirement eligibility data. Ensure this model can identify staffing needs at the district level in order to seek sufficient funds in budget requests to fully meet all inspector staffing needs.

#### **Agency Response**

FSIS concurred with this recommendation and agreed to develop and implement refined procedures, by October 2001, to estimate staffing needs based on forecasted changes in industry demand for service and projected changes in the retention of inspection service employees. In addition, the agency will ensure that this data is considered in developing its budgets in order to seek sufficient funds to meet all regular inspection staffing needs.

## **OIG Position**

We accept the agency response for management decision.

**CHAPTER 2** 

ACTIONS TAKEN HAVE IMPROVED FUNDS CONTROL; ADDITIONAL ACTIONS WOULD PROVIDE FURTHER STRENGTHENING

#### FINDING NO. 2

The FSIS reported to the President, pursuant to the Anti-Deficiency Act, that it violated sections 1341(a) and 1517(a) of Title 31, United States Code during fiscal years 1997

and 1998. According to agency officials, these violations, consisting of over-obligations and over-expenditures of appropriation and apportionment, amounted to \$4 million and \$3.9 million, respectively, for the years cited. The violations occurred because of significant weaknesses in the Department's CAS, and inadequate accounting and administrative controls at the operating level. CAS is now defunct for FSIS. We have a long history of identifying significant deficiencies in CAS. We were unable to garner a complete understanding of the accounting deficiencies at the agency level due to the previous departure of responsible officials, and thus complete explanations were not forthcoming.

The FSIS has recently studied and overhauled its financial management structure, which should serve to reduce the likelihood of future violations. Implementation problems have been encountered in FFIS, however, which could result in potential problems if not promptly remedied.

#### FY 1997 Anti-Deficiency Act Violation (\$4 Million)

Discussions with FSIS officials disclosed their view on the various program and administrative activities which resulted in the violations; in our estimation, however, controls should have been in place to preclude, or detect in a timely manner, any anti-deficiency. Their explanation follows.

For fiscal year 1997, FSIS reported to the President that the primary reasons for the over-obligations were costs related to implementing HACCP, a massive recall of beef, and a major reorganization of FSIS. First, FSIS reported that although it had requested and received \$3.5 million for costs related to implementing the Pathogen Reduction/HACCP rule, actual expenses were over \$4.0 million. Second, in relation to a recall of over 25 million pounds of beef products, FSIS stated that it had incurred significant costs due to regulatory activities, including investigations, epidemiological reviews, staff support activities, product testing and establishing protocols for review of suppliers. Third, FSIS' reorganization brought about both higher costs than

expected and a reduced ability to track and monitor costs in general, as discussed below.

The reorganization was originally planned to be phased in over three years. However, FSIS reported that it had to accelerate the reorganization because staffing levels fell more quickly than expected in offices scheduled for closure, and that, as a result, related costs such as office and employee relocations and career counseling were higher than expected that year. FSIS also stated that managers had difficulty monitoring costs in general because of (1) the absence of clearly defined accounting and financial management systems designed for the new organization structure, and (2) the reassignment of regional funds control duties to fewer and less experienced staff. accounting code structure changed significantly to accommodate the reorganization. According to FSIS officials, the inflexibility of the accounting system precluded the agency from making changes to the accounting system to completely reflect the new organizational structure. FSIS specifically cited incorrect obligations reported by CAS, used by FSIS at the time, as an obstacle to monitoring costs, and also noted difficulty in reprogramming CAS to provide reports based on the new accounting codes.

Agency officials asserted that the reorganization also left the agency with a lack of budgetary expertise in the field – eliminating the administrative officers, support staff and a level of regional management that had been involved in funds control. The 18 (now 17) district offices were given a single resource management specialist with a variety of job responsibilities in addition to monitoring and reporting funds use; the specialists' expertise and experience varied greatly. We did not, or were unable to, independently corroborate the agency's description of what transpired.

## FY 1998 Anti-Deficiency Act Violation (\$3.9 Million)

Many of the funds control problems FSIS experienced in 1997 were still present in 1998. FSIS again cited problems with inadequate resource management tools, the USDA accounting system, and weaknesses in its management controls as causes for the Anti-Deficiency Act violations. In addition, FSIS expected that certain activities related to HACCP implementation – specifically hiring and training compliance officers – could be paid through cost savings in other areas. However, those savings were not realized. FSIS also stated that the number and cost of relocations were greater than expected.

<sup>&</sup>lt;sup>9</sup> Since 1991, our audit reports on the USDA financial statements and our internal control reviews of OCFO/NFC have detailed material internal control weaknesses in CAS that result in unreliable information. For example, we reported that CAS does not conform to the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL, and the audit trail from the general ledger to supporting documentation, in some cases, was nonexistent. Also, material weaknesses continue to exist in the areas of accounting adjustments and reconciliations within the CAS.

To reduce over-obligations in 1997 and 1998, FSIS informed us that it took a number of immediate actions - primarily canceling undelivered orders and contracts and redirecting discretionary funds. However, the extent of the over obligations and the relatively small amount of discretionary funds did not permit a complete remedy.

#### **Corrective Action**

To address the serious financial management problems that occurred in fiscal years 1997 and 1998, FSIS has taken corrective measures since 1999 to improve its fiscal management operations, as follows:

- created the position of Chief Financial Officer (CFO) to provide additional budgetary oversight,
- split the Budget and Finance Division into two separate divisions to provide more oversight and control,
- created a resource management and policy oversight body comprised of the CFO and the program Associate Deputy Administrators – to review and recommend decisions on major budget issues and to monitor all spending,
- · involved all managers in budgetary management,
- implemented revised guidelines for monitoring travel and other expenses, and
- implemented FFIS beginning with fiscal year 2000.

FSIS also hired an independent contractor to analyze its financial management operations and develop detailed corrective actions to address the problems noted. In September 2000, the contractor reported the following problems:

- budget expertise in FSIS' field offices and budget execution tools are inadequate,
- financial management is a low priority in FSIS, and
- financial management is not an integral component of FSIS' program manager's jobs.

An FSIS analysis showed that employees failed to submit travel vouchers in a timely manner -- on average about 4 percent of travel vouchers are submitted over 3 months after the travel occurred. Because obligations for travel are not recorded until time of payment, the agency cannot verify that it had sufficient funds until all vouchers are filed and processed. The contractor also noted problems with convenience check and purchase card expenditures. For both methods of procurement, the contractor reported that the absence of both a "funds availability certification" prior to purchase, and a "post-purchase review"

by an approving official combine to create a risk to FSIS financial management.

FSIS officials concurred with the contractor's findings and have developed a strategic plan and management team to implement the recommendations contained in the contractor's report<sup>10</sup>, which were as follows:

- build a strong financial management capability throughout FSIS, including formalizing the role of the Chief Financial Officier (CFO) and allowing districts to fully participate in their financial management responsibilities,
- clarify financial management roles and responsibilities FSIS-wide,
- improve the recording of obligation status for travel, and
- institute a purchase card/convenience check utilization review program.

FSIS has created a Resource Management Coordination Team to perform a needs assessment review at each of the district offices during fiscal year 2001. The team is also developing financial management systems tools intended to help the district offices and other FSIS program offices perform their funds control management responsibilities.

FSIS has also contracted with the consultant to assess the effectiveness of its actions taken in following these recommendations, and other activities. The contractor's fieldwork for this follow-on contract is scheduled for completion in December 2001.

#### **New Problems Loom**

While significant actions have been taken and progress has been made, new financial management problems arising out of the conversion to FFIS will require additional time and effort by FSIS to resolve. Details follow:

FSIS officials expected the implementation of FFIS to improve their ability to control funds through better tracking and reporting of obligations and expenditures. However, FSIS experienced several problems in converting its financial operations from the CAS to FFIS, resulting in incorrect data regarding funds control. For example, FSIS reported to OMB that cost allocations produced by FFIS have not been accurate throughout all of fiscal year 2000, which resulted in the incorrect applications of over \$3 million in administrative and overhead charges for FSIS programs, and inaccurate reporting of data needed for the SF-133, "Report on Budget Execution," an important tool used by OMB to monitor agencies' proper use of funds.

FSIS's Financial Management and Accounting System – Recommended Improvements and Implementation Strategy, September 2000. Logistics Management Institute.

Misallocating costs in FSIS' accounting system increases the risk of errors or irregularities and the potential for unauthorized use of appropriations or trust funds. FSIS' controls were not adequate to ensure that the shifting of costs from one account to another was done correctly or in a manner consistent with appropriations law. Although the agency monitored this activity and became aware that problems were arising, FSIS did not discover the extent of this funds control problem until November 2000. FSIS officials advised us that the inaccurate data they obtained from the FFIS system was the direct reason why they had to manually prepare a corrected SF-133 that was not submitted to OMB until January 19, 2001. The error caused misstatements in obligations recorded for reimbursable inspection activities. As of March 2001, FSIS has not been able to correct this problem.

Determining and maintaining its available fund balance with Treasury is a critical part of FSIS' budget execution system. Treasury has information about FSIS' budgetary activity and FSIS must periodically reconcile its records to Treasury's to determine the actual amount of funds available. This is analogous to reconciling a checking account to a bank statement. However, OIG was unable to verify FSIS' Fund Balance with Treasury, which is comprised of obligated and unobligated balances. As of September 30, 2000, a comparison of FSIS and Treasury's records showed that the absolute value of unreconciled differences was \$37.5 million, of which \$30.2 million related to disbursements and the remainder to collections. This information is essential for FSIS and Congress to be able to determine the status of funds and if unobligated balances are available that could be used to reduce current funding requirements or that could be used by FSIS to meet other, more important needs.

Another potentially serious problem exists, again related to the conversion. Most assets, liabilities, revenues, and expenses stem from or result in cash transactions. Errors in the receipt or disbursement data affect the accuracy of various FSIS financial reports, including budget execution reports and information reported to Congress. Our review found that FSIS has millions of dollars in prior year account balances for which FSIS has not identified supporting documentation. The uncertainty of these balances compromises FSIS' ability to control funds. Prior to conversion to FFIS, FSIS performed a massive effort to identify activity recorded in the legacy system for which no supporting documentation was identified. This activity was converted to FFIS using "alternate" fund codes. During fiscal year 2000, FSIS was supposed to research this activity and either transfer supported amounts to the correct fund code or write it off. As of September 30, 2000, over \$430 million in unidentified prior year activity remained in these alternate fund codes and was reported in the agency's financial statements. The impact of these balances on the financial and budget execution reports cannot be determined until these amounts are resolved. FSIS officials advised us that they had recently made progress in identifying some of the activity but had not quantified the amount.

#### **RECOMMENDATION NO. 2**

Work with the Office of the Chief Financial Officer to resolve the problems that have impacted the proper allocation of costs and impeded timely reporting to oversight officials.

Determine the impact on FSIS' records and make any necessary corrections.

## **Agency Response**

FSIS agreed with the recommendation and stated that it is working with the Office of the Chief Financial Officer, the FFIS Project Team, and the FFIS contractor to determine the cause of the erroneous distribution of overhead costs. A manual process will be developed to use in case the system problem is not corrected in time for yearend reporting. FFIS anticipates resolution this condition by October 2001.

#### **OIG Position**

We accept the agency response for management decision.

#### **RECOMMENDATION NO. 3**

Develop and implement a process to timely reconcile FSIS' Fund Balance with Treasury with the records maintained by Treasury.

#### Agency Response

FSIS agreed with this recommendation and stated that it is working with NFC to identify the improperly scheduled documents and to make systematic adjustments. Further, until a software correction strategy is determined and implemented, FSIS has developed or otherwise implemented various reconciliation tools to enable it to minimize additional out-of-balance conditions. FSIS expects to fully implement its new reconciliation process by October, 2001.

#### **OIG Position**

We accept the agency response for management decision.

### **RECOMMENDATION NO. 4**

Establish a team to immediately research the unsupported amounts converted to FFIS from CAS. Make the necessary adjustments to correct the records.

#### **Agency Response**

FSIS agreed with this recommendation and stated that the majority of the first year FFIS implementation issues have been resolved. It also stated that it will continue to work with the Office of the Chief Financial Officer (OCFO), the FFIS Project Office, and the Department's FFIS contractor to analyze and resolve the prior year unsupported amounts. FFIS will make the appropriate adjustments by October, 2001 and produce an interim report on that date regarding the status of any unresolved issues by that date.

#### **OIG Position**

We accept the agency response for management decision.



Food Safety and Inspection Washington, D.C.

MAR 29 2001

TO:

Richard J. Davis

Director

Administrative and Finance Division

Office of Inspector General

FROM: Thomas J. Billy Macin Market Ma

SUBJECT:

FSIS Response to Office of Inspector General's (OIG) Official Draft Report –

Analysis of FSIS Inspector Staffing Shortages and Anti-Deficiency Act

Violations

Thank you for the opportunity to review and respond to the subject report. We appreciate the opportunities you provided for constructive interchange. We generally agree with the report recommendations. As you have noted, FSIS has undertaken many initiatives to improve its financial management activities and staffing efforts. We believe that the recommendations in this report and our planned actions will further strengthen our program. Below are our responses to the recommendations in the report.

#### I. Responses to Recommendations

#### Chapter 1: FSIS' Inspection Program Forecasting and Resource Allocation Methods Need **Improvements**

#### Recommendation No. 1:

Develop and implement procedures to estimate staffing needs, under current inspection practices, based upon forecasted industry production levels, and age, service and retirement eligibility data. Ensure this model can identify staffing needs at the district level in order to seek sufficient funds in budget requests to fully meet all inspector staffing needs.

#### Agency Response:

The Agency will develop and implement refined procedures to estimate staffing needs based on forecasted changes in industry demand for service and projected changes in the retention of inspection service employees. The FSIS staffing for the past three years shows FSIS employees do work past their retirement eligibility date.

Richard J. Davis

This information will be integrated into staffing projections so that we can determine if this factor changes as the workforce demographics change.

FSIS has recently implemented a number of systems to monitor data on industry change and inspection employment. These systems include each district's annual hiring plan, expected changes in industry demand by location and number of inspection positions, and projected inspector attrition.

A separate report monitors slaughter vacancies and actions taken to temporarily staff these positions until they are permanently filled. FSIS is also regularly accessing economic forecasts prepared by the Department concerning the meat and poultry industry.

FSIS will refine its methodology to monitor, track and combine these data, as well as other pertinent industry demand and employee retention data, to determine staffing needs and district staffing allocations. The Agency will also ensure that this data is considered in developing Agency budgets, which request sufficient funds to meet all regular inspection-staffing needs. FSIS expects to complete its integrated review and revise and implement its methodology in October 2001.

## Chapter 2: Actions Taken Have Improved Funds Control; Additional Action Would Further Strengthen It

#### Recommendation No. 2:

Work with the Office of the Chief Financial Officer (OCFO) to resolve the problems that have impacted the proper allocation of costs and impeded timely reporting to oversight officials. Determine the impact on FSIS' records and make necessary corrections.

#### **Agency Response:**

FSIS, working with the OCFO, FFIS Project Team, and AMS, Inc., the FFIS contractor, continues efforts to determine the cause of erroneous distribution of overhead costs. Our analysis indicates that the problem appears to be with the Cost Allocation Module software and not the FFIS application configuration. Our efforts will continue until the problems are resolved.

Since FSIS allocates funds and executes its budget using direct cost basis, the impact on actual funds control is minimal. Reports used in the budget execution process regarding direct costs are not affected. However, it does cause problems with the external reporting process.

Richard J. Davis

Throughout FY 2000, direct costs were used to perform budget execution functions. At FY 2000 yearend, the cost allocation discrepancy was identified at \$3 million which represents 0.4 percent of the approximately \$750 million spent. Once the reporting error was identified, a post-closing, manual, clearly defined, and well-documented adjustment was made.

FSIS has discontinued using the Cost Allocation Module for FY 2001 until the Cost Allocation Module can be corrected. Direct Costs continue to be reported on all accounting reports and financial statements. A manual process is being developed to use in case the Cost Accounting Module is not corrected in time for yearend reporting. The cost allocation differences for FY 2000 will remain until a correction strategy is determined and implemented. FSIS continues to work with the Project Office and the contractor to determine what the correction strategy will be. Cost allocation is performed only on current year spending. The process should be completed by October 2001.

#### Recommendation No. 3:

Develop and implement a process to timely reconcile FSIS' Fund Balance with Treasury with the records maintained by Treasury.

#### **Agency Response:**

Since FFIS implementation began on October 1, 1999, FSIS has been submitting its own SF-224, Statement of Transactions, to Treasury. In January 2000, FSIS took steps to concentrate more effort and oversight regarding the disbursement and collection reporting and reconciliation. FSIS had few tools available to perform the analysis to accomplish the reporting and reconciliation tasks, some are not automated, i.e., Treasury, GOALS, and FFIS baseline reports. These reports offered limited information to determine the status of questionable documents or those still in transit. Throughout FY 2000, FSIS reconciled with Treasury's information and determined that the differences were due to FFIS posting errors for collections, erroneous cost allocation postings and improperly recorded document schedules. The collections posting errors have been corrected and adjusted.

Some of the improperly recorded schedules are due to the spending collection and disbursement activity done by USDA's National Finance Center (NFC). FSIS is working with NFC to identify the improperly scheduled documents and to make systematic adjustments. In October 2000, FSIS implemented the BRIO Report Writing tool that accesses the FFIS Data Warehouse. BRIO provides us with the ability to generate very detailed automated reports of account balances and document postings. The reports can identify documents that are in transit or have questionable postings.

Richard J. Davis 4

Also, the FFIS Project Office has developed the ACRWS Reconciliation Tool (Automated Cash Reconciliation Worksheet System) to assist agencies in their cash reconciliation activities. The ACRWS information includes files from Treasury, general ledger downloads from FFIS and downloads from NFC systems. FSIS obtains access to the ACRWS data in April 2001 and will use it to identify and correct documents that are causing the differences with Treasury. The cost allocation differences will remain until a software correction strategy is determined and implemented. With the new tools, a cost allocation fix or manual workaround, FSIS expects the differences with Treasury to be adjusted and reduced significantly by FY 2001 yearend. FSIS expects to fully implement its new reconciliation process by October 2001.

#### Recommendation No. 4:

Establish a team to immediately research the unsupported amounts converted to FFIS from Centralized Accounting System (CAS). Make necessary adjustments to correct methods.

#### Agency Response:

The "unsupported amounts converted to FFIS" identified in the audit report represent prior year activity that was controlled by NFC in their CAS. NFC could not identify the unsupported transactions, which were established for later analysis. This conversion strategy was developed by the Department and was prescribed for use by all USDA Agencies converting to FFIS.

Throughout FY 2000, FSIS has identified several items that were transferred to valid funds or written off at yearend. Due to several FFIS implementation issues, the entire converted balance could not be researched by the end of the fiscal year. FSIS needed to wait for yearend trial balance entry procedures to execute the proper adjustments.

With the majority of first-year implementation issues resolved, FSIS will continue to work with the OCFO, FFIS Project Office, and AMS, Inc. to analyze and resolve the prior year unsupported amounts. In October 2001, FSIS will make appropriate adjustments to transfer the amounts to valid funds and produce an interim report regarding the status of the remaining amounts and strategies to do further analysis or write them off.

The interim progress report will be completed October 2001, that will provide a status of these research efforts and identify the remaining work and schedule need.

If you have any questions, please contact Jeanne Axtell, Office of Management at 202-720-4744.