



United States Department of Agriculture

Office of Inspector General





Agricultural Marketing Service Oversight of the Beef Promotion and Research Board's Activities

Audit Report 01099-0001-21

What Were OIG's Objectives

Our objectives were to determine if AMS' oversight procedures were adequate to ensure beef checkoff assessments were collected, distributed, and expended in accordance with the relevant Act and Order, and to determine if the relationships between the beef board and other beef industry-related organizations were compliant with the relevant Act and Order.

What OIG Reviewed

OIG reviewed AMS' and the beef board's procedures designed to monitor activities related to the beef checkoff program. OIG also examined the internal controls related to beef checkoff fund transactions.

What OIG Recommends

AMS needs to develop and implement oversight procedures specific to the beef board and perform management reviews of the beef checkoff program. OIG also recommends that the beef board require detailed estimates of project implementation costs.

OIG reviewed AMS' oversight of the Beef Promotion and Research Program beef checkoff funds.

What OIG Found

The Office of Inspector General (OIG) determined that the Agricultural Marketing Service (AMS) needs to strengthen its procedures for providing oversight to the Beef Promotion and Research Program. We also found there was no cause to question, as it pertains to compliance with the Beef Research and Information Act, as amended (Act), and the Beef Promotion and Research Order (Order), the contractual relationships between the Cattlemen's Beef Promotion and Research Board (beef board) and other industry-related organizations, including the National Cattlemen's Beef Association (NCBA).

Overall, we concluded that AMS' oversight as an internal control function needs improvement. In our view, this resulted in agency officials having reduced assurance that beef checkoff funds were collected, distributed, and expended in accordance with the Act and the Order. We found that AMS had not conducted periodic management reviews of the beef board, and the agency's procedures for conducting these reviews could be improved. For example, AMS had not identified weaknesses in the beef board's internal controls over project implementation costs. Sensitivity to these controls is important because the costs are incurred by industry-governed organizations the beef board is required to use. Without AMS' independent oversight, it may not be clear to beef producers, importers, and the public whether beef checkoff funds are collected, distributed, and expended in accordance with the Act and the Order.

Our audit also addressed three specific allegations directed towards the beef board and NCBA. Overall, we concluded that the beef board, NCBA, and AMS, as applicable, took appropriate action regarding the matters, or that there was no impropriety related to the allegation. AMS concurred with our two recommendations.



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



DATE: January 28, 2014

AUDIT
NUMBER: 01099-0001-21

TO: Anne L. Alonzo
Administrator
Agricultural Marketing Service

ATTN: Frank Woods
Chief, Internal Audits
Agricultural Marketing Service

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Agricultural Marketing Service Oversight of the Beef Promotion and Research Board's Activities

This report presents the results of the subject audit. Your written response to the official draft report, dated March 12, 2013, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your responses to the official draft, we accept management decision on all recommendations, and no further response to this office is necessary.

In April 2013, we received a complaint that questioned the quality of the report we issued on March 29, 2013. We processed the complaint under the guidelines issued pursuant to the Data Quality Act (Section 515 of Public Law 106-554). As explained in the Scope and Methodology section of this report, OIG found that certain aspects of our quality control system were not fully completed. Consequently, we re-engaged with AMS and conducted additional audit and quality control procedures from July through September 2013, to assess the finding and recommendations in the March 29, 2013, report. We have revised the report based on information resulting from the quality control procedures and the re-engagement. Due to the re-engagement, AMS informed us that the corrective action implementation dates have been revised from October 31, 2013, to March 31, 2014.

Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer. In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The Beef Research and Information Act, as amended (Act), and the subsequent Beef Promotion and Research Order (Order) established and structured the Cattlemen’s Beef Promotion and Research Board (beef board) to carry out a coordinated program of generic beef promotion and research.¹ The Beef Promotion and Research Program (beef checkoff program) aids in advancing the commodity as a whole. The program was designed to strengthen the beef industry’s position in the marketplace, as well as to maintain and expand domestic and foreign beef markets. The “Beef, It’s What’s for Dinner” advertising campaign is an example of a project that the beef board determines it will carry out each year, and then contracts with other organizations to implement. The U.S. Department of Agriculture (USDA) provides oversight to the program through its component agency, the Agricultural Marketing Service (AMS).²

AMS provides oversight for 19 promotion and research boards’ domestic activities, while the Foreign Agricultural Service, another agency within USDA, is responsible for oversight of international activities. Among promotion and research boards, the beef board has the lowest level of administrative expenses allowed—5 percent.³ The Act⁴ and Order⁵ specify the beef board’s organizational and funding structure. Further, for certain activities, the beef board was required to contract with approved, industry-related organizations that were in existence when the industry voted to approve the program in 1988.⁶ Additionally, half of the Beef Promotion Operating Committee (BPOC) must consist of individuals from the Federation of State Beef Councils (federation). The federation predated the authorization of the beef board in 1988, and merged into the National Cattlemen’s Beef Association (NCBA) in 1996. The NCBA was the successor organization to the National Cattlemen’s Association, which formed in 1951. AMS’ primary oversight objective is to ensure that promotion and research boards, such as the beef board, use funds in accordance with requirements.

¹ The Act, 7 U.S.C. §§ 2901-2911, authorized the beef industry to establish a national checkoff program if producers and importers approved the program through referendum. Beef producers and importers voted to approve the program in 1988. The Order and related regulations, 7 C.F.R. §§ 1260.101 through 1260.640, further clarified the duties and powers of the beef board, and assigned USDA responsibility to ensure provisions of the Order are carried out. The Order also defined and provided general procedures for budget approval, contractor approval and compliance, and other administrative procedures and requirements.

² The Secretary of Agriculture delegated to AMS the authority to oversee the various commodity marketing boards within USDA, including the beef board. See 7 C.F.R. § 2.22(a)(1)(viii)(X).

³ The laws authorizing other commodity boards allow administrative expenses of, for instance, 15 percent of assessments and other income.

⁴ 7 U.S.C. § 2904.

⁵ 7 C.F.R. §§ 1260.141 - 1260.151, 1260.172.

⁶ Specifically, except for producer communications and program evaluation, the beef board must work with qualified contracting organizations (i.e. established, industry-governed organizations) to carry out programs of promotion, research, consumer information, industry information, and foreign marketing. To qualify during our audit period, contracting organizations were required to have been in existence before the enactment of the Act. On August 31, 2012, a Beef Promotion and Research Amendment to the Order lifted the requirement that qualified contracting organizations must have existed at that time. See 7 C.F.R. §§ 1260.113 and 1260.168.

The Beef Checkoff Program and Its Operations

The Beef Promotion and Research Program is also known as the beef checkoff program because the beef industry funds the program with “checkoff” dollars. The beef checkoff program collects a \$1 assessment for each head of domestic cattle sold, as well as assessments for imported cattle, beef, and beef products. Qualified State beef councils (QSBC) collect the domestic assessments and are responsible for forwarding half of the funds each month to the beef board, which manages the national program.⁷ Beef producers and importers paid approximately \$81 million in checkoff assessments each year during fiscal years 2008 through 2010. Assessments are used to support marketing promotions, research, consumer and industry information projects, and program administration activities that benefit the beef industry. However, beef checkoff funds may not be used for activities such as lobbying, as both the Act⁸ and the Order⁹ specifically prohibit the use of checkoff funds for “influencing government action or policy.”

Each year, the beef board brings a total of approximately \$35.5 million in producer assessments and \$6.7 million in importer assessments forwarded from QSBCs and the U.S. Customs and Border Protection Service, respectively, to the national program. The Secretary of Agriculture must certify the organizations, which consist of State cattle associations or general farm organizations comprised of a majority of cattle producers, as well as entities that promote the economic welfare of cattle producers. The certified State organizations and importer groups nominate individuals to sit on the beef board. The Secretary of Agriculture is responsible for appointing individuals based on the nominations. The beef board had 106 members during the scope of our audit (fiscal years 2008-2010). In accordance with the Order,¹⁰ the beef board selected 10 of its members to serve on the 20 member BPOC. The BPOC’s other 10 members are individuals from the federation, which provides approximately \$10.6 million to the national program each year. The BPOC meets about four times a year. It receives an approved budget from the board that allocates funds among program areas. The BPOC may approve or amend activities within a project, as well as the cost of the program submitted by a potential contractor. As provided in the Act¹¹ and Order,¹² the BPOC, subject to USDA approval, can enter into contracts or agreements to carry out program activities.

The federation merged into NCBA in 1996. NCBA has had annual contracts with the beef board for each of the last 26 years, and is the beef board’s primary contractor. Within NCBA, the federation division, staffed with microbiologists, nutritionists, chefs, economists, marketing specialists, and food technologists, carries out a majority of the approved programs. The federation division receives 98.6 percent of its revenue from beef checkoff contributions. The remaining federation division revenue is from non-checkoff sources such as packer/processor

⁷ QSBCs are beef promotion entities, authorized by State statute, that receive voluntary assessments or contributions; conduct beef promotion, research, and consumer and industry information programs; and are certified by the beef board. Currently, there are 45 individual QSBCs.

⁸ 7 U.S.C. § 2904(10).

⁹ 7 C.F.R. § 1260.169(e).

¹⁰ 7 C.F.R. § 1260.150(d).

¹¹ 7 U.S.C. § 2904(6).

¹² 7 C.F.R. § 1260.168(f).

investments, sponsorships and meetings, sales of materials, and interest. The federation division revenue represents 82.3 percent of NCBA's total funding.

In addition to the federation division, NCBA has a policy division. The policy division provides 17.7 percent of NCBA's funding through contributions received from members, affiliates, sponsorships, and others.¹³ Policy division funding is designated for NCBA's political activities, which may include lobbying. NCBA states that it manages the separation of funds within its two divisions using accounting codes, separate bank accounts, policies, and responsible officials.

Other industry related organizations that contract with the beef board include the United States Meat Export Federation (USMEF), the American National CattleWomen, Inc. (ANCW), and the Meat Import Council of America (MICA).

AMS' Oversight of Commodity Boards and Recent Reviews

AMS provides oversight and guidance to promotion and research boards to ensure that checkoff funds are used in accordance with their authorizing Acts and other authorities. The executive leaders of each board are responsible for overseeing the financial management of checkoff funds. AMS also reviews annual financial audits that certified public accountants perform.

AMS apportions its oversight responsibilities to four program areas. Each program area is overseen by a functional committee, which include:

- Cotton and Tobacco
- Dairy
- Fruit and Vegetable
- Livestock, Poultry, and Seed

AMS assigned responsibility for beef board oversight to the Livestock, Poultry, and Seed Program. In addition, upon request by the Livestock, Poultry, and Seed Program, AMS' Compliance and Analysis Program assists with performing management reviews of the boards.

In November 2010, AMS updated its guidance document regarding oversight reviews of promotion and research boards and general prohibitions against using checkoff funds for expenses such as spousal travel, open bars, and payments for non-checkoff work. OIG had evaluated previous internal controls AMS established to oversee the promotion and research boards' activities in a report, issued in March 2012.¹⁴ As part of its response to the audit, AMS

¹³ NCBA's financial statements for fiscal years 2008 through 2010 list the revenue sources for its policy division as: packer/processor investments, sale of NCBA materials, political education fund contributions, and interest.

¹⁴ *Agricultural Marketing Service's Oversight of Federally Authorized Research and Promotion Board Activities* (01099-0032-Hy, March 12, 2012).

developed its promotion and research board oversight procedures and guidance for conducting periodic internal reviews of its program area operations.

In 2010, under its own authority, the beef board commissioned an independent accounting firm to perform an attestation engagement that included a review of expenses NCBA submitted to the beef board for reimbursement between fiscal years 2008 and 2010.¹⁵ The engagement disclosed findings related to contractor-submitted expenses, some of which were unrelated to checkoff activity. Following the engagement, NCBA officials admitted that they had mistakenly coded and submitted improper expenses to be reimbursed by the beef checkoff fund. Board officials met with NCBA officials to review the engagement findings and develop corrective actions, which resulted in NCBA reimbursing \$216,944 to the beef checkoff program. AMS officials reviewed the findings of the engagement as part of their oversight role and, in September 2010, concurred with the beef board's recommended corrective actions. NCBA also hired a compliance manager to oversee and manage compliance with checkoff requirements and respond to questions from beef board officials regarding checkoff fund expenses.

During the course of our audit, we reviewed three complaints directed towards the beef board and NCBA. The complaints alleged the misuse of beef checkoff funds and the misuse of the beef checkoff logo. We examined accounting and management records, where appropriate, and discussed the complaints with applicable parties, including AMS officials. Overall, we concluded that the beef board, NCBA, and AMS, as applicable, took appropriate action regarding the matters, or that there was no impropriety related to the allegation. We evaluated the following alleged activities or decisions:

- Whether the beef board had used checkoff funds to pay for a division of NCBA to attend USDA Grain Inspection and Packers Stockyard Administration (GIPSA) rulemaking information sessions;
- The propriety of the beef board's use of checkoff funds to gain membership in the U.S. Ranchers and Farmers Alliance; and
- A cattle association's use of the beef checkoff logo in a beef industry trade paper editorial, relative to a proposed GIPSA rule.

See Exhibit A for more information concerning these allegations.

Objectives

Our objective was to determine if AMS' oversight procedures were adequate to ensure that beef checkoff assessments were collected, distributed, and expended in accordance with the Act and the Order. Also, our objective was to determine if the relationship between the beef board and the NCBA, as well as other beef industry-related organizations, complied with the Act and Order.

We reviewed the Act and Order to identify and evaluate provisions related to the relationship between the beef board and the various beef industry organizations it contracted with, including

¹⁵ This engagement was initiated by the beef board and was not part of the required annual audit.

the NCBA. The Act and the Order did not cite any specific industry-governed organizations and did not provide specific guidance on permissible relationships between the parties. One provision of the Act states that the BPOC shall enter into contracts or agreements for implementing and carrying out the activities authorized by this Act with established national nonprofit industry-governed organizations to implement programs of promotion, research, consumer information, and industry information.¹⁶ A similar provision in the Order states that the BPOC shall contract with established national nonprofit industry-governed organizations to implement programs of promotion, research, consumer information and industry information.¹⁷ Based on our review of relevant provisions of the Act and the Order, and our review of the contractual association between the beef board and the NCBA, as well as other industry-related organizations, we found no cause to question the current relationship between the parties as it pertains to compliance with the Act and the Order.

¹⁶ 7 U.S.C. § 2904(6).

¹⁷ 7 C.F.R. § 1260.168(f).

Section 1: AMS Should Strengthen Oversight Controls

Finding 1: AMS Should Strengthen Oversight Controls

We found that AMS' oversight of beef checkoff funds should be strengthened to ensure the expenditure of funds complies with the Act and the Order. For example, AMS had not identified deficiencies in the beef board's internal controls over project implementation costs. This occurred due to inadequate AMS procedures for performing management reviews of beef board operations and AMS officials' decision to perform these reviews of the beef board only if a complaint or concern arose. Sensitivity to these internal controls is important because the costs are incurred by industry-governed organizations with which the beef board is required to contract. Without AMS' independent oversight, it may not be clear to beef producers and the public whether beef checkoff funds are collected, distributed,¹⁸ and expended in accordance with the Act¹⁹ and Order.²⁰

AMS is responsible for overseeing the implementation, administration, and operation of commodity promotion and research boards.²¹ AMS responsibilities include performing management reviews and other administrative procedures and requirements.²² Beef board guidelines require that all cost reimbursement payments to contractors be reasonable and necessary to achieve the objectives of the specific authorization request or contract.

In addition to reviewing AMS' oversight policy and procedures, we reviewed internal controls over the collection, distribution, and expenditure of beef checkoff funds by QSBCs and the beef board. At the four QSBCs visited, we reviewed internal controls over the collection and distribution of checkoff funds. At the beef board, we selected a random sample of 983 transactions from a total of more than 19,000 beef checkoff fund transactions for fiscal years 2008 through 2010. Our review of internal controls over the collection, distribution, and expenditure of checkoff funds disclosed that the beef board had not required detailed cost estimates from contractors prior to approving project implementation costs. This internal control deficiency was limited to the 983 transactions in our review, and nothing else came to our attention regarding internal controls over the collection, distribution, and expenditure of beef check-off funds.

Overall, we concluded that AMS' oversight as an internal control function needs improvement. In our view, this resulted in agency officials having reduced assurance that beef checkoff funds were collected, distributed, and expended in accordance with the Act and Order. We found that AMS had not previously identified deficiencies in the beef board's internal controls. AMS officials stated that their daily monitoring of contracts, budget documents, and promotional

¹⁸ For purposes of this report, distributed refers to the remittance of beef checkoff funds as described in the beef board's policy manual.

¹⁹ 7 U.S.C. §§ 2904 and 2905.

²⁰ 7 C.F.R. Part 1260.

²¹ AMS is delegated the authority by the Secretary of Agriculture to oversee the various commodity marketing boards within USDA. 7 C.F.R. § 2.22(a)(1)(viii).

²² Guidelines for AMS Oversight of Commodity Research and Promotion Programs (May 2004), page 3.

material, among other monitoring procedures, was sufficient oversight. However, AMS had not performed management reviews of the beef board. One AMS official informed us that agency officials interpreted the guidelines that were in effect during our audit to mean, conduct a review when a complaint or issue arose. AMS oversight guidelines state that AMS will conduct periodic management reviews.²³ AMS officials stated that the agency plans to conduct a management review of the beef checkoff program in the near future.

We reviewed the standard operating procedures,²⁴ which clarified the oversight guidelines, used by AMS personnel to conduct management reviews. We found that AMS has not developed its standard operating procedures for management reviews to adequately make determinations that beef checkoff funds were collected, distributed, and expended in accordance with the Act and Order, and to ensure transparency. Our analysis of AMS' oversight guidelines for conducting management reviews disclosed that the guidance in effect during our audit does not provide adequately specific procedures for reviewing records to ensure they support contract compliance in terms of the Act and Order. The guidance instructs the reviewer to pull a representative sample of contracts and provides a checklist of questions for reviewers to use during reviews, but does not include specific criteria for reviewing the samples. Further, AMS had not proposed guidance to assist its staff in reviewing assessment collections, the distribution of assessments to the national program, and QSBC reviews.

As part of our work, we learned that the relationship between the beef board and its contractors is complex. Per the Act²⁵ and Order,²⁶ the beef board must contract with approved, industry-related organizations only. Further, during our audit, the beef board was required to contract with organizations that were in existence when the Act was enacted.²⁷ Additionally, the Act and Order require that half of the BPOC members be individuals from an organization that has become a component of the board's primary contractor, NCBA.²⁸ This committee is responsible for voting to approve contracts. Given these complicated and mandated relationships among the beef board and its contractors, it is crucial that AMS ensures its independent reviews of the board are designed to provide comprehensive assurance of contract compliance.

AMS' current guidance states that reviews will cover contract compliance; however, it does not provide detailed procedures for doing so. AMS is currently in the process of updating its procedures for periodic commodity board management reviews to clarify AMS' role and responsibilities, and to provide additional details about the process. AMS officials stated that the agency will issue new standard operating procedures following its review of the findings

²³ Guidelines for AMS Oversight of Commodity Research and Promotion Programs (May 2004), page 9. AMS clarified its guidelines for oversight of commodity boards in Standard Operating Procedures 5 subsequent to the OIG audit report, *Oversight of Federally Authorized Research and Promotion Board Activities* (01099-0032-Hy, March 12, 2012).

²⁴ AMS Standard Operating Procedures 5.

²⁵ 7 U.S.C. § 2904(6).

²⁶ 7 C.F.R. § 1260.168(f).

²⁷ To qualify to contract with the beef board during our audit period, contracting organizations were required to have been in existence when the Act took effect. On August 31, 2012, a Beef Promotion and Research Amendment to the Order lifted the requirement that qualified organizations were required to have existed at that time.

²⁸ 7 U.S.C. § 2904(4)(A) and 7 C.F.R. §1260.112.

and recommendations of our audit, and that they will use the new procedures to perform the initial management review after adoption.

Without reviews and well-developed procedures to review contract compliance with the Act and Order, AMS may not identify whether, for example, the beef board's documentation standards are adequate. We noted during our audit that AMS did not identify whether the beef board received sufficient information about project implementation costs before it agreed to pay such costs. Specifically, the beef board did not ensure it received detailed information about, for instance, the hourly rate or estimated number of hours that contractors would charge to perform various administrative services to implement a given project. Frequently, with the type of contract that the beef board uses, contractors provide a detailed cost schedule up front, such as the hourly rates at which the contractor would invoice the beef board for personnel hours.²⁹ However, the beef board received details only after costs were incurred, through the invoice from the contractor. Thus, reviewers were unable to confirm if estimated rates were reasonable and expenses were appropriate before the board authorized payment. Further, reviewers could not compare detailed estimates to detailed actual expenses.

For example, the beef board authorized approximately \$280,000 to be paid to a contractor to implement the program's advertising strategy for fiscal year 2010. The beef board based this authorization on a document that listed a manager who would implement the strategy and a completion date, but that did not list hourly rates at which the contractor would bill the beef board for the performance and supervision of the work. The document also did not list the estimated number of hours the program manager and any other personnel would spend to implement the project.

The beef board has begun to develop a revised request form to ensure it receives such details before the beef board authorizes its contractors. AMS officials stated that they have reviewed the form. By recommending that the beef board ensures these details are documented, AMS can help to increase transparency over project implementation costs the beef board pays with beef checkoff funds.

AMS' oversight plays a significant role in the beef checkoff program environment and provides assurance to the beef industry and the public regarding the use of assessed funds. AMS can take additional steps to enhance assurance in the program by strengthening transparency over the use of funds overall.

²⁹ Through agreements known as cost-reimbursable contracts, the BPOC authorizes and the beef board agrees to pay checkoff funds to contractors for allowable costs the contractor incurred in order to administer and implement beef board projects. Once specified project milestones have been met, a cost-reimbursement agreement allows a contractor to submit all costs, whether direct or indirect, to the beef board and be reimbursed by the beef board.

Recommendation 1

Develop and implement standard operating procedures for management reviews, specific to the beef board, that include procedures for reviewing the overall process of collecting, distributing, and expending assessment funds, and for reviews of the entire beef board contractor expenditure verification process. Then, perform a management review of the beef checkoff program.

Agency Response

AMS concurs with this recommendation and will implement supplemental management review procedures for the beef board to augment the current standard operating procedure (SOP) covering management reviews. While the SOPs are designed to promote consistency across all of the research and promotion programs, they also allow flexibility for the unique structure of each board and give latitude for customization when appropriate. AMS will develop this supplemental management review procedure by June 2013. Finally, AMS agrees to conduct a management review of the beef board by October 31, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Recommend that the beef board require detailed estimates of project implementation costs, such as salaries, benefits, all applied overhead expenses, and other expenses, before it authorizes the projects.

Agency Response

AMS concurs with this recommendation. The beef board is in the process of revising the form contractors use to request funds to include additional information as recommended. The beef board's next fiscal year begins September 30, and contractors typically submit authorization requests to the beef board by July. AMS will ensure that the beef board implements this change prior to the BPOC meeting, which is scheduled for September 2013.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We performed our fieldwork at AMS' Livestock, Poultry, and Seed branch office in Washington, D.C.; beef board, NCBA, and ANCW offices, all located in Centennial, Colorado; the USMEF office in Denver, Colorado; the MICA office in Reston, Virginia; and at four QSBC offices in Kansas, Nebraska, Pennsylvania, and Texas. The beef board required contractors to retain records for 3 years. Thus, since we began our audit in fiscal year 2011, the scope of our audit was from fiscal years 2008 through 2010.

To accomplish our objectives, we reviewed relevant provisions of the Act and Order as described in the points below, and performed the following steps:

- Conducted field work that enabled us to gain an understanding of how the organizations were collecting, distributing, and expending beef checkoff assessment funds. Our review of internal controls over financial data was instrumental in determining whether these organizations were in compliance with the Act and Order.
- Selected a random sample of 983 transactions from a total of 19,018 transactions from various databases pertaining to beef board checkoff funds received for fiscal years 2008, 2009, and 2010, involving the beef board and the following beef board contractors: NCBA, USMEF, and the ANCW. We selected this sample in order to examine internal controls over expenditures. The 983 sample transactions totaled about \$19.2 million. The sample came from a universe of 19,018 transactions that totaled about \$281.8 million. Our audit conclusions are based on and limited to the internal controls over the 983 transactions.
- To determine if internal controls existed, and if they met the requirements of the Act and Order, we completed an overall assessment of established internal controls AMS Livestock, Poultry, and Seed program area officials used for oversight of the beef board.
- Visited four QSBCs to gain an understanding of the State councils' involvement in the collection, distribution, and expenditure of beef checkoff assessments.
- To determine each State's assessment collection value, assessments paid to the beef board, contributions to the federation, and funding of State programs, we reviewed the financial statements of all 45 QSBCs and annual reports by independent public accountants for compliance with the Act and Order. In addition, we determined the total value of beef board-approved national programs and reviewed the federation's use of and request for checkoff funding for national and non-national programs.
- Interviewed beef board officials to evaluate processes used for the collection of assessments, oversight of contracted industry-governed organizations, and issuance of policies and guidance.
- Reviewed the beef board's methods for contract monitoring; communicating and handling deficiencies; handling requests, complaints and/or concerns; assessing internal controls; selection of BPOC members; and key official roles and responsibilities. We also reviewed the beef board's debt management, budgets and budget amendments, financial statements, financial audits, administrative expenses, investments, travel expenses, direct and overhead costs, and USDA costs.

In April 2013, we received a complaint that questioned the quality of this report, which had been issued and posted on our website. We processed the complaint under OIG Information Quality Guidelines implementing the Data Quality Act (Section 515 of Public Law 106-554). In order to accurately assess the quality, objectivity, utility, and integrity of the information presented in our report, and to determine if modifications to the report were warranted, we conducted a review of the audit engagement and report. As a result of this review, OIG identified issues pertaining to the execution of the audit. For example, the audit team did not perform all necessary procedures related to the statistical sampling plan.³⁰ As a result, we could not determine that all funds were collected, distributed, and expended in accordance with the Act and the Order³¹. OIG also found that certain aspects of our quality control system were not fully completed. For example, OIG procedures relative to our quality control system require that a report be cross-referenced to sufficient, appropriate evidence. OIG's practice is to then subject all cross-referenced reports to a verification referencing review process. Due to an oversight, OIG did not perform a referencing review on the final report before the March 29, 2013, issuance date; the previously approved draft versions of the report had been subject to our referencing process. Consequently, we re-engaged with AMS and conducted additional audit and quality control procedures from July through September 2013, to assess the finding and recommendations in the March 29, 2013, report. As a result of these procedures, we reaffirmed the finding and recommendations in the March 29, 2013, report. During the course of our review, re-engagement, and conduct of additional procedures, we updated the hyperlink on our webpage to inform the public that the report was subject to additional review. We also removed the report from the website.

Under the re-engagement, the independent audit team reviewed 45 transactions representing approximately \$700,000 of expenditures randomly selected from the 983 transactions totaling about \$19.2 million selected for review during the audit. The results of the re-engagement were limited to the internal controls related to those 45 transactions. However, the conclusions reached by the re-engagement team on internal controls over expenditures as a result of the review were consistent with those reported in Finding 1 of this report related to improving AMS' oversight of beef board expenditures reimbursed to NCBA, USMEF, and the ANCW. We also performed tests of internal controls over collections and distributions related to the approximately \$35.5 million in annual collections for fiscal years 2008 through 2010. We tested internal controls at the QSBC's in the same four States reviewed in the original audit. In those States, we selected and reviewed 138 transactions, which included 47 collections, 28 distributions to the beef board, 46 distributions to States of Origin, and 17 voluntary distributions to NCBA. Transactions were selected judgmentally based on factors such as the month in which they occurred, the transaction volume, and geographic location of collection points.

³⁰ We removed Exhibit B (the original statistical sampling plan) from this report that had been in OIG audit report, *Agricultural Marketing Service Oversight of the Beef Research and Promotion Board's Activities* (01099-0001-21, dated March 29, 2013).

³¹ In the March 29, 2013, report previously posted on our website, OIG stated that we determined that all funds were collected, distributed, and expended in accordance with the Act and Order.

The internal quality control reviewers and the re-engagement audit team that performed the Data Quality Act review recommended changes to the report. We revised the report based on those recommendations and reposted the report to our website.

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

We conducted our audit, including the additional review procedures, in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

Abbreviations

Act.....	Beef Research and Information Act, as amended
AMS.....	Agricultural Marketing Service
ANCW	American National CattleWomen, Inc.
beef board.....	Cattlemen’s Beef Promotion and Research Board
BPOC	Beef Promotion Operating Committee
GIPSA	Grain Inspection and Packers Stockyard Administration
MICA	Meat Import Council of America
NCBA	National Cattlemen’s Beef Association
OIG	Office of Inspector General
Order	Beef Promotion and Research Order
QSBC	Qualified State beef councils
USMEF	U.S. Meat Export Federation

Exhibit A: Summary of Allegations

Evaluation of Allegations

During the course of our audit, we reviewed three complaints directed towards the beef board and NCBA. The complaints alleged the misuse of beef checkoff funds and the misuse of the beef checkoff logo. We examined accounting and management records, where appropriate, and discussed the complaints with applicable parties, including AMS officials. Overall, we concluded that the beef board, NCBA, and AMS, as applicable, took appropriate action regarding the matters, or that there was no impropriety related to the allegation.

The specific allegations, as well as the work we performed and the conclusions we reached, were as follows:

- **NCBA Allegedly Charged Prohibited Expenses to the Checkoff Fund**

A beef industry organization alleged that NCBA improperly and unlawfully used checkoff funds totaling less than \$400 to pay for a policy-related event. Beef board officials acknowledged that NCBA had submitted a claim for a policy-related event as alleged in the complaint. However, the officials stated they questioned the documentation supporting the claim and ultimately determined it to be ineligible for reimbursement. We examined the beef board's accounting records for the time period of the claim. Our review found no evidence that the board had paid the expenses cited in the complaint. Thus, we could not corroborate the allegation.

- **The Board Allegedly Used Checkoff Funds to Become Affiliated with a Private Industry Association**

A beef industry organization alleged that the beef board improperly used checkoff funds to join the U.S. Farmers and Ranchers Alliance, a private industry association. We examined the beef board's general ledger for fiscal years 2008 through 2010 in search of transactions with the U.S. Farmers and Ranchers Alliance, and for transactions that matched the amounts needed to join the organization (\$5,000 to become an affiliate member and \$50,000 to become a board member). We did not find any transactions with the U.S. Farmers and Ranchers Alliance, or transactions in the amounts needed to join the organization. Thus, we could not corroborate the allegation. Subsequently, we discussed the allegation with AMS officials. They informed us that they were aware of the allegation and had approved the beef board's action to join the U.S. Farmers and Ranchers Alliance after consulting with the USDA Office of the General Counsel. Since AMS was aware of and had approved the action in its oversight role and function, we did not pursue the matter further.

Alleged Unauthorized Use of the Beef Checkoff Logo

A beef industry organization alleged that a cattle association affiliated with NCBA submitted an article to a trade journal that opposed the proposed GIPSA rule and improperly included the official beef checkoff logo. The cattle association president that submitted the article stated that the submission he sent to the journal did not contain the checkoff logo. We interviewed the publisher of the trade journal, who confirmed that the cattle association did not include the checkoff program logo when it submitted the article. The publisher did acknowledge that the editor of the trade journal (who is no longer with the publication) had inserted the logo without the knowledge of the cattle association or the permission of the beef board. The publisher also stated that the article was removed from the website when the trade journal began receiving complaints about the use of the logo in the article. We confirmed that the trade journal had removed the article from its website.

**USDA'S
AMS' RESPONSE TO
AUDIT REPORT**



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

DATE: March 12, 2013

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

FROM: David Shipman /s/
Administrator
Agricultural Marketing Service

SUBJECT: AMS' Response to OIG Audit #01099-001-21: "Oversight of the Beef Research and Promotion Board"

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

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

Attachment

**AMS Response to Office of Inspector General (OIG) Audit:
Beef Research and Promotion Activities AUDIT REPORT 01099-001-21**

Finding 1: AMS Should Strengthen Oversight Controls

Recommendation 1

Develop and implement standard operating procedures for management reviews, specific to the beef board, that include procedures for reviewing the overall process of collecting, distributing, and expending of assessment funds, and for reviews of the entire beef board contractor expenditure verification process. Then, perform a management review of the beef program.

Agency response: AMS concurs with this recommendation and will implement supplemental management review procedures for the Beef Board to augment the current standard operating procedure (SOP) covering management reviews. While the SOPs are designed to promote consistency across all of the R&P programs, they also allow flexibility for the unique structure of each board and give latitude for customization when appropriate. AMS will develop this supplemental management review procedure by June 2013. Finally, AMS agrees to conduct a management review of the Beef Board by October 31, 2013.

Recommendation 2

Recommend that the beef board require detailed estimates of project implementation costs, such as salaries, benefits, all applied overhead expenses, and other expenses, before it authorizes the projects.

Agency response: AMS concurs with this recommendation. The Beef Board is in the process of revising the form contractors use to request funds to include additional information as recommended. The Beef Board's next fiscal year begins September 30, and contractors typically submit authorization requests to the Beef Board by July. AMS will ensure that the Beef Board implements this change prior to the Beef Promotion Operating Committee meeting, which is scheduled for September 2013.

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