



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



JAN 31 2014

Mr. Bill Bullard
Chief Executive Officer
R-CALF United Stock Growers of America
P.O. Box 30715
Billings, Montana 59107

Re: Audit Report No. 01099-0001-21

Dear Mr. Bullard:

This letter is in response to your April 5, 2013, letter on behalf of R-CALF United Stockgrowers of America (R-CALF) for correction of information and your May 9, 2013, supplemental request for correction of information submitted under the United States Department of Agriculture's (USDA) Office of Inspector General's (OIG) Information Quality Guidelines (Guidelines) regarding the OIG audit report, entitled *Agricultural Marketing Service Oversight of the Beef Research and Promotion Board's Activities*, Report No. 01099-0001-21, dated March 29, 2013 (original report). On April 19, 2013, we informed you that we would be processing R-CALF's request for correction under the Data Quality Act and Implementing Guidelines and provided you with time to provide additional information for our review. On May 9, 2013, R-CALF provided additional information, via a supplement to the original April 5, 2013, letter.

OIG initiated this performance audit at the request of the Agricultural Marketing Service (AMS) to determine if AMS' oversight procedures were adequate to ensure that beef checkoff assessments were collected, distributed, and expended in accordance with the Beef Research and Information Act, as amended (Act)¹ and the Beef Promotion and Research Order (Order),² and to determine if the relationship between the Cattlemen's Beef Promotion and Research Board (beef board) and the National Cattlemen's Beef Association (NCBA), as well as other beef industry-related organizations, complied with the Act and Order.

We have given R-CALF's original letter and supplemental request for correction careful consideration and your concerns have been thoroughly reviewed. According to the Guidelines, review of a request for correction must be based on the explanation and evidence provided in the request. Based on the Guidelines, we reviewed: (a) the information being challenged; (b) the

¹ 7 U.S.C. §§ 2901-2911.

² 7 C.F.R. §§ 1260.101-1260.640.

processes that were used to create and disseminate the information; and (c) conformity of the information and those processes with the Guidelines. See USDA Quality of Information Guidelines at <http://www.ocio.usda.gov/policy-directives-records-forms/guidelines-quality-information/correction-information> and OIG Information Quality Guidelines at <http://www.usda.gov/oig/qltyguidelinesrev.htm>.

The original report contained one finding regarding AMS' oversight of beef board activities. In our original report, we found that AMS' oversight of beef checkoff funds should be strengthened to ensure the expenditure of funds complies with the Act and Order. Additionally, we asserted that we determined that assessed funds were collected, distributed, and expended in accordance with the Act and Order. Based on these findings, we recommended: (1) that AMS 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 review of the entire beef board contractor expenditure verification process and then perform a management review of the beef program; and (2) 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. As noted in our original report, based on the recommendations, AMS agreed to implement supplemental management review procedures for the beef board to augment the current standard operating procedures, conduct a management review, and ensure the beef board revises the cost form that contractors use to request funds from the beef board to include additional information relating to costs and expenses.

R-CALF seeks correction of a number of statements in the original report and also challenges the objectivity and completeness of the report. In addition, R-CALF requests an official denouncement of the report, immediate action to permanently suspend a contractor's eligibility to contract with the beef checkoff program, and certain substantial revisions to the Order.

In order to accurately assess the quality, objectivity, utility, and integrity of the information presented in our original report, as provided in OIG's Guidelines, and to determine if modifications to the original report were warranted, we conducted a thorough review of the audit engagement and original report. As a result of this in-depth 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 sample used in the audit. Additionally, OIG 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, although 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 to assess the conclusions, findings, 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 audit report was subject to additional review. We also removed the original report from our website while the review was pending.

Our data quality review determined that changes to the original report were necessary. On January 28, 2014, we issued a revised report entitled, *Agricultural Marketing Service Oversight of the Beef Promotion and Research Board's Activities*, Report No. 01099-0001-21. In the revised report, we modified the language in our original report, in which we stated that the relationships between the beef board and other industry-related organizations complied with legislation. The revised report states that, based upon OIG's review of relevant provisions in the Act and Order, and our review of the contractual associations between the beef board and the NCBA, as well as the 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 Order. Additionally, we reaffirmed our originally reported finding that AMS should strengthen its oversight controls to ensure the expenditure of funds complies with the Act and Order. However, because the audit team did not perform all necessary procedures related to the statistical sampling plan for reviewing beef checkoff funds in the original report, we could not determine that all funds were collected, distributed, and expended in accordance with the Act and Order and changed the language in the revised report accordingly. 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. Finally, the revised report corrected certain other errors contained in the original report and documented the effect and results of the review pursuant to the Data Quality Act and implementing Guidelines.

In your letters, R-CALF questioned various facts in the report and aspects of the conduct of the audit. Specifically, R-CALF:

- Objected to OIG using the same time period for review as an independent public accountant reviewer, who reported miscoding and submission of improper expenses, and objected to OIG's determination that funds were expended in accordance with the Act and Order.
- Questioned that OIG stated AMS does not make executive decisions regarding the management of checkoff funds.
- Questioned that OIG stated the Federation of State Beef Councils merged with NCBA many years after the implementation of the Act and Order and was sanctioned by the Act and Order.
- Alleged OIG did not consider many allegations brought to its attention beyond the three discussed in the report and of wrongfully denying receiving 16 others.
- Alleged OIG was biased in favor of NCBA, USDA, and the beef board.
- Stated that OIG mischaracterized the reviewed \$400 improper transaction allegation.

With respect to R-CALF's objection to the scope of our audit(s), OIG performed fieldwork, reviewed internal controls, and tested financial activity from fiscal years 2008 to 2010. As stated in your letters, an independent public accountant reviewer also performed work relating to this period. Primarily, OIG used this period for two reasons: (1) to meet *Government Auditing Standards* by considering the results of previous audits and attestation engagements that directly relate to the current audit objectives and (2) to assess any corrective actions taken as a result of the findings from the prior review. Additionally, at the time of the original engagement, the period of fiscal years 2008 to 2010 was the most recent period of activity available for review, due to record retention policies of the auditee (the beef board requires its contractors to retain records for only the most recent 3-year period). While OIG acknowledges requests by R-CALF and others to audit up to 10 years of financial data for the beef checkoff program, an audit of that magnitude is not practical, nor would it be within the resource constraints of the OIG. Therefore, we have made no changes regarding this matter. With respect to R-CALF's objection to OIG's determination that funds were expended in accordance with the Act and Order, the revised report concludes 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.

With respect to R-CALF's question about AMS making executive decisions regarding the management of checkoff funds, OIG corrected the original report to clarify AMS's authority, as defined in the Act and Order. Specifically, we added language to detail that AMS provides oversight and guidance to research and promotion boards to ensure that checkoff funds are used in accordance with their authorizing Acts and other authorities. We also added language to clarify that the executive leaders of each board are responsible for overseeing the financial management of checkoff funds. We believe this additional language addresses the concerns in your letter.

With respect to R-CALF's questioning of OIG's statement regarding the timing of the merger between the Federation of State Beef Councils and the NCBA, in the original report we directly state "The federation merged into NCBA in 1996." The merger date is after the date of the Act (1985), so we do not agree with the assessment that this chronological fact is an "incongruent finding or conclusion", as stated in your letter. Additionally, your letter states the original report concludes that the merger was both envisioned and sanctioned by the Act and Order. Our original report does not make such a conclusion. As your letter points out, we footnote a reference correctly citing the composition of the beef promotion operating committee (BPOC). This reference does not expressly state, nor reasonably infer, that the merger between the Federation of State Beef Councils and the NCBA was envisioned or sanctioned. Therefore, we have made no changes regarding this matter.

With respect to R-CALF's accusation that OIG did not consider and "wrongfully denied" receiving 16 other allegations, OIG considered all complaints and allegations received during the course of the audit. Your letters state that OIG blatantly and falsely claimed that only three allegations were brought to its attention. Your statement is not accurate. In *Exhibit A: Summary of Allegations*, we revised the original report to state we reviewed three allegations directed

towards the beef board and NCBA. We proceed to discuss these three allegations and their relevancy to the original report. Nowhere in the original report do we state that only three allegations were brought to OIG's attention. As stated above, the subject of the reports was AMS' oversight of the board, not an audit or investigation of the board's operations. Most of the allegations were complaints about the beef board, its contractors, or specific actions and not specifically related to AMS. Therefore, we limited our review of the allegations to those not reviewed by the independent public accountant reviewer and to those we determined would contain sufficient, readily available, audit documentation for review. We also factored into our decision the need to not duplicate work performed by other reviewers. The determination as to what to consider in an audit is derived by many factors, including materiality, relevancy, sufficiency of audit documentation, and auditor's judgment, but ultimately it is the auditor's determination. Therefore, we have only made editorial changes to the allegation section of the original report, based on the results of the in-depth review, the conduct of the additional procedures, and for clarity.

With respect to R-CALF's accusation about OIG being biased to NCBA, USDA, and the beef board, the OIG is an independent organization, as defined by the Inspector General Act of 1978, as amended,³ and conducted this audit in accordance with the independence standards in the *Government Auditing Standards*.⁴ The independence of the OIG and its products are examined via internal management reviews and external peer reviews on a recurring basis. The OIG has no reported issues regarding independence or bias in our operations or products; therefore, we have made no changes to the original report based on your allegation.

With respect to R-CALF's statement about OIG mischaracterizing the reviewed \$400 improper transaction allegation, we have revised our original report to reflect the results of the additional procedures applied during the re-engagement. We revised the report to state that beef board officials acknowledged that NCBA had submitted the claim for a policy-related event, as alleged; however, the officials stated they questioned the documentation supporting the claim and ultimately determined it to be ineligible for reimbursement. It should be noted that OIG examined the beef board's accounting records for the time period of the claim and found no evidence that it had paid the \$400 in expenses for the cited policy-related event.

In response to your requests to take immediate action to permanently suspend a contractor's eligibility to contract with the beef checkoff program and effect certain substantial revisions to the Order, OIG does not have the authority to take such actions. Those actions are management functions, which OIG is precluded from performing, due to independence considerations and its expressed authority provided by the Inspector General Act of 1978, as amended.⁵ Therefore, we have denied these requests.

Under our guidelines, you may submit a request for reconsideration, if R-CALF is not satisfied with these decisions, on your requests. Details on how to submit a request for reconsideration

³ 5 U.S.C. app. 3.

⁴ Government Auditing Standards, GAO-12-331G (2011 Revision) at Chapter 3.

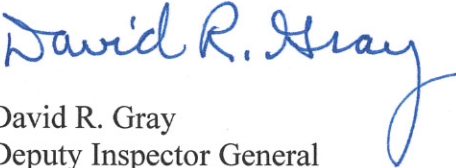
⁵ 5 U.S.C. app. 3.

are available on the OIG website: <http://www.usda.gov/oig/qltyguidelinesrev.htm>. The request for reconsideration should reference this letter and follow the procedures under "Requests for Reconsideration of OIG's Decision." Any request for reconsideration should be addressed to:

The Honorable Phyllis K. Fong
Inspector General
U.S. Department of Agriculture
1400 Independence Avenue SW.
Washington, D.C. 20250
FAX: (202) 690-1278
Email: phyllis.fong@oig.usda.gov

If you have additional questions, please contact Ms. Christy Slamowitz, Counsel to the Inspector General, at (202) 720-9110 or christy.slamowitz@oig.usda.gov.

Sincerely,



David R. Gray
Deputy Inspector General