

Compliance & Analysis unofficial views on the subject report:

- I. We are concerned that unwarranted embarrassment could result for USDA (the Secretary, AMS, OIG etc.), and the Beef Checkoff program overall, because the report does not present sufficient evidence to justify the conclusions made. In our view, it is doubtful that it could withstand a critical challenge (from a lawsuit or otherwise) as to whether it meets the standards of a GAGAS audit. The report still contains numerous factual inaccuracies and distortions. *See detailed comments "tagged" in the report for specifics-to be provided.*
- II. The central finding, that checkoff funds are "vulnerable to misuse"... and that American Beef producers lack assurance that CBB can effectively protect ~ \$12 Million (25%) of annual assessments is *startling*. Readers of this report, whether supporters or detractors of the program, would be very concerned with this conclusion given the credibility and weight an opinion from the OIG carries. It will almost surely result in a further "fracturing" of the relationships within the beef industry and the government program(s) dedicated to its oversight. Is that an appropriate outcome for an engagement that lasted two years, involved extensive statistically valid audit testing and resulted in NO observed errors or exceptions?
- III. The report offers no compelling evidence that OIG discussed its observations and concerns with appropriate representatives of the program (i.e. the BPOC, CBB members particularly the Treasurer, Chairman, Audit Chair, etc.). This is especially puzzling with respect to the issue of Implementation A/R's, which OIG cites as a control failure in its design. The reader is left wondering why those viewpoints are not expressed in the report to support / confirm OIG's perspective (i.e. we brought this to the attention of the Treasurer and she told us...). With no observed errors / exceptions found during its testing, OIG seems to be relying entirely on its own intuition, with no unbiased evidence presented.
- IV. The report asserts in lines 219-221 that AMS did not "require the beef board" to implement effective internal controls over its relationships with contractors and the CBB did not develop "sufficient internal controls over expenses". This is not accurate or supportable on several levels: A) We believe that CBB has sufficient internal controls over expenses, which at certain junctures in the report, OIG acknowledges (line 317) for example); B) The report seems to confuse the relationship between a project proposal (known as an Authorization Request presented to the Beef Promotion Operating Committee (BPOC)) with the reimbursement of expenditures once the associated work is performed. Approval of A/R's can precede expense reimbursement by 12-18 months in some cases. The expense reimbursement process has extensive controls and is very well documented at CBB; C) The Report asserts "the propriety of approximately 25 percent of annual beef program expenses cannot be verified by comparison to expense estimates." We question how the comparison (of actuals to estimates) could validate the propriety of an expense? D) OIG states the Beef Board's efforts to document and review contractor expenses are flawed because the review is "dependent upon contractor-developed documentation." This is a puzzling statement; where could independently verifiable documentation be generated, except from the contractor that incurred the costs?
- V. At lines 31-32 on the first page, the report makes an allegation that a subcontractor "provided beef assessment funds to a contractor's policy/lobbying division in the form of a contribution;" implying that beef assessments were inappropriately transferred in violation

of the Act and Order. In our view, the statement could easily and improperly bias the average reader into believing that a serious transgression occurred, which is not a proven fact. Such an inflammatory statement without proper background /perspective is unjustified.

- VI. The Clifton Gunderson (CG) attestation cited at line(s) 277-278, inaccurately states the “engagement disclosed that the beef board’s expenses in the implementation category are vulnerable to misuse”. The CG report, dated July 23, 2010, *does not* contain that “disclosure” or any such opinion / assurance. Their work, commonly referred to as “agreed upon procedures” was performed at the request of CBB; with samples selected by CBB, and tested with criteria / procedures developed by the CBB. **It would be very helpful for OIG, in this forum (report), to accurately convey what the CG engagement accomplished (i.e. it was a control process in and of itself - not an audit, with very targeted samples, etc.), and portray it more positively as an example of good internal control exercised by the CBB over its primary contractor.**

C&A’s “unofficial” view of OIG’s Recommendations:

#1 - Recommend to the CBB to require more detailed estimates of implementation costs, such as salaries, benefits, all applied overhead expenses and other expenses in all approved contracts.

C&A Position: Agree in principle. However, we request OIG strengthen the report and re-word the recommendation to better describe the problem(s) observed with A/R implementation costs and the benefits of improving this documentation (i.e. improved transparency of costs, etc.). It would be helpful for OIG to cite specific enhancements they would like to see.

OIG may also need to clarify in their report that A/R’s are not synonymous with “contracts”. They are proposals for a general program of work. The recommendation should be amended to read “approved Authorization Requests” instead of “approved contracts”.

#2 – Develop and implement standard operating procedures (SOPs) specific to the Beef Board that include procedures for reviews of assessment collections and distribution processes.

C&A Position: Agree to implement supplemental procedures on the Beef Board program to augment the current SOPs. Supplemental procedures to be developed would address the points in both recommendations #2 and #3, and should probably be combined in to one recommendation. AMS maintains that the SOPs are designed to promote consistency across all the R&P programs, and changing that approach to be Board specific (SOPs) would be problematic. They are written to provide a “baseline” level of oversight with the expected minimum documentation requirements. However, they also allow flexibility for the unique structure of each commodity board, and give the programs the latitude to customize them accordingly given the specific accounting processes and internal controls in place.

#3 – Develop and implement SOP specific to the Beef Board, which include procedures for reviews of the entire CBB contractor expenditure verification process. (SEE #2 above).