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# Office of Inspector General Semiannual Report to Congress

FY 2002—First Half



On the cover: The graphics depict "Old Glory," the American flag; the U.S. Department of Agriculture (USDA) flag; and the Office of Inspector General (OIG) logo. The design symbolizes the unity of the Nation's populace with USDA agencies and OIG functions in the aftermath of the events of September 11, 2001, and the subsequent anthrax attacks.

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: July 31, 2002

SUBJECT: Semiannual Report to Congress

TO: The Honorable Ann M. Veneman  
Secretary of Agriculture

Pursuant to the Inspector General Act (IG Act) of 1978, Public Law 95-452, as amended, section 5(b), I am providing the Office of Inspector General's (OIG) Semiannual Report to Congress summarizing our activities for the 6-month period that ended March 31, 2002. Because of detailed reviews to ensure that the report breaches no security concerns and contains no sensitive information, the document is late in issuance. The IG Act states you shall transmit this report to the appropriate committees of the Congress within 30 days of receipt.

During this period, our audits and investigations yielded more than \$32 million in recoveries, collections, restitutions, fines, claims established, and costs avoided. Management agreed to put approximately \$22 million to better use. We identified nearly \$85 million in questioned costs that cannot be recovered. Our investigations produced 213 indictments and 225 convictions.

The events of September 11, 2001, and the subsequent anthrax attacks gave new urgency to the issues of security over the U.S. Department of Agriculture's (USDA) infrastructure and the agricultural economy. OIG continues to direct its resources toward two fronts—maintaining the integrity of Department programs and helping the Department strengthen its defenses against activities that might threaten Government facilities, production agriculture, and the Nation's food supply.

In addition to performing reviews that involve the Department's role in protecting the food supply, key areas of emphasis include enhancing cybersecurity and ensuring financial integrity in USDA. At the same time, OIG remains vigilant in countering public corruption and workplace violence. OIG also provided a law enforcement presence at the 2002 Winter Olympic Games in Salt Lake City, Utah.

Sincerely,

JOYCE N. FLEISCHMAN  
Acting Inspector General

Enclosure

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# OIG in the Post-9/11 World

On September 11, 2001, everything changed about the way we do business in the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG). Or did it?

## Homeland Security

As detailed in our last Semiannual Report to Congress, the events of September 11 and the subsequent anthrax attacks gave new urgency to the issues of security over USDA's infrastructure and the agricultural economy. OIG continues to direct its resources toward two fronts—maintaining the integrity of Department programs and helping the Department strengthen its defenses against activities that might threaten Government facilities, production agriculture, and the Nation's food supply.

This might seem to constitute a radical shift for OIG, and our priorities certainly have changed. On closer inspection, however, OIG essentially is maintaining its traditional role. We continue to perform reviews that involve the Department's role in protecting the food supply, enhancing cybersecurity, ensuring financial integrity—this is not the recently discovered terrain of an alarming new world, but familiar ground OIG has been patrolling throughout its watch. The intensity may have ratcheted up a notch or two and the scope expanded, but the vision and focus have been steady and level throughout OIG's history.

This is our 47th Semiannual Report to Congress and covers the period October 1, 2001, through March 31, 2002. As you will see in the body of this report, we have been quite active this reporting period in identifying and examining areas critical to the Department's and, ultimately, the Nation's safety and security. We have employed a three-pronged, analytical approach in focusing our audit and investigative resources in the post-9/11 world. We started by asking ourselves the fundamental questions about matters under our purview:

- What could terrorists use as a weapon?
- What could terrorists target?
- What could terrorists use to finance their activities?

The answers led us to the laboratories, airfields, and computers of USDA, the Winter Olympic Games, and electronic money streams that derive from benefits programs and could empty into terrorist coffers. After we

identified the vulnerable areas, we set out to assist the Department in three clearly defined ways: Securing USDA materials from becoming potential weapons, protecting USDA assets that might be potential targets, and ensuring that USDA funds are not used to support terrorist activities.

## Securing Potential Weapons

During this reporting period, OIG investigators and auditors responded quickly to address potential vulnerabilities involving biological agents. In general, we found that USDA's laboratories needed better plans and procedures for inventory control, physical security, personnel security, and biosecurity incident response. OIG currently is reviewing security over other USDA materials—chemical agents, radioactive materials, genetically engineered organisms—that could pose a risk either to public health or the economy if used inappropriately. We are capitalizing on the experience and expertise attained in this area by our past investigations of vandalism by ecoterrorists at USDA facilities.

We also alerted the Forest Service (FS) to the vulnerability of its aircraft, including air tankers, as well as aircraft facilities. We are currently reviewing security over the Forest Service's explosive material.

## Protecting Potential Targets

OIG provided a law enforcement presence at the 2002 Winter Olympic Games in Salt Lake City, Utah. The mission of OIG was to help protect the food prepared for the athletes and visitors to the games, the general public, and USDA personnel and assets on the Wasatch-Cache National Forest and around Salt Lake City.

Our work in securing U.S. agriculture began well before September 11. We reported last period on the Department's efforts to protect American agriculture from the introduction of Foot and Mouth Disease (FMD) after an outbreak in the United Kingdom. OIG personnel visited the United Kingdom to gain first-hand knowledge of measures needed to investigate criminal activity should FMD spread to the United States. This led to three initiatives: Joining other Federal agencies to form a Federal Law Enforcement Working Group on foreign animal and plant diseases; initiating a Department Protocols Working Group to develop standardized

diagnostic and forensic procedures relating to laboratory analyses and investigations of threats against U.S. production agriculture, with the goal of providing USDA agencies and employees guidance on the appropriate procedures to be followed in response to such threats; and establishing emergency response teams to investigate possible criminal activity should outbreaks such as FMD occur.

We now are reviewing the Animal and Plant Health Inspection Service's (APHIS) agricultural imports inspection system for potential areas of misuse, including permits it issues to import or move animal and plant pathogens used for research purposes. At the same time, we are looking at the Food Safety and Inspection Service's (FSIS) reinspection of imported meat and poultry products as they enter the United States, as well as equivalency determinations of foreign inspection systems in terms of the Hazard Analysis and Critical Control Point System and microbial product testing.

The Department's cybersystems, buildings, utilities, and transportation networks are also potential targets. We found that USDA's plans for infrastructure protection were properly formulated but incomplete.

### Denying Access to Funds

To aid the effort to stem terrorist funding, OIG is actively supporting "Operation Green Quest," aimed at freezing assets, seizing cash, and launching criminal prosecutions against those who financially aid and abet terrorist activities. In this initiative, OIG investigators are working to prevent USDA program funds and assets, especially proceeds from food stamp trafficking, from being funneled to terrorists through money-smuggling or money-laundering schemes. Our emphasis is on stopping the use of funds as early as possible in the illicit process.

Our long and extensive experience in this area has enhanced our ability to contribute significantly to this initiative. Of concern since September 11 are those food stamp trafficking cases where the money trail has led overseas or where investigations have revealed a connection to the Middle East. We also found that terrorists may have tried to use USDA program money to fund terrorist acts. An alleged Middle Eastern businessman applied for—and was denied—a USDA loan to buy aircraft and start a crop-dusting service in

Florida. That person reportedly was named as Mohammad Atta, one of the masterminds behind the September 11 attacks.

### Joint Task Forces and Outreach

Cooperation among law enforcement agencies is essential to respond effectively to terrorism. OIG continues to cultivate and capitalize on its long-established contacts and relationships with other Federal, State, and local law enforcement authorities to protect USDA programs and resources. We take part in many of the 44 Joint Terrorism Task Forces that have been established across the country.

OIG managers also meet routinely with other USDA agency representatives and draw upon them to share any concerns that arise with homeland security. In conjunction with these contacts, OIG has established an outreach program designed to bring OIG together with constituent groups at the State and local levels, both governmental and nongovernmental, to encourage them to report security issues to OIG. Our goal is to enlist the aid of all USDA employees and agricultural communities, from managers to the grassroots, in keeping OIG informed of suspicious acts or people. We have met not only with law enforcement and health officials, but also with industry and farm organizations, as well as regional shipping and trucking associations and the Southeastern Intergovernmental Audit Forum. We have received very favorable feedback from these contacts, and they have led to additional liaison work.

### Financial Management and Accountability

As important as helping protect the Department's assets and resources is our traditional work to ensure that available resources are being employed with economy, efficiency, and effectiveness. In order to be effective, management must have reliable and timely financial information. The need for this information resounds throughout all of the Department's activities, from the more obvious stewardship over assets, fiduciary responsibilities, and budgeting, to operational matters such as performance measurement. The Department must know how much money has been received, spent, and is needed; where its assets are and when they need to be repaired or replaced; and the costs of its operations. Although the Department received a disclaimer of opinion from OIG for the eighth consecutive year, the opinions of some of the major

entities subject to audit improved in FY 2001. However, some opinion improvements came about primarily because of OIG and agency personnel efforts to significantly adjust reported financial data after the end of the fiscal year. Unless the accuracy of the underlying financial data of these programs improves greatly, the data will still not be useful to the agency managers, and such adjustments after the end of the fiscal year may be necessary again.

#### Abuse of USDA Programs and Operations

We worked a number of criminal cases this period that addressed the continuing threats to consumers caused when unscrupulous businesses place profit above public safety. These cases involved, among other matters, illegal interstate shipment of swine, food tampering, and the impersonation of a Federal compliance officer. At the same time, OIG remained vigilant in countering public corruption and workplace violence. Two corruption cases ended in the successful prosecution of employees for theft and embezzlement. Several food stamp cases yielded significant prison terms and millions of dollars in asset forfeiture and restitution to the Government. Other investigations of misappropriation or misuse of USDA funds involved crop insurance fraud and farm loan illegalities.

We audited the Risk Management Agency's quality control review system and the Farm Service Agency's Quality Loss Program. We looked at the Forest Service's National Fire Plan and continued to monitor the oversight of land exchanges. We also found that additional controls are needed in the Conservation Reserve Enhancement Program. Our ongoing work in the Business and Industry Loan Program has uncovered significant management control weaknesses.

#### Legislative Review

Pursuant to duties and responsibilities as assigned by the Inspector General Act, we have also reviewed existing and proposed legislation relating to the programs and operations of the Department. As part of such review, we have identified legislative initiatives that we determined were important for the Department and more importantly for the protection of the Nation's agricultural sector. One such initiative dealt with heightened penalties for certain violations of the Plant Protection Act. That initiative came to fruition with the passage of the Farm Security and Rural Investment Act

of 2002, which contained such a provision. Another such initiative dealt with the need for authority for the Secretary to list and regulate biological agents and toxins that potentially pose a severe threat to animal or plant health, or the products thereof. This proposal was incorporated into the Bioterrorism Preparedness Act of 2002, which became law on June 12, 2002.

#### Business Process Reengineering

Gaining economies and efficiencies in our own work is a very high priority, as it enables us to maximize our limited resources. During the last 6 months, we have continued the work of reviewing our business processes and reengineering them to enhance our ability to carry out our mission. We believe OIG can audit and investigate more efficiently if we streamline our processes and employ state-of-the-art information technology (IT). We are progressing rapidly toward a detailed strategic plan that will allow us to equip and train our employees and add additional resources, both human and technological, so that OIG can maintain its level of quality, reliability, production, and service in its operations. One proposed modernization involves automated audit work paper files and an electronic case management system for investigations, which would reap significant savings in staff time, as well as review and coordination. In addition, we recognize that we need more highly trained and specialized personnel, such as computer specialists for cyber investigations and systems engineers, as well as auditors and special agents well-versed in information technology.

#### The Outlook

We have identified weaknesses and vulnerabilities in such areas as security over biological agents at USDA laboratories, security over FS aircraft and aircraft facilities, and security over information technology systems and reported them to the Department. The Department is acting to address them and has received \$328 million to continue to strengthen homeland security planning and preparedness. The Agricultural Research Service, FSIS, and APHIS are receiving the bulk of this funding. OIG will monitor the expenditure of these monies to ensure they are used for homeland security purposes.

Funding for key enhancements the Department has planned includes \$177 million to make physical and operational security improvements at critical USDA

locations; \$23 million for USDA's Plum Island laboratory; \$35 million to strengthen programs to exclude agricultural pests and diseases at U.S. borders; \$16.5 million to increase monitoring of meat and poultry operations, and expand technical capabilities; \$15.3 million to improve rapid detection of animal diseases such as FMD; and \$43 million in grants and assistance to States for improved coordination and homeland security protection and preparedness.

OIG is hopeful that with this significant infusion of funding the Department will be able to correct weaknesses identified. As part of our role in securing American agriculture, we will continue—as always—to audit the agencies and work with them to ensure that the necessary corrective actions are taken.



## Summary of Audit Activities

<b>Reports Issued</b> .....		49
Audits Performed by OIG .....	44	
Evaluations Performed by OIG .....	1	
Audits Performed Under the Single Audit Act .....	0	
Audits Performed by Others .....	4	
<b>Management Decisions Made</b>		
Number of Reports .....		54
Number of Recommendations .....		408
<b>Total Dollar Impact (Millions)</b> .....		\$115.5
Questioned/Unsupported Costs .....	\$93.5 <sup>a,b</sup>	
Recommended for Recovery .....	\$8.8	
Not Recommended for Recovery .....	\$84.7	
Funds To Be Put to Better Use .....	\$22.1	

<sup>a</sup> These were the amounts the auditees agreed to at the time of management decision.

<sup>b</sup> The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

## Summary of Investigative Activities

Reports Issued .....		210
Cases Opened .....		239
Cases Closed .....		244
Cases Referred for Prosecution .....		258
<b>Impact of Investigations</b>		
Indictments .....		213
Convictions .....		225 <sup>a</sup>
Searches .....		24
Arrests .....		184 <sup>b</sup>
<b>Total Dollar Impact (Millions)</b> .....		\$23.8
Recoveries/Collections .....	\$ 6.7 <sup>c</sup>	
Restitutions .....	\$15.4 <sup>d</sup>	
Fines .....	\$ 0.8 <sup>e</sup>	
Claims Established .....	\$ 0.6 <sup>f</sup>	
Cost Avoidance .....	\$ 0.3 <sup>g</sup>	
<b>Administrative Sanctions</b>		
Employees .....		18
Businesses/Persons .....		142

<sup>a</sup> Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 225 convictions do not necessarily relate to the 213 indictments.

<sup>b</sup> Includes 76 Operation Talon arrests and 108 arrests not related to Operation Talon.

<sup>c</sup> Includes money received by USDA or other Government agencies as a result of OIG investigations.

<sup>d</sup> Restitutions are court-ordered repayments of money lost through a crime or program abuse.

<sup>e</sup> Fines are court-ordered penalties.

<sup>f</sup> Claims established are agency demands for repayment of USDA benefits.

<sup>g</sup> Consists of loans or benefits not granted as the result of an OIG investigation.

# Homeland Security

As expressed in our previous Semiannual Report to Congress, one of OIG's chief missions is to ensure the safety of the American food supply and to protect the U.S. agriculture infrastructure from possible harm due to the accidental or intentional introduction of foreign pests and diseases. The events of September 11 and the subsequent anthrax attacks gave new urgency to the issues of security over USDA's infrastructure and the agricultural economy. OIG developed a three-pronged, analytical approach to focus its audit and investigative resources on USDA assets terrorists could use as weapons, terrorists might target, or terrorists might use to finance their activities.

## FRONT-LINE VULNERABILITIES

### **OIG Agents Active in World Trade Center Counterterrorism Task Forces**

Following the tragic attack on the World Trade Center on September 11, OIG reassigned a number of special agents to the New York Counterterrorism Task Force to assist in the investigation of the World Trade Center attack and related investigations. These agents followed up on bomb threats, interviewed witnesses, surveilled subjects and investigated leads involving terrorism suspects, conducted numerous interviews of individuals on the Federal Bureau of Investigation's (FBI) watch list, and performed whatever tasks were assigned in responding to the high state of emergency that existed last fall.

OIG stationed a special agent at the FBI Strategic Investigation Operations Center in Washington, D.C., as the liaison for all USDA-related inquiries and investigative matters, and to coordinate criminal investigative efforts and intelligence information regarding incidents of domestic and international terrorism. Across the country, more than 30 special agents assisted criminal investigative efforts of multiagency counterterrorism and financial task forces, including "Operation Green Quest," a multiagency national project ordered by President Bush to target businesses sending funds overseas to terrorist groups.

OIG special agents conducted numerous inquiries involving biological threats at USDA-operated and/or -funded facilities, as well as threats made by USDA employees. Many involved anthrax hoaxes. Two subjects face potential criminal prosecution and/or

agency personnel action for making false reports of anthrax hoaxes and food contamination at USDA-inspected plants. Agents also visited over 50 USDA-operated or -funded laboratories and research facilities across the United States. The special agents visited the laboratories and facilities to evaluate the facilities' vulnerability to terrorism, security measures for tracking and controlling the access of foreign scientists and researchers, and the security and accountability of hazardous and pathogenic materials.

### **Florida Business Owner Pleads Guilty in Visa Scam**

A former co-owner of a Florida physician recruitment company pled guilty in Federal court in December 2001 to a three-count criminal complaint, involving fraud in obtaining immigrant visas, false statements to a Federal agency, and income tax evasion. This business owner was involved in a multifaceted scheme that targeted foreign physicians holding J-1 Visa status in the United States. A majority of the physicians using this company submitted waiver requests to USDA as part of a process allowing them to work in the United States, with the goal of gaining permanent resident status in this country. The applications sent to USDA and other Federal agencies routinely contained false information, much of it created at the recruitment company. This continuing investigation is being conducted in conjunction with the Florida Department of Law Enforcement, Immigration and Naturalization Service (INS), the U.S. Department of Health and Human Services OIG, the State Department OIG, and the Internal Revenue Service (IRS).

### **Policies and Inventories Needed To Manage Biosecurity at USDA Laboratories**

USDA performs research in laboratories across the country in which it uses and stores biohazardous material—organisms that in the wrong hands could pose a risk to human health and agricultural production in the United States. Beginning in April 2001, we audited security at these laboratories. As a result of the September 11 terrorist attacks, we expanded the scope of our audit to include additional locations and accelerated the fieldwork, completing it in February 2002. The Department previously had emphasized the protection of laboratory personnel from hazardous material and had issued no policies and procedures for security at the laboratories or to centralize control of field unit practices involving the use and storage of biological agents.

Of particular concern was the absence of a consolidated database to identify the location and risk levels of the biological agents at laboratories, as well as the appropriate level of security. Although required, not all laboratories maintained an inventory of their biological agents, and few of those inventories maintained were accurate. At one laboratory, a vial listed in inventory, but not found in storage, was said to contain about 3 billion doses of one virus, a pathogen of considerable risk to humans and cattle. This laboratory had not updated its inventory of high-risk agents since 1997. In addition, this laboratory had reported that it was no longer working with high-risk pathogens, but we found that it continued to store and experiment with two viruses, both considered high-risk by the Department. We did find that anthrax was not used or stored in any location not designated properly.

Security measures at nearly half the 125 USDA laboratories located at 91 different sites needed improvement. Some laboratories lacked alarm systems, security fences, and surveillance cameras. Security upgrades that had been funded were not properly prioritized. For example, the security survey at two agencies' collocated laboratories recommended perimeter fencing. However, the higher biosafety level laboratories for both agencies remained unfenced due to funding constraints, while the lower level laboratories were fenced. Inadequate access controls allowed scientists and researchers not involved with USDA research—including non-U.S. citizens—to enter units where biological agents were stored. Due to an absence of departmental policy and a backlog of security background checks, access to research was routinely granted to researchers, both domestic and foreign, for whom background checks had not been completed. One laboratory considered a visa equivalent to a background check.

The Department has engaged a contractor to assess laboratory security at selected sites and to develop a manual to provide the methodology and framework for assessing and improving the biosecurity of high-consequence microbial agents and toxins, both within USDA facilities and during the movement of such agents.

On November 9, 2001, the Department adopted a set of policies and procedures standards for inventory control, physical security, personnel security, and biosecurity incident response recommended by a task force. The document establishes policy for all pathogens deemed

of particular sensitivity by USDA, whether those pathogens had previously been identified as high-risk or not. The Department is currently finalizing the policies and procedures into a Departmental Regulation.

We recommended that the Department quickly implement the policies and procedures established by its task force, complete a centralized database of all its biohazardous material, assess the risks associated with each laboratory site, and determine appropriate security measures. We also recommended that agencies limit access to high-risk biohazardous material and that the Department determine which security background checks are needed for such access, as well as reduce the backlog of those checks.

During our audit, additional congressional funding was provided to strengthen the Department's biosecurity at its laboratories. The agencies generally committed themselves to perform the needed laboratory-by-laboratory risk assessments and implement the task force policy on sensitive pathogens. We are working with the agencies to ensure they perform such assessments, consolidate their inventories at the agency and Department levels, and implement task force policies at all laboratories with biological agents that are considered sensitive, not just those termed "high-risk."

### **Improvements Needed in Security of FS Aircraft and Aircraft Facilities**

From October 2001 through January 2002, we reviewed the Forest Service's security over aircraft, including the air tankers used for aerial dispersal of flame retardant chemicals during firefighting operations. During the peak fire season, FS could have up to 51 large multiengine aircraft at its aircraft facilities, some capable of delivering up to 3,000 gallons of fire retardant at 1 time. We also reviewed physical security at the facilities where these aircraft are based.

We determined that FS-owned and -operated aircraft were vulnerable to theft. One FS official stated that a qualified pilot could easily steal almost any aircraft in America and that aircraft are more easily stolen than the average new car with a computerized ignition system. Furthermore, FS and contractor aircraft are usually parked in open areas of public airports. Many of these airports are in sparsely populated areas and have limited security.

Prior to September 11, FS had not assessed the risks of theft and misuse of its own aircraft, contracted air tankers, or State forestry aircraft, because it did not recognize the possibility of such risk. Nor had FS provided guidance either to air tanker contractors or to State officials regarding potential threats against aircraft.

Besides using public airports, FS maintains 73 air bases of its own, used largely at the peak of the fire season. During the fire season, air tankers need to be in a constant state of readiness in order to respond timely. Consequently, there are limits to how the tankers themselves can be physically secured while on the base. For this reason, FS needs to take a critical look not only at the security of its aircraft but also at the security of the bases themselves. We found that FS had not developed minimum standards for securing these bases. Four of the seven air tanker bases we visited had only a chain link fence around the compounds and had not secured all the gates. Increased security of the aircraft facilities would make the aircraft less vulnerable to theft or misuse while not interfering with the air tankers' ability to respond timely.

We concluded that FS officials should immediately perform a risk analysis, identifying significant threats and potential actions to mitigate those threats. The risk assessment should be coordinated with risk assessments to be performed by other Federal, State, and local partner agencies. FS also needs to develop minimum security standards for the facilities at which the aircraft are based and determine which additional security features are needed to achieve the minimum standard. Because some of the facilities received funding under the National Fire Plan, such funding may be available to improve security at the facilities.

We recommended that FS develop minimum-security standards for its aircraft and aircraft facilities and establish a timeframe for meeting the standards. We further recommended that FS ensure that new air tanker contracts incorporate appropriate security provisions prior to award for the fiscal year (FY) 2002 fire season.

FS agreed with our findings and recommendations. Since the September terrorist attacks, FS has recognized the need to develop minimum-security standards and expects to develop them once the Department's Chief of Physical Security completes his review of the Forest Service's aircraft facilities. It is

working with the Federal Aviation Administration and contractors on a package of security devices to secure both its individual aircraft and the facilities where they are based.

### **OIG Provides Law Enforcement Presence at Winter Olympic Games**

For well over a year, OIG prepared to provide an active investigative and intelligence-gathering presence during the 2002 Salt Lake City Winter Olympic Games (February 8-24, 2002) and worked closely with many USDA agencies to help with their preparations. For 6 weeks, nine OIG special agents worked around the clock in key positions at the Winter Games to provide a law enforcement presence and add their investigative expertise in matters affecting USDA. Four OIG agents were assigned to the FBI's Olympic Intelligence Center (OIC), while the rest gathered intelligence with other State, local, and Federal law enforcement officers near the Snow Basin Ski Area, on National Forest land. OIG worked closely with FSIS concerning food safety matters and with departmental officials and other USDA agencies to protect the more than 80 USDA facilities located in the Salt Lake City and Wasatch Mountain corridor. OIG agents assigned to OIC responded to hundreds of referrals for information from the FBI.



OIG special agents provided a law enforcement presence at the 2002 Winter Olympic Games in Salt Lake City. OIG photo.

### **INFORMATION TECHNOLOGY**

Communications and IT are among the Department's primary assets, and Department computer systems have been a target of hackers in the past. Consequently, OIG had been involved in strengthening

the Department's security of this technology well before September 11. We initiated a multiyear program prior to the new millennium and intensified our efforts subsequent to the September 11 attacks. To date, we have reviewed, or are in the process of reviewing, nine separate IT systems within USDA.

One of the more significant dangers USDA faces is an attack, whether by terrorists seeking to destroy unique databases or more typical criminals seeking economic gain. The Department has numerous information assets that include market-sensitive data on the agricultural economy and commodities, program, signup and participation data, personal information on customers and employees, and accounting data. The dependence on IT and the Internet has exposed USDA's billions of dollars in assets and its critical infrastructure to predators who use a new form of weapon against the Department's programs and operations. The information and related systems face unprecedented levels of risk from intentional or accidental disruption, disclosure, damage, or manipulation. Public confidence in the security and confidentiality of the Department's information and technology is essential. While the Department has taken positive action by developing a plan to strengthen USDA information security, our audits continue to identify deficiencies in USDA's security posture. The following sections depict some of those deficiencies.

### **Audits To Strengthen USDA's IT Security**

- *Weaknesses Identified in AMS's Ability To Protect Its Critical IT Resources*

Our audit identified numerous potential systems weaknesses on the Agricultural Marketing Service's (AMS) network that could be exploited both from inside the network and externally through the Internet. System configurations or computer settings used by AMS unnecessarily increased the risk to the system, and hardware components were added to the network without authorization. We recommended that AMS strengthen its controls to ensure that only authorized users have access to its computer systems and that adequate controls are in place over the application and operating system change control process, including supervisory approval, segregation of duties, and documentation of testing results. Prompt action by AMS has mitigated a majority of the weaknesses.

- *Controls Inadequate Over ARS's IT Resources*

We identified numerous and significant potential weaknesses in the Agricultural Research Service's (ARS) ability to adequately protect its IT resources from potential disruptions at each site we visited. These included potential vulnerabilities related to ARS's IT equipment and networks, as well as weaknesses in ARS's system security administration. Because a standard security policy was not in place, ARS's systems and networks were vulnerable to cyber-related attacks. ARS has stated it is committed to resolving the various security issues identified and has initiated actions to resolve the potential vulnerabilities reported.

- *Security Over NRCS's IT Resources*

The Natural Resources Conservation Service (NRCS) had not updated its agency security program to reflect its current IT infrastructure or disseminated departmental security policies and procedures to all its offices. It had neither conducted risk assessments or annual security reviews to ensure that the agency was in compliance with current security guidelines, nor determined whether those policies remained appropriate. Most of the sites we visited had not conducted periodic assessments or established security and contingency plans. We identified more than 2,500 potential network vulnerabilities. NRCS also needs to improve logical and physical access controls, and controls to prevent unauthorized access to critical or sensitive data were inadequate. NRCS computer operating systems were not capable of logging off terminals after a predetermined period of inactivity, and one location had not established controls to detect or prevent unauthorized physical access during business hours.

- *FSA Management Needed To Increase Involvement in Computer Security*

Farm Service Agency (FSA) management needed to increase its involvement in computer security to minimize the threat of penetration of payment and data systems. We found an FSA computer that was used to access prohibited Internet Web sites by the supervisor of a wiring contractor team. That team had been left unattended in the office after regular working hours. We also found logon identification numbers shared with visitors and an unexplained

extra systems administrator (unlimited access) logon. Some sites relied primarily on a single individual for systems administration and security.

We found physical security weaknesses at most sites, including unlockable and unlocked doors and access by too many people to the room housing the computer servers, because a division separate from the operational division controlled access authority. Our scans of 121 network components disclosed 252 potential weaknesses that could make FSA systems subject to attack. Risk assessments were not completed at the required intervals, and security plans did not provide a management structure indicating system responsibilities. Moreover, contingency planning was treated perfunctorily, and plans were not always updated to reflect significant changes or tested annually.

- *Information Security at NASS*

We conducted an audit of information security at the National Agricultural Statistics Service (NASS). Paper copies of e-mails alleging computer security breaches and the misuse of sensitive NASS information were provided to NASS management by NASS employees. NASS managers immediately

made this information available to OIG and requested an audit. Our audit identified material weaknesses in the NASS computer network, but nothing came to our attention during the review that indicated the security breaches had occurred or that NASS employees had used the computer weaknesses identified for personal gain.

The weaknesses we identified included (1) vulnerabilities on NASS network devices, (2) the need to strengthen its firewall administration and security over remote access to its network resources, and (3) the need to ensure that only authorized users have access to its network resources.

We recommended that NASS (1) take corrective actions on the vulnerabilities identified on its network, (2) develop and implement a policy to periodically review the firewall configuration and remove or modify firewall rules as necessary, and (3) strengthen its logical access controls by reconciling user accounts to authorized users and eliminate the use of generic user accounts. NASS has corrected a substantial number of the problems found, and has aggressively implemented plans to correct the remaining areas of concern. We accepted management decisions on all recommendations.

# Financial Management and Accountability

## EFFECTIVE FINANCIAL MANAGEMENT

In order to be effective, management must have reliable and timely financial information. The need for this information resounds throughout all of the Department's activities, from the more obvious stewardship over assets, fiduciary responsibilities, and budgeting, to operational matters such as performance measurement. For the Department to properly fulfill its mission and otherwise serve the public, it must know how much money has been received, spent, and is needed. It must know where its assets are and when they need to be repaired or replaced. It must know the costs of its operations to identify where efficiencies and economies need to be implemented.

Although the Department received a disclaimer of opinion on its financial statement from OIG for the eighth consecutive year, our audit opinions of the financial statements of some of USDA's major agencies did improve in FY 2001. For the most part, however, the overall caliber of financial information did not improve. The opinion for the Commodity Credit Corporation (CCC), for example, came about primarily because of "heroic" efforts by OIG and agency personnel to significantly adjust the reported financial data after the fiscal year actually ended. Improved opinions garnered in this manner can actually confuse the reader of a financial statement audit report into concluding accurate and timely financial data was available to managers throughout the year when it was not. As the Comptroller General recently testified:

Irrespective of the unqualified opinions on their financial statements, many agencies do not have timely, accurate, and useful financial information and sound controls with which to make informed decisions and to ensure accountability on an ongoing basis. While agencies are making some progress in obtaining unqualified audit opinions on annual financial statements, many of these opinions were obtained by expending significant resources on extensive ad hoc procedures and making billions of dollars in adjustments to derive financial statements months after the end of a fiscal year.... The need for such time-consuming procedures primarily results from inadequate financial management systems.

Various laws mandate the framework for strong financial management. The Department's achievement of these requirements has been lacking, and, as a result, disclaimers of opinion have resulted. For example, the Federal Managers' Financial Integrity Act (FMFIA) of 1982 required internal controls to be established to ensure, in part, that "assets are safeguarded and expenditures are properly accounted for." Office of Management and Budget Circular No. 123, implementing FMFIA, requires that internal control systems ensure that "reliable and timely information is obtained, maintained, reported, and used for decision making." Further, the Federal Financial Management Improvement Act (FFMIA) of 1996 requires that systems comply with applicable Federal accounting standards and other requirements. Adherence to these legislated mandates would greatly enhance the Department's potential to achieve an unqualified opinion on its financial statements, but, even more importantly, provide agency managers "timely, accurate, and useful financial information" which would enable them to better manage the Department's programs and operations.

### Financial Statement Audits

The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 require USDA to prepare and audit financial statements. We disclaimed on the Department's consolidated statements for the eighth consecutive year (FY 1994-FY 2001). We also disclaimed on the Forest Service's financial statements for the fifth consecutive year (FY 1997-FY 2001). The Federal Crop Insurance Corporation (FCIC), the Rural Telephone Bank, and Rural Development received an unqualified opinion on their FY 2001 statements, which means their financial statements fairly presented their financial position. Although CCC received an unqualified opinion on certain statements, we disclaimed on others. The following depict some of the problems:

- *USDA's Consolidated Financial Statements for FY 2001: Disclaimer of Opinion*

During FY 2001, the Department achieved several major successes in improving its overall financial management. Actions by the Office of the Chief Financial Officer (OCFO) and the National Financial Center (NFC) enabled us to remove our qualification on "Credit Program Receivables, Net" and increased the reliability of the "Fund Balance With Treasury"

line item (though problems persist in this area). As of FY 2002, approximately 98 percent (in terms of value of accounts) of the Department has been brought into the Foundation Financial Information System (FFIS), mitigating the financial management problems reported in the Central Accounting System (CAS). Only two agencies remain outside FFIS.

Despite these efforts, we were unable to give an opinion on the Department's FY 2001 financial statements. The Department did not submit auditable financial statements on time, and, based on the audit coverage we were able to complete, we concluded that overall the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements.

- *FY 2001 CCC Financial Statements: Varying Opinions*

We issued an unqualified opinion on CCC's Balance Sheet, Statement of Changes in Net Position, and Consolidated Statement of Net Costs. However, we disclaimed an audit opinion on the Combined Statements of Budgetary Resources and Financing. We continued to find significant errors, which were corrected once adjustments were booked, in CCC's accounting records for its foreign loan accounting operations and domestic accounting operations. OIG has informed CCC officials in the last seven financial statement audits that substantial improvements in financial management, systems, and operations must be made, but CCC has not taken sufficient action.

- *FY 2001 FS Financial Statements: Disclaimer of Opinion*

FS was unable to provide sufficient, competent evidential matter to support amounts reported in its FY 2001 financial statements. The agency had not performed sufficient analyses and reconciliations of its financial system to ensure the accuracy of amounts recorded in the general ledger and the subsidiary (detailed) ledgers. Therefore, the unaudited financial statements provided to us on November 15, 2001, contained numerous errors, and the accompanying footnotes were incomplete. Significant control weaknesses in the general ledger and the subsidiary systems greatly reduced the reliability of account balances reported on the

financial statements. FS management had not established a reliable and effective business process to prepare the financial statements. Internal controls over the agency's financial reporting process were inadequate, controls were insufficient to safeguard assets, and financial systems did not substantially comply with FFMIA. Thus, we concluded the financial statements were unreliable.

- *FY 2001 Rural Development Mission Area Financial Statements: Unqualified Opinion*

In FY 2001, we issued our first unqualified opinion since FY 1993 on the Rural Development Mission Area's financial statements. Although Rural Development's and the Department's efforts resulted in substantial progress, the financial management problems were not overcome until substantially after the end of the 2001 fiscal year. Accordingly, the information to manage the programs was not available when it was needed. The unqualified opinion was achieved because the financial data became "fairly presented" only after substantial after-the-fact adjustments. Our audit also disclosed several internal control weaknesses, such as estimates in budget submissions and the need for improvements in estimating future loan losses, which need to be corrected to foster economy and efficiency and ensure the reliability of the financial data in future periods.

## FINANCIAL-RELATED AUDITS

### **Federal Financial Management Improvement Act**

USDA's financial management systems, as a whole, do not substantially comply with the requirements of FFMIA (i.e., Federal accounting requirements). USDA, as required by law, has developed an overall remediation plan, with detailed plans in effect for Rural Development, CCC, FS, and OCFO/NFC. The Department's plan is long term in nature. Generally, the remedial action implementation dates have been extended an additional year, to the end of FY 2004, because of the agencies' inability to comply with applicable accounting standards and resolve the Department's financial management problems. Although the Department has been able to mitigate some of these systems weaknesses through laborious manual intervention, the Department's inability to achieve an



unqualified opinion stems in large part from its noncompliance with FFMA. Ultimately, the goal is that the Department know whether it has properly accounted for the money it has collected, the cost of operations, and assets of well over \$100 billion.

### **Rural Development's Compliance With FMFIA Reporting Requirements**

FMFIA requires agencies to evaluate their systems of internal control, and identify and correct material weaknesses. We reviewed Rural Development's process and found that it was not adequate to fulfill the requirements. Our review disclosed two primary causal factors: the agency had no quantitative criteria on what constitutes a material weakness, and the methodology Rural Development employed to assess internal controls needed to be expanded and enhanced. As a result, the vast preponderance of material weaknesses reported by Rural Development over the past 10 years (20 of 23, or 87 percent) were identified by OIG and the General Accounting Office, not by Rural Development's self-assessments. Moreover, Rural Development, in the absence of quantitative criteria, opted not to report a weakness that it identified internally regarding a potential shortfall of \$850 million needed to ensure that rural rental housing was safe and sanitary for low-income residents. In our opinion, this weakness was material and should have been reported. The computational model OIG uses to determine materiality thresholds to guide the conduct of financial statement audits generated a materiality level of only \$1.2 million for the Rural Rental Housing Program. In other words, anything in excess of the \$1.2 million would be considered material.

The control objectives and techniques to identify material internal control weaknesses did not include coverage of all significant areas, and Rural Development assessed only an overall risk level for each program being reviewed. The lack of risk assessment for individual controls meant that high-risk areas would not be reviewed as often as needed, and resources might be disproportionately diverted to low-risk areas. Ultimately, OIG's goal is that managers not be forced to make decisions "in the dark" without solid financial data.

We recommended that Rural Development develop and implement a definition of a material weakness that contains both qualitative and quantitative characteristics

and properly reflects the relative risk and significance of deficiencies. Rural Development also needs to develop clear and comprehensive control objectives and techniques, as well as accompanying review guides, that will adequately monitor the effectiveness of its programs. Furthermore, we recommended that Rural Development establish risk level assessments for individual control objectives and use them to determine the scope of its internal control reviews.

Rural Development did not agree that it should develop and implement a definition of material weakness that contains both qualitative and quantitative characteristics. Rural Development contends that it will consider this action if the departmental guidance is revised to require it. We will pursue this matter with the Department. Rural Development did agree that it should develop clear and comprehensive control objectives and techniques that adequately monitor the effectiveness of its programs. Rural Development agreed to establish risk level assessments for individual control objectives and use them to determine the scope of its internal reviews.

### **Selected IT General Controls at NFC Need Strengthening**

NFC's Application System Division (ASD) maintains the computer applications that process data for the systems that disbursed or authorized more than \$43 billion in salary and administrative payments in FY 2001. Including USDA, the system provides administrative and financial services to more than 120 agencies and 450,000 employees. NFC application change controls were not operating as effectively as needed to ensure that all modifications to applications maintained by ASD were properly tested and approved prior to implementation. This could result in erroneous data being processed, which could lead to losses or incorrect outcomes in various payments and accounting systems that ASD maintains.

We previously reported, and continued to find, that modifications were made to application programs maintained by NFC without adequate authorization and testing, which resulted in data being processed incorrectly. NFC also permits production changes to be made through special processing, which allows changes to production data outside the normal methods and controls. This increases the risk that production data could be inappropriately modified. We further identified

weaknesses in other IT general controls specific to the Special Payroll Processing System (SPPS). For example, access to SPPS and other information in the production payroll/personnel databases was not adequately restricted, and we noted security gaps.

We recommended that NFC establish controls and guidance to ensure that user approval is obtained for functional requirements documents, software testing is adequately documented, and acceptance testing is performed for application changes.

# Abuses of USDA Programs and Operations

## PROTECTING THE FOOD SUPPLY

One of the primary challenges facing USDA is to protect U.S. agriculture and ensure safe and wholesome meat and poultry. OIG's work ranges from detecting criminal smuggling of plants, animals, vegetables, fruits, and meats from overseas to investigating reports of illegal activity at meat and poultry processing plants to following up on reports of adulterated products in stores. We also can never ignore the continuing threats to consumers caused when some unscrupulous businesses place profit above public safety, failing to report and destroy food contaminated by dangerous pathogens or even actively adulterating food to increase their profit. The following are cases OIG has pursued.

### **Hog Dealer Pleads Guilty to Illegal Interstate Shipment**

A Tennessee hog dealer pled guilty in March 2002 to Federal wire fraud and false statement charges relating to his 1997 sale and transportation of over 2,000 swine, worth more than \$200,000, to buyers in California who had been assured that the swine originated in Tennessee, which is free of the pseudorabies virus. The dealer, in fact, had shipped the swine from several other States that were under Federal restrictions on the interstate shipment of hogs due to outbreaks of the virus. A Tennessee Doctor of Veterinary Medicine is awaiting trial on charges that he assisted the hog dealer by preparing fraudulent Tennessee health certificates for the interstate shipments. Sentencing of the hog dealer is scheduled for later this year.

### **Officers of Meat Company Plead Guilty to Wire Fraud Charges**

The former president and the former comptroller of a company with offices in New Jersey and Florida, which sold meat to domestic and foreign buyers, have pled guilty to wire fraud charges relating to false information that the company provided to a lender. Of specific concern were false inventory claims concerning more than 480,000 pounds of beef trimmings, fat, and other by-products that were relabeled, creating the impression the boxes contained premium meat. The value of this meat inventory was reported by company officials to be approximately \$4.9 million, when the true value was as little as \$90,000.

### **Fast Food Customer Tampers With Take-Home Product**

In Tennessee, an OIG investigation resulted in a customer of a retail fast food chicken restaurant admitting that she had violated Federal antitampering laws by placing prescribed medications within the take-home product she had purchased in February 2000. She falsely reported to the restaurant and local police that she found the medications when she bit into the product. In December 2001, she was placed in a pretrial diversion program and received 18 months' probation.

### **Individual Impersonates FSIS Compliance Officer**

In June 1998, an individual purporting to be a USDA Federal compliance officer conducted bogus inspections at two retail facilities in Kentwood, Michigan. The individual demanded to inspect pizza being sold to the general public and made threats of closing down the businesses for selling products in violation of USDA regulations. Specifically, he contended the establishments were selling pizza with a meat topping that was not from a USDA-inspected source. Investigators determined that the imposter was a contract employee of a federally inspected establishment in Detroit, and the inspections were a scare tactic by the company to regain accounts lost to a competitor. The subject admitted to conducting the fraudulent inspections in violation of the law and agreed to participate in a pretrial diversion program for 1 year.

### **Dairy Pays \$650,000 in Milk Adulteration Case**

In October 2001, a Virginia dairy agreed to a pretrial diversion in which it would pay \$650,000 in restitution, following a joint investigation by OIG and the U.S. Food and Drug Administration's Office of Criminal Investigations. On occasion, the dairy was not properly testing milk for the presence of antibiotics in bulk milk tanker trucks that delivered raw milk for processing, and, as a result, 2 percent milk fat and whole milk products containing antibiotics were shipped in interstate commerce. Random sampling conducted by the Tennessee Department of Agriculture detected antibiotics in milk packaged by the dairy, which voluntarily recalled 2 percent milk fat products. However, the company failed to recall all the whole milk products adulterated by antibiotics. The adulterated milk caused no known illness or injuries. In addition to the restitution, the agreement required the dairy to

implement an intensive monitoring and education program to ensure that antibiotic-tainted milk is detected and destroyed.

## PUBLIC CORRUPTION

Another continuing priority for OIG is the investigation of criminal acts committed by USDA employees. We have identified approximately 55,000 USDA employees whose positions place them in direct contact with the public. The percentage of wrongdoers is small, but to maintain the public trust, internal controls must be in place and operating. During the past 6 months, public corruption investigations resulted in 5 convictions of current or former USDA employees and 18 personnel actions. Descriptions of some recent investigations follow.

### **Former FS Technician Sentenced for Theft**

A former FS communications technician in the State of Washington has been sentenced to 18 months in prison, to be followed by 2 years' probation, fined \$3,000, and ordered to pay \$4,000 in restitution after pleading guilty to theft of Government property. The employee illegally obtained radio and electronics equipment from the Defense Reutilization and Marketing Office (DRMO) in Fort Lewis, Washington, and resold some of the equipment for personal gain. Our joint investigation with FS Law Enforcement and Investigations agents disclosed that, from the early 1990s until 2000, the employee screened and acquired over \$9 million worth of Federal excess property from DRMO. DRMO property worth approximately \$1.5 million and FS property worth more than \$150,000, mostly radio equipment and related parts, were recovered from the employee's residence in August 2000. The employee, an amateur radio operator, admitted to having sold some of the equipment for personal gain.

### **Administrative Support Assistant Pleads Guilty to Embezzlement of Public Money**

A former administrative support assistant for APHIS Plant Protection and Quarantine in Niles, Michigan, pled guilty to one count of embezzlement of public money. She was sentenced to 3 years' probation, 4 months' home detention, and 300 hours of community service, and ordered to pay restitution of \$14,000 and a \$100 special assessment fee. She must also participate in a

program of mental health treatment specifically addressing anger management and conflict resolution. From March 1994 to June 1997, the employee used the office IMPAC Visa charge card to make at least 75 unauthorized personal purchases at 13 separate retail establishments, totaling approximately \$14,000. Before sentencing, she retired from her position in Government service.

### **Guilty Plea by Individual Posing as USDA Employee**

A Washington, D.C., man has signed a plea agreement admitting to a scheme in which he represented himself and others as USDA employees in April 2001 in order to defraud hotels and limousine companies of \$23,000 in services. The defendant committed wire fraud in carrying out the scheme by obtaining the USDA logo from the USDA Web site, using it to create USDA letterhead, and arranging direct bill credit by using telephones and faxes. The defendant is on Federal probation for like offenses in the past and is being held for trial on similar charges in Georgia. The defendant will be arrested on a Federal warrant upon release in Georgia.

## FOOD, NUTRITION, AND CONSUMER SERVICES

### **FOOD AND NUTRITION SERVICE (FNS)**

FNS administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and the Food Donation Programs. The bulk of FNS' \$38 billion funding for FY 2002 goes to FSP (\$22.9 billion), CNP (\$10.3 billion), and WIC (\$4.5 billion).

### **FOOD STAMP PROGRAM**

#### **Monitoring of the Electronic Benefits Transfer (EBT) System Continues**

Currently, 43 States and the District of Columbia use EBT systems to deliver food stamp benefits. Forty of the systems have been implemented statewide, including the District of Columbia. About 84 percent of all FSP benefits are being issued via EBT.

This reporting period, we found that FNS's oversight of New York's EBT system and operations was adequate overall. However, controls over system access, use of management reports, and recipient access to benefits needed improvement. The State agency had not established adequate controls over EBT system access and use of system access reports, resulting in an increased risk of unauthorized access to EBT benefits. EBT management reports were not effectively used by the State to monitor the EBT system, which could result in suspicious EBT activity not being detected and researched. Contrary to FSP regulations, the State agency did not convert FSP benefits to cash or coupons

when recipients left the project area, and recipients were not notified of the State's policy to expunge benefits after 270 days of inactivity. FNS and the State agency are implementing corrective actions.

### **Three Will Serve Prison Time in \$15.3 Million Food Stamp and WIC Fraud Case**

Two individuals in Cleveland, Ohio, pled guilty to \$3.5 million in food stamp and WIC fraud and were each sentenced to serve 3-1/2 years in prison. The wife of the main subject also pled guilty to a misdemeanor count of food stamp trafficking and agreed to voluntary lifetime



More than \$15 million in food stamp and WIC fraud originated from this store in Cleveland. OIG photo.



This house, with an estimated value of more than \$300,000, was seized under asset forfeiture statutes in the Cleveland case. OIG photo.



This toolbox filled with more than \$400,000 in cash was seized under asset forfeiture statutes in the same case in Cleveland. OIG photo.



This house was also seized for asset forfeiture in the Cleveland case. OIG photo.

debarment from participation in both programs. These three individuals forfeited approximately \$2.5 million in assets, including cash, vehicles, bank accounts, real estate, and store assets. The group was estimated to have committed over \$15.3 million in food stamp and WIC fraud since 1995. Two other indicted co-conspirators fled and remain fugitives. This investigation was worked jointly with the U.S. Secret Service, the FBI, the IRS, the INS, the U.S. Customs Service, the U.S. Postal Inspection Service, the Cleveland Police Department, the Ohio Department of Taxation, and the Ohio Department of Public Safety.

### **Illegal FSP Redemption Case Yields \$4 Million Restitution, Prison Sentence**

The husband and wife owners of a grocery store in New York City were ordered to pay \$4 million in restitution to USDA following their guilty pleas to charges of making illegal food stamp redemptions and committing theft of public funds. The couple reported to State and Federal agencies that their grocery store had revenues of between \$500,000 and \$600,000 when they actually redeemed well over \$2 million in food stamps in 1995 and 1996. The couple also trafficked food stamps during undercover operations. The husband was sentenced to 13 months in prison and the wife to 3 years' probation.

### **\$2.6 Million Restitution Ordered in EBT Fraud**

The owner and an employee of an authorized produce truck that serviced the Philadelphia, Pennsylvania, area pled guilty to food stamp access device fraud and related charges for food stamp EBT trafficking from May 1998 through November 1999. The owner was sentenced to 9 months' imprisonment, as well as 3 months' home confinement, and ordered to pay \$1.3 million in restitution. The employee was sentenced in January 2002 to 6 months' home confinement with 5 years' probation and ordered to pay \$1.3 million in restitution. Approximately 200 food stamp recipients who exchanged EBT benefits for cash with the owner and his employee were referred to the Pennsylvania OIG for further action. This investigation was worked jointly with the IRS.

### **Three Brothers Arrested in WIC and EBT Fraud**

As reported in a previous period, three brothers were arrested after OIG agents executed search warrants at their residence and store, identified as the highest WIC

redeemer in North Carolina. The store deposited \$542,000 in WIC benefits and \$176,550 in EBT benefits over 3 years from 1998 through 2000. Multiple undercover transactions involving WIC vouchers and EBT cards led to a 329-count indictment, as well as seizure of bank accounts, cash, and an automobile in May 2001. All three defendants have now pled guilty and received sentences ranging from 24 to 38 months in jail during this reporting period. Restitution was set at more than \$553,500. Two of the defendants face deportation upon completion of their prison terms. Additional defendants are to be indicted. OIG, the IRS, and the Greenville, North Carolina, Police Department investigated this case jointly.

### **Family Members Go to Federal Prison for Food Stamp Trafficking**

Five family members, who owned several grocery stores in the Fort Worth, Texas, area, received Federal prison terms ranging from 8 to 46 months for food stamp EBT trafficking and conspiracy. The family is estimated to have committed more than \$1 million in food stamp fraud from December 1996 through April 1999 by illegally trafficking in EBT benefits at four grocery stores they owned. The subjects were ordered to pay restitution totaling \$1.3 million. This investigation was conducted jointly with the IRS.

### **Owner Pleads Guilty in \$300,000 EBT Fraud**

In February 2002, the owner of a small authorized store in Chester, Pennsylvania, pled guilty to EBT trafficking and was sentenced to 8 months' home confinement and ordered to pay more than \$167,000 in restitution. The owner illegally purchased more than \$300,000 in EBT benefits. Approximately 750 food stamp recipients who exchanged EBT benefits for cash with the owner were referred to the Pennsylvania OIG for further action.

### **Operation Talon Arrests Continue**

Operation Talon was designed and implemented by OIG to locate and apprehend fugitives who are food stamp recipients. As of March 31, 2002, Operation Talon had resulted in 7,981 arrests of fugitive felons during joint OIG, Federal, State, and local law enforcement operations throughout the country. Serious crimes perpetrated by those arrested include homicide-related offenses (murder, attempted murder, manslaughter), sex offenses (child molestation, rape,

attempted rape), kidnapping/abduction, assault, robbery, and drug/narcotics violations.

### **Florida Needs To Improve Corrective Action Process**

We evaluated Florida's corrective action planning for reducing food stamp payment error rates and its management of food stamp claim activities for FYs 1999 and 2000. In FY 1999, the State's error rate was 9.43 percent, equating to \$76 million of improperly issued food stamp benefits. Although the average caseload per eligibility worker had declined 39 percent since FY 1996, the error rate had not significantly decreased.

The State's plans did not contain mandatory elements and components to detail deficiencies, corrective actions, and results. The plans were generally "to continue" the same actions year to year with "ongoing" completion dates. The State also had not taken actions to improve its claim management activities. In January 1994, we reported that the State did not timely process claim referrals—resulting in a 7-year backlog—or require recoupment of some established claims from households. These conditions had not been corrected.

We estimated that, as of July 2000, almost 29,000 new claims, valued at \$14.7 million, were backlogged, and more than 13 years would be needed to establish the claims unless additional resources are employed. The State did not always code claims for allotment reduction or enter them into the system so that recoupment could take place, resulting in 5,041 claims, valued at \$1.1 million, not being recouped. The State also understated its claims receivable balance reported to FNS by about \$1.7 million. FNS has instructed the State to undertake the necessary corrective actions.

## **CHILD NUTRITION PROGRAMS**

### **Cooperative Buying Group Did Not Comply With Federal Competition Regulations**

School districts join together to establish large cooperative buying groups to realize cost savings, quality, and consistency of food products. Our review of three cooperatives in two States from August 2000 through May 2001 disclosed that one group in North Carolina did not always conduct procurement transactions for the National School Lunch Program

(NSLP) in a manner that provided for open and free competition. It did not solicit or request bids for certain food and nonfood products from manufacturers but purchased those items from their contracted service provider. The cooperative purchased numerous food and nonfood products from its service provider that were not included on the secondary bid list of the request for proposal, an unacceptable practice. From July 1 through October 31, 2000, it purchased over \$408,000 in food and nonfood products from its service providers without regard to open and free competition. FNS agreed with our recommendation to recover the money.

### **State Agencies Did Not Ensure Required CACFP Audits Were Completed**

From our review of FY 2000 and FY 2001 (through March 31, 2001) activities, we determined that neither the Michigan nor Ohio State agencies had tracked the sources of all Federal funding received by participating nonprofit institutions. Thus, the States could not confirm that all single audit requirements were being met by institutions that received over \$97 million in Child and Adult Care Food Program (CACFP) funding. No one in Michigan or Ohio had been assigned to determine which subgrantees in CACFP should receive a single audit based on funding received from all Federal sources. CACFP program agencies were tracking single audit performance of their subgrantees only when CACFP funding exceeded \$300,000. In neither State did program agencies determine single audit compliance when CACFP funding was less than \$300,000. FNS and the State agencies have initiated corrective actions to address the deficiencies.

### **CACFP Sponsor Claimed Improper Costs, Inadequately Monitored Centers**

A CACFP sponsor in Wisconsin inflated administrative costs during FYs 2000 and 2001 by entering into less-than-arms-length leases for kitchen equipment, delivery vans, and rental space. Although regulations limit costs in transactions where one party is able to substantially control the other, the sponsor leased its own equipment back from its fully owned subsidiary at rates that would nearly double the cost of the equipment over the terms of the leases. The corporation, from which the sponsor leased its office space, shared its officers and board of directors with the sponsor and charged the organization rental fees that were higher than comparable costs. If

allowed to run their full terms, the leases will cost the program about \$359,000 in excess costs for the vans (5-year lease) and equipment (10-year lease) with an additional \$924,000 for the rental space (7-year lease). Funds to be put to better use totaled nearly \$1.3 million.

The sponsor also did not perform 112 of the 393 monitoring site visits required by regulations for FY 2000. Because of inadequate monitoring by the sponsor, 13 of the 26 child care centers we visited claimed excessive meals for reimbursement, more than 3,100 meals during May 2000 were served to ineligible children, and 1 center claimed lunches for school-age children who did not participate in the lunch meal service. Excessive reimbursements for the months we reviewed totaled \$8,800.

FNS and the State agency officials generally agreed with the findings and recommendations.

## COMMODITY DISTRIBUTION PROGRAM

### **Food Vendor and Employee Defraud USDA Commodity Recipient**

The executive director of a soup kitchen—which served both as a food distribution center for the underprivileged and as a branch of a ministry in Detroit, Michigan—conspired with a food vendor to defraud the organization. The food kitchen relies primarily on private donations, although it also receives USDA commodities and Federal Emergency Management Agency grants. Specifically, the soup kitchen employee requested the vendor to supply false and inflated invoices for food he delivered daily to the ministry. The vendor agreed to “kick-back” cash to the employee when he was paid for the invoices. In October 2001, the soup kitchen employee pled guilty to program fraud and was sentenced to 14 months in prison and ordered to pay restitution of over \$828,000. The vendor pled guilty to the same charge in January 2002 and was sentenced to 24 months in prison and ordered to pay restitution jointly and severally with the coconspirator. This investigation was worked jointly with the U.S. Postal Inspection Service, which initially received a Whistleblower complaint about the scheme.

## FARM AND FOREIGN AGRICULTURAL SERVICES

### RISK MANAGEMENT AGENCY (RMA)

RMA administers the Federal Crop Insurance Corporation and oversees all programs authorized under the Federal Crop Insurance Act. RMA's 2001 crop-year liability exceeded \$36 billion. FCIC is a wholly owned Government corporation that offers subsidized multiple-peril and revenue crop insurance through a private delivery system by means of insurance companies. Its FY 2001 Government cost, after producer-paid premiums of \$1.3 billion, is estimated at \$3 billion.

### **Reliable QC Review Process Needed To Evaluate Crop Insurance Program**

From May 2000 through April 2001, we reviewed RMA's quality control (QC) review system and found that RMA continues an 8-year struggle to develop and implement a reliable system capable of evaluating private sector delivery of Federal crop insurance. Until RMA answers basic policy questions (what constitutes an error, the amount of improper payments made, at what level program delivery should be assessed) and implements a long-term plan of action, it may continue to expect the Federal Crop Insurance Program to suffer from unreported errors and abuses, as well as frequently undetected dollar losses. Consequently, an effective QC review system must be in place to ensure implementation of the Agricultural Risk Protection Act of 2000 and is critical under the requirements of the Government Performance and Results Act (GPRA). RMA did not identify the absence of a reliable QC review system as a material internal control weakness in its FMFIA report.

The crop insurance delivery system relies on the private insurance companies as the first line for QC, but we were not able to identify an industrywide standard or one suitable model. However, one based on FNS's system could prove satisfactory, as FNS relies on States to measure the accuracy of their own performance, tests samples to verify measurements, and most importantly, holds States accountable for their performance through sanctions or requiring that States invest their funds to correct their weaknesses.



We recommended that the RMA Administrator seek legislation to mandate a QC review system to evaluate private sector delivery of the Federal Crop Insurance Program, implement basic program policy decisions to include meaningful performance measures, and develop a long-term QC plan of action. We also recommended that RMA define and describe its QC system authoritatively by regulation and report the absence of a reliable system as a material internal control weakness under FMFIA.

RMA believes that a legislative process is lengthy and time-consuming and has proposed to award a contract to study its delivery process and the underlying agreement. RMA also plans to study and analyze its contractual agreements for program delivery, which includes the QC system, and has indicated that the new system will include goals and objectives to evaluate performance and measure results. RMA agrees that improvements can be made to the current system but disagrees with reporting its unreliability as a material weakness. We maintain our opinion on that matter and continue to work with the agency to resolve the issue.

### **False Crop Insurance Claims Net Prison Terms for Producers**

As reported in a previous period, at least six producers and a crop insurance adjuster in Texas conspired to submit false claims in 1999 to RMA regarding over 20,000 acres of cotton and grain sorghum, subsequently receiving over \$1.1 million in insurance indemnities. Four producers and an insurance adjuster have now been remanded to Federal prison for periods ranging from 12 to 24 months, and restitution of more than \$685,000 has been ordered.

### **Producer Receives Prison Term for Crop Insurance Fraud**

As reported in a previous period, a Texas producer and his wife, an insurance agent, conspired with others to conceal true ownership in various crops in order to avoid paying the higher insurance premiums of the Nonstandard Classification System. The producer has now been sentenced to 33 months in Federal prison, followed by 3 years' supervised release, ordered to pay restitution of nearly \$600,000, and fined \$10,000. The producer is barred from participating in USDA programs until the conclusion of his sentence. His wife received a similar sentence.

### **Insurance Company Pays Treble Damages and Penalties for False Claims**

In October, a large issuer of multiperil crop insurance policies in Minnesota settled with the United States for payment of false claims submitted by a loss adjuster employed by the company. The insurance company became aware of allegations that the claims were fraudulent but did not report the suspected fraud to RMA. The insurance company agreed to pay treble damages and six civil penalties under the False Claims Act, totaling more than \$323,600. The settlement agreement also included a Corporate Compliance Plan, which required the company to establish a special investigative unit that functions independently of the company's crop insurance division to investigate allegations of fraud, regularly provide RMA data on crop insurance claims that appear to be fraudulent, develop and provide annual fraud prevention training to employees, and promptly take all corrective action when notified by USDA of any violation of crop insurance program regulations.

## **FARM SERVICE AGENCY**

FSA supports American agriculture and the American public through agricultural commodity, farm loan, conservation, environmental, and emergency assistance, as well as domestic and international food assistance programs. The FY 2002 budgeted program level for FSA is estimated at over \$26 billion, including more than \$21 billion for operations funded by the Commodity Credit Corporation, a Government corporation.

### **FSA Implementation of QLP Was Generally Effective**

The Quality Loss Program (QLP) was a supplemental quality program enacted in 2001 to provide assistance to producers where 2000 Crop Disaster Program (CDP) quality payments were inadequate or nonexistent. Quality payments earned under CDP were subtracted from QLP and QLP–Apple and Potatoes (QLP-AP) payments. Our fieldwork, conducted from August to December 2001, concluded that FSA procedures generally were effective in administering QLP and QLP-AP. Although FSA's acceptance testing disclosed minor formatting problems with program software, we did not identify any resultant payment or production calculation irregularities. Crop insurance linkage requirements were

met by 2000 CDP applicants, and FSA outreach efforts at the sampled county offices were adequate.

### **Thirty Individuals Arrested and Three Sentenced to Long Jail Terms for Victimizing Farmers; \$1 Million in Stolen Property Recovered**

As reported in a previous period, 30 members of an organized group were arrested in the Dayton, Ohio, area for their participation in a conspiracy to steal farm equipment and other items from farmers in Ohio, Kentucky, and Indiana. Beginning in July 2000, the OIG case agent and other members of the Organized Crime Investigations Commission Task Force 00-3 infiltrated this criminal organization. The investigation found that the criminal organization was responsible for more than \$5 million in farm-related or rural property thefts. The task force has now recovered more than \$1 million worth of the stolen property. To date, 30 individuals have been arrested and indicted, 23 have pled guilty, 1 has been found guilty by jury trial, and 27 search warrants have been executed. The top three ringleaders have been sentenced to jail terms of 9 years, 6 years, and 2 years.

OIG positively identified 30 farms participating in FSA programs that this criminal organization victimized in 12 counties in Ohio, 5 counties in Indiana, and 1 county in Kentucky. Property stolen included tractors, automobiles, generators, tools, weapons, and all-terrain vehicles. Much of the stolen property was collateral for farm-owned property or operating loans and/or business and industry loans.

The task force consists of agents and officers from OIG, the National Insurance Crime Bureau, the FBI, and several Ohio law enforcement agencies: the Montgomery County Sheriff's Office, the Centerville Police Department, the Miamisburg Police Department, the Moraine Police Department, and the Dayton Police Department. Numerous other law enforcement agencies are supporting the task force.

### **Former Co-Op Manager Convicted of Embezzlement**

The former manager of a farm cooperative in Oklahoma was convicted of embezzling co-op funds that included CCC-owned grain proceeds and was sentenced to 70 months in Federal prison and ordered to pay restitution of \$2.1 million. He created a fictitious vendor, issued more than \$2 million in co-op checks to this entity from March 1997 to December 1999, and used "arbitrage

contracts" to cover the CCC and other co-op grains. This investigation was conducted jointly with the FBI.

### **Father and Sons Plead Guilty to Conversion of FSA Collateral**

In California, a father and his two sons are awaiting sentencing after each pled guilty to unauthorized disposition of Government collateral. The three individuals had originally been indicted for conspiracy to make false statements to FSA officials in conjunction with a \$200,000 operating loan but pled guilty to lesser charges as part of a plea agreement. Our investigation disclosed that, in 1994, the father received a settlement from USDA on a \$100,000 loan by falsely stating that he had transferred his interest in the family farm to his two sons. The two sons later applied for and received a \$200,000 operating loan by falsely stating that their father had no interest in the farm. All three subjects subsequently declared bankruptcy and defaulted on their loans.

### **Farmer Convicted After 3-Day Trial**

A Minnesota farmer and former agribusiness radio commentator was convicted in October 2001 of converting more than \$400,000 in grain that secured loans he had received from USDA through CCC. During a 3-day trial, the Government showed the farmer had illegally sold grain securing his loans. In response, the farmer said that, because he was known widely in the agribusiness community, his conversion of the grain would draw attention to what he believed to be a problem with farm policy. However, under cross-examination, the farmer acknowledged he decided to protest the farm policy only after receiving his last loan from CCC. He went on to admit that he used the proceeds from the sale of Government collateral to pay personal bills and made no effort to publicize his protest. Sentencing is pending.

## **FOREIGN AGRICULTURAL SERVICE (FAS)**

FAS represents the interest of U.S. farmers and the food and agricultural sector abroad. Most notably, it seeks improved market access for U.S. products, carries out food aid and market-related technical assistance programs, and mobilizes expertise for agriculturally led economic growth in developing nations.

## Four Convicted in False Export Diversion Scheme

Four individuals in New Jersey pled guilty to felony charges for their participation in export diversion schemes negatively affecting the Sugar To Be Re-Exported in Sugar-Containing Product Program. In this case, in the mid-1990s, the four individuals and others participated in a scheme to buy sugar-containing products at the discounted price by fraudulently representing that the products were for export and had been exported. In fact, the products were never exported and were sold to retailers and wholesalers in the United States. The participants in the scheme pocketed the difference between the discounted price fraudulently obtained from the manufacturers and the higher price the goods went for on the U.S. market. FAS officials have revoked over 1.4 million pounds' worth of sugar credits valued at nearly \$145,500. Sentencing is pending.

## NATURAL RESOURCES AND ENVIRONMENT

### FOREST SERVICE

FS has the responsibility for providing leadership in the protection, management, and use of the Nation's forests and grasslands on public and private lands. The FY 2002 budget for FS is projected at \$4.9 billion, while receipts generated through timber sales and other activities are estimated at about \$598 million.

### Deficiencies Identified During FS Implementation of the National Fire Plan

Prompted by the extensive summer wildfires, on September 8, 2000, the Secretaries of Agriculture and the Interior issued a report known as the National Fire Plan, which provided the overall framework for implementing fire management and forest health programs. In October 2000, \$1.1 billion in additional funding for FS was approved to implement the National Fire Plan. This more than doubled the FS firefighting budget to over \$2 billion.

Our review was conducted from April 1 through August 2001 and determined that FS would not achieve its most efficient level for firefighting because initial funding estimates were underestimated. The system used to make the estimated funding needs did not have all the

essential cost data and updated indirect cost data. As a result, two FS regions needed an additional \$42 million. As of May 25, 2001, FS reported that all its regions had filed midyear funding requests for an additional \$80 million. The FS Chief directed regional foresters to develop contingency plans that could include delaying the acquisitions of equipment or postponing the hiring of firefighting personnel. On November 2, 2001, FS reported that the FY 2001 fire season provided savings in fire preparedness that offset the shortfall. Although FS was unable to reach its most efficient level in FY 2001, actions are being taken to reach that goal in 2002.



Firefighters retreating from wildfire. FS photo.

The FS Washington office had not established controls to ensure that National Fire Plan funds were used to rehabilitate and restore areas burned by the wildfires of 2000. During our review in the northern region, we questioned the propriety of using approximately \$2.5 million of rehabilitation and restoration program funds to plan commercial timber sales, administer mushroom harvests, and rehabilitate and restore areas burned in 1998. FS regions had proposed 582 restoration projects nationwide totaling \$260 million, far in excess of the \$142 million appropriated in FY 2001. Any funds put to improper uses will reduce FS's ability to restore and rehabilitate areas burned by the wildfires of 2000.

FS generally concurred with our recommendations and stated that it plans to clarify the project selection criteria to address our concerns and institute a review process to ensure that only those projects that meet the criteria are approved and implemented.

## **FS Oversight Over Land Exchanges Was Effective**

We continued to review the progress that FS has made in strengthening its controls over the land exchange program. From June through October 2001, we audited the operations of the National Land Adjustment Oversight Team (NLAT) in reviewing land exchange transactions. NLAT was created by the FS Washington office in response to our prior audits, which disclosed large land exchange transactions in two regions that did not comply with laws and regulations and had questionable appraisals.

We reviewed 12 pending and approved land exchange transactions, valued at over \$45 million, that were reviewed by NLAT in 3 regions. We found examples in all three regions where the NLAT review was effective in preventing questionable land exchange transactions from proceeding through the approval process. Our review concluded that the NLAT review was an effective control to ensure that land exchange transactions were consistent with national standards and that the public's interests were protected. Its effectiveness would be enhanced if updates and revisions to existing landownership policies and procedures, drafted by FS in response to our prior audits, were finalized in the FS manual and handbook.

### **NATURAL RESOURCES CONSERVATION SERVICE (NRCS)**

NRCS provides technical assistance through local conservation districts to individuals, communities, watershed groups, and tribal governments, as well as Federal, State, and local agencies. The agency's work focuses on erosion reduction, water quality improvements, wetlands restoration and protection, fish and wildlife habitat improvement, range management, stream restoration, and water management.

#### **Additional CREP Controls Needed**

In some instances, NRCS was not completing some of the annual status reviews on Conservation Reserve Enhancement Program (CREP) contracts as required, so FSA did not have reasonable assurance that conservation plans were being timely or properly applied. FSA also had not established requirements to ascertain acreages enrolled under associated State easements. This could result in the improper enrollment of such acreages in other available Federal programs,

such as the Conservation Reserve Program, during periods covered by State easements. The situation prevented FSA from identifying and resolving any associated acreage differences. Our fieldwork was conducted in August and September 2000.

We recommended that FSA direct State offices to provide feedback where NRCS was not fulfilling its status review responsibilities. This included exploring alternatives for ensuring compliance with this program requirement. We also recommended that FSA assess the need to require participating State entities to furnish data on the location and length of State easements in conjunction with CREP. This included directing the Illinois State office to correct cited acreage differences.

FSA agreed and intends to strengthen the status review provisions in its technical assistance reimbursable agreement with NRCS for FY 2002. FSA will begin a process to track, monitor, and evaluate all status reviews in FY 2002. FSA is willing to work with its State CREP partners to request that they provide aerial photography and a timeframe for their easement agreements to the administering county FSA office. FSA will issue a notice in August 2002 to ensure that any differences between FSA acreages and land survey measurement acreages are handled consistently.

### **RURAL DEVELOPMENT**

#### **RURAL BUSINESS-COOPERATIVE SERVICE (RBS)**

RBS enhances the quality of life for rural residents through grants or loans to rural-based cooperatives and businesses and through partnerships with rural communities. RBS national staff and Rural Development State office staff promote stable business environments in rural America through financial assistance, business promotion, and technical assistance, as well as research, education, and information.

#### **Ongoing Work in the B&I Loan Program is Uncovering Significant Management Control Weaknesses**

Our ongoing reviews in 12 States covering FYs 1997 to 2001 have disclosed serious management control weaknesses that are resulting in significant monetary

losses to the Business and Industry (B&I) Loan Program. RBS lacks effective controls to ensure that (1) collateral is properly valued and secured, (2) financially troubled borrowers do not receive loan funds, and (3) loan funds are used only for authorized purposes. We attribute this to inadequate appraisals of collateral, inaccurate feasibility studies, improper financial and credit analyses, and a lack of followup to verify and inspect collateral. We have questioned almost \$29 million in loan losses so far, and recommended the recovery of over \$18 million of those funds.

RBS suspended the State Director's loanmaking authority in one State after we reported serious deficiencies in a Management Alert to the Administrator. In another State, RBS incurred almost \$2 million in unnecessary losses because the lender had not adequately secured the collateral for two loans. The two borrowers had disposed of the collateral without the knowledge or approval of the lender or RBS. We are planning to recommend measures that will improve the effectiveness of existing management controls in the loanmaking and servicing processes. We will also be proposing additional management controls that will improve the integrity of the B&I Loan Program.

### **Empowerment Zone Officials Violated Conflict of Interest Policy**

Several board members of one Kentucky Empowerment Zone (EZ) violated conflict-of-interest policy by not disclosing employment or business relationships with a company that benefited from EZ funds. For example, one board member did not reveal to other EZ board members that he had obtained employment at a processing company that subsequently benefited from \$475,000 in EZ funds. In that case, the EZ funds were disbursed for a water project that would benefit the hayfield operation of the processing company where the EZ board member had just gained employment. Another EZ board member's company entered into a \$485,000 laundry contract with the same processing plant that had received EZ funds. Our audit covered the period 1999 to January 2001.

An EZ Director diverted Government funds to himself that should have benefited EZ. The Director worked on a U.S. Department of Labor (DOL) initiative for which DOL agreed to reimburse EZ for the Director's time. However, when EZ was reimbursed, the EZ Director subsequently withdrew the funds from the EZ account and paid himself. The same Director also hired an

acquaintance to develop a water-testing project without the knowledge of the board members. The project cost EZ over \$16,000 and turned out to be useless. Overall, the EZ Director diverted and mismanaged over \$34,000 of EZ funds.

Rural Development agreed with our recommendations to improve the EZ's conflict-of-interest policy. However, it did not agree with our recommendation to recover the \$34,000 from the EZ Director as his employment with EZ had been terminated.

## **RURAL HOUSING SERVICE (RHS)**

RHS is responsible for making available decent, safe, sanitary, and affordable housing and community facilities through loans and grants for rural single-family housing, apartment complexes, fire stations, libraries, hospitals, and clinics. For FY 2001, program funding for RHS loans and grants totaled \$6.6 billion.

### **Apartment Manager Sentenced for Converting Escrow Funds**

A Missouri man pled guilty and was sentenced to serve 18 months in prison and pay nearly \$220,000 in restitution for converting funds belonging to the Rural Development-funded apartment complexes he managed. He had been indicted on 15 counts, including mail fraud, false statements, and embezzlement. From 1995 to 2000, the man converted \$225,000 in reserve account funds to his own use, primarily to support a gambling habit. In an effort to feign the existence of reserve funds, the man counterfeited certificates of deposit and provided copies to RHS.

### **Resident Manager Pleads Guilty to Equity Skimming**

In FY 1998, OIG and Rural Development began a joint review of the Multi-Family Housing (Section 515) Programs nationwide. After an audit revealed financial discrepancies in a project in Canton, Mississippi, our investigation showed that the resident manager had submitted false and inflated invoices to Rural Development for maintenance. Not only was the resident manager part owner of the project, but he also owned the maintenance company. From May 1996 to December 1997, he forged 194 checks worth more than \$123,000. Sentencing is pending after the resident manager pled guilty to equity skimming.



The resident manager at this project pled guilty to equity skimming (see previous page). OIG photo.

## RESEARCH, EDUCATION, AND ECONOMICS

### COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

The mission of CSREES is to benefit people, communities, and the Nation through cooperative work with agency partners and customers to advance research, extension, and higher education in the food and agricultural sciences and related environmental and human sciences.

#### **Woman Sentenced for Stealing More Than \$715,000 in USDA Funds**

An employee of a nonprofit organization in Atlanta, Georgia, which received funding through CSREES, pled guilty to fraud in January 2001 and was sentenced to

41 months' imprisonment, followed by 3 years' supervised release. She was also ordered to pay more than \$715,000 in restitution to CSREES and \$11,000 in restitution to a bank. The employee issued approximately \$715,000 worth of checks to herself, her creditors, and her limited liability corporation, a male dance troupe, from February 1996 through July 2001. Through her position as accounting and personnel manager, the employee generated the fraudulent checks and forged the signatures of persons who had signatory authority for the nonprofit agency's accounts. While on bond pending sentencing, she worked for another company and forged signatures on \$6,000 worth of that company's checks. Her bond was revoked, and she was arrested.

# Statistical Data

## AUDITS WITHOUT MANAGEMENT DECISION

The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (\*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

### New Since Last Reporting Period

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FNS	05/11/01	1. NSLP - Food Service Management Companies (27601-12-KC)*	3,572,137	3,572,137
	09/06/01	2. NSLP - Food Service Management Companies - MWR (27601-24-Ch)*	3,537,912	3,198,926
FS	05/04/01	3. FY 2000 FS Financial Statements (08401-11-At)	1,305,600,000	1,305,600,000
	05/29/01	4. Northeastern Research Station Accounting for Timber Sales (08007-1-At)	2,388,107	2,046,566
FSA	05/24/01	5. FSA Payment Limitations - Majority Stockholders of Corporations (03099-27-Te)	0	0
	07/30/01	6. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
Multiagency	07/11/01	7. FY 2000 NFC Review of Internal Controls (11401-7-FM)	0	0
RBS	08/31/01	8. Lender Servicing of B&I Guaranteed Loans - State of Arizona, Lender A (34601-2-SF)	2,350,965	2,350,965
	09/12/01	9. Lender Servicing of B&I Guaranteed Loans - State of Arizona, Lender B (34601-4-SF)	2,365,000	2,365,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/14/01	10. B&I Loan Program, Omnivest Resources, Inc., Fort Gaines, GA (34099-2-At)	4,052,351	4,052,351
RHS	09/28/01	11. RRH Program, Insurance Expenses - Phase II (04601-4-KC)	596,665	562,515
RMA	05/21/01	12. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	08/15/01	13. Indemnity Payments to Prune Producers in California - Producer B (05099-5-SF)	7,182	7,182
	08/17/01	14. RMA Watermelon Claims in South Texas (05601-7-Te)	1,506,620	1,506,620

### Previously Reported but Not Yet Resolved

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies have been informed of actions that must be taken to reach management decision, but, for various reasons, the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

ARS	02/08/99	15. Audit of J.A. Jones Management Services, CY 1994 and 1995 (02017-4-At)	160,233	160,233
Civil Rights	09/30/98	16. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-HQ)	0	0
	03/24/99	17. Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0
	03/10/00	18. Office of CR Management of Employment Complaints (60801-3-HQ)	0	0
	03/10/00	19. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0



<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
CSREES	03/27/97	20. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
FNS	03/22/00	21. CACFP - National Initiative To Identify Problem Sponsors - Wildwood (27010-3-KC)	319,279	0
FS	03/31/97	22. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	468,547	468,547
	09/24/98	23. Assistance Agreements to Nonprofit Organizations (08801-2-Te)	7,098,026	0
FSA	09/28/95	24. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)	1,805,828	1,672,929
	01/02/96	25. 1993 Crop Disaster Payments Brooks/ Jim Hogg, TX (03006-1-Te)	2,469,829	2,203,261
	05/02/96	26. Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	03/30/99	27. Payment Limitation - Mitchell County, GA (03006-20-At)	881,924	881,924
	08/22/00	28. LaFlore County FSA Office Disaster Programs (03006-20-Te)*	228,764	228,764
FSIS	06/21/00	29. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	30. Imported Meat and Poultry Inspection Process (24088-3-Hy)	0	0
Multiagency	09/30/98	31. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	2,651,292

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/99	32. Private Voluntary Organization Accountability (50801-6-At)	18,629,558	18,501,064
	09/28/00	33. Crop Loss Disaster Assistance Program (50801-3-KC)	10,728,872	1,660,630
NRCS	03/31/00	34. NRCS Contracting, Procurement, and Disbursement Activities (10601-1-Te)*	784,562	264,434
OCIO	03/03/01	35. Security Over USDA IT Resources Needs Improvement (50099-27-FM)	0	0
RBS	10/01/99	36. Business and Industry Loan - Indiana Farms (34099-3-Ch)	595,511	595,511
	07/11/00	37. Rural Business Enterprise Grant - Vivero Caimito Project (34004-4-Hy)	1,620,256	1,620,256
Rural Development	02/01/99	38. FY 1998 Rural Development Financial Statements (50401-28-FM)	9,529,862,000	0
RHS	01/08/99	39. RRH Program - Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	03/25/99	40. Guaranteed Rural Housing Loan Program (04601-2-At)	139,220,122	215,030
	04/20/99	41. RRH Program - Owner/Manager, Olympia, WA (04801-6-SF)*	346,685	346,685
	05/25/00	42. RRH Nationwide Initiative in MO, St. Louis, MO (04801-2-KC)	4,922,879	483,288
	12/18/00	43. RRH Program Insurance Expenses, MS (04801-6-KC)	924,751	924,751
RMA	09/30/97	44. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0

<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
	12/16/98	45. Crop Insurance on Nurseries (05099-2-At)*	3,963,468	3,676,476
	03/30/00	46. FY 1999 FCIC Financial Statements (05401-8-FM)	0	0
	02/28/01	47. FY 2000 FCIC Financial Statements (05401-2-Hq)	0	0
	03/12/01	48. RMA/FCIC FY 2000 Financial Statements, Report on Management Issues (05401-2-Hq)	0	0
	03/14/01	49. Crop Insurance for Specialty Crops (05601-4-At)	2,254,014	2,254,014

**1. NSLP - Food Service Management Companies, Issued May 11, 2001**

FNS should advise the State agency to require school food authorities to take corrective actions on the food service management company reviewed; however, because we referred the company for investigation, these actions cannot begin until authorized. FNS is working with the State agency to obtain corrective action on all the recommendations.

**2. NSLP - Food Service Management Companies – Midwest Region, Issued September 6, 2001**

We recommended that the FNS regional office, in conjunction with OIG Investigations, work with one of its State agencies to collect \$236,749 from a food service management company for costs charged to schools, which exceeded actual costs. We also recommended that the regional office work with OIG Investigations and the U.S. attorney's office to collect over \$2.9 million from another management company, representing the value of USDA-donated commodities not credited to the schools. In both instances, the intent of the recommendations was to pass the collected funds back through to the affected schools for use in their food service programs. FNS has agreed to take the recommended actions but cannot do so during the ongoing investigations.

**3. FY 2000 FS Financial Statements, Issued May 4, 2001**

Due to limitations on the scope of our audit, we were unable to express an opinion on the FS financial statements. FS was unable to provide essential information on time, and we were unable to obtain other sufficient competent evidential matter. FS personnel have been working to improve FS accounting systems and processes, and to adopt new accounting standards issued by OMB. However, much work remains, including the need to ensure that (1) sufficient full-time staff is assigned to compile and complete the financial statements timely and accurately and (2) regions and units adhere to agencywide accounting policies and procedures. We continue to work closely with FS.

**4. Northeastern Research Station Accounting for Timber Sales, Issued May 29, 2001**

We recommended FS award and administer timber sales for the Fernow Experimental Forest through the Monongahela National Forest. We also recommended FS pay \$341,541 to the State of West Virginia for receipts collected between 1988 and 1999 and return to the Treasury \$2,046,566 for timber sale proceeds retained by the station. We recommended FS consult with the Department's Office of the General Counsel (OGC) to determine if augmentation of appropriation had occurred. FS agreed with our first recommendation to pay \$341,541 to the State of West Virginia. FS has agreed to take corrective action on money retained by the station depending upon the outcome of OGC's determination. We are awaiting a further reply from FS.

**5. FSA Payment Limitations - Majority Stockholders of Corporations, Issued May 24, 2001**

We found about 36 percent of majority stockholders and their corporations were not combined as required in FSA's automated system to be one "person" for 1998 and/or 1999 payment limitation purposes. We recommended FSA program its automated system to combine majority stockholders with their corporations in the combined producer account file. In the interim, we recommended FSA generate and send monthly exception/error (not combined) reports to county offices for corrective action and that the FSA national office monitor the monthly corrections. FSA subsequently identified and corrected such "person" determinations for the 1998 through 2001 program years.

To reach management decision, we need assurance from FSA that it will program its automated system to automatically combine majority stockholders with their corporations or, at a minimum, perform edit checks to ensure that such person determinations are properly entered or are otherwise properly controlled. In the interim, FSA should perform at least annual reviews and corrections of the "person" determinations. We are working with FSA to achieve management decision.

**6. 1999 Crop Disaster Program, Issued July 30, 2001**

We reported to FSA and RMA that some producers received excessive Crop Disaster Program benefits based on inflated crop insurance indemnities. The agencies had not implemented procedures adequate to notify one another of corrections to, or flaws in, records common to the crop insurance and disaster programs. FSA amended its procedures to change data when provided corrected information by RMA and to provide to RMA corrected program information resulting from FSA reviews. RMA has not provided an official written response to the report.

In order to reach management decision, we need documentation that RMA has implemented procedures reciprocal to those implemented by FSA. The agencies should also collect excessive disaster and crop insurance benefits identified by the audit. We continue to work with the agencies to resolve these issues.

**7. FY 2000 NFC Review of Internal Controls, Issued July 11, 2001**

Our review resulted in a qualified opinion. We noted that actions taken by OCFO were sufficient to reduce the risk associated with several previously reported weaknesses; however, other prior material control weaknesses related to the legacy Central Accounting System and its feeder systems continued to exist. Management decision has not been reached on one recommendation, which relates to the reconciliation of FFIS to the feeder systems. Specifically, the recommendation seeks that OCFO (1) ensure that output reports from FFIS are obtained to enable feeder system data to be reconciled with the FFIS general ledger and (2) perform the reconciliations. We are continuing to work with OCFO to resolve this issue.

**8. Lender Servicing of B&I Guaranteed Loans - State of Arizona, Lender A, Issued August 31, 2001**

The lender did not obtain sufficient collateral to protect the Government's loan guarantee. The lender's appraisal of the collateral used a method that valued it equally with its worth to the user/owner while in operation and earning revenue. The initial appraisal valued the collateral at \$168,000. RBS instructed the lender to use the "value in place" appraisal method, which increased the collateral value to \$3.5 million. The

RBS national office has approved the "value in use" method only if the appraisal meets the Uniform Standards of Professional Appraisal Practices. However, the Rural Development State office determined that the appraisal did not meet these standards. We have recommended that RBS require the borrower to obtain \$2,350,965 of additional collateral to secure the loan.

**9. Lender Servicing of B&I Guaranteed Loans - State of Arizona, Lender B, Issued September 12, 2001**

The lender had been negligent in servicing the guarantee loan by not ensuring that proper inspections were performed on a hotel financed with RBS's guaranteed loan. Further, the lender had not ensured that the contractor completed construction according to building plans. The borrower's independent engineer, retained to pursue legal action, determined the hotel would never receive a certificate for safe occupancy and should be razed. We have recommended that RBS rescind the \$2,365,000 loan guarantee.

**10. B&I Loan Program, Omnivest Resources Inc., Fort Gaines, GA, Issued September 14, 2001**

We reviewed the loan at Rural Development's request because the borrower had defaulted less than a year after loan closing. We found that the lender improperly evaluated the borrower's eligibility, inappropriately monitored the use of loan funds, and inadequately serviced the loan by failing to perform servicing reviews. We identified a conflict of interest for the loan packager, who also serviced the loan for the lender. The loan packager prepared analyses using preliminary sales data, which it submitted to the lender. The lender then certified to Rural Development that the borrower had complied with conditions required to issue the guarantee. We recommended Rural Development rescind the loan guarantee, recover the \$4,052,351 paid when it purchased the loan guarantee from the secondary market, debar the loan packager, and develop regulations concerning loan packagers and potential conflict of issuance issues.

**11. Rural Rental Housing Program, Insurance Expenses - Phase II, Issued September 28, 2001**

We determined that four of five Mississippi management companies excessively charged projects \$596,665 for unallowable insurance expenses. In some cases, the

management companies had close relationships with insurance vendors and violated their fiduciary responsibility to limit expenses to what was actual, reasonable, and necessary. Two management companies had inflated premiums by \$420,246 and applied those funds to personal accounts. Three management companies improperly paid their \$79,442 of workers' compensation insurance expenses with project funds. Three management companies paid \$66,865 of unallowable insurance expenses, such as fidelity bonds or excessive commissions. Three management companies did not timely deposit \$29,133 of indemnities into project accounts. Two management companies charged projects \$979 for improper expenses.

#### **12. Review of Written Agreements, Issued May 21, 2001**

We found that a producer and his son provided potentially false and misleading production history to justify their requested written agreements for potatoes in Cochran County, Texas. The producer certified to having several years of potato production in Gains, Parmer, and Cochran Counties. However, after verifying his production history, we found that he misrepresented his production when applying for the written agreements. We recommended that RMA take administrative action to recover crop insurance indemnities totaling \$1,565,730 from the producers and to pursue any other civil remedies that may be appropriate. The agency has referred the case to the U.S. attorney's office for civil enforcement. The agency will wait for a determination from the U.S. attorney's office before pursuing further administrative action.

#### **13. Indemnity Payments to Prune Producers in California - Producer B, Issued August 15, 2001**

We determined that the insurance provider made errors in both the 1998 and 1999 insurance claims for producer B. The insurance provider used an incorrect unit structure and overstated acreages to calculate the 1998 indemnity. In calculating the 1999 indemnity, the insurance provider understated production. As a result of the above errors, the producer was overpaid \$504 for crop year (CY) 1998 and overpaid \$6,678 for CY 1999. We recommended RMA collect the overpayments and instruct the provider to correct the acreage and yields.

#### **14. RMA Watermelon Claims in South Texas, Issued August 17, 2001**

We reviewed 13 of the 79 CY 1999 watermelon policies in Texas involving 11 producers that filed 18 claims totaling \$20,083,215. Our audit disclosed that 5 of the 18 claims filed by 3 of the 11 producers did not meet eligibility requirements for participation in the CY 1999 watermelon pilot crop insurance program. Two producers with three claims did not meet the crop eligibility requirements in that they did not have the required production experience. Also, one producer planted watermelons on land that had not been planted and harvested in 1 of the previous 3 years, and another planted watermelons on land that had been planted to a melon crop for more than 2 consecutive crop years. As a result, three producers received excessive indemnities of \$1,506,620.

We recommended that RMA determine whether the three producers met the applicable crop and acreage eligibility requirements for the insured crops for participation in the CY 1999 pilot watermelon crop insurance program. If requirements were not met, we recommended RMA collect \$1,506,620 in overpayments to the producers. RMA concurred with the recommendations. One of RMA's regional compliance offices is reviewing the audit findings and is requesting that OGC provide an independent opinion regarding the producers' eligibility.

## Indictments and Convictions

Between October 1, 2001, and March 31, 2002, OIG completed 210 investigations. We referred 258 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 213 indictments and 225 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 225 convictions do not necessarily relate to the 213 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$23.8 million.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

### Indictments and Convictions October 1, 2001 - March 31, 2002

#### Agency Indictments Convictions \*

AMS	0	3
APHIS	7	3
ARS	2	2
CSREES	1	0
FAS	3	1
FNS	152	170
FS	3	3
FSA	20	18
FSIS	14	7
GIPSA	0	1
NRCS	2	0
RBS	1	0
RHS	3	8
RMA	5	9
Totals	<u>213</u>	<u>225</u>

\*This category includes pretrial diversions.

## Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,096 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1

### Hotline Complaints

October 1, 2001, to March 31, 2002  
(Total = 1,096)

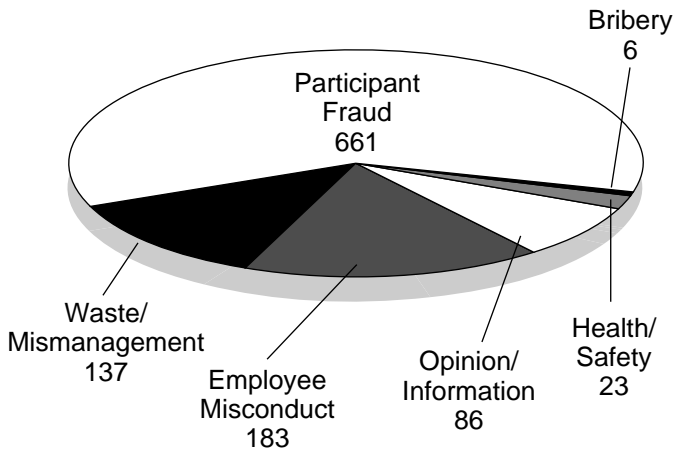
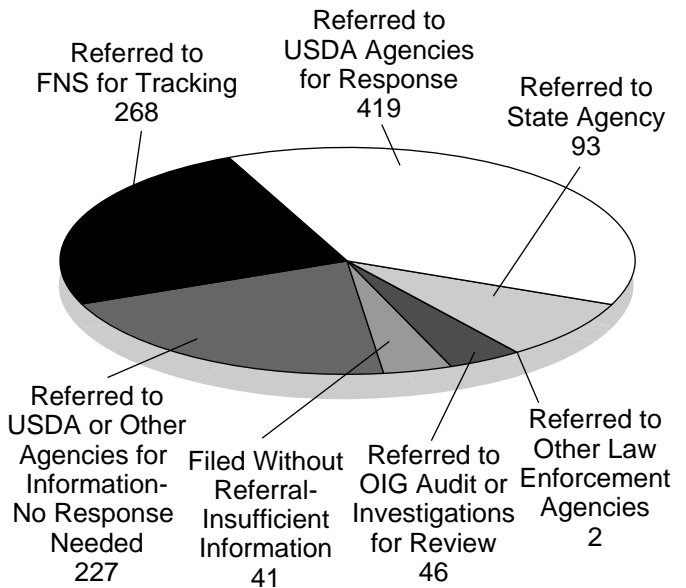


Figure 2

### Disposition of Complaints

October 1, 2001, to March 31, 2002





Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period October 1, 2001 to March 31, 2002

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<b>Number of FOIA/PA Requests Received</b>	151
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<b>Number of FOIA/PA Requests Processed:</b>	149
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Number of Requests Granted in Full	35
Number of Requests Granted in Part	49
Number of Requests Not Granted	44

**Reasons for Denial:**

No Records Available	13
Requests Denied in Full	17
Referrals to Other Agencies	20

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**Requests for OIG Reports From Congress and Other Government Agencies**

Received	38
Processed	41

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<b>Appeals Processed</b>	4
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Appeals Completely Upheld	3
Appeals Partially Reversed	1
Appeals Completely Reversed	0

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<b>Number of OIG Reports/Documents Released in Response to Requests</b>	82
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NOTE: A request may involve more than one report.

During this 6-month period, 34 audit reports were published on the Internet at the OIG Web site: [www.usda.gov/oig](http://www.usda.gov/oig).

# Appendix I

**INVENTORY OF AUDIT REPORTS ISSUED  
WITH QUESTIONED COSTS AND LOANS  
BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002**

	<u>DOLLAR VALUES</u>		
	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED<sup>a</sup> COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2001	55	\$213,449,337	\$50,509,289
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	14	57,319,801	36,923,095
TOTALS	<u>69</u>	<u>\$270,769,138</u>	<u>\$87,432,384</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	24		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$8,764,149	\$123,162
NOT RECOMMENDED FOR RECOVERY		\$84,719,130	\$126,707
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		25,422,057	2,144,632
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	45	152,787,145	85,037,883
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	34	100,139,829	48,114,788

<sup>a</sup>Unsupported values are included in questioned values.

# Appendix II

**INVENTORY OF AUDIT REPORTS ISSUED  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE  
BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002**

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2001	14	\$161,239,622
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	8	24,485,728
TOTALS	<u>22</u>	<u>\$185,725,350</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	8	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$22,055,018
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		257,049
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	14	163,424,541
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	8	141,379,109

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002, THE OFFICE OF INSPECTOR GENERAL ISSUED 49 AUDIT REPORTS, INCLUDING 4 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED <sup>a</sup> COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	1			
FARM SERVICE AGENCY	2			
RURAL HOUSING SERVICE	5	\$171,569		
RISK MANAGEMENT AGENCY	2			
COMMODITY CREDIT CORPORATION	1			\$19,586
FOREST SERVICE	6	\$2,566,899		
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
RURAL TELEPHONE BANK	1			
NATIONAL AGRICULTURAL STATISTICS SERVICE	1			
FOOD AND NUTRITION SERVICE	10	\$37,648,131	\$36,923,095	\$16,970,411
RURAL BUSINESS-COOPERATIVE SERVICE	7	\$16,669,202		\$7,455,435
MULTIAGENCY	3			
RURAL DEVELOPMENT	6	\$264,000		\$40,296
<b>TOTALS</b>	<b>49</b>	<b>\$57,319,801</b>	<b>\$36,923,095</b>	<b>\$24,485,728</b>
<b>TOTAL COMPLETED:</b>				
SINGLE AGENCY AUDIT	45			
MULTIAGENCY AUDIT	3			
SINGLE AGENCY EVALUATION	1			
MULTIAGENCY EVALUATION	0			
<b>TOTAL RELEASED NATIONWIDE</b>	<b>49</b>			
<b>TOTAL COMPLETED UNDER CONTRACT<sup>b</sup></b>	<b>4</b>			
<b>TOTAL SINGLE AUDIT ISSUED<sup>c</sup></b>	<b>0</b>			

<sup>a</sup>Unsupported values are included in questioned values

<sup>b</sup>Indicates audits performed by others

<sup>c</sup>Indicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE				
01-099-0001-FM 2002/03/29	SECURITY OVER INFORMATION TECHNOLOGY RESOURCES AT AMS			
TOTAL: AGRICULTURAL MARKETING SERVICE		1		
AGRICULTURAL RESEARCH SERVICE				
02-099-0001-FM 2001/12/04	IT SECURITY AT THE AGRICULTURAL RESEARCH SERVICE			
TOTAL: AGRICULTURAL RESEARCH SERVICE		1		
FARM SERVICE AGENCY				
03-099-0045-KC 2001/10/25	CONSERVATION RESERVE ENHANCEMENT PROGRAM (CREP)			
03-099-0047-KC 2001/10/31	SECURITY OVER FSA/CCC INFORMATION TECHNOLOGY RESOURCES			
TOTAL: FARM SERVICE AGENCY		2		
RURAL HOUSING SERVICE				
04-005-0008-SF 2002/03/18	CITRUS MANOR DEVELOPMENT - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED 12/31/01			
04-005-0009-SF 2002/03/18	PARKVIEW PROPERTIES - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED 12/31/01			
04-099-0002-AT 2001/11/02	OVERSIGHT AND MONITORING OF RURAL EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES	\$136,276		
04-099-0003-KC 2002/02/25	2001 FINANCIAL STATEMENT FIELD CONFIRMATIONS IN NEBRASKA	\$874		
04-801-0010-AT 2002/03/22	KENTUCKY HIGHLANDS EMPOWERMENT ZONE	\$34,419		
TOTAL: RURAL HOUSING SERVICE		5	\$171,569	
RISK MANAGEMENT AGENCY				
05-099-0014-KC 2002/03/15	RMA INSURANCE SERVICE/PARTNERING EFFORTS INCLUDING MANUAL 14			
05-401-0009-FM 2002/02/25	FY 2001 FCIC/RMA FINANCIAL STATEMENTS			
TOTAL: RISK MANAGEMENT AGENCY		2		
COMMODITY CREDIT CORPORATION				
06-401-0004-KC 2002/02/26	CCC FISCAL YEAR 2001 FINANCIAL STATEMENTS			\$19,586
TOTAL: COMMODITY CREDIT CORPORATION		1		\$19,586
FOREST SERVICE				
08-001-0002-HQ 2002/03/29	FOREST SERVICE AVIATION SECURITY OVER AIRCRAFT AND AIRCRAFT FACILITIES			
08-017-0003-HY 2001/10/18	ADVERTISING COUNCIL, INC. INCURRED COST AUDIT OF FS GRANT NOS. 92-CA-149 & 97-CA-073			
08-017-0010-KC 2001/11/14	MATCOM - CONTRACT AUDIT	\$66,899		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
08-401-0012-AT 2002/02/26	FY 2001 FS FINANCIAL STATEMENTS			
08-601-0026-SF 2001/11/26	IMPLEMENTATION OF NATIONAL FIRE PLAN - SURVEY	\$2,500,000		
08-601-0027-SF 2002/03/28	REVIEW OF FS NATIONAL LANDOWNERSHIP ADJUSTMENT TEAM EFFECTIVENESS			
TOTAL: FOREST SERVICE		<u>6</u>	<u>\$2,566,899</u>	
NATURAL RESOURCES CONSERVATION SERVICE				
10-099-0001-TE 2002/02/01	SECURITY OVER INFORMATION TECHNOLOGY RESOURCES			
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		<u>1</u>		
OFFICE OF THE CHIEF FINANCIAL OFFICER				
11-401-0009-FM 2002/03/18	REVIEW OF NFC IT APPLICATION CONTROLS			
11-401-0011-FM 2001/12/14	AGREED UPON PROC. RETIREMENT, HEALTH BENEFITS & LIFE INS. WITHLD. CONTRIB. SUBMITTED TO OPM			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		<u>2</u>		
RURAL TELEPHONE BANK				
15-401-0001-FM 2002/02/19	FY 2001 RTB FINANCIAL STATEMENTS			
TOTAL: RURAL TELEPHONE BANK		<u>1</u>		
NATIONAL AGRICULTURAL STATISTICS SERVICE				
26-099-0002-FM 2002/03/25	INFORMATION TECHNOLOGY SECURITY AT NASS			
TOTAL: NATIONAL AGRICULTURAL STATISTICS SERVICE		<u>1</u>		
FOOD AND NUTRITION SERVICE				
27-002-0014-CH 2002/01/14	STATES' OVERSIGHT OF CHILD AND ADULT CARE FOOD PROGRAM SPONSORS			
27-004-0003-AT 2001/11/09	FLORIDA FOOD STAMP PROGRAM			\$15,443,610
27-010-0003-AT 2002/02/15	NSLP PROCUREMENT PROCESS	\$408,485		
27-010-0006-KC 2001/11/21	CACFP - WILDWOOD, INC.- PHASE II	\$36,895,611	\$36,895,611	
27-010-0008-KC 2001/11/21	CACFP - OVERSIGHT OF CENTER	\$27,484	\$27,484	
27-010-0024-SF 2002/01/09	CACFP - CRYSTAL STAIRS INC.			
27-099-0016-HY 2001/12/07	EBT SYSTEM - NEW YORK			
27-099-0022-CH 2002/02/22	CACFP - OPPORTUNITY INDUSTRIAL COUNCIL OF GREATER MILWAUKEE	\$8,840		\$1,468,673
27-601-0011-HY 2002/03/28	SERVICE DYNAMICS/FINE HOST FSMC NEWARK, NJ SFA			\$58,128
27-601-0013-KC 2002/03/29	NSLP FSMC CHARTWELL'S FOOD SERVICE MANAGEMENT COMPANY	\$307,711		
TOTAL: FOOD AND NUTRITION SERVICE		<u>10</u>	<u>\$37,648,131</u>	<u>\$36,923,095</u>
				<u>\$16,970,411</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 2001, AND MARCH 31, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>RURAL BUSINESS-COOPERATIVE SERVICE</b>				
34-004-0003-CH 2001/10/09	LENDER SERVICING OF B&I GUARANTEED LOANS, OHIO			
34-601-0003-AT 2002/01/28	LENDER SERVICING OF B&I GUARANTEED LOANS			\$1,536,060
34-601-0003-SF 2001/12/12	LENDER SERVICING OF B&I GUARANTEED LOANS - CALIFORNIA - LENDER A			
34-601-0006-TE 2001/11/02	LENDER SERVICING OF B&I GUARANTEED LOANS IN MASSACHUSETTS			\$2,400,000
34-601-0008-TE 2002/02/19	LENDER SERVICING OF B&I GUARANTEED LOANS - SOUTH CAROLINA	\$7,353,018		\$3,519,375
34-601-0009-TE 2001/11/29	LENDER SERVICING OF B&I GUARANTEED LOANS - MAINE	\$4,000,000		
34-601-0011-TE 2001/12/27	LENDER SERVICING OF B&I GUARANTEED LOANS - TEXAS	\$5,316,184		
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		<u>7</u>	<u>\$16,669,202</u>	<u>\$7,455,435</u>
<b>MULTIAGENCY</b>				
50-099-0004-HQ 2001/10/16	USDA'S PHYSICAL CRITICAL INFRASTRUCTURE PROGRAM			
50-099-0013-AT 2002/03/29	CONTROLS OVER ACCIDENTAL AND CLANDESTINE RELEASE OF BIOHAZARDS			
50-401-0043-FM 2002/02/26	FY 2001 USDA FINANCIAL STATEMENTS			
TOTAL: MULTIAGENCY		<u>3</u>		
<b>RURAL DEVELOPMENT</b>				
85-401-0001-AT 2001/12/14	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT			
85-401-0001-SF 2002/02/28	RURAL DEVELOPMENT FY 2001 FINANCIAL STATEMENTS	\$264,000		
85-401-0001-TE 2002/02/25	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENTS			
85-401-0003-CH 2001/11/28	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT - FIELD CONFIRMATIONS			\$40,296
85-401-0004-CH 2002/03/20	COMPLIANCE WITH FMFIA REQUIREMENTS			
85-401-0006-CH 2002/02/27	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT			
TOTAL: RURAL DEVELOPMENT		<u>6</u>	<u>\$264,000</u>	<u>\$40,296</u>
TOTAL: RELEASE - NATIONWIDE		<u>49</u>	<u>\$57,319,801</u>	<u>\$36,923,095</u> <u>\$24,485,728</u>

# Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CR	Office of Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
DOL	U.S. Department of Labor
DRMO	Defense Reutilization and Marketing Office
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers, and Stockyards Administration
IRS	Internal Revenue Service
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
USDA	U.S. Department of Agriculture



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