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FY 2004—Second Half



On the cover: The photo of the American flag on the cover was taken on September 11, 2002, during a ceremony at U.S. Department of Agriculture (USDA) headquarters in Washington, D.C., to commemorate the 1-year anniversary of the events of September 11, 2001. Office of Inspector General (OIG) photo by Bill Stover.

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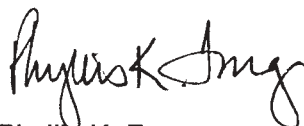
## MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to provide the semiannual report for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA). In many ways, FY 2004 was a year of significant achievement for USDA OIG.

- Our audits and investigations led to unusually high dollar results. For instance, in FY 2004 USDA Management agreed to implement OIG audit recommendations that could lead to over \$763 million in funds recovered or put to better use. Our investigations led to 350 convictions, 420 arrests, and recoveries and restitutions of over \$292 million.
- The results of our coordinated audit and investigative work on USDA efforts to prevent the spread of Bovine Spongiform Encephalopathy (BSE, or "mad cow disease") were featured in a joint hearing of the House Government Reform and House Agriculture Committees and led to important improvements in the Department's efforts. Because of the high level of public interest and possible public impact, our BSE reports were our most visible this year. However, as this semiannual report demonstrates, our BSE work is only one of many examples of how this office has contributed to improved program operations at USDA.
- We have also focused on improving our own operations. In FY 2004, the USDA OIG published and began to operate under its new Strategic Plan. We are now planning, budgeting, and reporting our activities against the strategic goals and measures we have adopted. We held our first national Professional Development Conference that led to a week of rigorous technical training for OIG staff. In addition to plenary sessions on emerging issues in American agriculture (bioterrorism, international food programs, precision agriculture, and genetically engineered organisms), there were technical training tracks for OIG auditors, investigators, managers, and administrative staff.

This semiannual again reports OIG audit and investigative activities against our three strategic goals, which reflect the key challenges facing USDA: safety, security, and public health; integrity of benefits and entitlements programs; and management of public resources. We are also highlighting important planned and ongoing reviews. The most significant pertain to release permits for genetically engineered organisms, agreed-upon procedures regarding importation of Canadian beef products, the Rural Utilities Service broadband loan and grant programs, and e-Government security. They will be detailed in future reports as they reach completion.

Finally, we thank Secretary Veneman for her strong support for OIG and her commitment to improving USDA programs. Her efforts, and those of Deputy Secretary Moseley, the subcabinet, and program officials at all levels of the Department, have contributed greatly to the results we are reporting. We also appreciate the deep interest and support of the Members of the Senate and House of Representatives with whom we work.



Phyllis K. Fong  
Inspector General



# Outlook for OIG

## OIG'S MISSION

The Office of Inspector General (OIG) assists the U.S. Department of Agriculture (USDA) by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They impact our citizens, our communities, and our economy.

### USDA

- administers approximately 300 programs and billions of dollars in grants, loans, and direct benefits.
- is responsible for the safety of meat, poultry, and egg products, eaten by millions of Americans each day.
- leads the Federal anti-hunger effort with the Food Stamp Program (FSP); Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); National School Lunch Program (NSLP); and other feeding programs. These programs help tens of millions of people each day.
- leads the effort to prevent the introduction and spread of agricultural diseases and pests, and to eliminate or control them when they are found.
- is the steward of our Nation's 192 million acres of national forests and rangelands.
- is also the country's largest conservation agency, encouraging voluntary efforts to protect soil, water, and wildlife on the 70 percent of America's lands that are in private hands (the Nation contains 1.6 billion acres of private and other non-Federal land).
- brings housing, modern telecommunications, and safe drinking water to rural America, which numbers 60 million inhabitants.
- is a research leader in everything from human nutrition to new crop technologies that allow us to grow more food and fiber using less water and pesticides.
- helps ensure open markets for U.S. agricultural products and provides food aid to needy people overseas.

With such a broad spectrum of work and limited audit and investigative resources, OIG commits its resources to audits, investigations, and evaluations likely to have the greatest positive impact. Auditors work to ensure programs and operations are administered properly and protect the public, the agricultural sector, and USDA funds and assets. Special agents investigate significant criminal activities involving programs, operations, and personnel. All efforts focus on promoting meaningful change and providing a worthy return on the taxpayers' investment.

## OIG'S PROGRAM DIRECTION

To ensure OIG's resources were directed at the most significant work during this reporting period, OIG's audit and investigative program was focused to achieve three broad strategic goals:

1. Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
2. Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.
3. Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

The work in each of these areas was categorized by importance, and the percentages of work in the critical and high impact categories were tracked, as were the percentages of audits and investigations that achieved results. An integral part of this program was the identification of USDA programs and operations that were particularly vulnerable and posed significant risks, or what we refer to as "management challenges."

We are reporting OIG's audit and investigative accomplishments for fiscal year (FY) 2004 against our three strategic business goals. Because our new results measurements system was put in place at the beginning of this Semiannual Report to Congress (SARC) reporting period, results were not provided in the SARC covering the first half of FY 2004. Therefore, this edition of the SARC provides entire FY 2004 results totals. Future SARCs will include results reflective of the individual SARC reporting period.

OIG's overall performance results totals are introduced below in chart form, and followed in the main text by the three sections that include statistical results, summaries of significant investigative and audit accomplishments,

management challenges, and ongoing and planned audit work. These percentages are based upon a total of the direct hours of audit and investigation work and do not include overhead or administrative hours.

## PERFORMANCE RESULTS TOTALS

### *FY 03 and 04 Performance Results Totals for All Three Strategic Goals Combined*

<b>Performance Measures</b>	<b>FY 03 Baseline</b>	<b>FY 04 Target</b>	<b>FY 04 Actual</b>
Audit/Investigative resources dedicated to critical/high impact work	81%	90%	93%
Audit recommendations resulting in management decision within 1 year	78%	85%	79%
Investigative cases where criminal, civil or administrative action is taken in response to OIG reports	61.6%	65%	68%



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# Safety, Security, and Public Health

## OIG Strategic Goal 1: Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns

OIG audits and investigations were conducted to protect consumers by ensuring that the Nation's commercial supply of imported and domestic meat, poultry, and egg products was safe, wholesome, and correctly labeled; to protect production agriculture from pests, disease, and other threats; and to protect USDA personnel and property, and the public from other threats.

In FY 2004, 17 percent of our total audit and investigative resources were devoted to Goal 1, with 99.6 percent of these resources assigned to critical/high impact work. Eighty-nine percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 42 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 9 audit reports under Goal 1 during this reporting period and a total of 15 audit reports during the full fiscal year. OIG's investigations under Goal 1 yielded 34 indictments, 15 convictions, and about \$200,000 in monetary results during this reporting period and 36 indictments, 32 convictions, and about \$900,000 in monetary results during the full fiscal year.

### EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

#### APHIS Had Not Established Policies and Procedures for Securing Aircraft

The Animal and Plant Health Inspection Service (APHIS) has mitigated some security risks for its Wildlife Services' (WS) and Plant Protection and Quarantine's (PPQ) 35 aircraft, but they were vulnerable to theft and possible misuse by terrorists because officials were waiting for USDA to issue formal guidance. WS aircraft were not always equipped with appropriate locking mechanisms, access to APHIS aircraft was not always restricted, and intrusion devices were not always effectively used. Some security measures recommended for PPQ aircraft in a formal risk assessment report had not been implemented.

We recommended that APHIS assess overall risk; address all issues identified during the risk assessments; and develop written policies and procedures to provide a consistent way of appraising all aspects of the agency's aircraft security, to set basic standards for securing aircraft, and to serve as a formal security program. APHIS concurred with the findings and recommendations, and provided timeframes for completing security procedures and risk assessments. (Security Over APHIS-Owned and -Leased Aircraft, Audit Report No. 33601-1-At)

#### Wildlife Services Needs To Improve Accountability and Storage of Hazardous Materials

Our audit concluded that WS is unable to fully account for its inventories of hazardous pesticides and controlled



A restricted-use pesticide was stored under this pile of flammable debris. OIG photo.

drugs used to immobilize or euthanize nuisance mammals and birds, including species that are reservoirs for zoonotic diseases. In addition, these inventories are not always stored safely and securely, leaving them vulnerable to undetected theft, unauthorized use, and a possible threat to human and animal safety.

OIG recommended that APHIS organize a coordinated system of management control over the inventories to ensure proper accountability, safety, and security. As a result of the improvements made after the audit fieldwork was completed, APHIS management now feels that WS is able to fully account for its inventories. While we agree that APHIS WS has improved its accountability, additional actions are needed including a management control process to ensure that discrepancies found during reviews or inspections are promptly corrected, hazardous materials inventory inspections are timely completed, and applicators possess adequate equipment to safely handle and dispense hazardous materials and drugs. (WS Controls Over Hazardous Materials Inventory, Audit Report No. 33001-5-Hy)

### **Eight Persons Indicted or Convicted in Scheme to Smuggle Viruses From Saudi Arabia**

Company officials at a manufacturer and international supplier of poultry vaccines were involved in the smuggling of live viruses from Saudi Arabia into the United States. Seized materials tested positive for Exotic Newcastle Disease and Avian Influenza, and were determined to have originated outside the United States. Six former company officials, including the president, three vice presidents, a production manager, and a customer service manager, have pled guilty. The company has agreed to plead guilty as well. Charges include conspiracy to commit mail fraud, conceal smuggled items, make false statements, and violate the Virus-Serum Toxin Act. Two of the lower-level employees pled guilty and have been sentenced to probation and \$4,600 in fines. In addition, a former professor and department chairman at a university in Delaware pled guilty to aiding the smuggling scheme, and a former employee of a poultry farm in Saudi Arabia was indicted for making false statements. Further court proceedings are pending. This case was worked jointly with the U.S. Department of Commerce's Office of Export Enforcement and the Department of Homeland Security's Immigration and Customs Enforcement.



Closeup of the pesticide in storage with its "poison gas" warning sign that was buried under debris. OIG photo.



Materials on counter seized from the residence of a former company employee. OIG photo.

## **Subject Sentenced to 20 years in Jail for Providing Support to Al Qaeda**

While OIG was an active part-time participant on the Federal Bureau of Investigation (FBI) Joint Terrorism Task Force (JTTF) in Columbus, Ohio, we aided in the investigation of an individual for providing material support to the al Qaeda terrorist network. He pled guilty in the Eastern District of Virginia by a Bill of Information to one count of Conspiracy to Provide Material Support and Resources to al Qaeda and one count of Providing Material Support and Resources to al Qaeda. The resources included sleeping bags and cellular telephones. He was sentenced to 20 years in prison.

## **USDA Faces Significant Challenges in Implementing BSE Surveillance Program**

Since 1990, testing of Bovine Spongiform Encephalopathy (BSE), widely known as “mad cow disease,” has centered on high-risk cattle—those that exhibited a disorder in the central nervous system (CNS) or died from unclear causes. With the discovery of a BSE-infected animal in December 2003, APHIS expanded its surveillance program beginning June 1, 2004.

We sought to determine whether the surveillance program in place in December 2003 had been adequately implemented and whether the expanded program will accomplish its stated goal to determine if “...BSE is actually present in the population and if so, at what level.” We concluded that several limitations inherent in the broadened sampling plan need to be clarified to understand what the results of the testing actually imply.

- Sampling is not truly random because participation in the program is voluntary.
- Discovery of BSE cases will result in a misleading statistical projection, which may inadvertently overemphasize the implied “best-case scenario.”
- APHIS cannot obtain a statistically appropriate geographical representation of the U.S. cattle population, so the chances of detecting BSE, if it exists, may be reduced, and the projected maximum BSE prevalence rate may be unreliable.

- APHIS’ plan to test 20,000 clinically normal cattle may suggest a level of assurance higher than warranted.

Significant challenges continue for APHIS to determine whether BSE exists in the United States at a prevalence of 1 positive case per 10 million adult cattle.

- Cattle condemned at slaughter plants for CNS disorders were not always tested for BSE.
- USDA needs to increase testing of rabies-negative brain samples from animals that exhibit clinical signs not inconsistent with BSE.
- A process for obtaining samples from animals that “died on the farm” has not been developed.
- The age requirement for BSE testing should be standardized.

We also found instances of nonviable test samples and inaccurate, incomplete, or misleading information recorded. Finally, we noted that before June 1, 2004, APHIS did not have standard written agreements to ensure consistent performance from non-Federal laboratories and reasonable arrangements and charges from meat plants and contractors who provide sampling services.

We recommended that APHIS fully disclose the assumptions behind its sampling plan, clarify the limitations, and ensure that all high-risk animals are sampled and tested in accordance with USDA policy and the 2004 Surveillance Plan. We also recommended that APHIS expedite development of a new system to track and report accomplishments, and implement performance measures and continuous risk assessment. Finally, we recommended that APHIS standardize testing agreements. APHIS and the Food Safety and Inspection Service (FSIS) concurred and initiated corrective actions.

In addition, we conducted two BSE-related investigations. One addressed allegations of misconduct with respect to the identification of a BSE-infected cow in Washington State in December 2003, and the other addressed the actions of USDA personnel involved in the failure to test a suspect cow in San Angelo, Texas, in late April 2004. In the case in Washington State, allegations arose in news reports

that a person or persons employed by USDA may have provided false or misleading information concerning the ambulatory status of the BSE-positive cow. Our investigation found no instances where USDA personnel knowingly conveyed false or misleading information, or engaged in intentional misconduct. Our investigation did reveal procedural errors and inconsistent descriptions that gave rise to some of the public concerns that the identification of the BSE-positive cow may have been mishandled.

In Texas, our investigation found no substantive evidence that the USDA official(s) responsible for the decision not to take brain tissue samples from the cow for BSE testing, or any other USDA personnel, provided false information or engaged in intentional misconduct. We determined that a misjudgment was made by at least one USDA veterinary official in the handling of the suspect cow.

In related work, we are scheduled to begin a review of the implementation of the BSE expanded surveillance program in November 2004. (BSE Surveillance Program – Phase I, Audit Report No. 50601-9-KC)

### **FSIS' Oversight of Poultry Recall Needed Improvement**

In October 2002, a corporation recalled approximately 27.4 million pounds of ready-to-eat poultry products potentially contaminated with *Listeria monocytogenes*, the largest recall in 2002. To verify the effectiveness of a recall, FSIS compliance officers contact a sufficient number of customers to ensure that the product manufacturer or distributor provides adequate notice of the recall to all customers and that customers locate and control the recalled product. FSIS concluded in July 2003 that the recall was effective based on FSIS effectiveness check forms that compliance officers fill out, but we found 389 discrepancies on the 582 forms we examined (some contained more than one discrepancy). Furthermore, FSIS supervisors did not adequately review the forms. In addition to the FSIS effectiveness checks, we analyzed 40 of the 784 effectiveness checks conducted by company personnel, which we found were adequately performed.

OIG recommended that FSIS implement a process for selecting customers for effectiveness checks and establish timeframes for completing and reviewing them. FSIS needs to reexamine all the effectiveness

check forms for the October 2002 recall, reassess the validity of its conclusion, and ensure that it adequately supports its conclusions regarding future recalls. FSIS generally concurred and agreed to strengthen recall controls and procedures, and issued a directive on May 24, 2004, to address this. We continue to work with FSIS on this matter because the directive did not require the documentation of all information the agency considers in assessing the effectiveness of a recall and how the assessment is completed. (Effectiveness Checks for the Pilgrim's Pride Recall of Ready-to-Eat Poultry Products, Audit Report No. 24601-3-Hy)

### **FSIS Needs To Improve Control Over Plants With Product Recalls**

From January 1, 2002, to January 3, 2003, 15 recalls involved approximately 32.2 million pounds of ready-to-eat products potentially contaminated with *Listeria monocytogenes* in the Northeastern United States. The largest recalls took place in October 2002, as described in the previous entry, and at another poultry products establishment that recalled 4.2 million pounds in November 2002.

FSIS' inspection services at the second establishment were inadequate before and after the recall because FSIS' in-plant inspection personnel did not comply with inspection regulations and the circuit supervisor provided minimal supervision. Also, plant and inspection personnel, including the FSIS Consumer Safety Officer, did not identify that the company should have had a *Listeria* testing program. Moreover, FSIS never did verify the completeness of the recall. We also found that FSIS did not critically review final reports and other information supporting its oversight of food safety recalls and did not ensure that the October 2002 recall of 1.7 million pounds of products distributed by USDA for use in the National School Lunch Program was effective.

We did find that in conjunction with the Centers for Disease Control and Prevention, the FSIS Office of Public Health and Science took appropriate action in investigating the *Listeria* outbreak in 2002. FSIS performed an extensive trace-back analysis.

In response to our recommendations, FSIS agreed to formally address the weaknesses in inspection services provided to the company involved in the November 2002 recall, such as the level of supervision over the



inspector in applying regulations; require compliance officers to validate the accuracy of recall documentation provided by the firm; and ensure that all recalled products are appropriately accounted for. FSIS also agreed to conduct a followup review on the related recalls. (Oversight of the *Listeria* Outbreak in the Northeastern United States, Audit Report No. 24601-2-Hy)

### **FSIS Needs To Maximize the Effectiveness of Its Information Systems**

The Performance Based Inspection System (PBIS) and Pathogen Reduction Enforcement Program (PREP) house a vast amount of food safety data that FSIS uses to monitor meat and poultry establishments' compliance with Federal health and safety regulations.

Although FSIS had cited its information technology (IT) systems as key elements in addressing problems identified by earlier OIG and U.S. Government Accountability Office (GAO) audits, it has no effective management control process to ensure that it uses its systems and their data fully. As a result, coordination and information sharing among FSIS Headquarters, the agency's Technical Service Center, and its district offices needed to be more effective. FSIS also needed to provide additional training and written procedures for its field personnel at the district level and at inspected establishments to effectively analyze and use food safety data. In addition, FSIS had not created required system documentation such as flowcharts and data dictionaries that would allow more effective use of the systems. Finally, we identified several improvements that could potentially enhance the effectiveness of the IT systems themselves, such as a direct data exchange between PBIS and PREP.

We recommended that FSIS establish written procedures to define the responsibilities of each management and operating level and provide guidelines for regular communication and coordination. We also recommended that FSIS provide additional training and develop enhancements to PBIS and PREP. FSIS responded that it is in the process of updating its management control program and described several other actions it is taking to increase its oversight of inspectors' activities, such as creating District Analyst and Investigative Case Specialist positions. FSIS noted that its systems were not designed to predict product recalls. Agency officials stated that they are establishing

analytical capacity within the recall management function to review and analyze product recall cases. In related work, we are scheduled to review FSIS' In-Plant Performance System (IPPS), which is the agency's supervisory review of inspectors. (Review of Food Safety Information System, Audit Report No. 24601-3-Ch)

### **FNS Actions To Identify and Resolve Food Safety Complaints Were Inadequate**

The purpose of our audit was to assess storage and handling practices, including the age and condition of commodities, inventory levels, and storage temperatures at selected storage facilities, and to follow up on a previous OIG audit of the same program. Since our previous audit, the Food and Nutrition Service (FNS) had implemented changes to improve the efficiency of its Food Distribution Program, and we found minimal instances of aged product in warehouses selected for review. However, we found that FNS had not taken timely or appropriate actions to identify and resolve commodity complaints with food safety concerns that were submitted to its national complaint hotline. The Illinois Department of Public Health placed a Statewide hold on USDA-donated applesauce and referred the product for testing after receiving four complaints of rust or discoloration in canned applesauce. Over a 6-month period, FNS received 24 complaints without taking action, although applesauce vendors were notified and took corrective action. State agencies were not notified of the complaints. FNS also had not established procedures for identifying food complaints involving safety concerns, performing trend analyses of the complaints, or outlining the responsibilities of all involved agencies.

We issued a Management Alert in March 19, 2004, and in response FNS identified the extent of the applesauce complaints, sent out an advisory to the affected State and recipient agencies, and placed applesauce on hold until it determined that there was no health risk. FNS also agreed to establish written procedures for handling commodity complaints and identifying food safety issues, and to establish timeframes for resolving hotline complaints. (Controls Over USDA-Donated Commodities, Audit Report No. 27601-33-Ch)

## **FSIS Slow To Implement Recommendations in OIG's Food Safety Initiative**

OIG's June 2000 Food Safety Initiative comprised four audits on FSIS' Hazard Analysis and Critical Control Point (HACCP) Implementation, Pathogen Testing Program, Foreign Country Equivalency, and Compliance Activities. We concluded that only 58 of the 80 recommendations had been successfully implemented. FSIS and OIG failed to agree on the proper corrective actions for 4, and for the remaining 18, agreement had been reached, but FSIS did not implement all the agreed-upon actions. Those actions related to HACCP plans and regulations, procedures for repetitive deficiencies and non-responder reports, import inspection operations, management control training, assessments of FSIS programs and operations, and the integrity of data entered in FSIS information systems. In its response to the report, FSIS stated that the Department has now accepted final action for 66 of the 80 recommendations and FSIS has provided the Department with documentation for final action on 10 additional recommendations.

Three recommendations in the HACCP Implementation audit have not yet been agreed on. We recommended that FSIS

- require plants to include in their HACCP plans all pathogen testing performed to further ensure that FSIS inspectors were given access to all test results that showed the presence of pathogens.
- require district personnel to monitor inspectors' scheduled tasks, update schedules when tasks became obsolete, and establish codes to identify the reason tasks were not performed.
- establish timeframes for plants to respond to noncompliance records issued by FSIS that identify plant violations.

FSIS has not yet agreed to the recommendation in our June 2000 report on Foreign Country Equivalency that it recognize the conditions disclosed as material management control weaknesses and report them as such in the agency's annual management control report required by the Federal Managers' Financial Integrity Act (FMFIA). FSIS completed an indepth assessment of its import reinspection organizational structure as an alternative to OIG's recommendation. OIG is reviewing the assessment.

We recommended that FSIS develop a plan to correct the deficiencies noted where corrective actions were agreed to but not implemented. FSIS provided a plan with target dates to accomplish this. For the four recommendations without management decision, FSIS still needs to show how it plans to correct the reported conditions and the estimated timeframes for completion. (Followup Audit on the IG's Food Safety Initiative of FY 2000, Audit Report No. 24001-4-At)

## **Improvements Needed in the FS Fire Safety Program**

The Forest Service (FS) faces continued challenges in implementing an effective safety program for firefighters. While the FS had excellent written firefighting safety policies and procedures, we determined that the FS had not fully implemented all the safety recommendations from past reviews, did not have documentation to support the qualifications of all its firefighters, and needed to conduct administrative investigations in the cases of serious fire accidents. The FS also needed to develop standards for measuring employees' adherence to the 10 critical standard



Firefighter in action. FS Photo.

firefighting safety orders and mitigation of the 18 watch-out situations (circumstances that increase the threat to firefighter safety). The FS has agreed to take timely action on the recommendations we have made to improve its firefighting safety program. (FS Firefighting Safety Program, Audit Report No. 08601-38-SF)

### **Multi-State Dog Fighting Case Yields More Indictments**

In a followup from last reporting period, in July 2004 the Pennsylvania Attorney General charged the owner and the former owner of the Sporting Dog Journal (SDJ) with cruelty to animals and conspiracy to commit cruelty to animals. Earlier in 2004, the current owner of SDJ was sentenced in New York to 2 to 7 years in prison and a \$5,000 fine. At the homes of the owner and former owner of SDJ, investigators found numerous pit bulls, subscriber lists, money, marijuana, firearms, 106 cases of SDJ, VHS tapes of dog fights, and other dogfighting-related equipment. As part of the ongoing Pennsylvania investigation, four individuals were convicted and sentenced on State animal cruelty and other charges. They received up to 3 years of probation and fines totaling \$4,200.

### **FY 2004 MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 1**

- Homeland Security Considerations Should Be Incorporated Into Program Design and Implementation
- Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed
- Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets

### **ONGOING AND PLANNED REVIEWS FOR GOAL 1**

Physical and research security topics that will be covered in ongoing or planned reviews include:

- controls over issuance of release permits for genetically engineered organisms,
- implementation of the listed agent and toxin regulations,
- memorandums of agreement with the Department of Homeland Security,
- implementation of Homeland Security Presidential Directive 9,
- followup on FS security over explosives,
- adequacy of controls to prevent the release of sensitive technology,
- National cooperative State/Federal bovine Tuberculosis Eradication Program,
- control over genetically engineered animals and insects, and
- agreed-upon procedures in coordination with OIG-Investigations regarding importation of Canadian beef products.

Health and safety topics that will be covered in ongoing or planned reviews include:

- Agricultural Research Service (ARS) controls to prevent the release of sensitive technology,
- FSIS' controls to prevent specified risk materials from being processed in advanced meat recovery systems,
- implementation of the BSE expanded surveillance program,
- veterinary certificate program, which tracks animals across State borders,
- oversight of avian flu outbreak in Delaware,
- review of FSIS' In-Plant Performance System (IPPS), which is the agency's supervisory review of inspectors,
- egg processing inspection,
- effectiveness of surveillance over animal disease eradication programs, and
- FSIS State-operated inspection programs.

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.



# Integrity of Benefits and Entitlements Programs

## OIG Strategic Goal 2: Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals

OIG audits and investigations were conducted to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. These programs support nutrition, farm production/insurance, and rural development and involved tens of billions of dollars in outlays for FY 2004.

In FY 2004, 39 percent of our total audit and investigative resources were devoted to Goal 2, with 85 percent of these resources dedicated to critical/high impact work. Ninety-one percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 71 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 17 audit reports under Goal 2 during the reporting period and 34 reports during the full year. OIG investigations under Goal 2 yielded 82 indictments, 159 convictions, and about \$230 million in monetary results during the reporting period and totaled 250 indictments, 257 convictions, and about \$287.2 million in monetary results for the full year.

### EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

#### Significant Food Stamp and Electronic Benefits Transfer (EBT) Fraud Investigation Results

- **Chicago:** After being convicted in December 2003, the owner of a small convenience grocery store was sentenced to 70 months in Federal prison, followed by 3 years of probation, and was ordered to pay more than \$575,000 in restitution for food stamp trafficking and money laundering. The owner conspired with another storeowner, who had been previously disqualified from participation in FSP, by allowing the other storeowner to use his EBT point-of-sale device for food stamp trafficking and the store's bank account for the laundering of monies from the sale of controlled substances. The coconspirator was charged with various international drug trafficking and money laundering violations in April 2003.



This store in Chicago was used for food stamp trafficking. OIG photo.

- **New York City:** A storeowner pled guilty to illegally trafficking more than \$1.2 million in EBT benefits over 2 years. The owner admitted that he sent approximately \$500,000 of his profits to his home out of the country, where he purchased two houses and a truck. The owner was arrested as he was preparing to return to his home overseas. In addition, a store employee was indicted for participating in the EBT trafficking. Sentencing information for the storeowner will be reported in the next semiannual report. This case was worked jointly with the FBI.

- **Tampa:** As reported last period, the owner and three employees of a grocery store were convicted of EBT fraud and ordered to pay more than \$3 million in restitution and court judgments. At the end of the semiannual period, 36 FSP recipients had been convicted in State courts of trading EBT benefits for cash, and more than 100 recipients had been disqualified from the program. In addition, 18 recipients were awaiting sentencing in State courts for discounting EBT benefits, and 2 fugitives were being sought on Federal charges.

### **Food Stamp Burglar Sentenced to 6 Years in Jail**

Our investigation identified the three individuals who stole \$170,493 in food stamps from the Allen County Department of Family and Children Food Stamp Issuance Office in Fort Wayne, Indiana, in February 2000. One fugitive was located in a Tennessee prison, was extradited back to Ohio, pled guilty, and was sentenced to 72 months of imprisonment.

### **FNS Compliance With Improper Payments Reporting Requirements**

In order to strengthen financial management and accountability, various Congressional and administrative actions have been initiated in recent years. One of the most significant is the Improper Payments Information Act of 2002 (IPIA), which requires an assessment of programs' susceptibility to improper payments and the development of mitigation plans to reduce them. FNS will not be in a position to comply with IPIA and Office of Management and Budget (OMB) guidance to estimate and report on improper payments for NSLP, WIC, and the Child and Adult Care Food Program (CACFP) in USDA's FY 2004 Performance and Accountability Report (PAR). We reported that FNS had sufficient history through our audits and its own studies to establish baseline estimates of improper payments to provide a basis of measurement for program improvements. While identifying NSLP and WIC as susceptible to significant improper payments, FNS declined, however, to use the reported data because the estimates were not statistically valid.

FNS disagreed with our recommendations to develop methodologies to quantify and report the extent of improper payments in NSLP and WIC from available data until statistically valid estimates are available, and estimate improper payments for NSLP, WIC, and CACFP starting in the USDA FY 2004 PAR, including corrective actions taken and planned. FNS maintained

that it can report only statistically valid estimates and to do otherwise would be contrary to OMB and CFO guidance. At the time of our audit, FNS had begun to develop plans to estimate improper payments in the NSLP and had not determined an acceptable approach with OMB to address WIC and CACFP improper payments. Subsequent to our audit, FNS informed us that it had reached agreement with OMB on a plan for addressing improper payments in NSLP, WIC, and CACFP. FNS is in compliance with IPIA for FSP and had also reported dollar estimates of FSP improper payments to OMB. In related work, we are scheduled to review the improper payment/purchase card management system. (FNS Compliance With IPIA, Audit Report No. 27601-32-Ch)

### **FNS Needs To Ensure Disqualified Retailers Are Disqualified From All Programs**

FNS rules require that when a retailer is disqualified from participation in FSP or WIC, the retailer should be disqualified from both programs. We reported in August 2004 that from October 2000 through July 2003, FNS disqualified 459 retailers from the Florida and Georgia FSPs, and the State agencies administering WIC disqualified 94 retailers from that program.

Of the 46 retailers disqualified from FSP who also participated in WIC, 8 (17.4 percent) did not receive a reciprocal disqualification from WIC. The FNS field offices did not have sufficient procedures to verify that the retailers/vendors disqualified from FSP were referred and removed from the WIC Program. As a result, the eight disqualified retailers continued to participate in WIC and redeemed \$483,154 in WIC benefits through December 31, 2003. The Georgia FNS Field Office also improperly permitted civil monetary penalties to 17 disqualified WIC retailers in lieu of a reciprocal disqualification from FSP. The 17 disqualified WIC retailers received civil monetary penalties totaling \$148,974, but continued to participate in FSP and redeemed FSP benefits of \$1,860,289 through February 13, 2004. While the WIC and FSP participants were eligible to redeem their WIC vouchers or FSP benefits, the stores in question should have been disqualified from accepting the vouchers or EBT cards.

FNS generally agreed with the recommendations made to improve controls over reciprocal disqualifications. In related work, we are scheduled to review the reauthorization of FSP retailers. (Vendor Sanction Policies, Audit Report No. 27002-1-At)

## **Philadelphia Needs To Prevent Overclaims in NSLP and SBP**

Our review of the Philadelphia school food authority's (SFA) National School Lunch Program (NSLP) and School Breakfast Program (SBP) attendance and meal count operations during school year 1999/2000 disclosed that the SFA had not complied with Federal regulations for ensuring the accuracy of meal counts before submission of monthly claims for reimbursement. The SFA claimed 241,852 meals served in excess of students in attendance, 147,954 meals in the incorrect reimbursement category, and 109,778 more free and reduced-price meals than could be supported by approved applications and direct certifications. It also did not effectively monitor each school's meal counting and claiming system to provide reasonable assurance that feeding sites submitted accurate meal claims. Even though the SFA was approved by FNS to serve all meals free, Federal reimbursement was limited to the number of meals served and an established claiming percentage for free, reduced-price, and paid meals based on a socio-economic study.

As a result, the SFA received excess reimbursements of \$844,065 for claiming errors and meals claimed in excess of attendance. Subsequently, the SFA indicated to us that it had taken corrective actions to strengthen controls over its NSLP and SBP meal count operations. We found no evidence of improved supervisory review or other management controls to ensure that the edit checks were performed correctly and that needed adjustments had been made. As a result, we found additional overclaims of \$23,359.

FNS generally agreed with our series of recommendations to address the control weaknesses identified by our audit and to recover excess reimbursements. (Philadelphia SFA, Attendance and Meal Count Analysis, Audit Report No. 27010-31-Hy)

## **Chicago SFA Needs To Improve Oversight of NSLP, SBP, and CACFP After-School Supper Programs**

We evaluated a Chicago school food authority's accountability and oversight of NSLP, SBP, and the CACFP after-school supper program. Nearly 27 percent of the 598 schools in the Chicago SFA submitted undetected inflated meal claims, overclaiming 642,102 breakfasts and lunches. The SFA's application

verification error rate nearly doubled from 18 percent to 35 percent after we independently performed the process. The SFA incorrectly implemented its CACFP at-risk after-school supper program by allowing its schools to use the offer versus serve provision. The offer provision allows the student to take just three of the required five meal components to count as a reimbursable meal. However, the supper program requires that the five meal components must be served. This resulted in 78 percent more meals being counted than met requirements. We estimated that on any given school day the SFA would claim 11,223 nonreimbursable suppers. Due to the SFA's limited oversight, we questioned \$1,226,668 in program funds, and recommended collection of \$659,335.

FNS generally agreed to our series of recommendations to address the control weaknesses identified by our audit and to recover excess reimbursements. (Chicago SFA's Accountability and Oversight of NSLP, SBP, and CACFP Supper Program, Audit Report No. 27010-17-Ch)

## **Nevada Department of Education Needs To Revise Claim Against SFSP Sponsor**

The Nevada Department of Education (NDE) administers that State's Summer Food Service Program (SFSP). A whistleblower alleged that NDE failed to finalize an audit report that would have required \$700,000 in fraudulently obtained Federal funds to be returned, and altered its records to hide the theft of these funds.

We were unable to substantiate the allegations made by the whistleblower. However, in our audit report of August 2004, we determined that NDE did not recommend that a claim be established against a sponsor for failing to maintain documentation that would justify its August and September 2001 claims. State agencies must establish a claim to recover any payment to a sponsor if the records do not justify all costs and meals claimed. Because NDE did not bill for the failure to maintain documentation, the sponsor was overpaid \$229,964.

FNS agreed with our recommendation that NDE revise its claim to reflect the additional questioned costs of \$229,964 and re-bill the sponsor. (SFSP, State of Nevada, Audit Report No. 27099-31-SF)

### **Man Sentenced to Prison, Restitution for False Claims in Nutrition Assistance Programs**

During 2002, a Los Angeles man who had previously been terminated from participation in NSLP by the California Department of Education for mismanagement reapplied to participate in the NSLP, School Breakfast, and After School Snack Programs under an alias. He submitted bogus claims for February through October 2002 totaling more than a quarter of a million dollars and received approximately \$110,000 in reimbursement of cost payments. He pled guilty to submission of false claims and in April 2004 was sentenced to 30 months in prison, followed by 3 years of supervised release, and was ordered to pay restitution of \$109,000.

### **Cattle Broker and Bookkeeper Sentenced to Significant Jail Time, Major Restitution in Huge Cattle Scam**

As noted in the last semiannual report, a cattle broker and his bookkeeper each pled guilty in November 2003 to five counts of mail fraud, wire fraud, false entries, and criminal forfeiture. This followed a joint investigation by OIG, the FBI, and the Grain Inspection, Packers and Stockyards Administration (GIPSA) that revealed a scheme to defraud investors, business associates, and financial institutions of \$166 million. In May 2004, the cattle broker was sentenced to serve 9 years in Federal prison without parole, and was ordered to pay restitution of \$182.9 million. The bookkeeper was sentenced to serve 7 years 3 months in Federal prison without parole. This monetary result is the largest in OIG's history.

### **'Failure-To-Pay' Schemes Halted in New York and Dallas**

- The operator of a wholesale fresh fruit and vegetable business in Queens, New York, was convicted for making false statements and mail and wire fraud in regard to Perishable Agricultural Commodities Act (PACA) license applications. Beginning in about 1999, he opened several fruit and vegetable brokerage firms and conducted business without a PACA license or provided false information on PACA license applications. He also opened a brokerage firm and then closed it after ordering and receiving a large shipment from an overseas seller without making payment to the produce owners. In May 2004, he was sentenced to 24 months in prison and

was ordered to pay restitution of \$2.1 million to those producers he defrauded. OIG worked jointly in the investigation with the FBI.

- A produce broker in Dallas defrauded the produce industry of over \$1 million in perishable produce by ordering the produce from one company and then immediately selling it to another company for a significantly lower price with no intent to pay. He pled guilty in Dallas Federal court to 19 counts of interstate transportation of stolen property and 1 count of bank fraud. Because he continued his fraud after pleading guilty, a Federal judge remanded him to custody until his sentencing.

### **Improvements Needed for CCC Wheat Sales Process**

A Member of the Congress asked us to assess the impact of Commodity Credit Corporation (CCC)-owned wheat sales in 2002 on market prices and warehouse operations. The Congressman was concerned that, although CCC traditionally catalogued selected wheat stocks available for sale, in 2002 it made available all its wheat, allowing buyers to purchase all the stocks stored in small/competitor warehouses and to deprive such warehouses of storage revenue.

We estimated that a representative sample of 16 of 134 warehouses from which CCC-owned wheat was sold would sustain annual storage revenue losses of about \$2.13 million on the wheat sold in 2002. However, this may be mitigated by future CCC storage agreements for other commodities, as the revenue from the wheat storage made up only a small portion of the warehouses' gross revenues. In addition, trends in annual operations did not lead us to conclude that there was a direct relationship between CCC storage income and net income from operations. We were not able to determine the sales' impact on associated market prices because data showing market price trends by the causal economic factor(s) was lacking. However, our review did disclose that the Farm Service Agency (FSA) needs improved controls over the sales process.

We recommended that FSA institute written policies and procedures, including provisions to retain documentation to support acceptable sales price determinations. FSA also should periodically remind warehouse stakeholders that sales policies are subject to change and adequately notify them of significant



changes. Further, FSA should prevent abuse of the placement of inventory lots into “unavailable” status during periods of sales activity and apply sanctions for violations of any future bid quantity and/or offer limits. FSA generally agreed and began to retain supporting documentation on rejected bids. (Analysis of FSA/CCC Wheat Sales, Audit Report No. 03801-6-KC)

### **Better Oversight Needed for Federal Water Loss Assistance Grants**

Congress authorized two grants totaling \$20 million to assist agricultural producers along the Rio Grande in Texas for economic losses during the 2001 and 2002 crop years due to Mexico’s failure to deliver water to the United States in accordance with a treaty signed in 1944. The Texas Department of Agriculture (TDA) administered the CCC-funded grants.

We reviewed 40 payments totaling \$1,686,071 made to 31 producers for 2002 economic losses and 5 payments totaling \$448,708 to 5 producers for 2001 economic losses. TDA paid four producers duplicate payments totaling over \$54,000 for the 2002 crop year of which all but \$392 was recovered during the audit. TDA disbursed the \$20 million in grant assistance to producers based on acres eligible for irrigation, which it considered legal and appropriate, rather than on the producers’ economic losses caused by Mexico’s failure to deliver the water, which was provided in the law. Further, although TDA offset \$17,462 in grant funds against State debt, TDA did not offset any payments for Federal debt owed by producers since such a requirement was not in the grant agreement.

We recommended that FSA direct TDA to determine whether additional duplicate payments were made, and request USDA’s Office of the General Counsel (OGC) to determine whether TDA disbursed grant assistance in accordance with the law and whether Federal debt-offset procedures can be incorporated as a requirement in CCC-funded grant agreements. (Federal Assistance Grants to Producers Along the Rio Grande in Texas, Audit Report No. 03099-180-Te)

### **Acquired Real Estate Was Not Sold Timely**

We found that the Puerto Rico FSA Office had not complied with Agency sales policies that require acquired inventory properties to be sold within 165 days of acquisition. From 1997 through 2003, the office sold

74 acquired properties with another 16 remaining in inventory. The 74 properties had been held as unproductive assets for an average of 4 years. As of December 31, 2003, the 16 remaining properties had been held an average of 6 years. The excessive delays generally were due to FSA lacking timeliness both in selling the properties and in following up when technical or legal issues arose. The 90 properties, valued at \$8.4 million when they were acquired, either sold for or had a market value (per the latest appraisals) totaling \$6.3 million—a net decline of \$2.1 million. Improved management of acquired properties is necessary given that as of January 2004, 233 delinquent borrower accounts in Puerto Rico either had been accelerated or were pending legal action with the likelihood that FSA will acquire the real estate security in many cases.

We recommended that the Puerto Rico FSA Office develop a control system to monitor the inventory property disposition process and assign a coordinator to link the phases in the process. (FSA Disposition of Foreclosed Properties in Puerto Rico, Audit Report No. 03099-165-At)

### **Mississippi Trio, Partnerships Convicted in \$11.2 Million Fraud Conspiracy**

On June 24, 2004, one of Mississippi’s largest farmers and his brother, a former chemical company manager, pled guilty to conspiracy to defraud FSA of \$11.2 million in subsidy program payments, submitting false statements to FSA, wire fraud, mail fraud, money laundering, and witness tampering. The plea includes the criminal forfeiture of approximately 400 acres and one of the farmer’s houses that had been built with the proceeds from this scheme. On June 17, 2004, the farmer’s accountant, who actively participated in the conspiracy, pled guilty.

From 1999 through 2001, the conspirators created 13 partnerships and 64 different corporations to fraudulently obtain payments from FSA and the Risk Management Agency (RMA). They recruited and paid individuals for the use of their names and Social Security numbers to secure enough stockholders for each entity and misrepresented those names to FSA to obtain the subsidy payments. The conspirators also attempted to persuade those individuals to testify falsely before a Federal grand jury and to OIG agents. The accountant, the farmer, and his brother were scheduled to be sentenced in the fall of 2004.

### **Pennsylvania Producer Pleads Guilty to Loan Fraud and Polluting U.S. Waterways**

In May 2004, a producer in York County, Pennsylvania, pled guilty to making false statements to secure more than \$1 million in USDA-guaranteed bank loans and selling \$200,000 of USDA-secured loan chattel. He was also charged with dumping more than 500,000 gallons of raw animal waste onto land adjacent to a stream that flowed into the Susquehanna River, polluting more than 4 miles of stream and killing thousands of fish. Sentencing was scheduled for January 2005. This investigation was conducted jointly with the FBI.

### **Associations, Sheriff and Deputy Defraud AILFP**

- Two managers of several tribal livestock grazing associations, representing more than 25,000 head of cattle in Arizona, fraudulently received more than \$365,000 in reimbursement for emergency livestock feed under the American Indian Livestock Feeding Program (AILFP). AILFP provides financial assistance to livestock owners on Native American tribal lands affected by natural disasters, such as drought. From May 1999 through May 2000, they submitted altered canceled checks and fabricated invoices to FSA as proof of payment for livestock feed that had not actually been purchased. Each pled guilty to one felony count of making a false statement to CCC. The first manager was sentenced to 5 years of probation and 6 months of home confinement. The second was sentenced to 2 years of probation and 6 months of home confinement, and was fined \$2,000. Civil sanctions are pending against the Indian tribe and seven livestock associations for recovery of the \$365,000.
- A Montana sheriff and his deputy pled guilty to conspiracy to defraud FSA after an OIG investigation showed that both submitted false feed receipts to FSA to fraudulently obtain \$29,144 in payments under AILFP. Sentencing of both was scheduled for November 2004.

### **Tennessee Farmer Sentenced to 20 Months in Prison, Fines, Restitution**

Between January 2000 and December 2002, a Tennessee farmer converted more than \$171,900 in livestock and farm equipment that was mortgaged for loans he received from FSA. The farmer also filed for

bankruptcy but provided false information to the bankruptcy court. In July 2004, the farmer pled guilty to bankruptcy fraud and unauthorized conversion of mortgaged property and was sentenced to serve 20 months in Federal prison and ordered to pay fines and restitution of more than \$181,000.

### **Borrower Sentenced to 12 Months in Prison for False Claims**

A farm borrower in Oklahoma prepared false statements showing she had purchased more than \$90,000 in fictitious equipment, cattle, and other services. She then faxed the statements to FSA and instructed FSA personnel to transfer the money from her supervised bank account to her personal checking account. The borrower pled guilty and was sentenced to 12 months and 1 day in prison, and full restitution.

### **Illinois Farmer Sentenced in Conversion of Mortgaged Collateral**

In May 2004, an Illinois farmer was sentenced to 5 years of probation and ordered to pay \$28,418 in restitution after his guilty plea to one count of conversion of mortgaged collateral to CCC. In December 2000, the farmer had received \$51,022 when he applied for a Farm Stored Loan and pledged 26,300 bushels of corn to CCC. In September 2001, the CCC loan matured and the farmer failed to repay CCC after having agreed to forfeit the grain to a particular elevator. The farmer admitted to selling the corn to two other elevators.

### **Excessive Payments of \$394,080 Due to Errors or Misinterpretation of Procedures**

This audit focused on added-land yield determinations for the Multiple Peril Crop Insurance (MPCI) and Crop Revenue Coverage (CRC) programs for crop year 2000, as well as RMA's changes to added-land policy for crop years 2001 to 2003. We determined that revisions to the added-land policy since crop year 2000 resulted in yields more representative of producers' operations, and made no recommendations. However, we found that insurance providers, in determining crop years 2000 and 2001 actual production history (APH) yield for added-land units for five producers, did not consider prior production history and APHs. This resulted in excess indemnity payments of \$372,080 to the five producers because of errors or misinterpretation of yield determination procedures by the insurance providers.

Another producer's indemnity payment for crop year 2001 was based on more cotton acres than were actually planted. Although the producer certified the report of acreage was correct, he stated that there was a misunderstanding between him and the FSA program technician concerning total acres planted when the report was filed, resulting in an excessive indemnity payment of \$22,000.

We recommended that RMA require the insurance provider to recover the \$394,080 in excess indemnity payments. RMA conditionally concurred with the audit findings and is conducting its own review to determine appropriate action. (Added-Land Policy, Audit Report No. 05099-25-At)

### **Eight Persons Guilty in \$12 Million Federal Crop Insurance Fraud Scheme**

During 2003 and 2004, eight individuals in North Carolina pled guilty to a variety of charges involving a complex conspiracy to defraud the Federal Crop Insurance Corporation (FCIC) and several private insurance companies of more than \$12 million from 1997 to 2003. An extensive 30-month investigation by OIG, RMA's Special Investigation Branch, and IRS-Criminal Investigation revealed that the corporation and its owners received more than \$9.28 million in crop insurance payments and were attempting to obtain an additional \$3 million based on an elaborate scheme of providing false documents to RMA. The scheme included hiding production through manipulation of documentation filed with FCIC, manipulating maps of claimed cropland, and posing crop damage by throwing ice in portions of a field in order to photograph it and claim hail damage. The U.S. Marshals Service seized real property and vehicles for possible forfeiture to recover part of the proceeds lost through fraud. Sentencing is pending.

### **VAPG Needs Improved Management Controls To Ensure Program Integrity**

The Value-Added Agricultural Product Market Development Grant Program (VAPG) helps a variety of producers and producer groups to develop business plans for viable marketing opportunities and develop strategies to create marketing opportunities. We found that VAPG grants, totaling about \$20.4 million in 2001, \$37.5 million in 2002, and \$28.5 million in 2003, were awarded without sufficient internal management control policies and procedures. Rural Business-Cooperative

Service (RBS) officials stated this occurred because sufficient time was not available to develop, publish, and finalize program regulations and internal operating procedures.

OGC and OMB permitted RBS to implement the program as a pilot during FY 2001. The Farm Security and Rural Investment Act of 2002 clarified the VAPG eligibility requirements, and RBS officials asserted they needed to solicit project proposals and make grant awards within reduced timeframes. RBS issued final VAPG regulations on April 29, 2004, after the end of FY 2003, attributing the delay to the need to obtain final clearance from OGC and OMB. Consequently, there is reduced assurance that the grants, totaling \$86.4 million, were awarded to the most worthy applicants and were within the legislative intent of the program.

We also found that the VAPG regulations did not include sufficient controls to ensure the program could be administered effectively. RBS generally agreed with the conditions cited in our report, and we are working with the agency to reach management decision. (Survey of VAPG, Audit Report No. 34601-3-KC)

### **Rural Rental Housing (RRH) Program Vulnerable to Fraud and Threats to Tenant Health and Safety**

In March 1999, OIG and the Rural Housing Service (RHS) issued a joint report on 32 owners and management agents that had been identified as a high risk for misuse of RHS funds. The review found that the owners and management agents had misused funds while the projects' physical conditions deteriorated. RHS agreed to implement 20 changes in the program to improve controls over these projects. Our September 2004 audit reviewed the status of these planned changes and found that RHS planned to issue new regulations that would address 14 of the needed corrective actions. One of the remaining issues cannot be addressed until the new regulations are implemented. We found that the remaining five issues had not yet been addressed by RHS. These five issues are:

- development of a multi-State review team,
- requirements for owners to certify reported financial information,
- requirements for owners to submit copies of contracts for identity-of-interest companies,
- annual inspections of apartment complexes, and
- coordination with State and local authorities to inspect RRH properties.



These measures are critical to preventing fraud, waste, and abuse of program funds, as well as correcting the serious physical deterioration of RRH properties. The RRH program has been on OMB's high-risk list for many years. In related work, we are scheduled to continue our efforts in RHS' RRH program, focusing on the construction, rehabilitation, and repair of aging RRH projects. In addition, we plan to assess RHS' efforts to keep RRH projects in the program so that they can maintain decent, safe, and affordable rental housing for rural Americans. (RRH Project Management, Audit Report No. 04016-1-Ch)

#### **Louisiana Salesperson Sentenced for Defrauding Rural Development Client**

On January 29, 2004, a woman in Bossier City, Louisiana, pled guilty to a bill of information charging false statements to Rural Development. The woman represented to Rural Development that she was a salesperson for a large mobile home manufacturing business and forged her name to a \$47,150 U.S. Treasury check payable to a mobile home manufacturing business. The check represented Rural Development loan funds that were intended to provide a home for a low-income family. The subject was sentenced to 6 months of home confinement and 5 years of probation, and was ordered to pay \$47,150 in restitution.

#### **FY 2004 MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 2**

- Risk Must Be Examined and Improper Payments Minimized Within USDA
- Integrity of the Federal Crop Insurance Programs Must Be Strengthened Through Improved Quality Control Systems and IT Processing
- Agencies Need To Better Coordinate Program Delivery and Control – *New Challenge*
- Improvements and Safeguards Needed for the Rural Multi-Family Housing Program – *Agency-Specific Challenge*

## **ONGOING AND PLANNED REVIEWS FOR GOAL 2**

Feeding program topics that will be covered in ongoing or planned reviews include:

- a review of the special wage incentive program under the Nutrition Assistance Program in Puerto Rico,
- continued monitoring of EBT implementation,
- evaluation of State agency corrective action plans to reduce FSP error rates,
- WIC administrative costs,
- WIC Program accountability, and
- reauthorization of FSP retailers.

Farm program topics that will be covered in ongoing or planned reviews include:

- FSA's implementation of the Milk Income Loss Contract program,
- FSA's implementation of finality rule and equitable relief provisions as they relate to identifying improper payments,
- FSA's implementation of the Cattle Feed Program (nonfat dry milk),
- FSA's implementation of the Livestock Compensation Program,
- programmatic treatment of crop base on land included in Wetlands Reserve Program easements (FSA and the Natural Resources Conservation Service (NRCS)),
- FSA's administration of the prohibitions of farm loans for borrowers that have received debt forgiveness,
- coordination and effectiveness of FSA internal and compliance reviews,
- Direct and Countercyclical Program base acres and payment yields (FSA), and
- administration of the Environmental Quality Incentives Program (FSA and NRCS).

RMA and crop insurance topics that will be covered in ongoing or planned reviews include:

- the effectiveness of RMA's data acceptance system,
- the effectiveness of RMA's compliance activities and oversight in preventing fraud and abuse,
- a review to evaluate and validate the zero acreage data for insured crops,
- a review to ensure that insurance companies are not able to change insurance pool placement after applicable dates to defray risk or increase marketing gains,
- a review to assess RMA's management controls over producers filing late acreage reports not in accordance with the Standard Reinsurance Agreement, and
- an evaluation of RMA controls over the use of optional units and those of reinsured companies to ensure claims are adequately supported and premiums are set at amounts that cover losses and build necessary reserves.

Rural Development topics that will be covered in ongoing or planned reviews include:

- Rural Utilities Service (RUS) broadband loan program,
- RUS broadband grant program,
- RHS' RRH program, focusing on the construction, rehabilitation, and repair of aging RRH projects, and
- RHS' efforts to keep RRH projects in the program to maintain decent, safe, and affordable rental housing for rural Americans.

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

# Management of Public Resources

## **OIG Strategic Goal 3: Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources**

OIG conducted audits and investigations that focused on improved financial management and accountability, information technology security and management, protection of public assets, employee corruption, Forest Service resources, agricultural research, the Government Performance and Results Act (GPRA), contracts, outsourcing, and certain rural development programs.

In FY 2004, 44 percent of our total audit and investigative resources were devoted to Goal 3, with 98 percent of these resources assigned to critical/high-impact work. Sixty-eight percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 62 percent of our investigative cases had criminal, civil, or administrative action taken in response to OIG reports. OIG issued 25 audit reports under Goal 3 during the reporting period and 48 audit reports during the full year. OIG investigations under Goal 3 yielded 36 indictments, 37 convictions, and about \$2.8 million in monetary results during the reporting period and 84 indictments, 61 convictions, and about \$4.8 million in monetary results during the full year.

### **EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3**

#### **WCF Receives Clean Opinion on FYs 2002 and 2003 Financial Statements**

An independent accounting firm issued a clean opinion on the Working Capital Fund's (WCF) financial statements for FYs 2002 and 2003. The firm's report on internal controls over financial reporting identified two material weaknesses: WCF needs to make improvements in financial reporting, analysis, reconciliations, and adjustments; and the firm reported (based on prior OIG audit work) deficiencies in general controls over security planning, risk assessments, access controls, change controls, segregation of duties, and service continuity. The firm also disclosed instances of noncompliance with Federal Financial Management System Requirements.

The firm recommended that the WCF develop and implement financial reporting procedures specific to WCF and establish training programs for key personnel to address weaknesses in financial reporting, analysis, reconciliation, and adjustments. The auditors also emphasized that USDA needs to complete corrective actions on previous recommendations made by OIG to address IT weaknesses that apply to WCF. WCF concurred and stated that corrective action is underway to address each issue. In related work, we are scheduled to perform the annual audits of the Department and standalone agencies' financial statements for FYs 2004 and 2005. (Audit of the FY 2003 and 2002 USDA WCF Financial Statements, Audit Report No. 50401-52-FM)

#### **A Stronger IT Organizational Structure Would Reduce RMA Vulnerabilities**

The Risk Management Agency administers the Federal Crop Insurance Corporation (FCIC) and oversees all programs authorized under the Federal Crop Insurance Act. RMA's 2004 crop year liability exceeded \$46 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 2004 crop year premium subsidy and producer-paid premiums are \$2.5 billion and \$1.6 billion, respectively. As of August 30, 2004, insurance indemnities paid on the 2003 crop year were \$3.2 billion.

Our audit disclosed serious internal control weaknesses in the overall management and organizational structure for RMA's IT security and operations. RMA's IT environment is highly vulnerable due, in part, to the overall control of IT operations by production managers, which also resulted in material noncompliance with OMB and Presidential Decision Directives. Our electronic vulnerability scans of RMA's network revealed 306 high- and medium-risk vulnerabilities, insufficient system policy settings, and serious and recurring access control weaknesses, compounded by inadequate firewalls and intrusion detection devices. Physical access control components were not in place to safeguard major computer systems and hardware. Overall, RMA managers did not adhere to the Department's system development lifecycle methodology for software application development, installation, and/or maintenance.

We recommended that RMA provide sufficient resources to its new Chief Information Officer (CIO) to effectively oversee IT security and preclude undue influence by production managers. We also recommended that RMA include the noted material control weaknesses in its Federal Managers' Financial Integrity Act (FMFIA) report, take immediate action to eliminate the vulnerabilities noted, and establish appropriate policies, procedures, and controls for the Agency's IT operations. In addition, we recommended that the RMA Administrator renegotiate and revise the reimbursable agreement with FSA to reflect the planned changes in RMA's IT organizational structure. We also recommended that RMA obtain background investigations for all IT contractor employees before access to systems, hardware, and facilities is authorized. RMA officials have indicated that they plan to take aggressive action by prioritizing the recommendations and acting first on those that will mitigate the FMFIA material internal control weakness. (Management and Security of IT Resources, Audit Report No. 05099-18-KC)

### **IT Security Improvements Still Needed at USDA's Second Largest Data Center**

We conducted an audit of the Office of the Chief Information Officer/National Information Technology Center's (OCIO/NITC) internal control structure. While the Center has taken significant actions to mitigate the weaknesses we identified during our prior annual audits, this report contains a qualified opinion on the internal control structure because certain control policies and

procedures were not suitably designed or had not yet been placed in operation at the time of our review.

NITC had taken actions to ensure compliance with federally mandated security requirements, but continuing corrective actions are needed to resolve all outstanding issues. During the year, NITC made progress toward completing the certification and accreditations of its systems; however, the accreditation was not finalized until yearend. We also noted that NITC needs to establish stronger oversight of its midrange environment to include an accurate inventory of all systems, and to ensure that system configurations are maintained in accordance with departmental and National Institute of Standards and Technology guidelines. We continued to find weaknesses in NITC's change control process, including changes that had occurred without proper documentation of approval and testing.

We recommended that NITC prepare a strategic plan addressing the weaknesses we found in its midrange environment, and establish a second-party review over its change control process to ensure that its policies are properly carried out. OCIO concurred with the findings and recommendations in the audit report and stated that corrective action either has been taken or is underway to address each issue.

### **Employee Defrauds Federal Health Insurance Program**

This joint investigation with the OIG for the Office of Personnel Management (OPM) involves the alleged submission of fraudulent health insurance claims totaling approximately \$70,000 to Blue Cross Blue Shield during 2000 and 2001 by an FSIS employee. The claims were for medical services allegedly rendered to the employee and his family in his native country overseas. A search of the employee's residence in July 2003 yielded a large amount of evidence related to the submission of false health insurance claims. He pled guilty to mail fraud and was sentenced to 5 months of imprisonment and 5 months of home detention, and was ordered to pay a fine of \$3,000 and restitution of \$69,489 to Blue Cross Blue Shield. He also resigned. State charges are pending for fraudulent travel vouchers, and the individual is being considered for charges of perjury before an Unemployment Insurance Appeals Hearing. The Civil Division of the U.S. Attorney's Office has accepted the matter and has filed a civil complaint.

### **USDA Administrative Law Judge Pleads Guilty to Possession of Crack Cocaine**

In another employee corruption case, in January 2004 OIG and FBI agents received a tip from a cooperating witness that a USDA administrative law judge who traveled to San Juan, Puerto Rico, in his official capacity to arbitrate administrative hearings would meet with a known drug user during his visits. The agents observed that the judge and companion, in a vehicle rented under a Government contract, would drive to a known drug location and conduct exchanges consistent with drug trafficking. The agents searched the judge's vehicle and hotel room and seized approximately 31 vials full of crack cocaine and 46 empty vials containing residue of crack cocaine. The judge pled guilty in U.S. District Court to aiding and abetting, and possession of cocaine. He was sentenced to 3 years of probation and agreed to resign. His companion also pled guilty and was sentenced to 3 years of probation.

### **Texas FSA Employee Embezzles FSA Program Payments**

In July 2004, a former Texas FSA employee was sentenced to serve 5 years of probation and 6 months of home detention, and was ordered to pay \$32,622 in restitution, after pleading guilty to embezzlement. Between October 3, 2003, and February 17, 2004, the employee, a temporary program technician, embezzled \$32,622 in producer payments by redirecting the payments and depositing them into her personal bank account.

### **Former New Mexico FS Employee Sentenced in Government Travel Card Fraud**

A former New Mexico FS employee was sentenced to 1 day in jail, ordered to pay restitution, and placed on supervised release for 3 years. The former employee admitted to making more than \$11,750 in unauthorized withdrawals and fraudulent credit card purchases using a Government travel card. The monies were used to purchase crack cocaine.

### **Former FS Employee Pleads Guilty in Government Purchase Card Fraud**

In June 2004, a former lead forestry technician pled guilty in Federal court to submitting false claims. He had used a Government purchase card in 2002 and 2003 to obtain approximately \$22,000 in merchandise (motorcycle, hunting items) and services (gasoline, cell phone charges, hotel bills). We seized various items including a dirt bike; motorcycle parts, accessories, and clothing; and hunting equipment and hunting clothing. The subject was placed on administrative leave pending final disciplinary action. Sentencing was pending at the end of the reporting period.

### **Management Controls Over LEIMARS Timber Theft Reporting Need Improvement**

FS uses the Law Enforcement and Investigations Management Attainment Reporting System (LEIMARS), a computerized database, to collect information on crimes and violations that occur on National Forest System lands, including thefts of timber. FS law enforcement officers are required to record the tree count, volume, value, and species of stolen trees in LEIMARS. However, for 34 of the 105 timber theft cases we reviewed, LEIMARS contained no information on any of these elements, and only 1 case had all the required information. Only 38 attempts were made to complete the specialized section for property and natural resource crimes such as timber theft, and FS had no person or process in place to review and validate the information. Consequently, FS lacks the basic information to determine the scope and impact of timber theft. We recommended that FS establish a management control system to ensure the integrity of LEIMARS information, and identify and correct deficiencies. (Survey of FS Timber Theft Controls, Audit Report No. 08601-2-Te)

### **Implementation of AREERA Needs Improvement**

The 1998 Agricultural Research, Extension, and Education Reform Act (AREERA) required 1862 institutions of higher education to spend the lesser of 25 percent of their formula funds (about \$400 million annually) on AREERA activities or twice the percentage they had spent on such activities in FY 1997. The Cooperative State Research, Education, and Extension Service (CSREES), however, allowed 16 of 51 institutions to select inappropriate target percentages, approved some incomplete plans of work, and released



some formula funds without approved plans of work. By prematurely releasing more than \$40 million to institutions, the Government incurred about \$482,400 in additional interest costs. Further, 1862 institutions reported not spending more than \$14 million on required AREERA activities, and 1890 institutions reported not matching more than \$16 million in formula funds. However, because of ineffective controls, CSREES took no action to correct the problems or recover the funds.

CSREES officials concurred with our recommendations that it ensure that reductions in target percentages are granted only when warranted, monitor land-grant institutions' annual reports to ensure expenditures of formula funds are at the agreed-upon level, and ensure that formula funds are not distributed until institutions' plans of work meet standards. Further, CSREES officials will initiate actions to recover the portion of the \$30 million in Federal funds confirmed not spent in accordance with AREERA. We have accepted management decisions for 15 of the 17 recommendations. (CSREES' Implementation of AREERA, Audit Report No. 13001-3-Te)

### **USDA Needs To Improve Coordination in Its Performance Management System**

USDA has continued to make improvements to its performance management system. For example, USDA revised its strategic plan in September 2002, began evaluating its programs using OMB's Program Assessment Rating Tool during the FY 2004 budget process, and created a Budget and Performance Integration Board chaired by the Deputy Secretary. We found, however, that additional improvements were needed to achieve quality and effective GPRA plans and reports, particularly in the area of performance measures and targets. Various USDA agencies' performance management processes and results historically have been unreliable, and the Department's annual performance plans and reports exhibited a variety of deficiencies, as a result. In our opinion, half of the performance indicators were unclear, did not measure progress toward achieving applicable performance goals, or both. We noted additional problems with target levels.

The Department agreed with our recommendations to work to correct performance management deficiencies throughout the Department. All of the recommendations have already been addressed either by incorporation in

guidance or by other activities initiated by the Department. USDA also agreed to revise the 2004 Annual Performance Plan to incorporate improved performance measures developed for the 2005 performance budget, and continue to work to improve its performance measures and targets. In related work, we are scheduled to review the FS' implementation of GPRA. (Implementation of GPRA in USDA, Audit Report No. 50601-6-Ch)

### **FSA's Contracting for the Disposal of Surplus Tobacco Lacked Due Diligence**

In response to a Congressional request, we reviewed the contract with a corporation for the disposal of 121,448 tons of surplus tobacco. FSA officials stated that they relied on guidance contained in the Federal Acquisition Regulation, but the level of diligence was insufficient for us to conclude that FSA adequately applied the guidance to safeguard the interests of the Government, unnecessarily exposing it to potential losses.

FSA had not established the corporation's financial ability to perform and a satisfactory record of performance. The corporation's bid was less than one-fourth that of the next lowest bidder determined by the Contracting Officer's Technical Representative (COTR) to be technically capable; yet even though the corporation had no operational biomass processing facility, FSA deemed the bid to be reasonable. FSA ultimately canceled the contract for "convenience" after the State of Ohio Environmental Protection Agency determined that the corporation's installation permit did not authorize it to store and burn tobacco. FSA already had shipped more than 10,000 tons of tobacco and cardboard containers to the corporation and paid more than \$180,000. FSA ultimately paid to bury the remaining tobacco in landfills.

FSA generally disagreed with our recommendations and stated that the disposal methodology was chosen according to acceptable, but not necessarily documented, research techniques. FSA officials further stated that they believe adequate controls are in place using the existing personnel and acquisition regulations. In our view, the results of this contract provide convincing evidence that FSA's planning was inadequate. The contract files lacked documentation to support the efforts of the COTR in determining how best to dispose of the tobacco, what analysis was used to

ensure the best value to the Government, or that the untried method of tobacco disposal would be effective. (Review of FSA's Control Over Contracting for the Disposal of Surplus Tobacco, Audit Report No. 03099-3-HQ)

### **Commitment of Funding May Have Violated Federal Appropriations Law**

Some Wildlife Services aircraft have been specially modified to hunt livestock predators. Prompted by a Congressional inquiry, we evaluated the financial arrangements under which an industry group purchased an airplane later leased to WS for aerial hunting and concluded that WS actions may have been inappropriate and made to facilitate the purchase.

OIG determined that WS officials obligated funds to pay for modifications made to a plane in prior fiscal years, at a time when WS did not have a legally binding agreement with the aircraft repair company that owned the plane. WS did not have a valid contract with the company to acquire either goods or services for the Government. When the industry group ultimately purchased the plane from the company, the purchase price was discounted for the value of the modifications paid for by WS and an engine WS provided. Therefore, WS may have violated Federal appropriations law by obligating Federal funds where, in our estimation, no bona fide need existed. Federal law requires that obligations be made for payment of expenses properly incurred or for contracts properly made within the period of appropriation availability. We concluded that the WS executed these transactions simply to facilitate the purchase of the aircraft by the industry group.

Since the determination as to whether a violation of appropriations law has occurred is a legal question, we recommended that APHIS obtain a legal opinion from OGC. In its response to our report, APHIS officials did not generally dispute the presentation of facts and events that occurred. However, APHIS disagreed with OIG's audit conclusions. APHIS agreed to seek a legal opinion from OGC to determine what actions should be taken.

The audit also disclosed concerns relating to APHIS' management of its aerial acquisition program and its procurement processes. OIG made numerous recommendations to establish and/or strengthen management controls and, based on OGC's legal

determination, for APHIS or WS officials to consider whether any disciplinary actions are warranted. (WS Aircraft Acquisition, Audit Report No. 33099-1-KC)

### **Competitive Sourcing Requirements Met in OMB Circular No. A-76 Review**

In response to a Congressional request, we evaluated the Agricultural Research Service's (ARS) competitive sourcing of the Beltsville Agricultural Research Center's (BARC) special police force. Of particular concern was the appearance that the number of employees charged against the in-house special police force bid was inflated for the purposes of the study. We concluded that ARS performed the commercial activities study of the BARC special police force in accordance with the provisions of OMB Circular No. A-76 (Performance of Commercial Activities). Further, nothing came to our attention to question the agency's decision to outsource the function. (Competitive Sourcing of the Beltsville Agricultural Research Center Special Police Force, Audit Report No. 02002-1-Hy)

### **Improved Controls Needed Over Grant Expenditures at the Delta Regional Authority**

The Delta Regional Authority (DRA) is a Federal-State partnership serving a 240-county/parish area in an 8-State region, designed to remedy severe and chronic economic distress by stimulating economic development and fostering partnerships that will have a positive impact on the region's economy. Of 13 grants reviewed totaling \$2,103,150 in disbursements, we identified 3 with questionable costs totaling \$357,332. One grant reimbursed a grantee \$300,000 for costs of \$247,000 incurred before the grant period started and for an ineligible entity. This grantee then subgranted the remaining \$53,000 to another entity without the knowledge and consent of DRA. For the second grant, we found that DRA reimbursed prohibited charges of \$12,332. For the third grant, DRA provided the grantee a 90-percent advance of grant funds totaling \$45,000 without needed documentation.

DRA was not monitoring reporting requirements or grantee progress in achieving objectives and activities set forth in the enabling legislation. As a result, 16 quarterly progress reports were late, 4 final reports due were not submitted, and progress reports did not always follow the prescribed format.



We recommended that DRA develop an effective means for controlling expended funds, develop policies and procedures to monitor grants, and recover questioned or unsupported costs paid to grantees, if appropriate. It should also develop written policies and procedures to ensure grantees submit timely progress and final reports, and implement sanctions to withhold payments to grantees delinquent with reports. (DRA – FYs 2001-2003, Audit Report No. 62099-1-At)

### **FY 2004 MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 3**

- Financial Management – Improvements Made but Additional Actions Still Needed
- Information Technology (IT) Security – Much Accomplished, More Needed
- Civil Rights Complaints Processing Still a Concern at USDA
- Research Misconduct Policy Not Consistently Implemented
- A Strong Internal Control Structure Is Paramount to the Delivery of Forest Service Programs – *Agency-Specific Challenge*

### **ONGOING AND PLANNED REVIEWS FOR GOAL 3**

Financial management and accountability topics that will be covered in ongoing or planned reviews include:

- annual audits of the Department and standalone agencies' financial statements for FYs 2004 and 2005,
- agreed-upon procedures: retirement, health and life insurance, and headcount information submitted to the Office of Personnel Management, FYs 2004 and 2005,
- improper payment/purchase card management system,
- FS internal controls,
- controls over final action on audit recommendations,
- review of USDA's acquisition and planning process,
- monitoring of USDA implementation of a cost accounting system,
- Export Credit Guarantee Program (GSM) guaranteed loan accounting system,
- separate reviews of FSA; RHS; Cooperative State Research, Education and Extension Service (CSREES); NRCS; and USDA compliance with the Improper Payments Information Act,
- survey of AMS contract competitive bidding practices,
- FY 2005 National Finance Center (NFC) IT controls, and
- controls over performance-based contracts in fixed service contracts.

IT security and management topics that will be covered in ongoing or planned reviews include:

- APHIS application controls for the import tracking system,

- public key infrastructure at OCFO/NFC,
- USDA application controls,
- ARS application controls over the national pathogen inventory,
- ARS security over IT resources,
- FNS – application review of store tracking and redemption system II,
- e-Government security,
- controls over e-payments at OCFO/NFC,
- USDA application controls for Web applications, and
- followup on the Department's physical critical infrastructure protection program.

FS topics that will be covered in ongoing or planned reviews include:

- Capital Improvement Program,
- review of management controls,
- followup on recommendations made for FS' maintenance backlog,
- FS implementation of the Government Performance and Results Act,
- National Fire Plan firefighting contract crews, and
- implementation of the Healthy Forests Initiative.

CSREES topics that will be covered in ongoing or planned reviews include controls over the National Research Initiative Competitive Grants Program.

GPRA topics that will be covered in ongoing or planned reviews include FS' implementation of GPRA.

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

## Summary of Audit Activities—April 2004-September 2004

<b>Reports Issued</b> .....			51
Audits Performed by OIG .....	39		
Evaluations Performed by OIG .....	1		
Audits Performed Under the Single Audit Act .....	2		
Audits Performed by Others .....	9		
<b>Management Decisions Made</b>			
Number of Reports .....			41
Number of Recommendations .....			334
<b>Total Dollar Impact (Millions)</b> .....			\$711.8
Questioned/Unsupported Costs .....		\$ 9.4 <sup>ab</sup>	
Recommended for Recovery .....	\$4.8		
Not Recommended for Recovery .....	\$4.6		
Funds To Be Put to Better Use .....		\$702.4	

<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—April 2004-September 2004

Reports Issued .....			220
Cases Opened .....			206
Cases Closed .....			241
Cases Referred for Prosecution .....			139
<b>Impact of Investigations</b>			
Indictments .....			152
Convictions .....			211 <sup>a</sup>
Searches .....			34
Arrests .....			207
<b>Total Dollar Impact (Millions)</b> .....			\$233.0
Recoveries/Collections .....		\$ 4.3 <sup>b</sup>	
Restitutions .....		\$191.9 <sup>c</sup>	
Fines .....		\$ 24.9 <sup>d</sup>	
Claims Established .....		\$ 3.5 <sup>e</sup>	
Cost Avoidance .....		\$ 7.8 <sup>f</sup>	
Administrative Penalties .....		\$ 0.6 <sup>g</sup>	
<b>Administrative Sanctions</b> .....			193
Employees .....		32	
Businesses/Persons .....		161	

<sup>a</sup> Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 211 convictions do not necessarily relate to the 152 indictments.

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

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

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

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

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

<sup>g</sup> Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

# Full FY 2004 Results in Key Categories

October 2003-September 2004

## Summary of Audit Activities

Reports Issued .....	97
<b>Total Dollar Impact (Millions)</b> .....	\$763.4
Questioned/Unsupported Costs .....	\$ 15.2
Funds To Be Put to Better Use .....	\$748.2

## Summary of Investigative Activities

Reports Issued .....	425
<b>Impact of Investigations</b>	
Indictments .....	370
Convictions .....	350
<b>Total Dollar Impact (Millions)</b> .....	\$292.9
<b>Administrative Sanctions</b> .....	302

# 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, which 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)
FS	01/26/04	1. FY 2003 FS Financial Statements (08401-3-FM)	0	0
FSA	03/19/04	2. FSA Farm Programs Audit in a Louisiana Parish (03601-42-Te)	918,390	0
Multiagency	02/23/04	3. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/04/04	4. Controls Over Plant Variety and Germplasm Storage (50601-6-Te)	0	0
	03/08/04	5. Followup Review on the Security of Biohazardous Material at USDA Laboratories (50601-10-At)	0	0
	03/24/04	6. Controls Over Chemicals and Radioactive Materials at USDA Facilities (50601-9-At)	0	0
RMA	12/30/03	7. Review of Written Agreements (05601-11-Te)	7,600,000	0
	03/31/04	8. Indemnity Payments to Prune Producers In California – Producer D (05099-7-SF)*	386,772	171,879

## 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.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
APHIS	02/20/03	9. Safeguards To Prevent Entry of Prohibited Pests and Disease Into the United States (33601-3-Ch)	0	0
Civil Rights (CR)	09/30/98	10. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-HQ)	0	0
	03/24/99	11. Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0
	03/10/00	12. Office of CR Management of Employment Complaints (60801-3-HQ)	0	0
	03/10/00	13. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0
CSREES	08/06/02	14. Grants to National Center for Resources Innovation (13099-2-Te)	1,246,161	1,246,161
FNS	05/11/01	15. NSLP Food Service Management Companies (27601-12-KC)	3,572,137	3,572,137
	09/06/01	16. NSLP – Food Service Management Companies (27601-24-Ch)*	3,537,912	3,198,926
	11/21/01	17. CACFP – Wildwood, Inc. Phase II (27010-6-KC)	36,895,611	36,895,611
	03/29/02	18. NSLP – Chartwell’s Food Service Management Company (27601-13-KC)	307,711	307,711

<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>
	03/31/03	19. FSP – Employment and Training Program in Tennessee (27601-12-At)	3,152,731	0
FSA	07/30/01	20. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
FSIS	06/21/00	21. Implementation of the HACCP System (24001-3-At)	0	0
	06/21/00	22. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0
	09/30/02	23. Overtime Controls (24099-4-At)	0	0
	09/30/03	24. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969) (24601-2-KC)	0	0
Multiagency	03/31/99	25. Private Voluntary Organization Accountability (50801-6-At)	18,629,558	18,236,625
	09/30/03	26. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	09/30/03	27. 2000 Crop Disaster Program (50099-15-KC)	20,049	19,649
RBS	01/28/02	28. Lender Servicing of B&I Guaranteed Loan (34601-3-At)	1,536,060	1,536,060
	01/10/03	29. Lender Servicing of B&I Guaranteed Loans (34601-4-At)	3,766,908	3,766,908
	08/27/03	30. Rural Development Lender Servicing of B&I Guaranteed Loans In Georgia (34601-5-At)	9,145,549	224,951



<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>
	09/30/03	31. Rural Development Liquidation of B&I Guaranteed Loan (34601-8-SF)	818,121	220,009
	09/30/03	32. B&I Loan in Louisiana (34099-5-Te)	5,585,136	1,382,301
RHS	01/08/99	33. RRH – Dujardin Property Management, Inc. Everett, WA (04801-5-SF)	195,694	195,694
	05/25/00	34. RRH – Nationwide Initiative in Missouri – Lockwood Management Co., St. Louis, MO (04801-2-KC)	4,922,879	4,919,579
	09/28/01	35. RRH Program Insurance Expenses Phase II (04601-4-KC)	596,665	79,442
	06/26/03	36. RD RRH Program Tenant Income Verification – Gainesville, FL (04004-3-At)	7,781,635	3,337,243
RMA	02/28/01	37. FY 2000 FCIC Financial Statements (05401-1-HQ)	0	0
	05/21/01	38. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	03/15/02	39. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	09/30/02	40. Review of Large Insurance Claims for Watermelon (05601-9-Te)	6,998,779	6,998,779
	01/09/03	41. FY 2002 FCIC Financial Statements (05401-11-FM)	0	0

## AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

### **1. FY 2003 FS Financial Statements (08401-3-FM), Issued January 26, 2004**

We have not reached management decision for 6 of the report's 28 recommendations. These recommendations addressed improvements that FS needs to make in internal controls for its financial management system. FS needs to provide additional information or the estimated completion dates for corrective actions, and we are continuing to work with FS.

### **2. FSA Farm Programs Audit in a Louisiana Parish (03601-42-Te), Issued March 19, 2004**

An FSA county office committee chairperson misrepresented farming interests and received payments of \$814,355. Another producer received excessive benefits of \$104,035 for the crop acreage bases on land in which he had no interest. We recommended that the payments be recovered, that the Louisiana State FSA take administrative sanctions against the chairperson and correct crop acreage bases, and that the county office update the farm program records to reflect current land ownership and determine the proper division of the crop acreage bases. We also recommended appropriate administrative action for the program technician who failed to update records after the change in farm ownership was reported to the county office. FSA concurred. The Agency is barred from reaching management decision on the last recommendation until conclusion of an administrative hearing, after which FSA needs to provide documentation that supports actions taken as a result.

### **3. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13 KC), Issued February 23, 2004**

FSA generally concurred with our audit findings and recommendations but expressed concern that Departmental guidance was needed for a Department-

wide effort to reduce the homeland security vulnerabilities of USDA agricultural commodities and commodity inventories. FSA, in general, indicated that action had been taken based on guidance provided by the USDA Homeland Security Office and agreed that additional action was warranted. However, appropriate corrective action could not be properly identified or formulated until a risk assessment is conducted.

### **4. Controls Over Plant Variety and Germplasm Storage (50601-6-Te), Issued March 4, 2004**

To reach management decision, the Department needs to provide a copy of an approved Departmental policy for obtaining information regarding genetically engineered organism accession entering National Plant Germplasm System (NPGS) facilities along with ARS' time-specific plan for implementing the recommendations. The Department also needs to provide a copy of the document sent to the NPGS facilities emphasizing interim security measures.

### **5. Followup Review on the Security of Biohazardous Material at USDA Laboratories (50601-10-At), Issued March 8, 2004**

To reach management decision, the Department needs to develop and implement new Department-wide policies and procedures for chemical inventories that specifically define hazardous chemicals; develop and implement new Department-wide policies that instruct facilities to compile a secure, comprehensive inventory of hazardous chemicals that they use and store; develop specific Department-wide policies and procedures for routine monitoring and compliance reviews at facilities housing hazardous chemicals; develop and implement Department-wide policies and procedures specifying the minimum level of suitability requirements and background investigations for personnel with access to hazardous chemical and radioactive materials; and provide timeframes for implementation.

**6. Controls Over Chemicals and Radioactive Materials at USDA Facilities (50601-9-At), Issued March 24, 2004**

We agree with the actions taken or planned by the Department. To reach management decision, the Department needs to provide timeframes for implementation of those actions.

**7. Review of Written Agreements (05601-11-Te), Issued December 30, 2003**

To reach management decision, RMA must provide an estimated date for the issuance of the revised Manual 13 and a description of the procedure it will use to ensure that insurance companies are properly reporting required written agreement information.

**8. Indemnity Payments to Prune Producers In California – Producer D (05099-7-SF), Issued March 31, 2004**

A California prune producer and one of its two partners received unentitled crop indemnity payments for underreported acreage (1997 and 1998) when applying for insurance and for underreported crop production (1997 through 1999) when submitting loss claims. One insurance provider did not verify claimed losses by collecting final settlement sheets from the packinghouses, and the other insurance provider did not verify one partner's insurable share. RMA concurred with all the recommendations to pursue recovery of the questioned amounts, but cannot establish accounts receivable until litigation is completed.

## INDICTMENTS AND CONVICTIONS

Between April 1 and September 30, 2004, OIG completed 220 investigations. We referred 139 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 152 indictments and 211 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 211 convictions do not necessarily relate to the 152 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$233 million.

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

### Indictments and Convictions April 1 - September 30, 2004

Agency	Indictments	Convictions*
AMS	3	3
APHIS	27	13
ARS	1	1
ERS	0	1
FAS	1	4
FNS	44	137
FS	4	3
FSA	41	21
FSIS	8	9
GIPSA	0	2
NRCS	6	1
OALJ	0	2
OIG	1	1
RBS	4	0
RHS	4	5
RMA	8	8
Totals	152	211

\*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 560 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**  
April 1 to September 30, 2004  
(Total = 560)

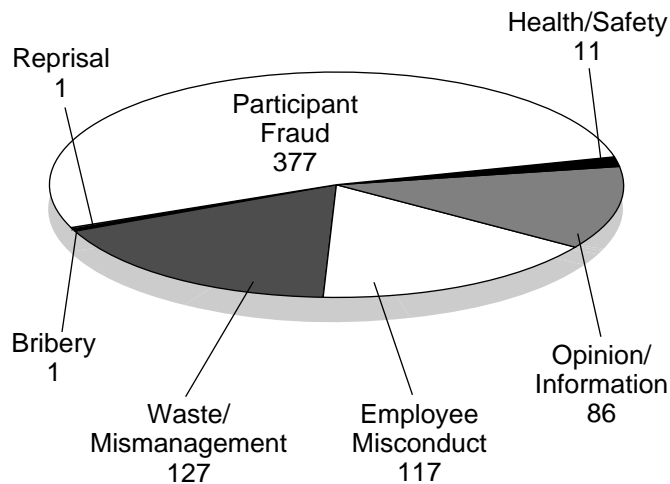
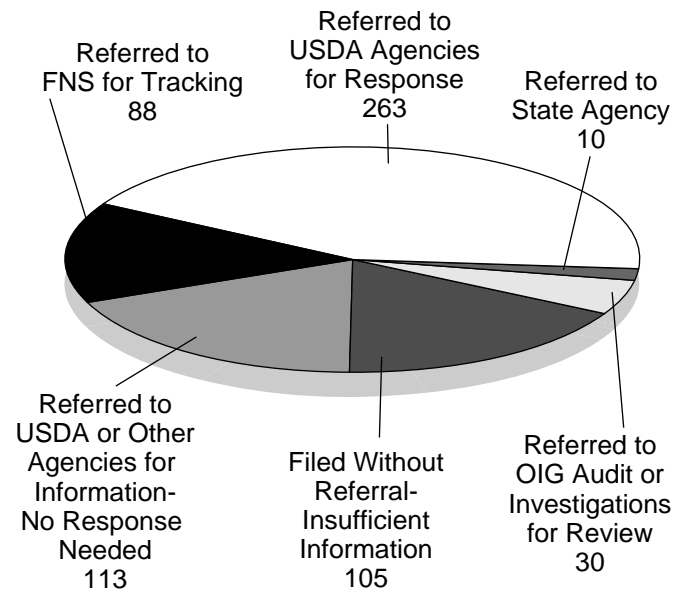


Figure 2

**Disposition of Complaints**  
April 1 to September 30, 2004





**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS  
FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2004**

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**Number of FOIA/PA Requests Received** 116

**Number of FOIA/PA Requests Processed:** 132

Number Granted 31  
 Number Partially Granted 22  
 Number Not Granted 79

**Reasons for Denial:**

No Records Available 19  
 Referred to Other Agencies 10  
 Requests Denied in Full (Exemption 7A) 10  
 Request Withdrawn 19  
 Fee-Related 1  
 Not a Proper FOIA Request 4  
 Not an Agency Record 1  
 Duplicate Request 2  
 Other 13

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

Received 11  
 Processed 11

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**Appeals Processed** 3

Appeals Completely Upheld 0  
 Appeals Partially Reversed 1  
 Appeals Completely Reversed 0  
 Appeals Requests Withdrawn 0

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**Number of OIG Reports/Documents  
Released in Response to Requests** 22

NOTE: A request may involve more than one report.

During this 6-month period, 48 audit reports were posted to the Internet at the OIG Web site: [www.usda.gov/oig](http://www.usda.gov/oig).

# Appendix I

**INVENTORY OF AUDIT REPORTS  
WITH QUESTIONED COSTS AND LOANS  
FROM APRIL 1 THROUGH SEPTEMBER 30, 2004**

DOLLAR VALUES

	<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 APRIL 1, 2004	33	133,107,404	83,593,713
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	13	35,678,815	30,517,873
TOTALS	<u>46</u>	<u>\$168,786,219</u>	<u>\$114,111,586</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	14		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$4,798,404	\$24,949
NOT RECOMMENDED FOR RECOVERY		\$4,558,754	\$0
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$19,220,242	\$17,301,447
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	32	\$142,748,996	\$96,785,190
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	22	\$110,304,898	\$66,290,156

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

# Appendix II

## INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE FROM APRIL 1 THROUGH SEPTEMBER 30, 2004

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2004	11	\$715,516,429
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	2	\$989,155
TOTALS	<u>13</u>	<u>\$716,505,584</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	6	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$702,408,708
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$74,366
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	7	\$14,022,510
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	\$13,033,355

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2004

DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2004, THE OFFICE OF INSPECTOR GENERAL ISSUED 51 AUDIT REPORTS, INCLUDING 9 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 RESEARCH SERVICE	2			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3	\$25,208		
CHIEF INFORMATION OFFICER	1			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	1	\$30,495,034	\$30,495,034	\$482,400
DELTA REGIONAL AUTHORITY	1	\$357,332		
FARM SERVICE AGENCY	6	\$58,884		
FOOD AND NUTRITION SERVICE	10	\$4,161,438		\$506,755
FOOD SAFETY AND INSPECTION SERVICE	4			
FOREST SERVICE	2			
MULTIAGENCY	5			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT	5			
RISK MANAGEMENT AGENCY	4	\$394,080		
RURAL BUSINESS-COOPERATIVE SERVICE	2	\$22,839	\$22,839	
RURAL HOUSING SERVICE	4	\$164,000		
<b>TOTALS</b>	<b>51</b>	<b>\$35,678,815</b>	<b>\$30,517,873</b>	<b>\$989,155</b>
<b>TOTAL COMPLETED:</b>				
SINGLE AGENCY AUDIT	45			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	1			
MULTIAGENCY EVALUATION	0			
<b>TOTAL RELEASED NATIONWIDE</b>	<b>51</b>			
<b>TOTAL COMPLETED UNDER CONTRACT <sup>b</sup></b>	<b>9</b>			
<b>TOTAL SINGLE AUDIT ISSUED <sup>c</sup></b>	<b>2</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

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM APRIL 1 THROUGH SEPTEMBER 30, 2004**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>AGRICULTURAL RESEARCH SERVICE</b>				
020020001HY 2004/06/30	PRIVATIZATION OF THE BELTSVILLE AGRICULTURAL RESEARCH CENTER SPECIAL POLICE FORCE			
020170001HQ 2004/09/28	DCAA AUDIT OF STATE RESEARCH CENTER FOR APPLIED METHODOLOGY (SRCAM) FUNDED BY ARS			
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>2</u>		
<b>ANIMAL AND PLANT HEALTH INSPECTION SERVICE</b>				
330010005HY 2004/07/21	APHIS WILDLIFE SERVICES CONTROLS OVER HAZARDOUS MATERIALS INVENTORY			
330990001KC 2004/09/30	WILDLIFE SERVICES - AERIAL ACQUISITION PROCEDURES	\$25,208		
336010001AT 2004/09/14	SECURITY OVER APHIS OWNED AND LEASED AIRCRAFT			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>3</u>	<u>\$25,208</u>	
<b>CHIEF INFORMATION OFFICER</b>				
885010001FM 2004/09/22	NATIONAL INFORMATION TECHNOLOGY CENTER (NITC) GENERAL CONTROLS REVIEW – FY 2004			
TOTAL: CHIEF INFORMATION OFFICER		<u>1</u>		
<b>COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE</b>				
130010003TE 2004/08/16	IMPLEMENTATION OF AREERA	\$30,495,034	\$30,495,034	\$482,400
TOTAL:		<u>1</u>	<u>\$30,495,034</u>	<u>\$482,400</u>
<b>DELTA REGIONAL AUTHORITY</b>				
620990001AT 2004/09/10	SURVEY OF DELTA REGIONAL AUTHORITY	\$357,332		
TOTAL: DELTA REGIONAL AUTHORITY		<u>1</u>	<u>\$357,332</u>	
<b>FARM SERVICE AGENCY</b>				
030990003HQ 2004/08/18	CONTRACT FOR DESTRUCTION OF SURPLUS TOBACCO			
030990165AT 2004/07/09	FSA DISPOSITION OF FORECLOSED PROPERTIES IN PUERTO RICO			
030990180TE 2004/09/30	FEDERAL ASSISTANCE GRANTS TO PRODUCERS ALONG THE RIO GRANDE IN TEXAS	\$54,174		
036010011CH 2004/07/26	CONTROLS OVER ELIGIBILITY FOR SUGAR BEET PAYMENTS			
036010012SF 2004/06/04	FSA APPLE MARKET LOSS ASSISTANCE PAYMENT PROGRAM	\$4,710		
038010006KC 2004/09/30	EVALUATION OF FSA/CCC WHEAT SALES IN CALENDAR YEAR 2002			
TOTAL: FARM SERVICE AGENCY		<u>6</u>	<u>\$58,884</u>	

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM APRIL 1 THROUGH SEPTEMBER 30, 2004**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>FOOD AND NUTRITION SERVICE</b>				
270020001AT 2004/07/15	FNS VENDOR SANCTION POLICIES	\$2,343,443		
270100017CH 2004/09/29	NSLP - MEAL COUNTS IN CHICAGO SFA	\$719,913		\$506,755
270100022KC 2004/09/30	NATIONAL SCHOOL LUNCH PROGRAM, LIBERAL, KS	\$694		
270100031HY 2004/06/25	PHILADELPHIA NSLP COMPUTER ATTENDANCE/MEAL CLAIM ANALYSIS	\$867,424		
270990031SF 2004/08/24	SUMMER FOOD PROGRAM - STATE OF NEVADA	\$229,964		
270990065HY 2004/05/21	CONTINUED MONITORING OF EBT OPERATIONS - NEW JERSEY			
274010028HY 2004/05/21	AUDIT OF FNS PURCHASE CARD OPERATIONS			
276010011SF 2004/08/06	FNS CONTROLS OVER USDA DONATED COMMODITIES			
276010032CH 2004/09/28	FNS COMPLIANCE WITH IMPROPER PAYMENTS REPORTING REQUIREMENTS			
276010033CH 2004/09/30	CONTROLS OVER USDA-DONATED COMMODITIES			
TOTAL: FOOD & NUTRITION SERV		<u>10</u>	<u>\$4,161,438</u>	<u>\$506,755</u>
<b>FOOD SAFETY AND INSPECTION SERVICE</b>				
240010004AT 2004/09/13	FOOD SAFETY INITIATIVE FOLLOWUP			
246010002HY 2004/06/09	FSIS OVERSIGHT OF THE LISTERIA OUTBREAK IN THE NORTHEAST U.S.			
246010003CH 2004/09/30	REVIEW OF FOOD SAFETY INFORMATION SYSTEMS			
246010003HY 2004/06/29	FSIS EFFECTIVENESS CHECKS FOR THE PILGRIM'S PRIDE RECALL OF READY-TO-EAT POULTRY PRODUCTS			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		<u>4</u>		
<b>FOREST SERVICE</b>				
086010002TE 2004/09/27	SURVEY OF FOREST SERVICE TIMBER THEFT CONTROLS			
086010038SF 2004/09/23	FS FIREFIGHTING SAFETY PROGRAM			
TOTAL: FOREST SERVICE		<u>2</u>		
<b>MULTIAGENCY</b>				
500220007TE 2004/04/15	SINGLE AUDIT MANAGEMENT - NEW MEXICO			
500220008TE 2004/06/10	BOLL WEEVIL ERADICATION FOUNDATION			
504010052FM 2004/09/21	MONITORING THE AUDIT OF FY 2003 WCF FINANCIAL STATEMENTS			
506010006CH 2004/09/17	DEPARTMENT-WIDE GPRA PLANNING AND REPORTING			
506010009KC 2004/08/18	PHASE I - REVIEW OF BSE SURVEILLANCE PROGRAM			
TOTAL: MULTIAGENCY		<u>5</u>		

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM APRIL 1 THROUGH SEPTEMBER 30, 2004**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>OFFICE OF THE CHIEF FINANCIAL OFFICER</b>				
114010021FM 2004/09/30	AGREED UPON PROCEDURES: RETIREMENT, HEALTH AND LIFE INSURANCE, AND HEADCOUNT INFORMATION SUBMITTED TO OPM			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		1		
<b>OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT</b>				
890170001HQ 2004/08/03	DCAA AUDIT OF FERGUSON ENGINEERING, LL. C., SUBCONTRACTOR OF SBA/SYSKA			
890170002HQ 2004/08/11	DCAA AUDIT OF HINMAN CONSULTING ENGINEERS, SUBCONTRACTOR OF SBA/SYSKA			
890170003HQ 2004/09/24	DCAA AUDIT OF HELLER AND METZGER, SUBCONTRACTOR OF SBA/SYSKA			
890170004HQ 2004/09/24	DCAA AUDIT OF POLYSONICS CORPORATION, SUBCONTRACTOR OF SBA/SYSKA			
890170005HQ 2004/09/04	DCAA AUDIT OF VETRAN ENTERPRISES, LTD, SUBCONTRACTOR OF SBA/SYSKA			
TOTAL: OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT		5		
<b>RISK MANAGEMENT AGENCY</b>				
050170001HQ 2004/05/05	DCAA AUDIT OF AGRIOLOGIC TRAVEL COST			
050170002HQ 2004/05/14	DCAA AUDIT OF AGRIOLOGIC TERMINATION SETTLEMENT PROPOSAL TO RMA			
050990018KC 2004/06/01	MANAGEMENT AND SECURITY OF RMA TECHNOLOGY RESOURCES			
050990025AT 2004/05/21	CROP INSURANCE ACTUAL PRODUCTION HISTORY	\$394,080		
TOTAL: RISK MANAGEMENT AGENCY		4	\$394,080	
<b>RURAL BUSINESS-COOPERATIVE SERVICE</b>				
340990001HY 2004/09/30	SURVEY OF THE RURAL BUSINESS ENTERPRISE AND TELEVISION DEMONSTRATION GRANT PROGRAM	\$22,839	\$22,839	
346010003KC 2004/04/23	RBS VALUE ADDED AGRICULTURAL PRODUCT MARKET DEVELOPMENT GRANTS (VADG)			
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		2	\$22,839	\$22,839
<b>RURAL HOUSING SERVICE</b>				
040040004AT 2004/07/15	LOCAL GOVERNMENTS' MANAGEMENT OF MFH PROJECTS IN NORTH CAROLINA			
040160001CH 2004/09/30	RURAL RENTAL HOUSING PROJECT MANAGEMENT			
040990143CH 2004/09/30	AUDIT OF LITTLE EGYPT PROJECT OPERATIONS, CAIRO, IL	\$164,000		
046010009CH 2004/06/30	ACCURACY OF SINGLE FAMILY HOUSING BORROWER ACCOUNTS			
TOTAL: RURAL HOUSING SERVICE		4	\$164,000	
<b>GRAND TOTAL:</b>		<b>51</b>	<b>\$35,678,815</b>	<b>\$30,517,873</b>
				<b>\$989,155</b>

# Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BARC	Beltsville Agricultural Research Center
CCC	Commodity Credit Corporation
CR	Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
DRA	Delta Regional Authority
ERS	Economic Research Service
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
GAO	U.S. Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
JTTF	Joint Terrorism Task Force
NFC	National Finance Center
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OALJ	Office of Administrative Law Judges
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
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PPQ	Plant Protection and Quarantine
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
TDA	Texas Department of Agriculture
USDA	U.S. Department of Agriculture
WS	Wildlife Services

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