

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL**

***STATEMENT OF PHYLLIS K. FONG
INSPECTOR GENERAL***

Before the
HOUSE APPROPRIATIONS SUBCOMMITTEE
ON
AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG
ADMINISTRATION,
AND
RELATED AGENCIES

February 26, 2003



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INTRODUCTION AND OVERVIEW

Good morning, Mr. Chairman and members of the Committee. I appreciate the opportunity to testify before you today to discuss the activities of the Office of Inspector General (OIG) and to provide you information on our audits and investigations of the programs and operations of the U.S. Department of Agriculture (USDA).

Before I begin, I would like to introduce the members of my staff who are here with me today: Joyce Fleischman, Deputy Inspector General; Richard Long, Assistant Inspector General for Audit; Jon Novak, Acting Assistant Inspector General for Investigations; and Delmas Thornsbury, Director of our Resources Management Division.

While this is my first appearance before the Committee as Inspector General (IG) for the Department of Agriculture, I have been in the Inspector General community for over 20 years and am very familiar with the IG world and its operations. Before being sworn in as IG at USDA on December 2, 2002, I served as the IG at the Small Business Administration for over 3½ years.

I am excited by the new challenges I face at Agriculture. Since my appointment as IG in December, I have been reviewing our activities and accomplishments. I believe we have a strong, effective organization and ambitious audit and investigative programs. You, the Congress, are key OIG clients, and we provide the program oversight of the Department for you and the Secretary. I look forward to working with each of you to address your areas of interest and concern. Our audit staff will continue to work closely with agency officials to address key issues. We will also continue our proactive posture on investigative activities to broaden the impact of our work, especially when it involves our cooperation with other Federal, State, and local law enforcement agencies.

In my testimony today, I will address some of the most significant management challenges facing USDA, other critical issues facing the Department's programs and operations, and the work OIG is doing to support and assist in these mission areas. Homeland Security is one of the most significant issues facing the Department and one of the major challenges to effective program operations. Security on our borders, controls over biological agents, chemical and radioactive materials at USDA and USDA-funded research facilities, and security over incendiary devices are all concerns we have looked at in this area. The safety of our Nation's food supply is another crucial area for the

Department. I will be discussing each of these in more detail today, as well as OIG work on other important issues facing the Department.

HOMELAND SECURITY

Since September 11, 2001, OIG's highest priority has been to maintain the integrity of USDA's programs and help the Department strengthen its defenses against activities that might threaten Government facilities, production agriculture, and the Nation's food supply. The events of September 11 and the subsequent anthrax attacks not only gave a new urgency to these security issues for USDA, but also forced this office and the Department to dramatically shift our approaches to resolving or coping with them. In keeping with this assessment, we reported Homeland Security as one of the major management challenges facing USDA. This new environment requires integrated and coordinated efforts and procedures throughout USDA and across the Government if corrective actions are to be effective. This new environment also requires new skills and technology for the OIG staff. With the Homeland Security supplemental funds provided by Congress in December 2001, OIG has been able to acquire essential personal protective equipment and supplies for our staff, provide additional training to better address these new challenges, and obtain needed security clearances for OIG investigators and auditors to allow them critical access to secure data and intelligence.

We have also continued our outreach efforts, meeting with Federal, State, and local officials, and nongovernment groups, to highlight the need for coordination among all these sectors to protect the Nation's borders and food supply.

Security at USDA-Operated and -Funded Facilities

The Department operates approximately 330 laboratories throughout the country. While most of them store or use moderate- to low-risk biological agents, some use or store a number of high-risk agents. Before September 11, 2001, biosecurity was not a major concern at the laboratories. The Department's emphasis had been on ensuring that laboratory personnel were protected against biological agents, rather than on ensuring that such agents were not accessible to unauthorized individuals. Consequently, the Department had issued no policies or procedures for its agencies to implement to manage security at these facilities.

In March 2002, OIG issued a report on "Oversight and Security of Biological Agents at Laboratories Operated by the U.S. Department of Agriculture," an audit which we had begun in the spring of 2001. The relevance and necessity of our ongoing review was suddenly highlighted by the events of September 11. In our report, we recommended that the Department implement actions to strengthen security at a number of laboratories with high-risk agents. We also recommended that the Department immediately implement departmentwide policies and procedures in four areas – materials accountability, physical security, personnel security, and incident reporting.

Recognizing the need for greater biosecurity in the wake of the September 11 attacks, the Secretary assigned a task force to develop policies and procedures for biosecurity issues within the Department. Our staff worked closely with that task force, providing feedback and comments as drafts were developed. On August 30, 2002, the Department issued new security policies and procedures applicable to its Biosafety Level 3 (BL 3) facilities. USDA deserves credit for being the first Department, to the best of our knowledge, in the Federal Government to issue such departmentwide biosecurity policies and procedures for laboratories. It is also our understanding that the Department will be issuing security policies and procedures applicable to its other (non-BL 3) laboratories and facilities shortly.

Last summer, we began reviewing security in laboratories funded by USDA agencies. Our objective was to review the effectiveness of controls in the handling, storage, and disposal of biological agents, chemicals, and radioactive materials at universities, colleges, and private laboratories or facilities that receive departmental financial assistance. We conducted fieldwork at 11 institutions. The institutions agree that security at their laboratories is a concern and have been very cooperative during our visits. We are continuing our work in this important area and will be issuing a report in the near future.

The news media reported that a highly virulent strain of *Actinobacillus pleuropneumoniae* (APP), which causes swine pneumonia, had been stolen from a laboratory at Michigan State University. The potential economic impact on pork producers could be devastating if such a swine pneumonia outbreak were to occur.

Michigan State University had received \$750,000 in grant monies from the Department to develop vaccines against the APP bacteria. An investigation by OIG, the Federal Bureau of Investigation (FBI), and university police found that no theft had actually occurred as had been reported by the researcher. In December 2002, after extensive consultation with OIG, the Michigan Department of Agriculture distributed a statewide notification to swine veterinary practitioners. The notification advised that the attempted development of a vaccine for APP by a researcher at the Michigan State University was fraudulent. The researcher is currently facing prosecution by the U.S. attorney's office.

In January 2002, the President signed the Defense Appropriations Act for Fiscal Year (FY) 2002 providing supplemental funds totaling \$328 million to bolster the Department's counterterrorism and Homeland Security efforts. We recently began an audit of the Department's use of these funds. Our objectives on this review are to (1) determine the status of the Department's use of these supplemental funds and (2) evaluate whether the funds were obligated and expended for Homeland Security authorized purposes. We have just begun fieldwork on this review and will provide the results as soon as they are available.

Border Security

Among other things, the Animal and Plant Health Inspection Service (APHIS) carries out inspections at U.S. ports-of-entry to prevent the introduction of foreign plant and animal pests and diseases, which would be harmful to our country's agriculture. The importance of APHIS's mission and challenges has been highlighted over the past few years as the

Asian longhorn beetle, citrus canker, and Karnal bunt found their way into the United States, and Foot and Mouth Disease broke out in the United Kingdom. The events of September 11, 2001, have highlighted the need for increased and more effective vigilance by APHIS to protect U.S. agriculture.

OIG has completed a review of APHIS's policies and procedures for (1) identifying and assessing risk among the various types of imported goods to prevent the entry of exotic pests and diseases; (2) conducting inspections at airports, seaports, and land-border crossings; (3) providing inspection coverage at all major ports-of-arrival of cargo and passengers, particularly during times of high-volume traffic; and (4) ensuring that sealed transportation and exportation shipments entering the United States exit the country under seal as required. We concluded that APHIS needs a more effective systematic assessment of the risks involved with various pests and pathways by which they can enter the country. We also concluded that inspection operations and staffing allocations at ports-of-arrival were not always based on risk assessments. APHIS agreed with our recommendations.

APHIS's Plant Protection and Quarantine, and Veterinary Services divisions each has separate permit systems for the importation and domestic transfer of specified plant and animal pathogens and other restricted material. We have an ongoing review focusing on the controls over permits issued to colleges, universities, public and private laboratories, and other users.

We will brief the new Department of Homeland Security, as well as USDA officials, on our findings from these reviews related to those APHIS functions to be transferred from USDA to that office.

Counterterrorism Efforts

On our investigative side, special agents have been assigned to various Joint Terrorism Task Forces (JTTF) throughout the country to assist in securing the safety of our Nation. For example, as part of one JTTF directed by the U.S. Attorney for the District of Oregon, we worked with the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) to follow up on a search warrant that ATF had previously served on the residence of a Palestinian man from Lebanon. This individual stated that he had trained with Palestinian guerilla groups, made references to the terrorist group Hamas, and had prominently circled September 11, 2001, on his calendar. Our investigation showed that, while on public assistance and claiming to be unemployed, the man made five overseas trips in 18 months, including trips to Denmark, Italy, and Lebanon. He became the target of investigations by several other law enforcement agencies as other crimes were detected. We determined a loss to the Government of approximately \$65,000, including \$18,000 in food stamp and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) benefits. The subject was convicted on 10 counts of fraud against various Federal programs in addition to the weapons charges. He was sentenced to 30 months in prison, ordered to make restitution of almost \$42,000, and his naturalized citizenship was revoked.

FOOD SAFETY

We continue to place a high priority on food safety and consumer protection issues.

Threats to public health and safety are the most important matters investigated by OIG.

One of the primary challenges facing USDA, and a management challenge that OIG has identified and reported, is ensuring a safe, wholesome, and properly labeled meat and poultry supply, whether it is domestically produced or imported. The recent large recalls of meat and poultry contaminated with *E. coli* and *Listeria monocytogenes*, have further highlighted the vulnerabilities and challenges USDA and the meat and poultry industry face.

Some of the largest recalls of meat product in the history of the industry – more than 50 million pounds – occurred during 2002 due to the discovery that these products contained *E. coli* or *Listeria*. The Centers for Disease Control reported more than 20 deaths and over 60 illnesses originating from *E. coli* and *Listeria*. Although many of the recalls occurred with the cooperation of industry officials, many of these contaminations occurred from unsanitary production methods neglected by the processor.

We currently have work underway reviewing the Food Safety and Inspection Service's (FSIS) recall operations where meat or poultry products are found to be adulterated. Our initial focus has been on the plant in Greeley, Colorado, where 19 million pounds of ground beef were recalled because of adulteration with an *E. coli* strain, and a plant in Pennsylvania where 27.4 million pounds of ready-to-eat poultry product were recalled because of adulteration with a *Listeria* strain.

To address these serious threats and illegal acts against the public's well-being, we are also pursuing joint investigative activities with other Federal, State, and local agencies to share intelligence and conduct investigations where warranted. Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats from outside the food industry of criminal adulteration and biological contamination of food products victimize and disrupt the food production or distribution systems until these threats are resolved through a law enforcement and health and safety response.

Immediate response to emergency situations impacting USDA programs and operations and regulated industries requires the specific, unique law enforcement expertise of USDA OIG. OIG's rapid response and deployment of considerable staff resources has helped to protect the health and safety of consumers this past year, and we will continue to do so in the future.

In January 2002, the U.S. Attorney for Boston, Massachusetts, announced the indictment of seven individuals for their participation in a \$3.3 million fraudulent meat repackaging operation. The indictment charged that the defendants, over a 4-year period, purchased tractor trailer loads of partially defatted fatty beef tissue and caused the loads to be delivered to their business after hours, when USDA inspectors were not available to scrutinize their activities. They repackaged the product with a false label identifying it as defatted chopped beef and sold it to the unwitting public for huge profits. Five individuals have now pled guilty; prosecution is pending for the other two.

On February 12, 2003, agents from OIG and FBI arrested a former meat cutter from a Byron Center, Michigan food store. The arrest followed an indictment by a Federal Grand Jury on charges that he poisoned meat with insecticide, and poisoned meat to seriously injure a business. Black Leaf 40, the insecticide used to contaminate about 250 pounds of ground beef at the store where the man used to work, has a high level of nicotine. About 40 people reported illnesses from the meat, and one person was hospitalized.

FARM PROGRAMS

2002 Farm Bill

On May 13, 2002, the Farm Security and Rural Investment Act of 2002 was signed into law authorizing a variety of farm programs for FYs 2002 through 2007. The Act expands to new crops many of the provisions of the 1996 Farm Bill, provides for new counter-cyclical payments on commodities when prices fall below established targets, expands conservation land retirement programs, emphasizes on-farm environmental practices, and terminates the marketing quota program for peanuts by compensating peanut quota holders for loss of quota asset value.

In addition to identifying the implementation of the 2002 Farm Bill as a management challenge facing USDA, we participated with the Farm Service Agency (FSA) in early discussions on implementation of the new programs and provisions. We have also begun

preliminary reviews of FSA's calculations of counter-cyclical payment rates and adjustments to commodity loan rates for differences in grade, type, quality, location, and other factors. Following our review of the rates calculated by FSA, we plan to assess application of the rates in the field, where our examinations will include reviews of the direct and counter-cyclical programs, including crop bases and yields. In addition, we have underway a survey of the Peanut Quota Buyout Program to determine whether those payments are being issued to eligible quota holders.

For FY 2003, we also plan a review of conservation activity which will include an evaluation of the implementation of the newly mandated Conservation Security Program and its highly erodible land provisions and conservation compliance procedures.

Farm and Foreign Agricultural Services

Historically, some of our major concerns in FSA programs have been the unauthorized disposition of property mortgaged to the Government, fraud by warehouse operators, false statements by commodities producers and exporters, and false statements by borrowers in order to obtain more or greater dollar value loans or debt write-downs than those to which they are actually entitled. These continued to be concerns during FY 2002, when we issued 77 investigation reports regarding FSA programs and operations. Our FSA investigations resulted in 38 convictions and monetary recoveries totaling over \$19 million.

As a result of one investigation in Oklahoma, a former manager of a cooperative association was convicted of embezzling co-op funds that included proceeds from the unauthorized sale of Commodity Credit Corporation (CCC)-owned grain. The former manager created a fictitious vendor and issued more than \$2 million in co-op checks to this entity between 1997 and 1999. He was recently sentenced to 70 months in Federal prison and ordered to pay restitution of \$2.1 million.

In an investigation in North Dakota, the subject was a farmer and insurance agent who was setting up sham farming operations, which resulted in the collection of over \$8 million in various program payments from FSA and the Risk Management Agency (RMA). The farmer and two farming entities were recently found guilty, and the jury ordered \$5.9 million in criminal forfeiture.

INFORMATION TECHNOLOGY

One of the most significant dangers USDA faces is an attack on its information technology (IT) systems, whether by terrorists seeking to access unique databases or by criminals seeking economic gain. The Department has numerous information assets that include market-sensitive data on the agricultural economy and commodities, signup and participation data for programs, personal information on USDA's customers and employees, and accounting data. The IT and related systems face unprecedented levels of risk from both intentional and accidental disruption, disclosure, damage, and manipulation. Public confidence in the security and confidentiality of the Department's

IT systems is essential. For these reasons, we have identified IT as a major management challenge facing USDA.

OIG has been involved in strengthening the Department's security over information and communication technology for several years. We initiated a multiyear program prior to the new millennium and intensified our efforts subsequent to the September 11, 2001, terrorist attacks. We have completed reviews of the security of IT resources of nine agencies and are currently reviewing the security of IT resources at eight additional agencies. The Department, through the work of the Office of Chief Information Officer (OCIO), has put a departmentwide security plan in place and has begun improving security over its IT resources. While work still remains to be done, we are working closely with OCIO to find solutions and implement controls to prevent security weaknesses in the Department's IT infrastructure and ensure compliance with the requirements of the new Federal Information Security Management Act.

FINANCIAL INTEGRITY

For the first time since Congress passed the Chief Financial Officer's Act of 1990 and the Government Management Reform Act of 1994, the Department and all of its standalone agencies – FS, the Commodity Credit Corporation, RMA, the Rural Development (RD) Mission Area, and the Rural Telephone Bank – received unqualified audit opinions on their FY 2002 financial statements. An unqualified opinion means the financial statements fairly present an entity's financial position. In FY 2001, and in prior fiscal

years, we issued a disclaimer of opinion due to weaknesses in the Department's and some of the standalone agencies' financial systems and the Department's inability to provide auditable financial statements within timeframes established by the Office of Management and Budget.

The achievement of an unqualified opinion is a major accomplishment reflecting the Secretary's leadership and the commitment and hard work of the Chief Financial Officers of the Department and all its agencies. There is still work to be done, however, because that achievement did not entirely result from improvements in underlying financial management systems. Enhancements and improvements to USDA's financial systems are needed so that Department managers have access to timely financial information to allow them to make better management decisions. The Department recognizes this continuing need and the Secretary, in the news release announcing the unqualified opinion has emphasized that USDA will continue its work to improve financial management accountability in the Department.

MARKETING AND INSPECTION PROGRAMS

OIG is continuing its investigative work involving the smuggling of agricultural products into the United States. We are working closely with foreign customs and agricultural inspections officials, the U.S. Customs Service, APHIS, and State and local agricultural inspection personnel to locate illegal agricultural products and identify the manner in which they are brought into and moved around the country. These ongoing investigations

have uncovered sophisticated smuggling conspiracies that are bringing large quantities of agricultural products, as well as illegal narcotics, into the United States. In one recent case, during the execution of search warrants at the warehouse and retail establishment of a man still on probation for a prior felony smuggling conviction, we seized 65 pounds of Witchweed (*Striga asiatica*). Witchweed is a parasitic noxious weed that infests the roots of its hosts, such as corn, sorghum, sugarcane, or other grass crops, and deprives them of food and water. If dispersed, Witchweed would have devastated agriculture in the Western United States. The smuggler pled guilty in August 2002 to conspiracy to commit a variety of offenses, including smuggling and violating probation and was sentenced to 4 months in prison, 6 months monitoring, 3 years probation, and ordered to pay a \$10,000 fine. We worked this case as part of our ongoing involvement in the Interagency Import Task Force directed by the U.S. Attorney for the Northern District of California.

In another case, FSIS and OIG found that an importing corporation was selling a Korean pork product mislabeled as Korean vegetable dumplings. It is illegal to import Korean pork into this country because of possible Foot and Mouth Disease contamination and poor sanitary conditions in Korean meat plants. In addition to the current case, from 1988 to 1996, the same corporation was caught five times by USDA regulatory agencies for illegally importing meat products. These prior instances resulted in product destruction and small fines. As a result of the current case, the corporation pled guilty and was sentenced to probation and fined \$100,000. A part of the court sentence in this case included the requirement that the company follow only strict USDA standards for future product imports.

NATURAL RESOURCES AND ENVIRONMENT

Although the FS's operations are not funded through this Committee, they are a major program activity within USDA. Our FS investigations have typically focused on embezzlement and theft of Government funds and property, as well as cases involving FS contracts for goods and services and FS employees. During FY 2002, OIG investigators have also been involved in investigations relating to potential arson in forest fires. Recently enacted legislation (P.L. 107-203) requires USDA OIG to perform an independent investigation of any FS firefighter deaths that are caused by wildfire entrapment or burnover. We have organized a team of agents who will receive specialized training and equipment to perform these investigations.

I also want to highlight an OIG investigation, conducted jointly with FS, which disclosed that an FS forestry technician was responsible for setting the largest forest fire in Colorado history. Before it was contained, the fire – known as the Hayman fire – covered 137,000 acres, an area greater than the Denver metropolitan area. This fire is estimated to have cost the Government more than \$23 million in timber losses. To date, private property damage and losses totaling over \$13.7 million have been identified for victims residing in the affected counties. The total losses for the victims are estimated at over \$20 million. The employee was arrested by OIG and removed from her FS employment. The employee has pled guilty to both Federal and State charges and was sentenced to 6 years in prison on Federal charges. Sentencing on the State charges is pending.

RURAL DEVELOPMENT

Rural Business–Cooperative Service (RBS)

The Business and Industry (B&I) Guaranteed Loan Program is intended to create and maintain employment and improve the economic climate in rural communities.

Assistance under the B&I Guaranteed Loan Program is available to any legally organized entity, including cooperatives, corporations, partnerships, trusts, or other profit or nonprofit entities.

OIG has committed a considerable amount of time and resources to combating fraud in the Guaranteed Loan Program. As the result of one significant B&I investigation, a Federal grand jury returned a 31-count indictment against a Georgia businessman for his role in a fraudulent scheme to obtain a \$5 million USDA B&I Guaranteed Loan for a catfish processing plant in a poverty-stricken rural Georgia county. He was given the loan after he fraudulently claimed to have purchased almost \$3 million in processing equipment for collateral for the loan. He and an equipment broker signed affidavits falsely certifying that he had given the money to the broker when, in fact, no money had exchanged hands and no equipment had been purchased. The businessman used about half of the \$5 million loan to have the plant built and kept the other half for his personal use. Both the businessman and equipment broker entered guilty pleas to conspiracy charges. The broker was sentenced to 32 months in prison, 3 years supervised release, and ordered to pay \$7,500 in restitution. The businessman was recently sentenced to 60 months in Federal prison and ordered to pay \$11 million in restitution.

Rural Housing Service (RHS)

RHS programs are intended to help finance new or improved housing for moderate- or low-income families. When RHS program funds are diverted, some families do not receive decent, safe, and affordable housing as intended by the program. During FY 2002, OIG initiated 15 new investigations of Single Family Housing Program fraud.

In one of our RHS investigations, a Long Island, New York, attorney was sentenced to 2 years 9 months in Federal prison and ordered to pay \$864,500 in restitution for wire fraud. An RD loan applicant had retained the attorney to close a Single Family Housing loan in Riverhead, New York. When the purchase of the property did not occur as scheduled, RD instructed the attorney to return the \$147,050 that had been transferred to his escrow account. The attorney, instead, transferred the USDA funds overseas via wire to a fraudulent investment scheme operating out of Lagos, Nigeria, along with \$717,450 in funds he had stolen from the estates of several clients and obtained from victims he convinced to participate.

FOOD, NUTRITION, AND CONSUMER SERVICES

Food and Nutrition Service (FNS)

Combating fraud in food assistance programs, such as food stamps; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and commodity distribution

programs, is a major activity for OIG. Corrupt individuals develop methods to illegally circumvent these programs for their personal benefit. During this past fiscal year, our criminal investigations into these and other programs regulated and administered by FNS resulted in 341 indictments, 323 convictions, and total monetary results of over \$22 million.

Food Stamp Program (FSP)

As of October 2002, 46 States, the District of Columbia, and Puerto Rico have online food stamp electronic benefit transfer (EBT) systems with 45 being statewide. Two other States, Ohio and Wyoming, use an offline EBT system. In FY 2001, the latest confirmed data period, over \$15.5 billion in FSP benefits were issued, and approximately 82 percent of these benefits were delivered through an EBT system.

Our investigative work has uncovered significant food stamp trafficking activity throughout the past several years. Recently, one of our investigations – conducted jointly with nine other Federal, State, and local agencies – found that a group of individuals in Cleveland, Ohio, had committed an estimated \$15 million in food stamp and WIC fraud since 1995. This investigation was initiated based on data analysis indicating that the stores involved were redeeming food stamps at a disproportionately higher rate than comparable stores nearby. Thus far, one individual has been sentenced to prison for 3 years 5 months and his wife to 3 years probation after they pled guilty to their involvement in the scheme. A third participant has been sentenced to 41 months imprisonment. They have also forfeited over \$2.5 million in assets. Two other

individuals have been indicted; one was recently arrested, and the other is presently a fugitive.

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

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

The WIC program is an assistance program designed to provide funds for certain foods to families with small children who are at nutritional risk. OIG continues to take measures to curtail fraud within this program through our investigative activities. In one such criminal investigation, OIG discovered that subjects of the investigation manufactured counterfeit discount coupons for the type of infant formula used in Ohio's WIC program. We found that over \$400,000 worth of coupons was redeemed. The husband and wife involved in this scheme both pled guilty to WIC conspiracy, with the husband also pleading guilty to counterfeiting, tax violations, and failing to file Currency and Monetary Instrument Reports.

Commodity Distribution Programs

The commodity distribution programs provide supplemental foods to various individuals in need, e.g., low-income pregnant, postpartum, and breastfeeding women, infants, children up to age 6, and the elderly. The foods provided are designed with the specific nutritional needs of these individuals in mind and are purchased by USDA. OIG's efforts to ensure the integrity of these programs consist of weeding out those distribution centers that are committing criminal violations.

In one such investigation conducted jointly with the U.S. Postal Inspection Service, we found that the executive director of a soup kitchen – which served both as a food distribution center for the underprivileged and as a branch of a ministry in Detroit, Michigan – conspired with a food vendor to defraud the program. Specifically, the investigation found that the soup kitchen employee requested the vendor to supply false and inflated invoices for food he delivered daily to the ministry. The vendor agreed to “kick-back” cash to the employee when he was paid for the invoices. In October 2001, the soup kitchen employee pled guilty to program fraud and was sentenced to 14 months in prison and ordered to pay restitution of over \$828,000. Additionally, the vendor pled guilty to the same charge in January 2002 and was sentenced to 24 months in prison and ordered to pay restitution jointly and severally with the co-conspirator.

EMPLOYEE INTEGRITY

Investigating criminal activity involving USDA employees is another high priority for OIG. During FY 2002, we issued 59 reports of investigation concerning allegations of criminal conduct by USDA employees. Our investigations resulted in 17 convictions of current and former employees and 66 personnel actions, including removals, suspensions, resignations, and reprimands.

One example of where our investigative work can lead is a case we opened on the alleged accidental shooting of an on-duty APHIS maintenance employee in Utah. We found that he had shot himself and that he had also stolen about \$50,000 worth of Government property. Through our coordination with the Sheriff's Department during the investigation, the employee became a suspect in the disappearance of a 15-year-old girl. Continued investigation by OIG and the Sheriff's Department found that he had murdered the girl, dismembered her, and buried her remains on the APHIS grounds. The investigation further revealed he had sexually assaulted at least 35 females over a 15-year period, including several on APHIS property. The employee was sentenced to serve 10 years in prison, fined, and ordered to pay almost \$50,000 in restitution after he pled guilty to theft of Government property and unlawful sexual activity with a minor. He recently pled guilty to a charge of murder in the first degree and is awaiting sentencing on that charge.

We continue to conduct a wide variety of other types of employee integrity investigations, including cases involving theft of Government property and illegal drug activity. For example, two of our investigations this past year involved employees who

had each embezzled a quarter of a million dollars from USDA. Both were sentenced to prison and ordered to make full restitution. In two other cases, former employees have recently been sentenced for their roles in illegal drug schemes using Government property or in connection with their official duties. While the number of USDA employees engaged in criminal activity is small, we take seriously our responsibility to bring those few to justice.

FY 2004 BUDGET REQUEST

We are very proud of the accomplishments of OIG and pleased to report that, in FY 2002, we continued to more than pay our own way. In the Investigations arena, our special agents completed 432 investigations, obtained 468 indictments and 458 convictions, and made 656 arrests. These actions resulted in nearly \$54.5 million in fines, restitutions, other recoveries, and penalties during the year.

In the audit arena, we issued 89 audit reports and obtained management's agreement on 655 recommendations. Our audits resulted in questioned costs of \$123 million. Of this, management agreed to recover \$29.8 million. In addition, management agreed to put another \$166 million to better use. Equally as important, implementation of our recommendations by USDA managers will result in more efficient and effective operations of USDA programs.

At OIG, we are constantly seeking to improve our own operations and increase our positive effect on the Department's programs and operations. As the Acting Inspector General testified before this Committee last year, OIG initiated a Business Process Reengineering project. This has resulted in a strategic plan to equip and train our employees for the future, with streamlined processes and state-of-the-art IT as the key. The President's FY 2004 request of \$81.9 million for OIG provides for an increase of \$1.7 million for pay costs and \$2.3 million for additional funding for essential IT equipment and software. This additional IT funding was to provide for the second phase of our IT needs outlined in our strategic plan. However, since that initial request was unfunded in the final FY 2003 omnibus appropriation, our request will only cover the initial IT needs identified in that request.

I recognize there is fierce competition for the Government's limited resources. However, I believe adequate funding for our OIG activities makes good sense. OIG audits and investigations save money for the taxpayers, ensure the integrity of USDA programs, and promote Homeland Security and the safety of our food supply. As such, I support the President's budget request for OIG.

This concludes my statement, Mr. Chairman. I appreciate the opportunity to appear before you today and would be pleased to respond to any questions you and the Committee may have at this time.

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