



U.S. Department of Agriculture  
Office of Inspector General  
Midwest Region  
Evaluation Report

AGRICULTURAL MARKETING SERVICE  
EVALUATION OF INSPECTION ACTIVITIES  
AT TERMINAL MARKETS



Audit Report No.  
01601-0003-CH  
AUGUST 2000



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: August 14, 2000

REPLY TO  
ATTN OF: 01601-0003-Ch

SUBJECT: Evaluation of Inspection Activities At Terminal Markets

TO: Kathleen A. Merrigan  
Administrator  
Agricultural Marketing Service

ATTN: David Lewis  
Deputy Administrator  
Compliance and Analysis

We have completed our evaluation of the Agricultural Marketing Service's (AMS) inspection activities at terminal markets. Our objective was to assist your staff in strengthening management controls over the fresh fruit and vegetable inspection process. We performed this work at your request.

We have concluded that no single modification to your procedures will eliminate the risk of fraudulent activities at terminal markets. However, we have listed below our suggestions for improvements to your agency's existing or proposed management controls, and additional controls that could deter or detect fraudulent activities.

**BACKGROUND**

The Secretary of Agriculture established AMS on April 2, 1972, under the authority of Reorganization Plan No. 2 of 1953 (5 U.S.C. App.). AMS carries out programs authorized by approximately 50 different statutory authorities, the primary ones being the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627); the Agricultural Marketing Agreement Act of 1937 (7 U.S.C. 601-602, 608a-608e, 610, 612, 614, 624, 671-674); the Perishable Agricultural Commodities Act of 1930; the Agricultural Marketing Act of 1946; the Agricultural Fair Practices Act; and the Food Security Act of 1985.

The Fresh Products Branch (FPB) provides inspection and standardization services for the fresh fruit and vegetable industry. FPB maintains offices at 38 receiving markets, operates the shipping point inspection program in Oklahoma, and technically

supervises Federal/State inspection activities at 100 other receiving markets and shipping points in 49 States and Puerto Rico.

In 1999, nine fruit and vegetable inspectors stationed at the Hunts Point Terminal Market in the Bronx, New York, were arrested and charged with Racketeering Influenced Corrupt Organizations (RICO) for accepting bribes for downgrading loads of produce so that wholesalers could negotiate lower prices with producers/shippers. As a result, AMS developed a management action plan to strengthen inspection procedures and reduce the risk of further fraudulent activities. The original management action plan we reviewed contained 28 points designed to improve the quality of program personnel, training activities, and management controls. AMS subsequently revised its plan, which as of July 24, 2000, contained 25 points.

### **SCOPE AND METHODOLOGY**

We performed this evaluation in coordination with AMS' Compliance and Analysis Staff. We discussed the draft management action plan and existing inspection procedures with AMS management and staff from the FPB. We reviewed AMS' policies, procedures, and regulations pertaining to inspected commodities at terminal markets. We visited our New York office to review data related to the Hunts Point investigation. We performed fieldwork from March through May 2000.

We conducted the evaluation in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency (March 1993).

### **SUMMARY OF WORK PERFORMED**

We assessed the merit of each management control proposal in AMS' management action plan. We also evaluated AMS' inspection policies and operating procedures to determine the effectiveness of existing management controls. Our conclusions and suggestions are detailed below.

1. Supervisors need to spend more time evaluating and monitoring inspection activities at terminal markets. Currently, supervisors in larger offices spend a significant percentage of their time in the office performing administrative tasks, rather than evaluating inspection activities at terminal markets. Supervisors in smaller offices spend most of their time performing inspections and very little time evaluating the activities of their staff. The supervisor at Hunts Point rarely conducted reviews of inspection activity. FPB staff stated that supervisors should be monitoring inspection activities, in addition to performing the administrative duties. We agree with AMS' planned actions. Also, AMS has not developed policy manuals that describe supervisory duties.

**OIG Suggestions:** We suggest that supervisors conduct a minimum number of followup inspections. They should complete daily activity reports of their work and use these to evaluate individual inspectors. Also, supervisory requirements should be documented in a procedure manual and distributed to field offices.

2. AMS' current internal reviews of field office operations focus mainly on administrative activities. Its review of inspection activity and procedures is limited. In item 14 of its management action plan, AMS proposed improving its office check program by more vigorously monitoring inspection activities at terminal markets and by using database analyses to identify trends indicative of fraudulent activities. We agree with this planned action.

**OIG Suggestion:** We suggest that AMS' internal reviews include improved procedures (e.g., incorporating inspection and workload data into the analysis to highlight areas of concerns) that facilitate the evaluation of the performance of supervisors and inspectors.

3. FPB does not analyze information related to appealed inspections. Generally, producers/shippers and receivers appeal AMS inspections when they believe that an assigned grade does not accurately reflect the quality of the commodity. Appeals are denied when the commodity in question has lost its identity (e.g., it has been commingled with similar commodities from other producers/shippers), or because an excessive period of time has elapsed since the inspection. Most commodities are perishable and can only remain in a market for a short time.

**OIG Suggestions:** AMS should use data such as producer and wholesaler names, type of commodity, reason for an appeal, and whether the appeal was granted or denied, to identify trends indicative of fraudulent activities. AMS also needs to implement regulations which will ensure producers/shippers have adequate time to request an appeal inspection. Shippers should be encouraged to use lot numbers on their containers to identify their shipment.

4. In item 1 of its management action plan, AMS proposed improving its training process.

**OIG Suggestion:** We agree that AMS could provide better training to all inspectors in terminal markets and, in addition, emphasize ethics and fraud awareness.

5. In item 5 of its management action plan, AMS proposed additional development of its database. Prior to the Hunts Point incident, AMS' database did not include information that could be used to monitor inspections in terminal markets for fraudulent activities. FPB's database system is now being used to generate reports that are being reviewed and analyzed by program management. The inclusion and analysis of this data should provide management with an effective system to monitor

trends indicative of fraudulent activity. If the performance at a particular market or by a specific inspector is outside normal expectations, it may indicate that additional training is needed or that illegal activities have occurred.

**OIG Suggestion:** AMS should develop a strong database of information that is used to perform trend analyses of inspection activities across the country.

6. In item 3 of its management action plan, AMS proposed expanded use of digital imaging. Originally developed as a training tool, digital imaging now gives AMS the ability to provide increased assurance to producers/shippers that commodities were properly inspected. However, all of the digital images that we observed had specific examples of product defects, such as a few pieces of decayed fruit, and not identification markings that would provide a producer with assurance that they are viewing the commodity they shipped. Inclusion of identification markings, such as box lot numbers, package labeling, and the shipping vehicle tag numbers would provide increased assurance to producers/shippers.

**OIG Suggestion:** AMS needs to develop digital images that capture product damage and key identification markings of the commodity shipment.

7. In item 12 of its management action plan, AMS proposed the use of a team inspection process, with team members being rotated within the terminal market every few weeks. This could lower the risk of fraudulent activity. However, implementing this process could be costly. Another alternative could be the traveling inspection team discussed later in this memorandum.

**OIG Suggestion:** AMS should consider more cost effective alternatives to the team inspection concept.

8. In item 15 of its management action plan, AMS proposed improving communication with the industry. We agree that AMS needs to increase customer service, especially with the producer/shipper industry. AMS has communicated mainly with members of the wholesale industry and would benefit by improving communications with producers/shippers and increasing producer/shipper awareness of policies and procedures. Also, AMS should inform producers/shippers about the procedures for reporting questionable activities to OIG.

**OIG Suggestions:** AMS should develop a customer satisfaction questionnaire that would be given periodically to producers/shippers and wholesalers after inspections.

9. AMS does not have an independent review team that specifically monitors inspector performance. Such a team would conduct unannounced inspections at terminal

markets and report to the national office. This could deter abuse and promote uniformity of inspections nationwide.

**OIG Suggestion:** AMS should develop an oversight review team consisting of experienced inspectors.

10. In item 20 of its management action plan, AMS proposed to minimize the number of cash transactions. AMS allows shippers to make cash payments, usually for past due accounts, directly to inspectors. Since AMS mediates disputes between producers/shippers and wholesalers, cash transactions could create the appearance that inspectors are not impartial.

**OIG Suggestion:** AMS should eliminate all cash transactions related to the inspection of products at terminal markets.

11. In item 9 of its management action plan, AMS proposed the rotation of inspectors within a multi-person market. However, AMS believes that it is cost prohibitive to rotate inspectors into different terminal markets under its current employee pay structure. However, it may be economically feasible to rotate supervisory inspectors and require a minimum vacation period, such as 2 weeks, for inspectors. AMS should monitor for irregularities during this period.

**OIG Suggestions:** AMS should determine the feasibility of rotating supervisory inspectors between markets and require minimum vacation periods.

12. Inspectors have the ability to inflate how much product is reported on inspection certificates and AMS does not verify this information with shipping documents. Thus, inspectors can avert an appeal by inflating inspected product. When a producer requests an appeal, it may be denied if it appears that significant portions of product have left the market.

**OIG Suggestion:** AMS needs to establish controls to provide reasonable assurance as to the accuracy of product reported on inspection certificates.

13. There is minimal communication between the Perishable Agricultural Commodities Act (PACA) Branch and FPB. Most complaints come to the PACA office. However, neither PACA nor FPB have a system to document these complaints, or communicate the information to the other branch. FPB could monitor the logs for common trends that need to be reviewed.

**OIG Suggestion:** AMS should require PACA and FPB to maintain complaint logs and periodically report this information to each other.

AMS reviewed and provided comments which we considered and incorporated into this document. We do not plan any further work at this time.

*/s/*

ROGER C. VIADERO  
Inspector General