

**UNITED STATES DEPARTMENT OF AGRICULTURE**

**OFFICE OF INSPECTOR GENERAL**

***STATEMENT OF ROGER C. VIADERO***

***INSPECTOR GENERAL***

Before the

HOUSE APPROPRIATIONS SUBCOMMITTEE

ON

AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION

AND

RELATED AGENCIES

March 14, 2001



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Of  
ROGER C. VIADERO  
INSPECTOR GENERAL  
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**INTRODUCTION AND OVERVIEW**

Good morning, Mr. Chairman and members of the Committee. I am pleased to have this opportunity to visit with you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with information on our audits and investigations of some of the major 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: Jim Ebbitt, Assistant Inspector General for Audit; Greg Seybold, Assistant Inspector General for Investigations; and Del Thornsby, Director of our Resources Management Division.

I also want to thank the Committee for its support during my tenure as Inspector General. We have tried to work closely with you, and I hope we have been able to address some of your concerns.

I am proud to say that, in fiscal year (FY) 2000, we continued to more than pay our own way. In the audit arena, we issued 110 audit reports and obtained management's agreement on 743 recommendations. Our audits resulted in questioned costs of nearly \$95 million. Of this, management agreed to recover more than \$47 million. In addition, management agreed to put another \$268 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.

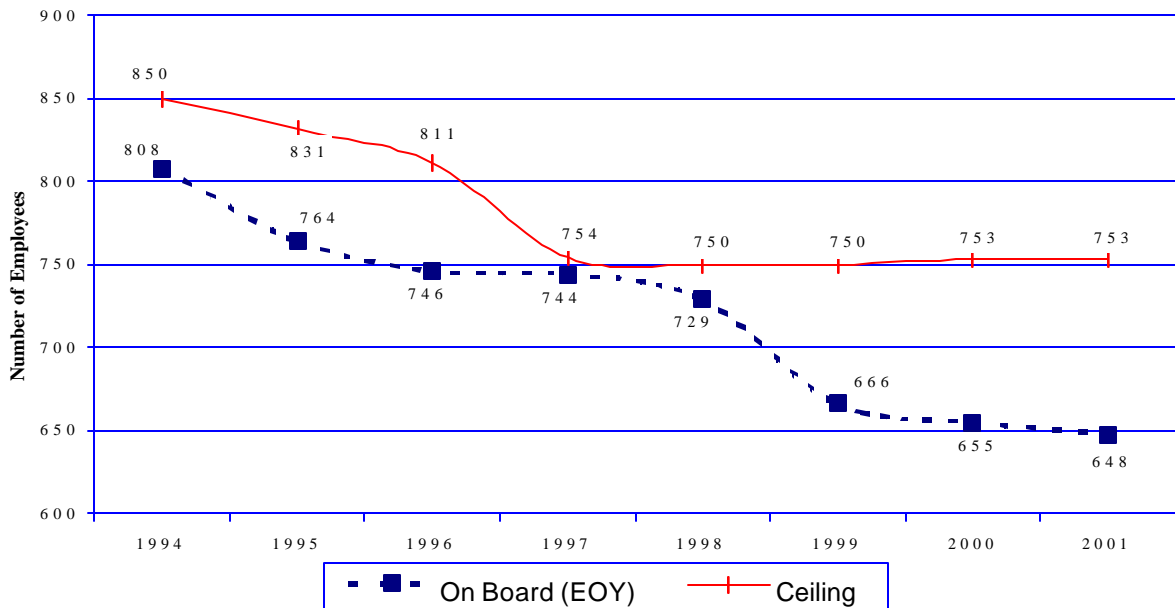
OIG investigations resulted in \$175.9 million in fines, restitutions, other recoveries, and penalties during the year. Our investigative staff completed 553 investigations, obtained 481 indictments and 459 convictions, and made 2,616 arrests.

While I am very proud of the accomplishments of this organization over the past year, I must add that our results could be much more dramatic. Although I am very appreciative for the increase we received this fiscal year, the overall continuous erosion of our budget in the past 7 years in constant dollars continues to severely limit what we can accomplish. During this time, we have had to decrease our staff by over 150 positions--approximately 20 percent--to offset this erosion. Such a decrease in OIG's audit and investigative staffs results in a decline in our ability to ensure that the taxpayers' dollars, which you

appropriate for the Department of Agriculture, are protected from external criminal enterprises, internal corruption, and improper stewardship.

Adequate funding and staffing for our office make good sense and are very cost effective in view of the money we save the taxpayers. While I recognize there is a fierce competition for the Government's limited resources, I believe OIG must be viewed differently from the program delivery missions, in that we are often the last line of defense against compromise of the Department's program delivery and are a significant contributor to the creation of a Government that is accountable and productive. Every OIG special agent and auditor who cannot be hired as a result of the constant erosion of our budget results in "one less cop on the beat" in every agriculture neighborhood across this country. This makes for tough decisions on my part. Which agriculture

**OFFICE OF INSPECTOR GENERAL**  
 Employment History: Actual On Board vs. Ceiling  
 FY 1994 - FY 2001



neighborhood should we leave vulnerable to criminal victimization by shifting our thin line of law enforcement resources to only the highest agricultural priorities? This is a real choice I am forced to make daily because I simply do not have sufficient resources to cover the entire agriculture community. As such, I request that our proposed funding level be approved without reduction.

We work closely with the Department's agencies through our audit work and criminal investigative efforts to ensure that appropriated funds are used efficiently and effectively and program benefit dollars go to those recipients intended by Congress. Generally, we audit and investigate the largest dollar fraud cases since our staffing levels will not allow us to do more. This means there are usually a large number of fraud cases we do not have the staffing to address and which, therefore, must be referred to the agencies to pursue through administrative remedies. However, the agencies do not have resources to address all of these cases, and even more importantly, many of them should not be handled administratively since they involve fraud. Thus, the underlying result is that a significant amount of criminal activity is not being addressed. This makes it very difficult to turn the tide of fraud in any particular program area. Additionally, in our most recent audit planning seminar, we identified 30 staff-years of work in high priority areas we had to drop from our audit program because we did not have staff available to perform the work. Similarly, we continue to carry a backlog of nearly 750 pending, inactive investigative cases—nearly 30 percent of our total caseload--which we cannot address in addition to our normal caseload of approximately 2,000 active cases.

Our current staffing level also restricts our ability to pursue criminal investigations proactively, generally limiting us to one or two program areas of proactive work per fiscal year. Nevertheless, we continue to work closely with USDA agency officials to address key issues and expand joint operations with other Federal, State, and local law enforcement and audit agencies to broaden the impact of our work. Working together, our staffs identify program weaknesses and program violators.

In my testimony today, I will address the most crucial issues facing the Department and why it is essential that OIG be funded at the level requested.

The safety and wholesomeness of agricultural products provided to the public is our primary concern. OIG is committed to ensuring the health and safety of the American consumer as it relates to agricultural products. Additionally, we will focus our efforts on employee integrity, financial integrity, and information technology and computer security issues, including new statutory requirements such as the Government Information Security Reform Act. That legislation requires annual reviews, beginning in FY 2001, of the Department's information security program, most notably an evaluation of the effectiveness of security control techniques for a sample of the systems. We need the necessary resources to broaden our scope of work in these areas and pursue an audit and investigative enforcement strategy resulting in the greatest impact on these critical programs.

## **AUDIT AND INVESTIGATIONS ACTIVITIES**

### **HEALTH AND SAFETY**

Our audits and investigations continue to identify problems in domestically produced foods including contaminated food, misbranded products, and uninspected meat or other products. We also are seeing an increase in problems in imported food products or other commercial shipments legally imported into the United States, as well as shipments smuggled into the United States containing banned products and, frequently, dangerous pests. OIG's resources, especially our investigative resources, are increasingly overextended. OIG is often required to pull its special agents from current investigations of large dollar frauds in USDA's benefits and loan programs to investigate criminal activity that threatens the health and safety of the public.

We must also address domestic and international criminal terrorist threats to the security of our Nation's food supply. This problem has been recognized as a major concern by the Department of Justice (DOJ) and Congress, as well as OIG. Threats of intentional biological contamination of food products for extortion or ideological motives victimize and disrupt the food production and distribution systems of this country. Immediate response to emergency situations impacting USDA personnel, programs, and operations, as well as regulated industries, requires the specific, unique law enforcement expertise of USDA OIG.

Recently, successful prosecutions of criminal enterprises have included a multiagency sting operation in San Francisco, which netted three importers who attempted to bribe a Government official to expedite the entry of their food shipments from Hong Kong into the United States without the required inspections. The other two importers pled guilty, one to receipt of adulterated food in interstate commerce and the other to importing adulterated product and bribery. A Federal jury found the third importer guilty of bribery, money laundering, smuggling, entry of adulterated foodstuffs, and conspiracy. He was the leader and organizer of this criminal activity and had obstructed justice by providing false testimony at his trial. Because of the serious risk to public health and safety caused by the smuggling of salmonella-laden seafood into the country, the judge also granted the Government's motion for upward departure from sentencing guidelines. This case resulted from work initiated by the San Francisco Interagency Import Task Force, which has been targeting firms involved in illegally importing plants and animals that may present a threat to America's food supply. This investigation alone cost OIG approximately \$350,000 in personnel, travel, and equipment costs.

Based on notification by the California Department of Food and Agriculture that a Los Angeles agricultural products import firm may have smuggled tons of Mexican sweet limes into the United States, we initiated a joint criminal investigation with the U.S. Customs Service. In June 2000, a 27-count indictment was filed, charging three individuals and two firms with conspiracy, smuggling, and aiding and abetting. Two of the three indicted subjects have been arrested, with one awaiting trial and one convicted on charges relating to the transport of various agricultural products, including Mexican



sweet limes, into California from Mexico. Laboratory examination showed that a substantial portion of the illegally imported Mexican sweet limes was infested with Mexican fruit fly larvae.

We are also concerned with the large number of repeat offenders that USDA and State regulatory agencies have to deal with on a regular basis. Civil fines and administrative sanctions have simply become an additional “cost of doing business” for those repeat offenders who seek to skirt the dedicated efforts of the Department’s regulatory agencies. These cases involve the smuggling of agricultural products, illegal meat processing operations, the deliberate introduction or threatened introduction of biological agents to attack this Nation’s food supply, and assaults on employees in the Department’s regulatory agencies as they carry out their official duties.

For example, in one recent ongoing investigation, an anonymous letter containing an unknown powder alleged to be anthrax was sent to the owner of a federally inspected meat plant. Fortunately, the powdery substance was benign; however, it caused great concern for those plant employees who were exposed to the substance. It also caused economic disruption to the operation of the plant, which was forced to close for a half day until the identity of the substance could be determined through laboratory testing and the meat plant could be properly decontaminated. This hoax cost the plant thousands of dollars in lost production, hospital costs, and destroyed product. We cannot put a price tag on the anxiety caused to the plant employees while they wondered if they had been truly exposed to anthrax.

In another recently completed investigation, we identified a corporation smuggling prohibited uninspected meat products into the United States. The foreign country where these meat products originated is prohibited from exporting them into the United States due to numerous livestock diseases, such as foot-and-mouth disease, and sanitation concerns in their manufacturing plants. Such products pose a serious health hazard to the general public and livestock industry in America. On five previous occasions, the company had been caught by two separate USDA regulatory agencies smuggling these illegal meat products into the United States. On each of these occasions, the products were destroyed, and the company received a small fine. Recently, my office received information that the corporation was again importing these illegal, dangerous products. We have initiated a criminal investigation with DOJ to put an end to this flagrant skirting of the USDA regulatory process and ensure the protection of the public's health.

While we continue to respond as quickly as we can, I am concerned that our efforts to respond to these incidents are severely hampered by a lack of personnel; proper protective equipment, such as biohazard suits and breathing equipment to ensure the health and safety of our staff, and specialized forensic equipment to gather evidence samples; and funding for specialized training on how to recognize and properly handle biohazardous materials.

In addition to our investigative work, we have completed a series of audits to determine if the Food Safety and Inspection Service (FSIS) has successfully implemented the new science-based Hazard Analysis and Critical Control Point (HACCP) system for inspecting

meat and poultry in the United States. Our initial review included the implementation of HACCP, laboratory analyses, foreign imports, and the compliance program that carried over from the previous system. We found that while FSIS had taken positive steps to secure the safety of meat and poultry products, more needs to be done in all four areas reviewed. Overall, we concluded FSIS had reduced its oversight to less than what is prudent and necessary for the protection of the consumer.

Based on these findings, we made numerous recommendations to FSIS for program improvement, and it has agreed to implement those recommendations. However, because FSIS' record in fulfilling promises of implementation is weak, we need a continued audit presence to monitor and ensure implementation of the recommendations. In addition, we are expanding our audit review of FSIS' program on meat and poultry products imported to the United States. We are also performing additional work to assess the equivalency determinations FSIS makes of foreign countries' inspection systems and to determine if FSIS' reinspection of foreign imports is working as intended. Even as we begin this work, we are worried that we will be unable to complete both this new audit and monitor implementation of the earlier recommendations with current staffing levels. We are concerned that if we are not able to do adequate monitoring and FSIS does not implement these recommendations, the U.S. food supply will be at risk.

## **Antismuggling Program**

The escalation of smuggling activity involving food products has forced us to shift our resources to this arena. Such smuggling brings high dollars in underground “black market” commerce and is an increasingly serious problem to the Nation and especially to the economy of many agricultural States. Smuggling can and has resulted in the introduction of harmful exotic plant and animal pests, diseases, and invasive species which harm America’s crops, forests, food supply, livestock, wildlife, and domestic animals, as well as the health of the American consumer. Such illegal activity can cost billions of dollars in destroyed crops and undermined agricultural markets--both foreign and domestic--and result in lost jobs, as well as create a serious health threat to the American consumer.

To combat the ever-increasing smuggling activities, OIG has developed a three-pronged strategic approach which relies heavily on an expanded relationship with State, local, and Federal agriculture and law enforcement agencies. However, our antismuggling program has been limited due to our lack of resources, which I have described previously.

Additional staffing is needed for these proactive initiatives, along with the necessary specialized law enforcement equipment.

We also audited APHIS’ Plant Protection and Quarantine (PPQ) practices for inspecting air and ship cargos and passengers arriving at the Miami and Ft. Lauderdale, Florida, ports. We identified vulnerabilities and weaknesses which increased the risk of prohibited products

and pests entering the United States. OIG observed that PPQ inspectors did not inspect cargo ships upon arrival; did not inspect the baggage of 75 percent of arriving international airline passengers and 99 percent of cruise ship passengers arriving from foreign locations; did not assess fines as a deterrent against airline and cruise ship passengers found to have prohibited agricultural items in their possession when entering the United States; did not select samples of perishable cargo for inspection but, instead, allowed brokers to select the samples; nor did they ensure that caterers met all foreign arriving aircraft immediately upon arrival to remove, in seal-proof containers, any food or nonfood garbage.

We recommended that APHIS assess penalties when warranted and determine if higher inspection fee rates were necessary to provide for sufficient resources. We recognize, as does APHIS, that inspections are resource-intensive, and that risks need to be assessed to determine where scarce resources should be directed. APHIS believes that airports handling international passengers pose the greatest risk. However, it has not presented OIG with a risk assessment that supports that contention, nor has it presented an assessment indicating additional staffing is needed because risks are inherent at both airports and seaports.

Because of this audit and our concern with the smuggling into the United States of prohibited products, we have begun a broad-based review, evaluating APHIS' policies and procedures for identifying and assessing risk among the various agricultural goods imported into the United States. We also are reviewing the interaction between APHIS and the U.S. Customs Service to review the measures employed to detect pests that may enter the

United States in both agricultural and nonagricultural related products. Our goal is to make recommendations that will help APHIS do its job better.

## **EMPLOYEE INTEGRITY**

A continuing priority for OIG is the investigation of criminal acts committed by USDA employees. We have identified approximately 55,000 USDA employees whose positions place them in direct contact with the public on a regular basis, doing everything from inspecting meat and grading produce to providing loans and other program benefits. The only way to maintain the confidence of the taxpayers, consumers, and producers who use or rely on the Department's services is to know that USDA has a trusted and dedicated work force. And, while we want to emphasize that the evidence shows, and we firmly believe, that the highest percentages of these employees do their job with the utmost integrity, to maintain that trust, internal controls must be in place and operating. To quote a great American, Dwight D. Eisenhower, "the unaudited deteriorates."

One case that demonstrates a situation where those controls broke down is our continuing investigation of the scheme by which Agricultural Marketing Service (AMS) graders accepted bribes from produce wholesalers at the Hunts Point Market in New York City in return for downgrading produce. It also graphically demonstrates how corruption can have a major impact on the daily commerce of this country. This kind of investigation is very staff intensive and requires the use of specialized technical equipment, such as listening devices that are wired into the electrical system for long distance coverage. We

currently have a significant number of corruption investigations similar to this one. This is an area where we must be ever vigilant, and where we simply must have the right tools and sufficient staffing to stop corrupt USDA employees from continuing their criminal activities.

## **FINANCIAL INTEGRITY**

While some of the Department's agencies have achieved success with their financial systems and received clean financial opinions, other major systems have not. The Food and Nutrition Service (FNS), the Risk Management Agency (RMA), and the Rural Telephone Bank received unqualified opinions in FY 2000, which means their financial statements fairly presented their financial position. But the Forest Service (FS) and the Commodity Credit Corporation (CCC) were unable to complete their financial statements in time for us to audit them by the legislatively mandated timeframe of March 1. Also, Rural Development has not been able to properly determine the cost of their loan programs. Thus, it received a qualified opinion.

The individual conditions of the agencies when taken together mean that for the past 7 fiscal years--1994 through 1999 and in our just released audit for 2000--we have issued a disclaimer of opinion on the Department's consolidated financial statement. This disclaimer means that the Department overall does not know whether it correctly reports all collected monies, the cost of its operations, or other meaningful measures of financial performance. Most importantly, some USDA managers do not have reliable financial

information regarding how much has been spent on the cost of program operations and are being forced to make decisions “in the dark” without solid financial data. Not only can flawed decisions result, but the integrity of program dollars is put at risk of misuse or theft. Given USDA’s annual budget authority of about \$82 billion dollars in FY 2001, the importance of having a strong financial reporting capability cannot be overstated.

The main problems that USDA has to solve to improve its financial accounting which will result in improved opinions on these financial statements include: FS needs to improve its accountability and evaluation of its assets; Rural Development, CCC, and the Farm Service Agency (FSA) need to perfect models and gather the necessary data to support implementation of the model that will accurately reflect the costs of their loan programs; and the Department needs to complete implementation of its new accounting system--the Foundation Financial Information System.

These major problems contribute to conditions that keep the Department from achieving a clean audit opinion. For example, we have been unable to substantiate the Department’s fund balance with the Department of Treasury reported at over \$38 billion. This account represents monies that can be spent in the future for authorized transactions. Last year we reported that Treasury records and the Department’s records were out of balance by \$5 billion. At the close of FY 2000, the difference had been reduced to about \$450 million. In other words, the Department still has reported differences with Treasury of this amount, \$450 million, and does not know the reason why. Think of this in terms



of your personal checking account. Your check register says one thing but the bank says you spent a higher amount, and you cannot figure out the difference.

FS has been impaired by a lack of accountability over its assets. Historically, it has not been able to develop a meaningful asset valuation because it did not know what assets had been acquired, when the assets were obtained, or how much they cost. While FS has improved in recording assets, asset valuation continues to be a problem. To overcome this problem, FS needs to undertake an extraordinary level of effort to establish accountability and develop acceptable accounting records in order for agency management to fulfill its financial management and stewardship responsibilities.

While the Department is working toward overcoming past encumbrances to an unqualified audit opinion, aggressive action is still needed to foster meaningful financial management as soon as possible. All of this activity significantly impacts OIG's resources. We have had to devote far more effort to the legislatively mandated audits of financial statements than envisioned by Congress because of the systemic weaknesses that have generated unauditible statements. While it may seem paradoxical, the demand on our resources will actually increase--not abate--as the Department moves closer to auditability because we will have much more to audit than we have had in the past. For the FY 2000 financial statement audits, we scheduled more than 70 auditors--over one-third of our audit staff--full time, for these audits. We estimate that the workload demands will require us to increase our financial staff to 90 auditors--about 40 percent of our audit staff--as we begin the FY 2001 financial audits. In the absence of additional staff, critical program activity will go

unaudited as we fulfill our statutory financial audit requirements. Additionally, these audits require the use of specialized data-mining software along with expert training for the auditors who use it. If these critical resource issues are not addressed, our ability to complete the statutory financial statement audits will erode, and we will not be able to audit other high-priority areas.

## **INFORMATION RESOURCES MANAGEMENT**

### **Computer Security**

Our fourth area of major concern is securing the availability, accuracy, and privacy of information in the Department's information technology systems. This remains a significant challenge for the Department. USDA agencies continue to expand their use of the Internet to provide services and information to the public, commonly referred to as "e-government." E-government offers extensive possibilities for the Department to improve its delivery of services, collect information, and manage its operations. USDA has numerous information assets that include market-sensitive data on the agricultural economy and commodities, signup and participation data for programs, personal information on customers and employees, and accounting data. These information and related systems face unprecedented levels of risk from intentional or accidental disruption, disclosure, damage, or manipulation.

Based on our audits, we believe significantly more action is needed to strengthen departmentwide information security. While the Department has been responsive to our recommendations, initiating prompt fixes to the vulnerabilities we have reported, additional work must be done. We have only been able to look at a few of the hundreds of systems within the Department. Information in USDA databases is market sensitive and, if misused, could cause economic chaos and harm prices farmers receive. USDA also operates the National Finance Center (NFC) in New Orleans. NFC pays salaries and other expenses exceeding \$23 billion each year. It also houses the database for the Thrift Savings Program, which has assets of over \$100 billion. We must ensure all of these assets are safeguarded and information is protected.

The demands on OIG's resources in this area are increasing significantly. As I mentioned earlier, Congress passed the Government Information Security Reform Act, requiring annual reviews beginning this year of the Department's information security program. Each review must include an evaluation of the effectiveness of security control techniques for a sample of the Department's systems. These audits are extremely complex and costly because the auditors need specialized training and sophisticated software to perform them. At current funding levels, OIG will be hard-pressed to fulfill this legislative mandate.

When we have been able to do work "up front" on computer systems, it has resulted in a success for the agencies developing the systems. We did this with FNS and the States as they were implementing Electronic Benefits Transfer (EBT) systems in the Food Stamp Program (FSP) and, as a result, EBT is a success for us and FNS as well as the States. It is

now much easier to detect retailers who harm the program by buying benefits at half their cost or less, rather than selling food. With EBT, you can more readily pinpoint when and where this happens.

Currently, 41 States and the District of Columbia use EBT systems. Thirty-seven of the systems have been implemented statewide, and approximately 74 percent of food stamp benefits, estimated at \$12.6 billion for FY 2001, are issued through such systems. During FY 2000, we completed reviews in Florida, Louisiana, North Dakota, South Dakota, and Utah and found all systems have been successfully implemented.

All EBT systems to issue food stamp benefits must be in place by October 2002. To date, one-quarter of the benefits are not under an EBT system, and some States are either only partially under EBT or are in the process of converting. Some, such as California, Michigan, Mississippi, New York, and Virginia, have significant caseloads which will greatly affect their conversion. Thus, we must remain proactive in our approach to reviewing systems as they are implemented when adjustments and changes are more easily addressed.

## **OTHER MAJOR CHALLENGES FACING USDA**

### **Food, Nutrition, and Consumer Services**

The national food stamp certification error rate for FY 1999, the last year completed, stands at 9.9 percent; while lower than in 1998, it still accounts for dollar-issuance errors of about \$1.6 billion, with overissuances being \$1.1 billion of that amount. Yet, the number of dollars issued and participating households are going down. School districts are also finding high rates of error in households certifying their eligibility for free or reduced-price lunches. Recent statistics assembled by FNS for some selected States showed an error rate of about 20 percent. In Illinois alone, OIG found this accounted for excess program outlays of about \$31 million in 1 school year. Other U.S. departments, such as Education and Health and Human Services, also use the school lunch data as a basis for distributing program funds, so the impact goes far beyond USDA. These areas need our attention, but we simply do not have the resources necessary to address this issue now.

### **Operation Talon**

For more than 3 years, OIG has coordinated a nationwide law enforcement initiative dubbed “Operation Talon,” which has resulted in the arrest of over 7,000 fugitive felons. This initiative, which has been carried out in conjunction with other law enforcement agencies and State social service agencies across the country, was designed to identify, locate, and apprehend dangerous and violent fugitive felons who may also be illegally

receiving benefits through FSP. Operation Talon has grown into a nationwide dragnet, currently encompassing fugitives wanted in 29 States, as well as Federal fugitives sought by the U.S. Marshals Service. The more serious offenses for which Operation Talon fugitive arrests have been made include 32 arrests for homicide; 48 for sex offenses, including rape and child molestation; 15 for kidnapping/abduction; 390 for assault; 213 for robbery; and 1,604 for drug/narcotic offenses. A number of States are removing arrested fugitives from their food stamp rolls, resulting in an estimated average savings to FSP of over \$12.6 million. We have managed to leverage our success through the use of targeted asset forfeiture funds to pay for overtime costs and special equipment needs of the State and local law enforcement agencies participating in Operation Talon. However, since its inception 3 years ago, this program has cost OIG over \$4.3 million in direct appropriated funds to spearhead Operation Talon in neighborhoods across America.

## **CROP INSURANCE**

Based on our prior audit efforts, we believe the management of the Department's crop insurance programs will continue to provide challenges. Congress recognized the need for Federal Crop Insurance Program reform when it passed the Agricultural Risk Protection Act of 2000 (ARPA). This Act requires the Secretary to reduce the potential for fraud, waste, and abuse in the program by mandating the exchange and comparison of relevant information received by RMA and FSA in the conduct of their respective production agriculture programs. Our audits have indicated weaknesses in the research and development of new types of crop insurance policies; conflicts of interest involving

the insureds, insurance agents, and the loss adjusters; noncompliance with loss claim procedures by the loss adjusters; and inadequate quality control reviews by the insurance companies.

To meet that congressional mandate, RMA and FSA have established working groups to implement the provisions of ARPA, including data reconciliation, FSA assistance in monitoring crop insurance programs, and RMA consultation with State FSA committees in formulating crop insurance policies and plans of insurance. Currently, OIG is assisting these working groups as they develop the framework to implement the congressional mandate. As RMA and FSA implement these controls, we will need to monitor and test them to ensure they are adequate and functioning as intended and provide timely feedback to RMA and FSA. We believe this proactive approach and working with the agencies early on will be more effective and result in greater cost savings to the Government than trying to recover incorrect payments.

### **BUSINESS AND INDUSTRY LOAN PROGRAM**

In FY 2000, delinquency rates rose sharply in the Rural Business-Cooperative Service's Business and Industry (B&I) guaranteed loan program. FY 2001 funding in this program increased to over \$3 billion, tripling FY 2000 levels. We believe the Department is facing the possibility of a dramatic increase in financial losses to the Government in this area. Factors, such as the growing presence of unregulated financial organizations--or nontraditional banks--with unorthodox financing and servicing arrangements that can

mask delinquencies until a total financial failure occurs, make some of these loans even riskier to the Department.

Ongoing nationwide audit work in this area is disclosing significant problems. We are expanding our efforts into a special initiative to assess the extent of this burgeoning problem and will make appropriate recommendations for needed legal, regulatory, and administrative changes.

In prior years, we audited defaulted B&I loans whenever the loss to the Government exceeded \$3 million. Frequently, these audits prevented USDA from paying fraudulent claims. However, staffing shortages now prevent our audit of all but the most egregious loss claims. Additional resources would allow more audits in this high-risk area and identify potentially fraudulent and abusive loss claims, resulting in the prevention of substantial funds from ever leaving the Department in payment of fraudulent claims.

## **RURAL HOUSING PROGRAM**

The Department's Rural Housing Program is another effort which will continue to need attention by the Department. The American Homeownership and Economic Opportunity Act of 2000 was signed into law on December 27, 2000. It strengthened the ability of Rural Development to seek prosecution of individuals, both civilly and criminally, who abuse and defraud the Multi-Family Housing Program. Many of the reforms enacted will directly address the problems found in our nationwide initiative with the Rural Housing



Service that identified and documented significant abuse and fraud in the Multi-Family Housing Program.

We are continuing substantial audit and investigative efforts in this area to include cooperative efforts with DOJ to encourage acceptance of these cases for prosecution.

The passage of the new legislative authority significantly increases the chances for successful prosecution.

### **CONCLUSION**

We are proud of our record and accomplishments at OIG. We continually assess where the risks for waste, fraud, and abuse are in the Department and direct our limited resources to those we judge to be at the highest risk. The question is, do we have sufficient resources to address all or even the majority of those area that are vulnerable and at risk? As I have indicated today, the answer is clearly, no.

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 may have at this time.

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UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL

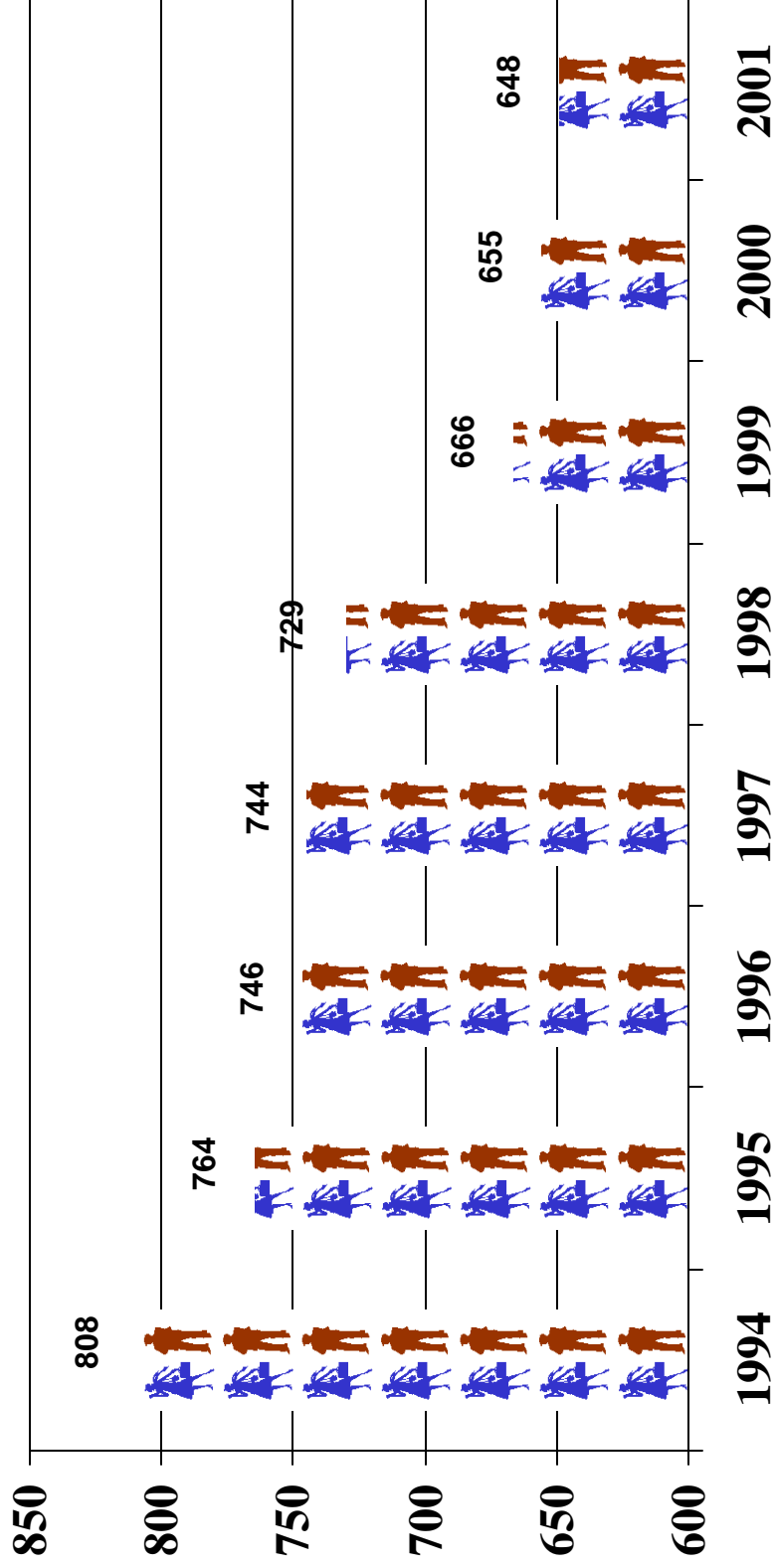
Department of Justice Participating Agency  
FORFEITURE FUNDING

Total Expenditures:

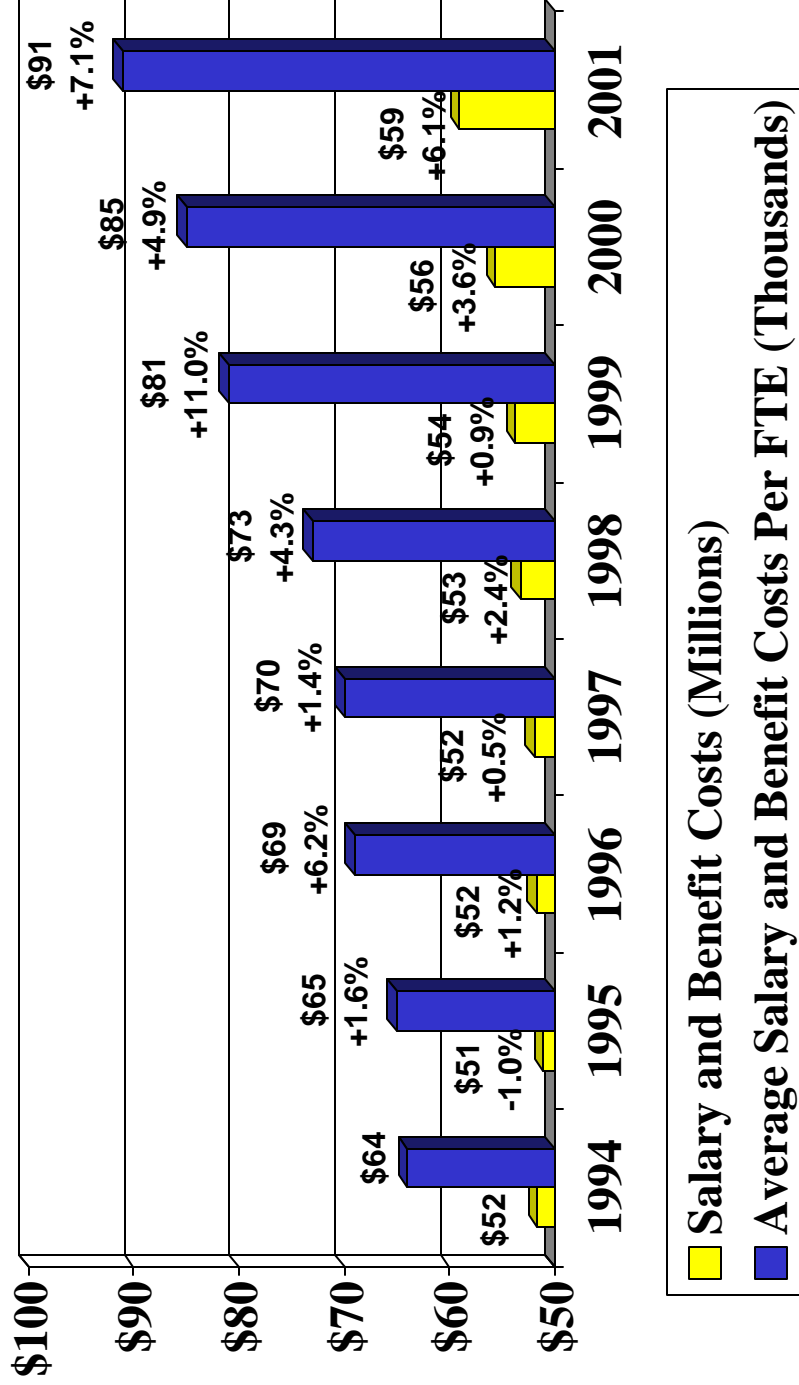
Categories	FY 1998	FY 1999	FY 2000	Total
<b>Third Party Interests</b>	\$5,877	\$0	\$12,877	\$18,754
<i>Payment of valid liens and secured mortgages</i>				
<b>ADP Equipment</b>	\$4,734	\$13,278	\$0	\$18,012
<i>Automated data processing equipment</i>				
<b>Case Related Expenses</b>	\$40,635	\$92,078	\$252,620	\$385,333
<i>Travel and subsistence expenses, translation services, storage</i>				
<b>Special Contract Services</b>	\$646	\$131,555	\$117,982	\$250,183
<i>Contract personnel (Data Analyst, Law Clerk)</i>				
<b>Training and Printing</b>	\$37,726	\$224,111	\$52,916	\$314,753
<i>Training, travel, and printing expenses</i>				
<b>Contracts to ID Assets</b>	\$0	\$5,393	\$0	\$5,393
<i>Information services for tracing forfeiture assets</i>				
<b>Joint Law Enforcement Task Forces</b>	\$7,367	\$239,692	\$144,272	\$391,331
<i>Overtime and other operational costs for State and local agencies</i>				
<b>Awards for Information</b>	\$0	\$19,802	\$17,920	\$37,722
<i>Payment for specific information on criminal activity</i>				
<b>Purchase of Evidence</b>	\$0	\$848	\$0	\$848
<i>Purchase of evidence for money laundering and other forfeiture related violations</i>				
<b>Equipping of Conveyances</b>	\$185,380	\$3,586	\$73,866	\$262,832
<i>Equipping agency owned or leased vehicles</i>				
<b>Totals</b>	<b>\$282,365</b>	<b>\$730,343</b>	<b>\$672,452</b>	<b>\$1,685,160</b>

Asset forfeiture monies are authorized and allocated to OIG as 1-year funds. Any unused funds must be returned to the U.S. Department of Justice (DOJ) (where the funds are considered as no-year funds and can be reallocated for future use). Authorization is required from DOJ to reallocate funds to different categories where the need for additional funding has been identified, rather than in the categories where the funds were originally allocated.

**OFFICE OF INSPECTOR GENERAL  
 Employment History: Actual On Board (EOY)  
 FY 1994 – FY 2001**



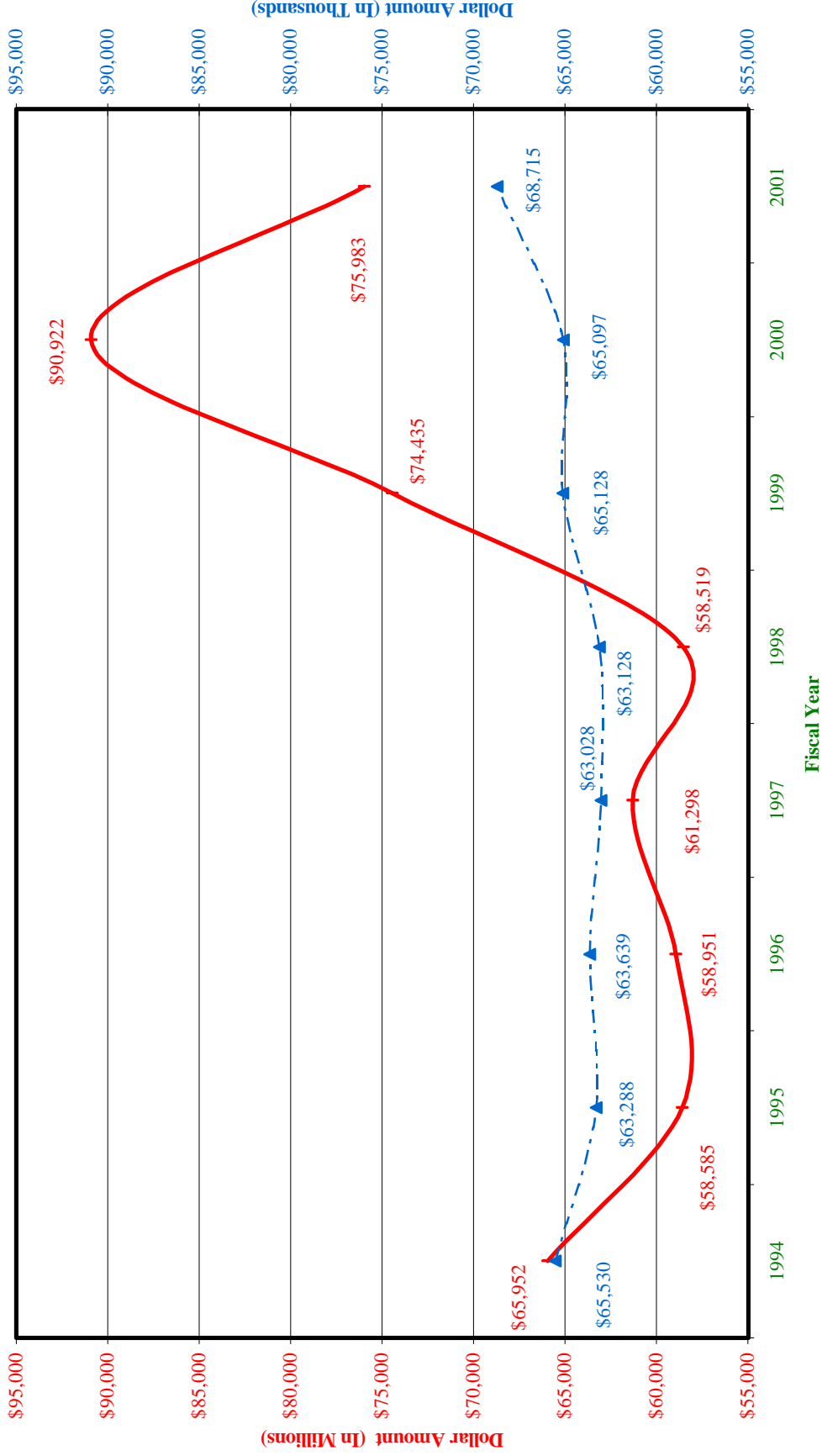
**OFFICE OF INSPECTOR GENERAL**  
**Salary and Benefits Costs vs. Average Cost Per FTE**  
**FY 1994 – FY 2001**



**U.S. DEPARTMENT OF AGRICULTURE - OFFICE OF INSPECTOR GENERAL**

USDA Budget Authority With Supplementals vs. OIG Budget Authority

FY 1994 - FY 2001



—+— USDA Budget Authority With Supplementals  
-▲- OIG Budget Authority