



United States
Department of
Agriculture

Office of
Inspector
General

No. 41

MAY 1999

Office of Inspector General Semiannual Report to Congress

FY 1999—First Half

**Report to the
Secretary on Crop
Insurance Reform**

**Couple Sentenced for Food
Stamp and Other Public
Assistance Fraud**

**Meat Plant Officials
Indicted Following
E.Coli Outbreak**

**Operation Talon
Results in 141 Arrests
Throughout State**

**Horsebreeders
Plead Guilty
to Equine
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Lying To Obtain USDA Loans**

**Nine Indicted in
\$1 Million Farm Loan
Conspiracy**

**Timber Sale
Environmental
Analysis
Requirements**

**Controls Over
Pork Checkoff
Funds**

**Fraud in CACFP
Exacerbated by State's
Ineffective Oversight**

On the cover: Increasingly, our work has captured the attention of the news media. For some of our most outstanding results, we have issued news releases and participated in news conferences for the print and electronic media. On the cover are representative excerpts of headlines from releases issued during this reporting period, as well as titles from audit reports posted on our Internet site (www.usda.gov/oig), which is continually being updated. See the main text for summaries of such high-impact results we are discussing in this report.

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



April 26, 1999

Honorable Dan Glickman
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period which ended March 31, 1999.

During this period, our audits and investigations yielded approximately \$81 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. In addition, management agreed to put more than \$7 million to better use. We also identified approximately \$135 million in questioned costs that cannot be recovered. Our investigations produced 294 indictments and 227 convictions.

Our three Presidential initiatives continue to yield outstanding results. A nationwide effort with the Rural Housing Service has identified over \$4.3 million in misused funds at Rural Rental Housing complexes operated by 20 owners and management agents. Ten cases are under investigation. Operation "Kiddie Care" has found 37 sponsoring organizations in the Child and Adult Care Food Program to be seriously deficient. The 16 sponsoring organizations terminated from the program had been receiving approximately \$35 million in program funds annually. The total number of fugitives arrested through Operation Talon has climbed to nearly 3,800, with 565 occurring this reporting period, as a result of our joint operations with State and local law enforcement officials.

I extend my deepest appreciation to you and the Deputy Secretary for your support. I also wish to thank all the members of the Senate and the House of Representatives who have given us their much appreciated assistance. In addition, I extend my warmest regards to the numerous Federal, State, and local officials with whom we worked to achieve success.

Sincerely,

ROGER C. VIADERO
Inspector General

Enclosure

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Executive Summary

This is the 41th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended. This report covers the period October 1, 1998, through March 31, 1999.

In accordance with the requirements of the Inspector General Act, this report describes matters relating to the Department's programs and operations which occurred during the reporting period. These include significant problems, abuses, and deficiencies; significant recommendations for corrective action; prior significant recommendations unimplemented; prosecutorial referrals; information or assistance refused; a list of audit reports; a summary of significant reports; tables on questioned costs and funds to be put to better use; previous audit reports unresolved; significant revised management decisions; any significant management decision disagreements; and a review of legislation and regulations.

Monetary Results

During this reporting period, we issued 91 audit and evaluation reports and reached management decisions on 82. Based on this work, management officials agreed to recover \$44.2 million and to put an additional \$7.3 million to better use.

We also issued 258 reports of investigation during this period. Our investigative efforts resulted in 294 indictments, 227 convictions, and approximately \$36.8 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Ongoing Presidential Initiatives

A nationwide cooperative effort by OIG and the Rural Housing Service identified over \$4.3 million in misused funds at Rural Rental Housing apartment complexes operated by 20 owners and management agents; 10 cases are under investigation. Schemes included double-charging apartment complexes for management-related expenses and charging apartment complexes for personal expenses of the owner or management agent. In addition, 145 apartment complexes had serious physical deterioration, 215 needed minor repairs, and 50 had conditions that posed a health and safety hazard to tenants.

Operation "Kiddie Care" is still finding a high level of fraud in the Child and Adult Care Food Program (CACFP). The 16 sponsoring organizations terminated from the program had been receiving about \$34.6 million in program funds annually. In an Ohio case, 11 persons have been implicated in a conspiracy to illegally obtain more than \$1.1 million in CACFP funds. Nine of the individuals have been indicted, and seven have pled guilty and have been sentenced to as much as 2 years 9 months of incarceration and restitution of \$790,000. Recent work in California disclosed that the agency responsible for program delivery fostered a lax environment in which sponsoring organizations could readily take advantage of the program.

Operation Talon was designed and implemented by OIG to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. The total number of arrests through Operation Talon has climbed to 3,771, with 565 occurring this reporting period, as a result of joint OIG/State and local law enforcement operations.

Investigative Efforts

In North Dakota, three farmers pled guilty to filing false tax returns, and another was found guilty following trial on five separate counts of conspiracy, fraud, false statements, and filing a false tax return. They fraudulently obtained \$438,500 in crop insurance disaster program benefits and sold grain in another person's name, which enabled them to underreport their crop production. The farmer who was convicted at trial was sentenced to 1 year 9 months in prison and restitution of \$257,270.

Five farmers have pled guilty and been sentenced for their involvement in a kickback scheme in which a former agriculture credit manager in Louisiana falsified loan documents, resulting in \$1.8 million in false Farm Service Agency (FSA) loans. To date, the sentences have ranged from probation to 2 years 3 months of incarceration, with a total of over \$670,000 in restitution.

In a complex food stamp trafficking conspiracy involving 20 authorized stores in New York City, food stamps worth \$63 million were fraudulently redeemed by 44 defendants. A Chicago, Illinois, grocer (sentenced to 4 years 8 months of incarceration and \$9.8 million in restitution) and six associates pled guilty to fraudulent

food stamp redemptions, money laundering, mail fraud, and tax charges in a scheme involving \$12.4 million in food stamp redemptions. In Philadelphia, Pennsylvania, two grocery store owners and two associates pled guilty to criminal charges relating to food stamp and bank fraud, money laundering, and conspiracy totaling more than \$12.5 million. In Cleveland, Ohio, a local grocer pled guilty to laundering \$8.6 million in connection with food stamp trafficking and was sentenced to 12 years' imprisonment.

A Maryland welfare recipient and her husband, a noted neonatal doctor, were sentenced for defrauding the Government of \$118,900 in welfare and educational benefits. The welfare recipient was sentenced to pay a fine of \$5,000 and serve 5 months of home detention. The husband was fined \$15,000, and ordered to serve 5 months of community confinement and 5 months of home detention. The couple also made full restitution of the welfare benefits, including food stamps, medical aid, general welfare, and educational grants, which the family had illegally received from 1996 to 1998.

In Philadelphia, Pennsylvania, sentencing is pending for two owners and the plant manager of a large meat company for misbranding cuts of beef and pork, and skimming \$2.7 million from the company cash register and concealing this income on their tax returns. In Buffalo, New York, three individuals pled guilty to diverting and selling uninspected meat food products designated for destruction or animal food, resulting in probation and fines. For wire and mail fraud and misbranding violations, the vice president of a Vermont meat company received 4 months in prison. A Dallas, Texas, meat company pled guilty to making false statements, resulting in a \$100,000 fine and probation.

Two owners and their company operating a horse export/import business in Virginia and Germany pled guilty to smuggling and providing falsified information concerning horses being exported from Germany. The Government seized the owners' horse farm in Virginia, valued at \$1.2 million, which the owners forfeited to pay damages. Sentencing is pending.

Sentencing is also pending for a Kansas FSA county office program assistant who pled guilty to charges that she issued Commodity Credit Corporation (CCC) checks to herself, disguised as administrative payments, in her efforts to embezzle more than \$276,000. An alert FSA district director discovered the scam and contacted OIG, and the woman confessed.

Audit Efforts

During this reporting period, a roundtable meeting was held with representatives of OIG and FSA. The intent was to enhance each other's understanding of their shared responsibility to ensure program efficiency, effectiveness, and integrity in USDA programs in a time of clearly declining resources. More than 20 representatives from each agency were present, including the FSA Administrator and the Inspector General, making this the first formal joint discussion of such magnitude. OIG and FSA jointly issued a report to the Secretary summarizing the results of these discussions.

We found that crop insurance program integrity and safety net provisions need strengthening. By assigning low overall risk to the reinsured companies, the Government has given company managers little incentive to administer the insurance policies in accordance with the Government's best interests. As a result of the Risk Management Agency's (RMA) current risk-sharing policies, more Federal dollars are going to the reinsured companies than are helping producers recover from insurable losses. In addition, the cost to reimburse reinsured companies for the delivery of the program appears high in comparison to the benefits provided to insured producers.

Our review identified that during 1997, 66 percent of tobacco and tobacco products imported into the United States were not tested for prohibited pesticide residues. Except for unmanufactured flu-cured and burley tobacco, current legislation does not require testing for pesticide residues for all other imported tobacco. Some tobacco-producing companies that export tobacco to the United States routinely use pesticides which have been

banned or restricted in the United States. Lack of testing for prohibited pesticide residues on all tobaccos imported into the United States raises a potential health risk to consumers. We recommended that the Agricultural Marketing Service seek legislation that requires testing for prohibited pesticide residues for all tobaccos imported into the United States.

Forest Service (FS) administrative controls over the preparation of environmental documents and implementation of mitigation measures designed to reduce the adverse impacts of timber sale activities on the environment have not been effective. In some instances, deterioration of the environment had occurred. In one case, a timber sale contract that authorized the harvest of more acres or trees than specified resulted in the cancellation of several timber sales and the subsequent payment of about \$650,000 to timber purchasers for breach of contract. During our evaluation, FS officials took immediate action to correct several conditions that could have adversely affected the environment.

We disclaimed an opinion on the fiscal year (FY) 1998 financial statements for the Department (consolidated), CCC, and FS. The Alternative Agricultural Research and Commercialization Corporation received a disclaimer of opinion on its FY 1997 financial statements. Rural Development received a qualified opinion on its FY 1998 financial statements, while the Food and Nutrition Service, Rural Telephone Bank, and RMA/Federal Crop Insurance Corporation were given unqualified opinions. Most notably, this is the fifth year in a row that the Department has been issued a disclaimer of opinion. FS has continued to make progress, but significant work remains to achieve fairly stated accounting balances in operating and property accounts. We continue to work with FS on such issues in a cooperative task force effort.

Summary of Audit Activities

Reports Issued		91
Audits Performed by OIG	46	
Evaluations Performed by OIG	34	
Audits Performed Under the Single Audit Act	7	
Audits Performed by Others	4	
Management Decisions Made		
Number of Reports		82
Number of Recommendations		546
Total Dollar Impact (Millions)		\$186.7
Questioned/Unsupported Costs	\$179.4 ^{ab}	
Recommended for Recovery	\$44.2	
Not Recommended for Recovery	\$135.2	
Funds To Be Put to Better Use	\$7.3	

^aThese were the amounts the auditees agreed to at the time of management decision.

^bThe recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

Summary of Investigative Activities

Reports Issued		258
Cases Opened		327
Cases Closed		371
Cases Referred for Prosecution		194
Impact of Investigations		
Indictments		294
Convictions		227 ^a
Searches		54
Arrests		900 ^b
Total Dollar Impact (Millions)		\$36.8
Recoveries/Collections	5.5 ^c	
Restitutions	25.4 ^d	
Fines	1.4 ^e	
Claims Established	2.6 ^f	
Administrative Penalties	0.2 ^g	
Cost Avoidance	1.7 ^h	
Administrative Sanctions		
Employees		30
Businesses/Persons		675

^aIncludes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 227 convictions do not necessarily relate to the 294 indictments.

^bIncludes 565 Operation Talon arrests and 335 arrests not related to Operation Talon.

^cIncludes money received by USDA or other Government agencies as a result of OIG investigations.

^dRestitutions are court-ordered repayments of money lost through a crime or program abuse.

^eFines are court-ordered penalties.

^fClaims established are agency demands for repayment of USDA benefits.

^gThis category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

^hThis category consists of loans or benefits not granted as the result of an OIG investigation.

Update of Presidential Initiatives

During the past year, we have been reporting on three Presidential Initiatives. A joint effort with the Rural Housing Service (RHS) to identify those who defrauded Rural Rental Housing (RRH) projects has yielded results. Operation "Kiddie Care" is still finding a high level of fraud in the Child and Adult Care Food Program (CACFP), and Operation Talon continues to apprehend fugitives from justice, many of whom are violent offenders.

Presidential Initiative in the RRH Program Uncovers Fraud and Threats to Tenant Health and Safety

In order to curb program abuse and develop a roadmap for future efforts, OIG and RHS undertook a nationwide cooperative effort to identify owners and management agents who misused funds while neglecting the physical condition of RRH apartment complexes. The initiative targeted 32 owners and management agents in 13 States and identified over \$4.3 million in misused funds at apartment complexes operated by 20 owners and management agents. Ten cases are under investigation.

Some owners and management agents used a variety of methods, or schemes, to improperly withdraw funds from RRH apartment complex accounts. Many double-charged apartment complexes for management-related expenses that were the responsibility of the management agent and already paid through the management fee. Such costs included bookkeeping, postage, and photocopying fees. For example, one management agent skimmed over \$630,000 from 70 RRH apartment complexes by double-charging bookkeeping costs and the salaries and insurance costs for its employees.

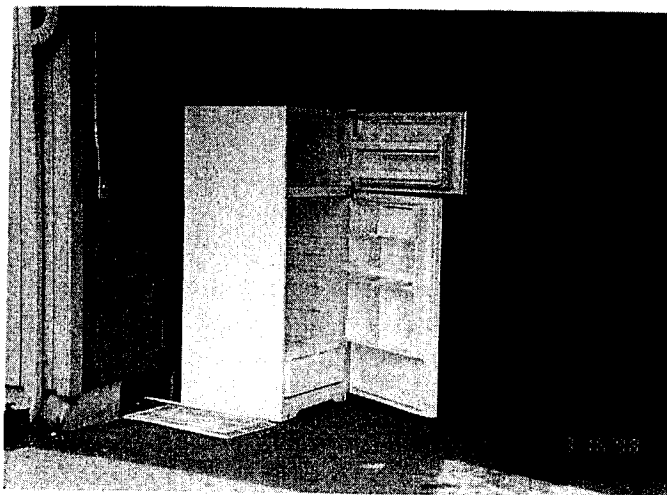
Another common scheme involved charging apartment complexes for personal expenses of the owner or management agent. One owner used over \$325,000 from five apartment complexes for personal purposes. Over \$59,000 of this was used to purchase a house and pay for related expenses, including mortgage payments and real estate taxes.

Many of the unallowable charges were made by related-party, or identity-of-interest, companies that provided services or supplies to apartment complexes.

Transactions involving identity-of-interest companies are especially vulnerable to abuse because owners and management agents originate transactions and approve them for payment by the apartment complex; there is no independent monitoring, approval of the payments, or other compensating control to provide any assurance of propriety.

One identity-of-interest company skimmed over \$175,000 from RRH apartment complex accounts by creating fictitious invoices. The identity-of-interest company never performed the work.

A major impact of the misused funds was reflected in the physical condition of apartment complexes. Teams of OIG and RHS representatives visited 637 apartment complexes (operated by 83 owners and management agents) and identified 145 apartment complexes which had serious physical deterioration and another 215 which needed minor repairs. The teams also identified 50 apartment complexes with conditions that posed a health and safety hazard to tenants.

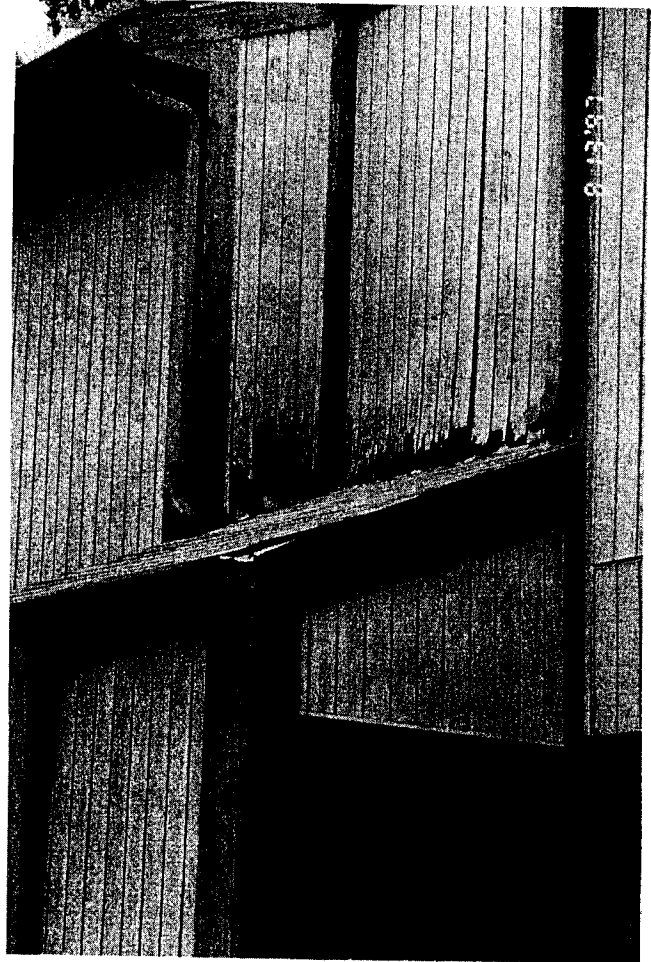


This abandoned refrigerator posed a threat to children at one RRH apartment complex. OIG photo.

Some of the serious conditions observed during our inspections included deteriorated and leaking roofs; water damage to the ceilings of apartment units (one ceiling had collapsed and was spread throughout the apartment); worn, moldy, and rotted exterior siding and trim; unsafe balconies and stairwells; missing gutters and downspouts; unsecured hazardous materials such as gasoline; and dangerous equipment in child playground areas.



Neglect following from misused funds is clear with this unsafe balcony. OIG photo.



The deterioration of these rotted boards is evident. OIG photo.

The abuse of program funds by unscrupulous owners and management agents jeopardizes the integrity of the RRH Program by burdening low-income and elderly tenants with higher rents, increasing Government rental assistance subsidies, creating health and safety hazards for tenants, and threatening the Government's security value of properties.

RHS plans to implement regulatory reforms and administrative controls to prevent fraud, waste, and abuse in the future. Such reforms include yearly inspections of all RRH apartment complexes, development of quality standards for RRH apartment complexes, development of legislation to enact civil penalty provisions where program funds are improperly withdrawn, and regulatory revisions prohibiting certain abusive charges to RRH apartment complexes.

After 2 Years, Operation "Kiddie Care" Still Finds a High Level of Fraud in CACFP

During the last fiscal year, we reported on the status of our Presidential Initiative to identify sponsoring organizations (sponsors) who are abusing CACFP, remove them from the program, and prosecute them, if necessary. Operation "Kiddie Care" has focused on sponsors who administer the program in day care homes and centers and disburse Government payments to those child care facilities.

As of March 31, 1999, 56 sponsors, employees, or providers in 24 States either had been reviewed or were still under review. The number of sponsors found seriously deficient has grown to 37, the number terminated from the program has reached 16, and the

number of individuals indicted for program fraud or named in a criminal information stands at 44. The 16 sponsors terminated from the program had been receiving about \$34.6 million in program funds annually.

- In Ohio, 11 persons, including the director of this sponsor, have been implicated in a conspiracy to illegally obtain more than \$1.1 million in CACFP funds over 10 years through the creation of fictitious provider homes and falsified records. Nine of the individuals have been indicted, and seven have pled guilty and have been sentenced. The sentences range from 3 years' probation to 2 years 9 months of incarceration. They were ordered to pay restitution ranging from about \$7,000 to over \$790,000 each. This investigation was conducted jointly with the U.S. Postal Inspection Service.
- In Utah, after receiving complaints from several Utah child care providers and OIG review, Federal prosecutors charged a couple with 117 counts of making false statements to a Government agency and with embezzlement and misapplication of CACFP funds. The couple who owned the sponsorship oversaw more than 400 day care home providers. Among their misdeeds, the couple demanded kickbacks from their providers in exchange for their reimbursement checks. One of the providers, who was working in concert with the sponsors, was charged in a 21-count indictment with making false statements and demanding and receiving kickbacks from providers, totaling \$16,000. Trial is pending.
- In Michigan, a former city school board member and her assistant were indicted for falsifying claims, totaling \$27 million over more than a decade, from 16 day care centers the board owned and operated. A food vendor admitted supplying false invoices to inflate the day care centers' food costs to substantiate the false meal count sheets. Trial is pending.
- A former site representative for a New Mexico CACFP sponsoring organization was placed on probation for 5 years and ordered to pay restitution of \$17,400 after she pled guilty to a State charge of forgery. The representative forged and negotiated 68 checks that the sponsoring organization had written to its providers. The sponsoring organization terminated her employment upon learning of the theft.

- In California, the former program manager for a sponsor and her accomplice pled guilty to making a false statement after having created a fictitious child care provider. Each was sentenced to 3 years' probation and 6 months in a home detention program and ordered to pay a \$100 fine and total restitution of \$23,340. The investigation also disclosed that a former California Department of Education employee furnished the former manager with a fictitious State child care license.
- In California, a 10-count criminal indictment for mail fraud was filed against three family members who were employed with a day care sponsor organization for fraudulently obtaining over \$95,000 from the State agency and CACFP. Two of the individuals, who were husband and wife, were the executive directors of the organization which sponsored approximately 1,000 day care homes. With the assistance of their daughter, the couple used various schemes to inflate claims for reimbursement and falsified reports to make it appear they were properly monitoring the day care homes which they sponsored.

Figure 1 shows the status, as of March 31, 1999, of our investigations of sponsors and providers.

As Figure 1 shows, our work in California has been more extensive than in other States, largely because more sponsors in California proved to be engaged in questionable practices. As a result of the high incidence of fraud in California and the program dollars received by that State (the highest in the Nation), we reviewed program oversight by the agency responsible for program delivery, the California Department of Education (CDE). We were particularly concerned because some of the fraud we found in the State had been ongoing for many years without being detected by CDE, even though CDE had an audit unit devoted, in part, to monitoring CACFP.

We determined that CDE fostered a lax environment in which sponsors could readily take advantage of the program. CDE's reviews of the sponsors' budgets were deficient, and its audits of the sponsors' operations were ineffective. Organizational deficiencies within CDE also resulted in a lack of coordination between units. Program personnel did not question suspicious budgetary information that was provided by the

sponsors solely to increase their administrative fees, and CDE auditors did not find discrepancies that were readily detectable. When the State did question sponsor activities, it took no followup actions to resolve discrepancies. All 11 sponsors we reviewed in California engaged in fraudulent activities or serious program irregularities. The co-owner of one sponsor found guilty of fraud was, in fact, a CDE supervisor. Ten sponsors received over \$45 million in Federal funds

for 1996 and 1997. The eleventh sponsor was terminated prior to FY 1996.

We also noted that CDE did not complete the number of audits of CACFP sponsors it was required to perform. At the time of our audit work, the Federal assistance threshold was \$25,000 for audits of public and nonprofit entities. The States are provided with special funding from USDA to carry out the audits and are restricted

Figure 1
Results of Investigations of Sponsors and Providers

State	Investigations	Entities Terminated From CACFP	Individuals Indicted or Named in Criminal Information	Individuals Who Pled Guilty or Were Convicted	Individuals Sentenced
Arizona	1		1	1	1
California	8	5	19	13	13
Colorado	1				
Florida	2	1			
Idaho	1	1	1	1	1
Louisiana	2	1			
Michigan	1	1	2		
New Mexico	2		1	1	1
New York	2		1	1	1
Ohio	2	1	11	7	7
Pennsylvania	3	3	1 ¹	1 ¹	
Tennessee	3	2	3	1	1
Utah	1	1	4	1	
Washington	2			1	1
TOTALS	31	16²	44	28	26

¹The subject died prior to sentencing, and the conviction was dismissed.

²A seventeenth entity in Oregon was terminated from the program but not investigated for fraud.

from using the funding for other purposes until the audits are performed. Over the last 3 years, California was required to complete 296 audits of CACFP sponsors but performed only a third of this number. Nevertheless, CDE claimed more audit funding than it was entitled to and used the surplus to pay salaries and benefits of other administrative personnel or to cover the costs of non-CACFP audits. We questioned over \$5.5 million of special CACFP audit funding used in California.

We recommended that States like California redirect their resources to strengthen their oversight of CACFP and play a more central part in the delivery of the program. We also recommended that the Food and Nutrition Service (FNS) recover the \$5.5 million in audit funds improperly claimed by California.

Our nationwide review of CACFP sponsors is continuing, and more indictments are expected. We are

also looking into weaknesses of program design. Specific areas of concern are the system of program delivery and the level of sponsor accountability. We expect to issue a nationwide report by the next reporting period and will convey specific recommendations at that time.

Operation Talon Arrest Total Climbs to 3,771

During the last fiscal year, we reported on the progress of Operation Talon, a nationwide Presidential Initiative designed and implemented by OIG to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. Operation Talon has been expanded to include a total of 42 metropolitan areas in 23 States, and an additional 565 fugitives have been arrested as a result of joint OIG/State and local law enforcement operations, bringing the total to 3,771 arrests as of March 31, 1999. Figure 2 highlights results as of March 31, 1999.

Figure 2

Crimes Committed by Felons Apprehended in Operation Talon

Offense	Total Arrests	Offense	Total Arrests
Murder	16	Kidnapping	8
Attempted Murder	11	Assault	183
Child Molestation	21	Robbery	123
Rape	9	Drugs	961
Attempted Rape	2	Other	2,437

Farm and Foreign Agricultural Services

FARM SERVICE AGENCY (FSA)

The Omnibus Appropriation for FSA for FY 1999 included approximate expenditures of \$924 million in salaries and expenses and \$2.4 billion for the Agricultural Credit Insurance Fund Program Account, as well as a supplemental \$3 billion for market loss assistance, \$2.4 billion for crop loss assistance, and hundreds of millions of dollars for other assistance. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations with estimated expenditures of \$8.4 billion.

Monitoring Implementation of the Crop Loss Disaster Assistance Program (CLDAP)

OIG has been actively working with FSA to monitor the implementation of CLDAP, which was authorized under the Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999. In addition to the \$3.1 billion appropriated for market loss assistance, the act also authorized \$2.4 billion for crop loss assistance. Starting in December 1998, OIG participated in a number of the agency's discussions to draft the proposed program regulations and subsequently provided written comments to the agency on its proposed program. We also attended the agency's national training and training in selected States on the new program.

OIG reciprocated by inviting FSA to attend our training seminar on the nationwide review. Based on the feedback that FSA provided OIG at the seminar, we modified the evaluation program to incorporate FSA's concerns. Also, during the initial phase of our review, OIG and FSA held biweekly conference calls to provide an update of our review and the agency's implementation of CLDAP. We have been able to provide to FSA, among other things, timely information on the status of its outreach programs, any backlog or problems in the processing of applications, and problems in the software applications. FSA has been able to update us on matters such as new changes in the procedures, recently issued notices to its field offices, and any of its concerns that it wants OIG to monitor.

On February 22, 1999, we issued a Management Alert to the Administrators of FSA and the Risk Management Agency (RMA) recommending that the agencies obtain a Secretarial decision memorandum on two material

issues: (1) whether to adjust crop loss payments for producers who received excessive crop disaster payments resulting from identified excessive yields and/or production guarantees and (2) whether to reduce payments to producers who could receive total disaster program benefits exceeding the expected gross return for their crops. We also recommended that the agencies implement regulations and procedures to resolve producers' file data where the two agencies' records are materially disparate. We have been working with both agencies to resolve all of these issues. The agencies provided OIG an interim response stating that they were drafting procedures to address some of the issues, but also will be forwarding to the Office of the General Counsel a request for an opinion on one issue. We have emphasized to the agencies the need to expedite this request so that corrective action, if appropriate, could be taken prior to issuance of producers' payments (which are scheduled to be completed by June 15).

FSA Needs To Provide Additional Servicing of the Mississippi Boll Weevil Eradication Loan

The Boll Weevil Eradication Loan Program supports the National Boll Weevil Cooperative Control Program's efforts to eradicate and protect cotton crops from the boll weevil. We reviewed one of the three 1997 loans (the Mississippi Boll Weevil Management Corporation (MBWMC) loan). We found that the borrower had not implemented adequate administrative and accounting controls.

- The responsible State agency had not developed an adequate system to bill and collect producer assessment fees, resulting in underassessed fees of about \$567,000.
- MBWMC had not established adequate controls over fiscal activities, to include inadequate separation of duties over sensitive accounting functions, insufficient bond coverage for employees, and inadequate loan security interest of almost \$1.5 million of MBWMC assets.

We recommended FSA monitor the loan account and provide loan servicing as necessary, and made a series of recommendations to improve the assessment collection process and internal controls. FSA agreed with the recommendations and initiated corrective actions.

Violators Avoid Penalties for Unauthorized Removal of Stored Collateral

Our audit in Minnesota and Nebraska disclosed that FSA has no policies or procedures to provide State or county offices with special guidance for dealing with unauthorized removals of stored collateral (stored commodities are used to secure price support loans) or other program violations committed by county office committee (COC) members. When such violations are uncovered through spot checks, COC members would be forced to judge fellow committee members. In instances such as that found in one county office where two COC members were alleged to have committed unauthorized removals of stored collateral, the feasibility of an objective ruling by COC appears questionable.

We also found that FSA Handbook 7-LP states that county committees may waive any and all liquidated damages as long as the violation under consideration is the borrower's first offense and COC determines that the producer's action was taken in good faith. The *Code of Federal Regulations*, however, places restrictions on a COC's ability to waive these liquidated damages. These additional restrictions are not incorporated into the FSA handbook, with the result that of 48 unauthorized removal cases that we reviewed, COC's improperly waived all of the liquidated damages which should have been assessed in 41 of these cases and portions of the damages in 3 others.

We recommended that the FSA national office develop written instructions requiring that program violations by COC members be referred to the applicable State committee for resolution. We also recommended that FSA Handbook 7-LP be amended to conform with the *Code of Federal Regulations*.

FSA has agreed to implement actions to address these problems, and we have agreed with FSA's management decisions.

Dairy Producers Benefit From the Northeast Interstate Dairy Compact

We performed this evaluation of the Northeast Interstate Dairy Compact as a result of a congressional request. We concluded that the compact met its financial obligation to CCC in a timely manner and that the compact was providing a financial benefit to milk producers in the compact area.

On September 1, 1998, CCC invoiced the compact for \$1.7 million, in accordance with provisions in the 1996 Farm Bill, as compensation for its purchases of milk in FY 1998 which were caused by the increased milk production in the compact area. The compact met its obligation to CCC by paying the CCC invoice, in full, on September 3, 1998. Also, producers were paid \$46.6 million of the \$51 million collected by the compact from July 1, 1997, through September 30, 1998, in addition to the producers' receipts from the Federal Market Order Price, which varied each month.

Roundtable Meeting Between OIG and FSA

On December 8, 9, and 10, 1998, representatives of FSA and OIG met in San Antonio, Texas, to enhance each other's understanding of their shared responsibility to ensure program efficiency, effectiveness, and integrity in USDA programs in a time of clearly declining resources. More than 20 representatives from each agency were present, including the FSA Administrator and the Inspector General, making this the first formal joint discussion of such magnitude. Both FSA and OIG officials agreed that neither agency could function effectively without the full faith and cooperation of the other, and each agency saw the need to recognize and respect the other agency's mission.

OIG and FSA jointly issued a report to the Secretary summarizing the results of these discussions and have agreed to make the report available to their staffs nationwide. In the report, each agency has outlined actions needed to implement the recommendations from our discussions, and each agency has taken steps to implement the corrective actions.

Farmers Guilty of Tax Fraud, Conspiracy, and False Statements

In North Dakota, three farmers pled guilty to filing false tax returns, and another was found guilty following trial on five separate counts of conspiracy, fraud, false statements, and filing a false tax return. They fraudulently obtained \$438,500 in crop insurance disaster program benefits and sold grain in another person's name, which enabled them to underreport their crop production over 2-1/2 years. The farmer who was convicted at trial was sentenced to 1 year 9 months in prison and was ordered to pay a combined criminal/civil restitution of \$257,270. The three who pled guilty were each sentenced to 18 months' probation and were ordered to pay a combined restitution of \$31,280. Two

other subjects who were acquitted at trial have agreed to pay approximately \$150,000 to settle a civil suit against them.

Farmer Pleads Guilty to Converting CCC Security

A Minnesota farmer pled guilty to felony charges in U.S. district court after an investigation showed he had converted more than \$230,000 in CCC-secured corn and soybeans. He was sentenced to serve 5 months' confinement, followed by 5 months' home detention and 3 years' supervised probation. As part of the plea agreement, he agreed to make full restitution and repay the remainder of his outstanding loans.

Farmer's Estate Agrees To Restore Wetlands

The estate of an Iowa farmer agreed to create 36.2 acres of new wetlands and pay \$50,000 as part of a civil settlement. From 1993 to 1995, the farmer falsely certified to FSA his interest in a farm that contained 36.2 acres of wetlands, which the farmer converted for crop production, making him ineligible for all FSA farm program payments. The new wetland will equitably replace the original wetland the farmer had drained and farmed. The restoration will be completed by the U.S. Army Corps of Engineers at the expense of the estate.

Farm Program Borrower and Others Caught in a Scam Against FSA

In Harrisburg, Pennsylvania, the owner of a mink operation pled guilty to criminal charges relating to making false statements to FSA in order to obtain \$188,600 in operating loans. In addition, eight individuals, including the defendants' attorney, and two fictitious trust companies, were sued in U.S. district court for filing fraudulent Federal common-law liens against FSA-pledged securities. The defendants were ordered to pay restitution of \$113,700 to FSA and fined a total of \$25,000.

The investigation showed that the owner, after receiving a farm operating loan from FSA, created two fictitious trust companies and filed fraudulent common-law liens in the amount of \$660,000 against the security pledged to FSA in order to receive operating loans. The subjects then sold \$113,700 of FSA's security under the names of the fictitious trusts and transferred the funds to their attorney in Utah. The funds were ultimately recovered through an injunction by the U.S. attorney against the attorney's bank account.

Fugitive Honey Producer Caught and Jailed

An Idaho honey producer, who we previously reported had pled guilty to submitting false statements to FSA in order to obtain over \$6 million in loans and subsidy payments, was sentenced to serve 2 years 4 months in Federal prison and was ordered to pay \$3 million in restitution to FSA. He fled on the day before he was scheduled to report to prison. A month later, the producer was located and arrested at his sister's residence in Montana. He was then transported to a Federal penitentiary in Oregon. Additional charges related to the failure to appear are expected to be sought by the U.S. attorney's office in Idaho.

Warehouse Owners Convicted of Stealing Grain from Producers

Two Idaho warehouse operators, a husband and wife, were ordered to pay restitution of \$166,000 to CCC and local farmers after they pled guilty to Federal charges related to the theft of grain that was being stored at their State-licensed grain warehouse. Producers in Idaho and Oregon lost more than \$1.5 million. The wife was also sentenced to serve 6 months in Federal prison to be followed by 4 months of home detention and 3 years of supervised release. Her husband was placed on probation for 4 years. As part of their plea agreement, they also agreed not to contest debarment action by USDA. This investigation was a cooperative effort with the Oregon State Police; the Federal Bureau of Investigation (FBI); the Canyon County, Idaho, Sheriff's Department; the Internal Revenue Service's (IRS) Criminal Investigation Division; and warehouse examiners from the FSA Kansas City commodity office.

Five Farmers Convicted in Farm Loans-for-Kickback Scheme

Five farmers have pled guilty and been sentenced in Federal court for their involvement in a kickback scheme in which an FSA credit manager in Louisiana falsified loan documents, resulting in \$1.8 million in false FSA loans. The credit manager, who resigned, and two other FSA borrowers have been indicted and are currently fugitives. Also, a local bank vice president was placed on pretrial diversion for conspiring with the former credit manager to provide false information to FSA, resulting in the issuance of an FSA guaranteed loan. To date, the sentences have ranged from probation to 2 years 3 months of incarceration.

In addition, the court has ordered a total of over \$670,000 in restitution be paid to USDA.

RISK MANAGEMENT AGENCY (RMA)

RMA supervises the Federal Crop Insurance Corporation (FCIC) and oversees all programs authorized under the Federal Crop Insurance Act. FCIC is a wholly owned Government corporation that offers subsidized, multiple-peril crop insurance through a private delivery system by means of reinsured companies. These are private insurance companies that perform the insurance marketing, distribution, servicing, training, quality control, and loss adjustment functions in return for a percentage reimbursement of the premiums and a share of annual marketing gains. RMA's FY 1999 programs are estimated at \$1.8 billion in premiums (of which about \$950 million is in the form of premium subsidy) and \$2.1 billion in indemnities.

Crop Insurance Program Integrity and Safety Net Provisions Need Strengthening

Over the past few years, RMA has tried to meet Congress' intent to expand the crop insurance program and make insurance available to more producers. The amount of insurance acreage has doubled, rising to 60 percent of the Nation's insurable acres. However, some RMA policies have had the effect of increasing premium costs to producers. The increased premiums have resulted in reduced effectiveness of the Federal crop insurance program as a safety net for all producers, and especially for small and limited-resource producers.

By assigning low overall risk to the companies, the Government has given company managers little incentive to administer the insurance policies in accordance with the Government's best interests. Because the reinsured companies incur minimal costs from reinsured losses, they have little reason to effectively monitor risky policyholders, little reason to deny claims of questionable losses, and no cause to find fault with their own practices.

As a result of RMA's current risk-sharing policies, more Federal dollars are going to the reinsured companies than are helping producers recover from insurable losses. From 1995 to 1998, producers received a total of \$5.4 billion in indemnities, but because only \$3.4 billion (62 percent) of this was covered by

producers' premiums, the Government paid the remaining \$2 billion. At the same time, however, the Government paid reinsured companies a total of \$2.8 billion for delivering the program, \$800 million more than it paid in producers' subsidies.

In addition, the cost to reimburse reinsured companies for the delivery of the program appears high in comparison to the benefits provided to insured producers. Of the \$2.8 billion paid to reinsured companies from 1995 to 1998 to deliver all reinsured programs, about \$510 million covered administration of the Catastrophic Risk Protection (CAT) program. Of the indemnities paid to producers during the same period, about \$268 million represented CAT indemnities, most of which were paid by the Government.

Our nationwide reviews of the crop insurance program identified several types of abuses by reinsured companies that could be eliminated with greater risk-sharing by the companies: Conflicts of interest, pressure on loss adjusters to overlook errors on policyholders' loss claims, and ineffective quality control reviews.

We suggested that RMA revise its Standard Reinsurance Agreement to increase the amount of risk assigned to the reinsured companies on crop insurance program policies. Alternatively, RMA should evaluate options available for a more cost-effective program delivery system, including the possibility of a Government-administered delivery system for the entire program or limited to a portion of the program, such as for the CAT program.

In the interim, RMA also should strengthen its controls to preclude abuses by reinsured companies and producers. This would include greater monitoring of reinsured companies, sales agents, and loss adjusters. Concurrently, RMA needs to assert a larger oversight and monitoring presence in the program by providing greater guidance to the reinsured companies, expanding RMA compliance oversight, and taking measures to improve the companies' quality control.

Nursery Crop Insurance Program Needs Improvement

RMA and the reinsured companies need to improve their management and administration of the Nursery Crop Insurance Program. In a joint effort with RMA, we identified significant problems for three of the five producers we reviewed.

- Sales agents for reinsured companies had not assessed the reasonableness of producer-reported inventory values. One producer, who submitted inflated values for inventory to the reinsured company, received over \$2.9 million in indemnities.
- Loss adjusters did not always verify the reported cause of loss. In one case where we concluded that a tornado did not strike a producer's nursery as alleged, we questioned over \$243,000 in indemnity payments to the producer for crop-year 1996.
- RMA's system for identifying and sanctioning producers with abnormal loss histories was not effective. As a result, producers having a history of receiving large, recurring indemnities have been allowed to continue to purchase insurance coverage at the same premium levels as producers with little or no loss experience. For example, administrative mis-cues allowed one producer to underpay premiums by about \$3.1 million for crop-years 1997 and 1998.

Reinsured companies' quality control (QC) reviews did not identify deficiencies similar to those disclosed in our audit, and the agency did not provide adequate oversight and monitoring of the program. Some cases have been referred for possible investigation.

RMA officials generally agreed with our findings and recommendations to review the cited cases and, in consultation with investigative personnel, recover the questionable indemnities and take other appropriate administrative actions, take measures to ensure compliance with program regulations and requirements, and adjust the cited producer's premium for crop-year 1999.

"Prevented Planting" of 1996 Insured Crops

"Prevented planting" coverage insures for crops that could not be planted due to disaster-related conditions. Starting with the 1994 crop-year, FCIC allowed prevented planting coverage for some insured crops (generally limited to traditional crops such as cotton, wheat, corn, and grain sorghum). We judgmentally reviewed 75 such policies in 6 States with indemnities paid of about \$1.8 million and found several areas of concern.

- *Late Notification and Untimely Inspection of Loss.* Prevented planting claims were based upon crop reports that were generally filed 30 days after the

crop planting dates and adjusted months later, making it impossible to verify the conditions that existed at planting time.

- *Questioned Costs.* We questioned claims totaling almost \$135,000 on 30 policies for various reasons, such as payments based on inaccurate data or acreage unsuitable for agricultural production. These questioned claims should have been detected by the loss adjusters or in QC reviews made by the reinsured companies.
- *Adjusters Had Conflicts of Interest With Insureds.* Three of the loss adjusters who adjusted claims included in our review had conflicts of interest with insureds. In one case, the adjuster was a cousin of the insured, and, in the other two cases, adjusters owned land they rented to the insured but still adjusted the insured's claim, which included the land they owned.

We recommended the use of certain policy provisions for reporting loss, recovery of almost \$135,000 in questioned claims, internal control reviews of prevented planting claims, prevention of payment of claims on idle cropland, and controls to prevent conflict of interest on the part of adjusters.

RMA officials did not respond to our recommendations about requiring normal loss adjustment policy procedures for reporting and adjusting prevented planting claims and for changing policy and RMA provisions to preclude payments of prevented planting claims on land with no recent history of being farmed. They do not concur with a recommendation to establish controls to improve loss adjustment procedures for prevented planting. They have agreed to notify us of the questioned costs they will collect once they have completed a review of our workpapers.

Risk Compliance Division Has Made Notable Improvements, but More Could Be Made

The RMA Risk Compliance Division's monitoring of the Federal crop insurance program generally has been vigorous and effective. However, enhancements could be made through more effective use of the results of its reviews and through greater accountability of other RMA divisions in the reporting process. Reporting and response procedures were not in place for submitting reports recommending program improvements to program managers who are responsible to ensure that corrective actions are taken.

The status of complaints received and of recommendations was made unclear because the Risk Compliance Division did not use its computer tracking system to record them. Officials of the division, rather than the RMA Administrator, were making final administrative determinations on reconsideration of disputed cases. The division had not finalized its internal compliance handbook, and field personnel at different locations were found to be using various draft versions. Finally, field personnel did not always prepare written review plans or prepare working papers to support the results of their reviews.

We recommended the division perform trend analyses, issue reports involving program improvements directly to program managers, have the program managers work with the reinsured companies to implement corrective actions, and track complaints and recommendations. We also recommended that the Administrator make final administrative decisions on reconsiderations, and that the compliance handbook be finalized and issued. RMA officials generally agreed.

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS represents the interests of U.S. farmers and the food and agricultural sector abroad. It also collects, analyzes, and disseminates information about global supply and demand, trade trends, and emerging market opportunities. FAS seeks improved market access for U.S. products and implements programs designed to build new markets and to maintain the competitive position of U.S. products in the global marketplace. FAS also carries out food aid and market-related technical assistance programs and helps increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth.

FAS Needs To Strengthen Controls Over the Food For Progress (FFP) Program

The FFP program provides food resources to developing countries and emerging democracies. FAS enters into agreement with private voluntary organizations (PVO) to furnish the countries with food commodities. CCC supplies FFP commodities and pays for tens of millions of dollars in noncommodity costs (primarily transportation) and other assistance.

Four of the five PVO's we reviewed generally complied with grant agreement terms. We found that the other PVO had a history of grant agreement violations dating back to 1993.

That PVO materially violated provisions of one agreement by monetizing (selling) \$14 million of CCC-donated commodities which were designated for direct distribution to recipients in the Republic of Belarus. It also received \$415,000 of administrative funds to assist in directly distributing the commodities to recipients, and the funds were not accounted for. The Governments of the Republics of Belarus and Ukraine assessed import taxes against the PVO on \$3.7 million of CCC commodities donated as part of two other agreements. The two governments declared that the PVO's activities in their countries were commercial businesses and taxed the monetization proceeds derived from the sale of these commodities. As a result, nearly all of the \$3.7 million of commodities provided to the PVO under the two agreements will probably be used to pay import and sales taxes. The PVO also diverted \$128,000 of commodities to other countries, in direct violation of a grant agreement.

Three of the five PVO's reviewed received \$264,000 in grant funds for foreign social security and payroll taxes that they did not pay to their host governments.

We found that FAS did not (1) require formal budgets for monetization proceeds that PVO's used to pay for FFP projects nor adequately monitor the use of those proceeds, (2) conduct timely reviews of PVO's semiannual logistics and monetization reports, or (3) validate information PVO's reported in the semiannual reports or require PVO's to submit copies of their annual audit reports for review.

We recommended that FAS debar the one PVO from further participation in the program and initiate actions to account for and recover from PVO's, as appropriate, the questioned monetization proceeds and administrative funds. We also made a series of recommendations to strengthen controls over the program. FAS agreed to conduct followup reviews of the PVO's activities and take appropriate action and improve its controls over FFP.

Food, Nutrition, and Consumer Services

FOOD AND NUTRITION SERVICE (FNS)

FNS administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and the Food Donation Programs. FNS' funding for FY 1999 is \$35 billion, primarily in FSP (\$21 billion), CNP (\$9 billion), and WIC (\$4 billion).

FOOD STAMP PROGRAM

Monitoring of Electronic Benefits Transfer (EBT) System Continues

Currently, 38 States and the District of Columbia use EBT systems to deliver food stamp benefits. Twenty-nine of the systems have been implemented statewide, including the District of Columbia. An additional seven States are in the process of expanding statewide. More than 50 percent of all FSP benefits are being issued via EBT.

We continue to chair a President's Council on Integrity and Efficiency working group composed of Federal, State, and public accounting representatives who developed standard procedures for reviews of EBT processor operations. We have finalized the guide and received the endorsement of the National State Auditors Association. The guide has been forwarded to the Office of Management and Budget (OMB) for inclusion in the compliance supplement for OMB Circular A-133 or in another appropriate regulatory document. During this semiannual period, we completed EBT system audit work in Kansas, Massachusetts, and Illinois.

- *Kansas* - The Kansas EBT system has been successfully implemented. However, the State agency had not established procedures to reconcile program authorizations transmitted from the State system to those received by the EBT processor and the system operated by the Federal Reserve Bank; State agency recoupment records were not reconciled to FNS data; and the State agency had not analyzed fraud detection reports to identify potential program abuse. Controls over access to the EBT system also needed strengthening. FNS agreed with our recommendations for corrective actions in these areas.

- *Massachusetts* - Overall, the FNS Northeast regional office, the State agency, and the EBT processor had sufficient controls and procedures largely in place. FNS agreed with our recommendations, which would require the State agency to strengthen controls over access to the EBT system, security and accountability over EBT cards, and monitoring of group living arrangements.
- *Illinois* - Overall, FNS, the State agency, and the contractor had sufficient controls and procedures in place. We recommended that FNS instruct the State agency to implement procedures to improve controls over access to the EBT system and to maintain adequate controls over its inventory of unissued EBT cards.

Financial Institutions Improved Redemption Certificate Processing Procedures

We performed this audit to evaluate the corrective action taken by FNS in response to deficiencies we reported in July 1996 which disclosed five financial institutions with questionable redemption certificates totaling over \$8.5 million. Redemption certificates were absent, consolidated, held, altered, or destroyed. In the 1996 report, we made five recommendations; FNS expects to implement the remaining three recommendations in the near future. We tested redemption certificates at three of the five financial institutions where we previously found problems. Our audit disclosed that, overall, the deficiencies we had cited earlier had been or were being corrected.

Career Criminal Sentenced

In St. Louis, Missouri, the manager of a grocery store who had been convicted of food stamp fraud on three previous occasions was sentenced to 15 months in prison following his guilty plea to Federal food stamp trafficking and gun charges. During our investigation, the store manager negotiated the sale of a handgun in exchange for EBT food stamp benefits and purchased food stamps and EBT food stamp benefits in exchange for cash and other contraband. The store manager had just been released from prison when OIG learned of this latest illegal food stamp activity.

Cleveland Grocer Pleads Guilty to Laundering \$8.6 Million in Food Stamps

As the result of three investigations in Cleveland, Ohio, that initially seemed unrelated, a local grocer, who has two prior convictions for food stamp trafficking as a result of OIG investigations conducted in 1989 and 1994, pled guilty to laundering \$8.6 million in connection with food stamp trafficking. The investigation showed that, from June 1993 through March 1998, the grocer organized the illegal redemption of food stamps for himself and other Cleveland area grocers. The grocer was sentenced in Federal court to 12 years' imprisonment. The other two store owners involved in the conspiracy, who cooperated with the prosecution, were sentenced to 2-1/2 years and 18 months, respectively. All involved grocers were permanently disqualified from FSP.

This investigation was conducted by the Cleveland Food Stamp Task Force, which is composed of OIG, the U.S. Secret Service, the FBI, the IRS Criminal Investigation Division, the U.S. Customs Service, the Cleveland Police Department, and the Ohio Department of Public Safety.

Seven Individuals Plead Guilty to \$12.4 Million Food Stamp Trafficking Scheme

A Chicago, Illinois, grocer and six associates pled guilty to fraudulent food stamp redemptions, money laundering, mail fraud, and tax charges in a scheme involving \$12.4 million in food stamp redemptions. Our investigation, conducted jointly with the IRS Criminal Investigation Division, disclosed that from April 1989 through June 1995, the owner opened a number of stores in the Chicago metropolitan area and placed family members as the owners of the stores. He maintained control of the operation and bank accounts to obtain food stamp authorization. The owner would purchase food stamps from unauthorized stores and redeem the food stamps through the stores that he controlled. After a search warrant was conducted at the grocer's residence and stores, the grocer fled to Palestine. Shortly thereafter, his spouse reported that the grocer died while in Palestine and submitted a false death certificate to that effect. In December 1997, Chicago OIG agents arrested the grocer, who was carrying several pieces of identification, including three Jordanian passports, bearing six different names. The grocer's sentence included 4 years 8 months of incarceration and \$9.8 million in restitution. His wife

was sentenced to 3 years' probation with the first 6 months as home confinement, and ordered to pay \$1.2 million in restitution. The remaining family members were sentenced to a total of 4 years 2 months of incarceration and \$1.85 million in restitution, collectively. Sentencing is pending for the owner's father and owner's friend.

Seventeen Traffickers, Store Owner, and Contractor Convicted of Trafficking

After a year-long surveillance and undercover investigation, 19 individuals, including a store owner and a corporation contracted by the State of Michigan to issue food stamps, were charged with 45 counts of conspiracy and food stamp trafficking. The corporation was placed on pretrial diversion and agreed to surrender \$75,000 in cash and implement food stamp trafficking prevention procedures. A minor subject was placed on pretrial diversion. Eleven traffickers pled guilty to one count each of conspiracy. Three defendants, two traffickers, and a store owner were convicted by jury trial. Their sentencing is pending. Fraud loss is estimated at approximately \$4.5 million. Michigan State Police and the Michigan Family Independence Agency assisted in this investigation.

Attorney and Former Cleveland, Ohio, Mayor's Community Relations Board Member Sentenced

As previously reported, an attorney and a former authorized retail grocer (who was also a member of the Mayor of Cleveland's Community Relations Board) were charged in Federal court in Cleveland with food stamp trafficking. During this reporting period, both defendants' guilty pleas were accepted. As part of his plea agreement, the attorney testified for the Government in a public corruption case against a State Senator, who was convicted on three of four counts. The attorney was sentenced to 2 years' probation, ordered to pay \$10,000 in restitution to USDA, fined \$15,100, and ordered to perform 200 hours of community service. The former authorized retailer and board member was sentenced to 4 years' probation and ordered to pay \$13,200 in restitution and a \$100 special assessment.

This case was worked jointly with the Cleveland FBI's Public Integrity Squad and the U.S. Department of Justice and was conducted to complement and interface with the above-mentioned public integrity conviction.

Four Phoney Recipients Commit Food Stamp Fraud

In Indiana, four individuals pled guilty to theft, forgery, and welfare fraud for their parts in a scheme to obtain unauthorized welfare benefits. The four represented themselves as food stamp recipients and used identification cards stolen from a county welfare office to obtain food stamps. Our investigation revealed that there were 139 instances in which individuals involved in the scheme misrepresented themselves in order to obtain \$57,600 in food stamps. Two of the individuals received a 3-year prison sentence, with all but 6 days suspended, and 2 years' probation. The other two were sentenced to serve 2 to 3 years of incarceration at a community correctional facility, followed by 1 year of in-home detention. The four were also ordered to pay a total of \$1,630 in restitution to USDA.

\$63 Million in New York City Food Stamp Fraud

In a complex food stamp trafficking conspiracy involving 20 authorized stores in New York City, food stamps worth \$63 million were fraudulently redeemed by 44 defendants who owned and/or worked in authorized stores in Manhattan, Brooklyn, and the Bronx. In order to continue and promote the food stamp fraud scheme and conceal the illegal source of the funds, the defendants wrote checks from the bank accounts of certain stores to other stores or store owners and transferred large amounts of currency to accounts in Florida and Puerto Rico which were held in the names of account holders in the Dominican Republic. Investigation revealed that the money used in the food stamp trafficking was derived from drug trafficking proceeds. In addition, two commercial bank officers were indicted for conspiracy to facilitate food stamp trafficking and bank bribery. This investigation is continuing with additional indictments anticipated. Criminal forfeiture actions are also pending. This case is being conducted jointly with the FBI and IRS.

Portland Grocers Guilty

The owners of a Portland, Oregon, grocery store are awaiting sentencing after they pled guilty to trafficking in food stamps and EBT benefits. They have agreed to forfeit approximately \$225,000, much of which was seized from their residence during the execution of a search warrant. During our investigation, which was conducted jointly with the Portland Police Bureau, the store owners purchased \$3,700 in food stamps and

EBT benefits from an undercover police officer. A search of their store disclosed that they had over 250 EBT cards, including one issued to OIG and used by our undercover officer. As they did with our undercover officer, the owners paid the recipients for the benefits which had accrued on the cards at the beginning of the month and periodically drew benefits from them throughout the month, using each recipient's personal identification number. Our investigation disclosed that the store owners' food stamp redemptions in 1996 and 1997 exceeded their eligible food sales by approximately \$248,000.

Family and Accomplices Traffic Food Stamps in Two States

Two men were convicted on 84 counts of illegally obtaining more than \$522,000 in food stamp coupons and laundering them through 4 bank accounts in 2 States. They face up to 415 years in prison for food stamp fraud and up to 20 years in prison for money laundering. Two codefendants entered guilty pleas for one count each of food stamp fraud. Sentencing is pending.

One subject had been previously disqualified from participation in FSP in Georgia for trafficking; he later submitted an application in Alabama. In his Alabama application, he did not report his previous disqualification and was ultimately authorized to participate. A joint OIG-IRS investigation determined that the subject's wife, son, and two accomplices were actively involved in the trafficking scheme. They purchased food stamps in Georgia, deposited them into the bogus accounts in Alabama, and withdrew cash.

Store Owner To Serve 4 Years and Pay \$1.2 Million in Restitution

A Mississippi store owner has been sentenced to 4 years 3 months in prison and ordered to pay \$1,266,300 in restitution for food stamp fraud, conspiracy, and witness tampering. He offered a gang member \$10,000 in cash to kill an accomplice who had become a Government witness against him. The accomplice pled guilty to food stamp trafficking and was sentenced to 6 months in prison. The owner had obtained several authorizations to accept and redeem food stamps in different names and locations. During a 21-month period, the subjects illegally redeemed food stamps with an approximate value of \$1,308,000.

Food Stamp and EBT Trafficking at Produce Stalls in Washington, D.C.

The owners of two retail stalls in a farmers' market in Washington, D.C., pled guilty to illegally trafficking more than \$300,000 in food stamp benefits in 1997 and 1998. Sentencing is pending. The two owners regularly discounted both food stamp coupons and EBT benefits at their stalls in exchange for cash. More than \$170,000 in cash and property was seized by agents from the owners' businesses, residences, and bank accounts. One stall owner had more than \$80,000 in cash secreted away in his residence where it was neatly concealed in envelopes from the bank where the benefits were deposited. These are the first EBT cases worked in the District of Columbia, which recently converted to the EBT system. The cases were worked in concert with the FBI.

\$118,900 in Restitution and \$20,000 in Fines in Welfare Fraud Case

In an update to a case reported earlier, a Maryland welfare recipient and her husband, a noted neonatal doctor, were sentenced for defrauding the Government of \$118,900 in welfare and educational benefits. The welfare recipient was sentenced to pay a fine of \$5,000 and serve 5 months of home detention, and was placed on 3 years' probation. The husband was fined \$15,000, ordered to serve 5 months of community confinement and 5 months of home detention and to perform 100 hours of community service, and placed on 3 years of supervised release. The couple also made full restitution of the welfare benefits, including food stamps, medical aid, general welfare, and educational grants, which the family had illegally received from 1996 to 1998. This case was worked jointly with the Department of Education OIG and the Prince George's County Department of Social Services with assistance from the Social Security Administration OIG and the Immigration and Naturalization Service.

Federal, State, and Local Cooperation Yields Major Disqualifications and Cost Savings in Maryland FSP

From September 1994 to January 1999, the Maryland Department of Human Resources (DHR), in concert with the Baltimore City Department of Social Services (DSS), disqualified 6,699 food stamp recipients and claimed cost savings of \$4.2 million in the delivery of the State's food stamp benefits. These disqualifications and savings resulted from OIG investigations of nine retail stores in the Baltimore area which were trafficking heavily in food stamps. OIG furnished DHR and DSS with our investigative findings, the criminal justice results, and EBT data on the owners and employees of the subject stores, which allowed State and city food stamp authorities to take administrative action against the recipients who were selling their benefits at the retail stores. Our cooperation with DHR and DSS in Maryland continues, as we strive to combat fraud in the program at both the retail and the recipient levels.

Major Food Stamp and Bank Fraud Ring Rounded Up

In Philadelphia, Pennsylvania, two grocery store owners and two associates pled guilty to criminal charges relating to food stamp and bank fraud, money laundering, and conspiracy totaling more than \$12.5 million. Sentencing is pending. In conjunction with the food stamp fraud, they were also involved in the arson of one of their stores and an \$800,000 bank fraud scheme. They were finally caught in their last bold but foolhardy criminal plan to deposit a counterfeit \$4.7 million check. The subjects, unaware that the banker servicing them at the time was an undercover agent, offered to pay the agent a \$1 million fee for the transfer of the funds to Jordan. This was a joint investigation with the FBI and the Bureau of Alcohol, Tobacco, and Firearms.

Food Safety

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

FSIS administers a comprehensive system of inspection laws to ensure that meat, poultry, and egg products moving in interstate and foreign commerce for use as human food are safe, wholesome, and accurately labeled. FSIS' appropriation for FY 1999 totaled approximately \$617 million.

Extensive Meat Mislabeling, Bribery, and Tax Fraud Scheme Halted

In Philadelphia, Pennsylvania, two owners, the vice president, plant manager, and four salesmen for a large meat company were indicted for skimming \$2.7 million from the company cash register and concealing this income on their tax returns. The owners and plant manager were also indicted for misbranding cheaper cuts of beef and pork between 1990 and 1995 and selling this meat as expensive cuts. The two owners pled guilty to all 52 counts brought against them. As part of the agreement, each will pay \$127,000 in fines, \$450,000 in civil penalties, and \$750,000 in back taxes. The plant manager pled guilty to selling misbranded meat and filing false income tax returns. Sentencing is pending.

The investigation, conducted jointly with the FBI, IRS, and Defense Criminal Investigative Service, revealed that the owners sold ungraded meats as USDA Choice. In addition, the owners paid their employees "under the table" to evade income taxes, and paid bribes to customers, including supermarkets and Government facilities, to entice them to buy their brand of meat products.

Three Plead Guilty to Diverting and Selling Uninspected Food Products to Local Stores

Two employees of a Buffalo, New York, salvage company and a third individual pled guilty to diverting

and selling uninspected meat food products. The three individuals stole product designated for destruction or use in animal feed from the salvage company and sold the product to local stores. One individual was sentenced to 2 years' probation and fined \$1,000. A second individual was sentenced to 2 years' probation and fined \$250. The third individual was sentenced to 2 months in a halfway house and 2 years' probation. This investigation was conducted jointly with the U.S. Food and Drug Administration (FDA) Office of Criminal Investigation.

Vermont Meat Company Sentenced for Mislabeling

A Vermont meat company and its vice president were sentenced for wire and mail fraud and misbranding violations under the Federal Meat Inspection Act. The vice president received 4 months in prison and 1 year of probation, and the company was sentenced to 2 years' probation. The judge ruled that the total restitution for all parties would be \$67,000.

The company, which supplied Halal beef to the New York City Department of Corrections, falsely represented product as such. Halal refers to a slaughter practice consistent with the Muslim faith which allows meat to be consumed by devout Muslims. Halal beef sells for a higher price than regular beef.

Company Pleads Guilty to Export Fraud

A Dallas, Texas, meat company pled guilty to making false statements to FSIS by certifying that beef tenderloins exported to the European Union (EU) were from an EU-certified plant when, in fact, the exported meat was not certified for export to EU. In addition to a \$100,000 fine and 5 years on probation, the company entered into a consent decree (i.e., probation) with FSIS for continued inspection privileges.

Marketing and Regulatory Programs

AGRICULTURAL MARKETING SERVICE (AMS)

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1999 is approximately \$243 million.

Improved Controls Needed Over the Pork Research and Promotion Program

AMS and the National Pork Board need to strengthen their oversight and controls over the Pork Research and Promotion Program. The board placed too much responsibility on its primary contractor, the National Pork Producers Council (NPPC), allowing it to be in a position to exert undue influence over board budgets and grant proposals. Since 1996, the board has awarded all of its program grants to NPPC. These grants cover the fundamental issues to be addressed with checkoff funds, such as promotion, research, and consumer information. ("Checkoff" programs are individually authorized research and promotion programs.) This is significant because NPPC is involved in the development of projects and issues within each grant area, as well as engaged in the planning and development of the grant proposals which are eventually awarded to them. The board does not have sufficient staff to administer checkoff funds directly, to provide adequate oversight of the funds, or to oversee \$60 million in annual checkoff collections, distribution, and use.

We found that the board was not involved with, and did not monitor, checkoff-funded subcontract work obtained by NPPC. NPPC acted alone and without board oversight to retain contractors, set contract terms, and accept deliverables. NPPC did not develop adequate written policies and procedures for administering the projects and subcontracts. Neither the board nor NPPC installed a system to track individual project and subcontract costs, which resulted in some subcontractors working without contracts, a \$900,000 unsecured prepayment to one subcontractor, varying and subjective rates for common contracting costs, nondisclosure of potential conflicts of interest, and noncompliance with USDA and NPPC's own requirements.

The board also contracted with NPPC to perform routine administrative and accounting functions. The board's weak oversight also lessened assurance of accountability over funds for other activities. Neither the board nor AMS tested NPPC's overhead cost allocations to determine if the allocations were fairly applied to checkoff activities, nor did the board effectively test compliance at checkoff collection sites or at State pork associations. In addition, the board did not provide State pork associations sufficient guidance on national election practices, so not all producers were provided equal opportunity to participate.

We recommended AMS work with the board and its delegates to accomplish appropriate separation of the board's business from NPPC and assure accountability for checkoff expenditures. A plan should be developed to provide for sufficient staff to oversee key operational responsibilities for the board. We also recommended actions for the board to more effectively oversee the primary contractor's subcontracting practices and procedures; more closely monitor and test State association checkoff expenditures, collections, and transfer of checkoff funds from collection sites; and improve access to board delegate elections for all pork producers. AMS concurred with our conclusions and agreed to improve the board's accountability of funds and strengthen controls over checkoff-funded operations.

Import Tobacco Inspection Requirements Need To Be Strengthened

Our review identified that during 1997, 66 percent of tobacco and tobacco products imported into the United States were not tested for prohibited pesticide residues. Except for unmanufactured flu-cured and burley tobacco, current legislation does not require testing for pesticide residues for all other imported tobacco. Our review further disclosed that some tobacco-producing companies that export tobacco to the United States routinely use pesticides which have been banned or restricted in the United States. AMS' lack of testing for prohibited pesticide residues on all tobaccos imported into the United States raises a potential health risk to consumers.

We recommended that AMS seek legislation that requires testing for prohibited pesticide residues for all tobaccos imported into the United States. AMS is addressing the recommendation to implement corrective actions.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Through inspections, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for FY 1999 are estimated to total over \$590 million.

Horse Smugglers Brought to Justice

Two owners and their company operating a horse export/import business in Virginia and Germany pled guilty to smuggling and providing falsified information concerning the age of horses being exported from Germany. The German veterinarians unknowingly issued inaccurate health certificates for export to the United States. The certificates were presented to APHIS officials so that the horses could avoid 50 days of quarantine in the United States, a requirement for all horses over the age of 731 days in order to prevent the spread of Contagious Equine Metritis. The horse owner is responsible for paying for the quarantine process. Consequently, at least four horses were imported into the United States without being placed in quarantine. The Government seized the owners' horse farm in Virginia, valued at \$1.2 million, which the owners forfeited to pay damages in this case. This was a joint investigation with APHIS. Sentencing is pending.

Dealer Convicted of Stealing Dogs for Use in Medical Research

We previously reported that a former USDA-licensed dog dealer, her husband, and their son had been indicted for conspiracy and mail fraud related to a scheme to fraudulently acquire and sell dogs for medical research. The dealer and her husband subsequently were convicted of conspiracy to violate the Animal Welfare Act (AWA) by providing false information concerning the suppliers of dogs on documents required to be maintained for review and inspection by APHIS. They were sentenced to 6 months and 4 months of home confinement, respectively, and placed on probation for 1 year. Their son pled no contest to an Oregon State felony charge of theft and was sentenced to 10 days in jail, 18 months' probation, and a \$250 fine. The three defendants also agreed to permanent disqualification of their APHIS license to act as dealers under AWA. Six other defendants were placed on probation for periods of 12 to 18 months. We worked this investigation with the assistance of APHIS; the Animal Control Division of the Roseburg, Oregon, Department of Special Services; Douglas County, Oregon, Sheriff's Department; and the U.S. Marshals Service.

Natural Resources and Environment

FOREST SERVICE (FS)

FS manages natural resources on over 191 million acres of the National Forest System lands. It provides cooperative forestry assistance to States, communities, forest industries, and private landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and manage recreation areas. For FY 1999, total FS funding was about \$3.3 billion with receipts from timber sales and other activities estimated at \$966 million.

Timber Sale Environmental Analysis Requirements

FS' administrative controls over the preparation of environmental documents and implementation of mitigation measures applicable to timber sales have not been effective. Mitigation measures contained in 10 of the 12 environmental assessments reviewed were not always implemented, and mitigation measures were either omitted or incorrectly incorporated into 4 of 12 accompanying timber sale contracts. These measures are designed to reduce the adverse impacts of timber sale activities on the environment. In some instances, deterioration of the environment had occurred.

In 3 of the 12 environmental assessments and decision notices reviewed, timber sale contracts authorized the harvest of more acres or trees than specified, in 1 case resulting in the cancellation of several timber sales and the subsequent payment of about \$650,000 to timber purchasers for breach of contract. FS management officials generally agreed with our conclusions and a series of recommendations to improve controls regarding timber sale environmental analysis requirements. During our evaluation, FS officials took immediate action to correct several conditions that could have adversely affected the environment.

Controls Over Reconciliation of Minerals Mining Service (MMS) and FS Records Need Strengthening

FS is responsible for land and resource management on National Forest System lands. MMS (U.S. Department of the Interior) collects mineral production information on Federal and Indian leases and collects and disburses to the appropriate recipient or agency all designated royalties and revenues derived from these leases. FS officials retain management oversight for ensuring leases are accounted for in MMS' data bases.

Our 1990 audit disclosed that FS did not have a system to reconcile payments received from MMS or to verify that amounts due were received. Our current audit determined that of the 7,785 energy leases on FS records for FY 1997, 430 leases could not be identified in MMS' financial data base. We confirmed with MMS that 64 of the leases were, in fact, not included in MMS' data base; therefore, there was no assurance that production royalties and about \$404,000 in rental and bonus bids were collected. Further, FS had not eliminated the duplication of efforts in the coding of mineral receipts as recommended in our prior audit report.

We recommended that FS determine why the 64 FS leases were not listed on MMS' data base and take action to ensure that production royalties and the \$404,000 in annual rents and bonus bids are collected. We also recommended that FS establish timeframes for completing the system that will automatically transfer data on royalties from MMS to the National Finance Center (NFC), or determine the feasibility of transferring the royalty pay function from FS to MMS. FS officials agreed to implement our recommendations.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

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

Environmental Quality Incentives Program (EQIP) Could Better Maximize Environmental Benefits Nationwide

EQIP, authorized by the 1996 Farm Bill, encourages conservation of private farmland that maximizes environmental benefits economically. We reviewed the initial year of EQIP implementation (FY 1997) and found that USDA had successfully developed EQIP as a consolidated conservation initiative, replacing the functions of four previous conservation programs. However, EQIP implementation did not achieve maximum environmental benefits nationwide. NRCS

delegated major decision-making processes to the State and local levels, without sufficient review and oversight from the regional and national offices. Therefore, the program was not consistently administered for the priority areas in the eight States we reviewed. We noted that the methods used to allocate funds, classify priority areas, and apply the EQIP offer index needed improvements.

We recommended that NRCS reassess the methods for allocating EQIP funding and approving priority areas. We also recommended that NRCS establish controls to provide for consistent establishment of ranking criteria and equitable consideration of all applications for EQIP contracts. Although NRCS officials disagreed with our conclusions on the implementation of EQIP, they agreed to implement our recommendations.

Improvements Are Needed in the Award of Cooperative Agreements

Cooperative agreements are used to transfer money, property, services, or anything else of value to recipients to accomplish a public purpose of support or stimulation, and are required when substantial involvement by the Government is anticipated. We reviewed a sample of cooperative agreements entered into during FY's 1996, 1997, and 1998 totaling almost \$101 million for the NRCS national office, the East regional office, and the State offices in Maryland and Pennsylvania.

We found that there was no documentation to determine the selection process used to award cooperative agreements. In addition, NRCS had not competitively awarded cooperative agreements over \$75,000 as required. In Pennsylvania, we identified a cooperative agreement that was entered into between the State NRCS office and an NRCS official acting as president of the organization that was awarded the cooperative agreement. However, regulations prohibit Federal employees from participating in their official capacities as board members of any profit or nonprofit organization.

We recommended that NRCS complete and issue policy and procedures for awarding cooperative agreements, as well as enforce the requirement to competitively award agreements over \$75,000. We also recommended that NRCS take action immediately to terminate the cooperative agreement that violated conflict-of-interest regulations or ensure that the NRCS employee with ties to the agency and the cooperator has no involvement with this agreement. NRCS officials agreed to implement our recommendations.

Rural Development

Rural Development

Rural Development programs are designed to meet the diverse needs of rural communities with a variety of loan, loan guarantee, and grant programs, plus technical assistance, cooperative development, and rural housing. Rural Development loan programs have an outstanding portfolio of direct and guaranteed loans totaling \$149.1 billion.

RURAL HOUSING SERVICE (RHS)

RHS is responsible for making available decent, safe, sanitary, and affordable housing and community facilities by making loans and grants for rural single-family housing and apartment complexes, fire stations, libraries, hospitals, and clinics. For FY 1998, program funding for RHS loans and grants totaled \$5.4 billion. As of September 30, 1997, RHS had an outstanding loan portfolio totaling \$30.6 billion. An additional 79,100 borrowers had obtained guaranteed single-family housing and community facilities loans totaling \$4.7 billion.

Loans Approved for Ineligible Borrowers

Our audit of guaranteed housing loans in 10 States disclosed that an estimated 1,839 loans (21.7 percent) totaling \$139 million (21.9 percent) did not meet eligibility requirements to participate in the Guaranteed Rural Housing Loan Program (GRHLP). We also found that GRHLP has not fully met its objective to expand home ownership opportunities to low- and moderate-income residents of rural areas. In addition, loan losses totaling almost \$1.5 million on the 72 statistically sampled defaulted loans reviewed were not shared equitably between lenders and RHS, with the Government sustaining nearly all the losses. Furthermore, the Government will continue to have to subsidize GRHLP because guarantee fees collected have not been sufficient to cover program losses.

We recommended that RHS develop an eligibility checklist for RHS loan approval officials to help ensure compliance with eligibility requirements. Further, State directors need to implement a more aggressive outreach program in targeted rural areas. RHS also should implement a plan to limit loan loss payments to lenders to no more than 90 percent of the loan. In addition, the agency should seek legislation allowing

RHS to raise the loan guarantee fee sufficiently to cover all loan loss expenses. RHS management agreed with some of our recommendations but remains unconvinced concerning the need to share losses more equitably.

Rural Rental Housing (RRH) Program Incurs Excessive Costs as Tenants Report Income Incorrectly

We reviewed RHS' tenant certification procedures to determine the accuracy of interest credit and rental assistance subsidies provided on behalf of RRH tenants. We estimate that about 47 percent of the 62,185 tenants in our universe failed to report incomes accurately and/or failed to report income changes timely. This went undetected because management companies did not verify income and adjustments reported by tenants, as required by regulations. We statistically estimated that approximately \$10.5 million in rental assistance and \$3.7 million in interest credit were excessive in the six-State area we evaluated.

RHS needs to continue to improve controls to assure that rental assistance and interest credit are provided correctly, and project managers should be more thorough in verifying income and adjustments reported by tenants. Also, RHS should prioritize income verification in households with earned incomes, because they are more likely to misreport their incomes than tenants with unearned incomes. Continuing effort is needed by RHS to ensure that Rural Development State offices use wage-matching and seek to recover excess subsidies provided. RHS officials generally agreed.

RURAL UTILITIES SERVICE (RUS)

RUS seeks to improve the quality of life in rural America through a variety of loan, loan guarantee, and grant programs for electric energy, telecommunications (including distance learning and telemedicine), and water and waste projects. As of September 30, 1998, electric borrowers have received over \$56.6 billion in direct loans and guaranteed loans; telecommunications borrowers received over \$12.6 billion in direct loans and guaranteed loans; and water and waste borrowers have received a total of \$22.7 billion in direct loans, guaranteed loans, and grants.

Distance Learning and Telemedicine (DLT) Grantee Oversight Needs Improving

RUS administers the DLT Grant and Loan Program, which is intended to encourage, improve, and make affordable the use of telecommunications, computer networks, and related technology for rural communities to improve access to educational and/or medical services. Our review of four grants disclosed that the grantees were eligible for participation in the program, the grant funds were used for eligible purposes, and matching requirements were met. Further, we concluded the DLT grant program was successful in funding distance learning and telemedicine projects in rural areas as intended by legislation.

However, we did determine that RUS needs to strengthen the administration and oversight of its program by improving internal controls relating to disbursing grant funds and safeguarding federally procured property. For example, two of the four grantees reviewed prematurely requested grants funds and did not disburse them in a timely manner, resulting in increased interest costs of \$17,000—which went undetected by RUS officials. Further, DLT equipment purchased with grant funds was not properly identified and accounted for by the four selected grantees in accordance with Federal property management standards, because RUS did not have adequate procedures in place. As a result, equipment acquired with Federal funds, totaling about \$1.5 million, was not adequately safeguarded and accounted for.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

RBS enhances the quality of life for all rural residents by assisting cooperatives and businesses through partnership with rural communities. RBS does this by promoting a stable business environment in rural America through financial assistance, sound business planning, technical assistance, research, education, and information.

RBS Needs To Improve Oversight of Business and Industry Loans

We performed an audit to determine if RBS and Rural Development State offices identified potential problem borrowers before their financial condition deteriorated to the point that loan repayment was jeopardized. We concluded that lenders and Rural Development were aware of negative trends or impacts and were monitoring the situations before borrowers became delinquent. However, RBS was not aware of the extent of these nondelinquent problem loans nationally because Rural Development did not report them in its tracking system, as required. For the seven States in our review (30 percent of the national loan portfolio), we statistically projected that 40 percent of the guaranteed loans, valued at over \$203 million, are at risk of default.

Problems we found included unfavorable financial results for a significant number of the loans we reviewed, most notably negative trends in current debt-to-equity and return-on-assets ratios, and a lack of financial statements and/or analyses. Because of this high percentage of potentially problematic loans, we believe the national delinquency rate of 6.6 percent could increase dramatically in future years unless RBS ensures that lenders perform the required annual financial analyses. RBS agreed with the findings and recommendations.

Financial, Administrative, and Information Technology

EQUAL EMPLOYMENT OPPORTUNITY

Civil Rights Phase VI Tracks Status of Settlement Agreements

We have performed a series of evaluations concerning the resolution of complaints of discrimination in the administration of the Department's programs. Our phase V review determined that the Civil Rights (CR) office did not track settlement agreements after they were executed and did not know how many agreements the Department had entered into. Consequently, the Secretary asked us to determine whether the agreements had been fulfilled expeditiously and completely and whether all forms of compensatory damages and program relief had been implemented.

During our phase VI evaluation, we reviewed 17 settlement agreements and 84 conciliation agreements negotiated by CR and other Department agencies since January 1, 1994. (Settlement agreements can contain terms for compensatory damages, while conciliation agreements typically contain terms for program relief only.) The Department has fully implemented 8 of the 17 settlement agreements and has implemented most of the terms of the remaining 9. It has paid all compensatory damages settled by CR in a timely manner. It has also implemented most of the terms of the conciliation agreements calling for program relief. Most agreements that have not been implemented contain terms (e.g., calling for priority consideration on future loans) that do not expire for up to 6 years.

In one case, the Department did not fulfill the terms of its agreement. The Farm Service Agency (FSA) maintained that it was precluded by statute from offering the stipulated program relief. FSA had not informed CR of its decision and had not sought advice from the Department's attorneys. We recommended that the Department seek a legal opinion about the propriety of the term and implement it, if appropriate. We also recommended that CR track all agreements and report to the Secretary twice a year the terms that have not been implemented.

Even though there was a high probability that discrimination occurred in the 17 cases that led to settlement, no disciplinary action has been taken. CR has provided agencies with no formal guidance on how to proceed in these cases. We have consistently urged CR to provide guidance on all stages of the complaints resolution process, and we reemphasized this need.

In addition, several agreements contained terms that were inappropriately or vaguely worded, or provided monetary damages that may not be allowed by law. We recommended that CR assemble and chair a team of Office of the General Counsel (OGC) attorneys and program officials which would meet before each agreement negotiation to analyze the proposed terms of the agreement for legal sufficiency.

FINANCIAL MANAGEMENT

USDA is required by the Chief Financial Officers Act and the Government Management Reform Act to prepare and audit financial statements for all Departmental accounts and activities. Financial statements for USDA are generated from six separate systems operated by various USDA agencies.

Financial Statement Audits

USDA—FY 1998 Consolidated Financial Statements: Disclaimer of Opinion

Our disclaimer of opinion (for the last 5 years) means that the Department, as a whole, does not know whether it correctly reported the monies collected in total, how much money was collected, the cost of its operations, or any other meaningful measure of financial performance. For the last 7 years, the Department has reported to the President that it is unable to provide reasonable assurance that the Department's financial systems provide information that is relevant and consistently reported. This difficulty will continue until at least 2002.

Some material internal control weaknesses reported since 1992 continue to exist. Moreover, the Department's existing financial information system is not integrated with its subsystems and does not substantially comply with the three requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. In addition, the delay in implementing the Foundation Financial Information System (FFIS) has a significant impact on the Department's financial and program operations.

We previously recommended that the Department take aggressive action to fix these problems. The Office of the Chief Financial Officer (OCFO) indicated in its response to our audit of the FY 1997 Financial Statements that it concluded that a single integrated

financial system throughout the Department was no longer a viable goal. OCFO must instead strive for a set of financial systems that are integrated. OCFO is committed to form a group to develop a plan to reduce and consolidate the Department's financial management systems and decide on a methodology to develop a departmentwide strategy for an integrated financial system architecture. OCFO has also developed a 5-year plan for implementing FFIS.

*Commodity Credit Corporation (CCC)—FY 1998
Financial Statements: Disclaimer of Opinion*

CCC was unable to provide sufficient and competent evidential matter to substantiate certain financial statement line items related to direct and guaranteed credits to foreign countries and its Statement of Financing, as well as other material financial statement line items, within the timeframes established by the Department to comply with the Government Management Reform Act of 1994.

We continued to find various material internal control weaknesses and noncompliance with FFMIA, the Federal Managers' Financial Integrity Act of 1982, and provisions of the Debt Collection Improvement Act (DCIA) of 1996. We disagreed with CCC's conclusion that its existing financial management system weaknesses did not preclude it from meeting Comptroller General requirements and complying with section 4, Financial Management Systems.

We recommended that CCC reorganize its financial accounting and reporting functions and strengthen its personnel resources to allow for the timely and accurate completion of critical financial functions. We also recommended CCC strengthen its management oversight and internal coordination regarding budget and financial reporting operations. We further recommended that CCC report nonconformance with section 4 (Financial Management Systems) until corrective actions are accomplished within current financial accounting standards and requirements.

*FS—FY 1998 Financial Statements: Disclaimer of
Opinion*

Because of the absence of an integrated general ledger and supporting subsidiary records, along with significant financial systems weaknesses, we were unable to express an opinion on the FS financial statements for FY 1998.

Our examination of FS' internal control structure disclosed that continuing financial management deficiencies prevented FS from preparing complete, reliable, and consistent financial statements; the lack of an integrated accounting system and material weaknesses within the current system resulted in inaccurate and unreliable financial data; and internal controls were not sufficient to safeguard assets or to ensure that field-level financial records were accurate.

FS was not prepared to address the significant changes brought about by new Federal Accounting Standards Advisory Board standards that became effective in FY 1998, and the changes in the form and content of the financial statements. Accounting adjustments of over \$8.2 billion were necessary because of errors in preparing the statements.

For the first time, in FY 1998 FS used the INFRA (Infrastructure Application) management information system for compiling real property values. However, FS had not implemented standard procedures or internal controls for obtaining real property values from INFRA. Additionally, FS discovered significant discrepancies in computer-generated data pulled on various dates. Because of the lack of procedures and controls for reporting real property and the discrepancies discovered by FS, we could place no reliance on amounts of real property reported in the balance sheet.

*Alternative Agricultural Research and
Commercialization Corporation (AARCC)—FY 1997
Financial Statements: Disclaimer of Opinion*

We were unable to express an opinion on the AARCC financial statements (the FY 1997 statements were not presented for audit until substantially after the period had passed). This disclaimer of opinion was significantly impacted by the absence of an effective internal control structure and compounded by the lack of reliable financial information on AARCC's investees.

The corporation cannot provide reasonable assurance that it can properly record and account for transactions which permit the preparation of reliable financial statements, maintain appropriate accountability over assets, or properly safeguard Government funds from loss and/or unauthorized use. AARCC officials acknowledged that their current financial reporting system is not set up to generate financial statements in accordance with generally accepted Government accounting standards.

Among the various material internal control weaknesses we identified were an overall absence of effective methods to assure that investees used AARCC funds as intended and that they contributed required capital, insufficient policies and procedures over the loan/investment-making process, and a substantial lack of adherence to existing critical policies and procedures (e.g., obtaining audited financial statements from the investees). We also noted instances where AARCC appears to be in noncompliance with the Food, Agriculture, Conservation, and Trade Act; the 1996 Farm Bill; and DCIA.

We recommended that the AARCC Board of Directors contract with a qualified Certified Public Accountant firm to assist in the development of the internal control structure, develop and publish procedures that provide guidelines for loan/investment-making and rate of return on AARCC investments, immediately require AARCC investees to provide audited financial statements, and document a procedure to perform credit checks and background investigations on all investees.

Rural Development—FY 1998 Financial Statements: Qualified Opinion

Our opinion on Rural Development's FY 1998 financial statements included a qualification related to credit program receivables and losses on guaranteed loans and related financial statement line items, as Rural Development is unable to adequately substantiate the value of the Government's investment in its outstanding loans. Additionally, our opinion included a qualification for the Statement of Financing because Rural Development was unable to support two of the line items and the statement was impacted by the qualification related to credit reform.

In our Internal Control Report, we discussed that more must be done to resolve longstanding problems with reasonably estimating the costs of Rural Development's loan programs. Additionally, improvements are needed in security and controls over information technology.

In our compliance report, we recommended that Rural Development take appropriate action to report selected loans to the U.S. Department of the Treasury for collection and ensure that the usage of tools which aid in barring delinquent debtors from receiving additional Federal assistance be maximized for all loan programs. We also noted noncompliance with FFMIA due to

substantial improvements needed in financial management systems, as well as noncompliance with certain aspects of DCIA and OMB Circular A-129, Managing Federal Credit Programs.

We did not repeat recommendations which had been made for issues carried over from previous financial statement reports. Rural Development continues to work to improve its methodology and support for subsidy costs. Rural Development is also in the process of enhancing and/or replacing financial management systems which do not meet Federal financial management systems requirements.

FNS—FY 1998 Financial Statements: Unqualified Opinion

FNS continued to improve its financial recording and reporting processes, but several material internal control weaknesses warrant corrective action.

- FNS continues to have a material internal control weakness because adequate State claims systems and processes are not in place to ensure that Federal funds spent in violation of Food Stamp Program (FSP) regulations are recovered and returned to the program to improve its operations.
- FNS did not establish adequate internal controls or effective cash management practices when it implemented the Federal Tax Refund Offset Program (FTROP) and the Federal Salary Offset Program (FSOP), resulting in excessive interest costs, and FNS was unable to determine whether the proper amount of funds offset by these programs was remitted to them by States.
- Electronic benefits transfer (EBT) issuance information in the Account Management Agent (AMA) system, a system used to monitor and manage FSP funds, is not accurate, because neither the States nor FNS have compensating control procedures which require reconciliations of data between the State, EBT processor, and Federal payment and accounting systems. FNS has undertaken efforts to ensure that States conduct necessary reconciliations, to develop and provide guidance and technical assistance, and to implement internal controls to ensure the accuracy of issuance data.

- States were not always accurately calculating benefits for households participating in the State Option Food Stamp Program (SOFSP) and were receiving both Federal- and State-funded food stamp benefits. Therefore, there is a high risk that Federal FSP funds were used to pay for benefits which should have been funded by the States.
- Potential Anti-Deficiency Act violations related to SOFSP continued in FY 1998. FNS needs to (1) perform followup claims reviews in those areas that were not included in the FNS regional office's scope of review; (2) develop a model, based on historical retention rates, that in no circumstances gives States more than 35 percent of FTROP and FSOP collections; (3) expedite the completion of the State/AMA issuance data reconciliations and establish control procedures which require reconciliations of data among the State, EBT processor, and Federal payment and accounting systems; and (4) follow up with OGC to obtain its legal position on potential violations of the Anti-Deficiency Act. FNS agreed.

Rural Telephone Bank (RTB)—FY 1998 Financial Statements: Unqualified Opinion

Our opinion on RTB's fiscal year 1998 financial statements was unqualified, meaning that we believe that the financial statements are presented fairly in accordance with Federal accounting standards. We continue to find that RTB needs to improve controls for establishing and reestimating loan subsidy costs and that improvements are still needed in information technology security and controls. We also discussed a noncompliance with FFMIA due to substantial improvements needed in financial management systems. No recommendations were made in this report, as recommendations were made in prior reports.

Rural Development, the umbrella mission area, continues to work to improve the reasonableness of its estimates for loan costs. Rural Development is in the process of implementing new financial management systems, which will include RTB, that meet Federal financial management systems requirements.

Risk Management Agency (RMA)/Federal Crop Insurance Corporation (FCIC)—FY 1998 Financial Statements: Unqualified Opinion

RMA/FCIC received an unqualified opinion in that its financial statements fairly presented, in all material respects, its financial position as of September 30, 1998, as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations. No internal control or compliance with laws and regulation deficiencies were identified that would have a material effect on the financial statements.

Federal Financial Management Improvement Act of 1996

USDA does not currently comply with FFMIA requirements. As required by law, a remediation plan has been developed which includes the various actions needed to achieve compliance and the planned completion dates.

FFMIA requires that we report semiannually on the Department's adherence to intermediate dates established in its remediation plan. The Department has developed an overall plan and intends to have detailed plans from CCC, Rural Development, FFIS, FS, and NFC. The individual plans have been prepared by CCC, Rural Development, and FFIS but not yet for FS and NFC.

Our overall assessment is that the Department is currently in compliance with its remediation plan. It should be noted, however, that the plan is long-term in nature, with many completion dates in the 2001 and 2002 timeframes.

FS Financial Health Initiative Progresses

In July 1996, FS, OIG, and OCFO began a cooperative task force effort to plan and implement improvements in FS' financial management and accountability. In December 1996, FS issued the first task force report, "Actions for Improving the Financial Health of the Forest Service." During 1998, OIG provided financial consulting services at 31 FS accounting units, including the Washington, D.C., office, all 9 regional offices, and 21 forest and research station units. FS has continued to make progress, but significant work remains to achieve fairly stated accounting balances in operating and property accounts.

- *Real Property* - Physical inventories of real property (excluding road assets) were progressing well at most sites. However, validations of real property capitalized costs and acquisition dates, and completion of property documentation files were not progressing in line with FS' goals.
- *Personal Property* - FS' FY 1997 goals for personal property accounting were not fully achieved. Physical inventories of personal properties were not complete at 14 units, and capitalized costs for 47 percent of 314 tested properties were incorrect or inadequately documented. We suggested that the FS Washington, D.C., office instruct regional offices to test personal property capitalization at all units and monitor the results.
- *Accounts Payable and Undelivered Orders/Accounts Receivable* - They continue to be highly error prone.
- *Cash and Trust & Deposit Accounts* - Overall, account maintenance for working capital funds, suspense deposit, and budget clearing accounts has improved but continues to need attention.
- *Consolidated Accounting Units* - FS regions have experimented with various consolidations of accounting functions for two or more field units (forests and stations). These units need to have strong supervision and management, written staff responsibilities, and cross-training and cross-utilization of all staff.

We recommended a variety of improvements in FS' accounting processes and written accounting instructions. We also recommended increased supervision and training for fiscal personnel. During FY 1999, FS and OIG continue to work together to improve FS' financial accounting processes and data quality, which will take time. Critical to FS success is implementation of a fully integrated standard general ledger accounting system.

INFORMATION TECHNOLOGY

The Department Continues Toward "Year 2000" Compliance

To ensure that all computers, software, and applications are Year 2000 compliant, embedded chips in vulnerable

systems and processes (VS&P) must also be addressed. VS&P includes such things as personal property, buildings and facilities, telecommunications, scientific/laboratory equipment, motor vehicles, and aircraft. Since our last report, we completed reviews of VS&P and telecommunications at the Animal and Plant Health Inspection Service, Agricultural Research Service (ARS), and Food Safety and Inspection Service.

Overall, we found that the Department has not yet determined the full extent of the Year 2000 problem for its VS&P and telecommunications equipment because inventories have not been completed and assessment procedures have not been fully disseminated. In addition, none of the sites we visited had a formal process for certifying that equipment was Year 2000 compliant, nor did any of the sites have an assigned certifying official to ensure that certifications were proper and accurate. Certifications from vendors and other outside contractors were generally incomplete or not documented.

Agency personnel agreed with our findings, as did the Office of the Chief Information Officer's Year 2000 Program office officials. They concurred that additional guidance to the agencies was needed to ensure they made adequate and accurate progress in their Year 2000 efforts. Our review continues with an indepth analysis of the Department's validation and implementation of its mission-critical systems.

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) of 1993

OIG's Plan for Review of Agency Performance Measures

In October 1998, Members of the U.S. House of Representatives requested each OIG to develop and implement a review plan to examine agencies' activities pursuant to GPRA. The plan is to emphasize performance measures associated with agency programs and activities that (1) are at high risk of waste, fraud, or mismanagement and (2) require a review to assess the adequacy of agency controls for ensuring that the underlying performance data are accurate and reliable. Our plan is summarized below.

- As a part of our financial statement audit effort, we will perform reviews of the performance measures

presented by USDA agencies in the overviews to their financial statements.

- We will consider including a review of performance measures as part of the objectives for each of our audits.
- Each semiannual period we will select a sample of agency performance measures that relate to goals which address major management problems within the agency, and perform specific directed reviews of those performance measures.

As we perform this work, we will advise agencies on those areas where we believe changes are required.

For FY 1999, we intend to perform these specific reviews of performance measures:

- RMA Performance Goal No. 4—"Reduce Program Vulnerabilities,"
- FNS Performance Goal No. 2.1—"Increase Program Reviews by State Agencies of Sponsors and Providers" with the goal to improve program integrity, and
- FS Performance Goal No. 3 — "Ensure Organizational Effectiveness" with the objective to develop and maintain a sound financial system which supports resource decisions with timely, accurate information and financial expertise.

Employee Integrity Investigations

Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct, including conflicts of interest, misuse of official position for personal gain, and the misuse or theft of Government property and money. During the past 6 months, our investigations into these types of matters resulted in 10 convictions of current or former USDA employees and 30 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations that yielded results during the past 6 months.

FSA Employee Embezzles \$276,000

Sentencing is pending for a Kansas FSA county office program assistant who pled guilty to charges that she issued CCC checks to herself, disguised as administrative payments, in her efforts to embezzle more than \$276,000. Over a 7-year period, the woman issued and processed at least 332 checks and forged the signatures of several county office employees to make the checks look authentic. She either cashed the checks or deposited them in her personal bank account. An alert FSA district director ultimately discovered the scam and contacted OIG. The woman confessed and

admitted that she used the money to purchase gifts for her family and to pay personal debts.

Guilty Plea and Sentencing in \$21,000 Theft Case

A former program assistant for the Natural Resources Conservation Service (NRCS) in Washington, D.C., was ordered to serve 5 years on probation and make full restitution to the Government after pleading guilty to using a Government credit card to buy \$21,000 in personal items in 1997 and 1998. The personal items included clothes, shoes, fragrances, magazines, furniture, compact disks, luggage, a pager, and video tapes, all of which were converted to the employee's personal use. The employee resigned from Federal service before his sentencing.

Former NRCS Employee Guilty of Embezzlement

An NRCS employee embezzled nearly \$10,000 from the Great Plains Resource Conservation and Development Program by writing checks to herself for fraudulent and fictitious invoices or double payments for the same invoice. The employee resigned before pleading guilty to embezzlement. She was sentenced to 5 years' probation and ordered to make restitution of \$9,900.

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)
AMS	09/23/98	1. National Fluid Milk Processor Promotion Program (01001-3-Ch)	0	0
CSREES	09/30/98	2. Use of CSREES Grant Funds by Prairie View A&M University (13011-2-Te)	1,424,983	1,239,314
FS	07/13/98	3. FY 1997 FS Financial Statements (08401-7-At)	0	0
	08/16/98	4. Humboldt/Toiyabe National Forest Land Adjustment Program (08003-2-SF)*	0	0
	08/19/98	5. Review of FS' Retroactive Redistribution (08801-4-Hq)	0	0
	08/26/98	6. Improvements on the Zephyr Cove Land Exchange (08003-4-SF)*	38,000,000	38,000,000
	09/24/98	7. FS Assistance Agreements With Nonprofit Organizations (08801-2-Te)	7,098,026	5,466,616
FSA	04/30/98	8. Reeves County Office Operations - Texas (03801-36-Te)	1,365,644	460,929
	06/11/98	9. Noninsured Assistance Program Payments for 1996 Crop Year Losses (03601-24-Te)	110,679	110,679

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/30/98	10. Wool and Mohair Payment Limitation in Val Verde County, TX (03099-20-Te)*	2,432,112	2,432,112
Multiagency	09/30/98	11. CSREES - Managing Facilities Construction Grants (50601-5-At)	3,824,211	567,132
OCFO	07/16/98	12. USDA Financial Statements for FY 1997 (50401-24-FM)	0	0
RHS	08/10/98	13. Self-Help Housing Program - Grizzly Hollow Project, Galt, CA (04801-2-SF)	0	0
RMA	04/10/98	14. Crop Insurance Claims (05601-1-KC)	126,787	126,787
	07/14/98	15. Quality Control for Crop Insurance Determinations (05099-2-KC)	0	0

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.

AARCC	09/30/96	16. AARC Cooperative Agreement With Agro-Fibers, Inc. (34099-1-At)*	0	0
CSREES	03/27/97	17. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
	03/31/98	18. Use of Grant Funds by Langston University (13011-1-Te)	1,364,560	678,792

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/98	19. National Research Initiative Competitive Grants Program (13601-1-At)	32,757,862	32,757,862
FNS	03/21/97	20. Establishment and Collection of Food Stamp Claims (27002-2-Te)	1,908,988	1,908,988
	07/08/97	21. Reinvestment of Quality Control Penalties (27099-4-At)	50,150,541	30,497,946
	08/25/97	22. National School Lunch Program Verification of Applications in Illinois (27010-11-Ch)	31,200,000	31,200,000
	09/22/97	23. Child and Adult Care Food Program - Sponsor Abuses (27601-7-KC)*	56,296	56,296
	09/30/97	24. Food Stamp Program - Reporting Accuracy of Claims Activity (27601-12-Ch)	0	0
FS	07/18/96	25. FY 95 FS Financial Statements (08401-4-At)	1,150,183,750	1,150,183,750
	09/30/96	26. Real and Personal Property Issues (08801-3-At)	0	0
	03/31/97	27. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)*	469,000	469,000
FSA	09/30/93	28. Disaster Payments Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	03/02/95	29. Disaster Assistance Payments, Jackson County, FL (03099-158-At)*	359,265	359,265

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/95	30. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (03600-26-SF)	484,972	364,552
	09/07/95	31. A&B Professional Consulting, Inc. (03004-1-At)*	628,976	628,976
	09/07/95	32. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI (03099-8-KC)*	165,069	165,069
	09/18/95	33. Management of the Dade County, FL, FSA Office (03006-1-At)	75,175,410	909,437
	09/28/95	34. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	35. 1993 Crop Disaster Payments Brooks/ Jim Hogg, Texas (03006-1-Te)*	2,469,829	2,418,167
	03/29/96	36. Texas Agricultural Mediation Program (03801-15-Te)*	964,878	964,878
	05/02/96	37. Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)	2,177,640	2,145,533
	09/18/96	38. Emergency Feed Program in Texas (03601-7-Te)*	626,182	115,425
	09/30/96	39. 1994 Disaster Assistance Program - Maine (03601-1-Hy)*	2,666,383	2,601,692
	03/27/97	40. Emergency Disaster Loan Eligibility in Arkansas (03099-13-Te)*	614,490	280,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/29/97	41. Peanut Price Support Program (03601-6-At)	46,704,388	9,401,964
	03/10/98	42. Emergency Disaster Loan Eligibility (03601-22-Te)*	661,870	661,870
	03/31/98	43. Reorganization of Payment Limitation in Hidalgo County, TX (03601-23-Te)	542,807	542,807
FSIS	05/23/97	44. Controls Over the Export of Meat and Poultry Products (24099-1-Te)	0	0
RHS	05/02/96	45. RRH Project Operations - Cato Company, Michigan (04010-12-Ch)*	235,498	235,498
	03/26/98	46. Evaluation of RRH Tenant Income Verification Process (04801-1-KC)	67,477	17,073
RMA	09/30/97	47. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	444,910
	03/03/98	48. Transfer of CAT Policies to Reinsured Companies	0	0

Audits Without Management Decision - Narrative for New Entries

1. National Fluid Milk Processor Promotion Program, Issued September 23, 1998

We found problems with the National Fluid Milk Processor Promotion Board's management structure, the way expenditures and operations were handled, and the board's controls over contracts. We recommended that the Agricultural Marketing Service (AMS) suspend the program operations of the board until AMS and the board jointly restructure the management of board activities to ensure compliance with law and regulation, that the board establish guidelines for awarding contracts, and that AMS continue to increase its oversight of board activities. AMS and the board have improved their oversight and implemented controls over contracting. We are continuing to work with AMS on issues relating to the overall management structure and operations.

2. Use of Cooperative State Research, Education, and Extension Service (CSREES) Grant Funds by Prairie View A&M, Issued September 30, 1998

We recommended that CSREES recover \$1.2 million for seven Federal grants because the required matching contribution by the university was not documented; obtain annual status reports on all grants to ensure that matching contributions are documented, verified, and allowable; and direct the university to immediately submit a final financial status reports for any grant that is delinquent over 1 year. The university has submitted expenditure information to CSREES; however, it does not meet USDA and OMB requirements for documenting claimed matching funds. We continue to withhold management decision pending CSREES' action to recover the full amount of the seven grants.

3. FY 1997 Forest Service Financial Statements, Issued July 13, 1998

FS and OIG personnel have been working closely in a task force to improve FS accounting systems and processes, and to adopt new accounting standards issued by OMB. One primary objective of the task force is to enable FS to prepare timely and accurate financial statements and ultimately receive unqualified audit opinions on those statements. FS has begun to implement a new real property accounting system and

began converting field offices to the new Departmental general ledger system in October 1997. Implementation timeframes for the new general ledger, improvements in FS accounting subsystems, and new accounting standards will extend into FY 2000. Sufficient, full-time staff must be assigned to compile and complete the financial statements timely and accurately, and FS must ensure that regions and units adhere to agencywide accounting policies and procedures. We continue to work closely with FS to ensure that longstanding deficiencies in its accounting systems and controls are eliminated.

4. Humboldt/Toiyabe National Forest Land Adjustment Program, Issued August 16, 1998

We need to receive documentation that the improper actions of FS employees have been referred to Human Resources Management for the appropriate actions. The Deer Creek transaction is still under criminal investigation by the assistant U.S. attorney, and further administrative actions are suspended until the completion of the investigation.

5. Review of FS' Retroactive Redistribution, Issued August 19, 1998

For the one remaining recommendation, the Department's new Foundation Financial Information System will preclude the retroactive distribution of project expenses once it is implemented. Until that time, FS proposed the use of policy, procedures, and monitoring to greatly restrict redistribution under the current accounting system. To reach management decision, additional information is needed that describes the nature and extent of management controls to be implemented to restrict redistribution. We are working with the agency on this matter.

6. Improvements on the Zephyr Cove Land Exchange, Issued August 26, 1998

FS needs to initiate legal action to assert Government ownership of the Zephyr Cove improvements and take possession of the property, and FS needs to determine the compensation due from the private party for the period of adverse occupancy and bill the private party for the amounts due. Criminal and civil actions are

under consideration against the private parties involved in the exchange. Until a final decision is made regarding these actions, FS can take no action.

7. FS Assistance Agreements With Nonprofit Organizations, Issued September 24, 1998

FS needs to provide specific information in order to reach management decision for 10 recommendations.

8. Reeves County Office Operations, Pecos, Texas, Issued April 30, 1998

FSA needs to complete the corrective action plan the agency prepared for Reeves County, take action to correct all identified errors, and recover any overpayments that resulted from those errors. Also, FSA should take action to assure production flexibility contracts contain correct shares and are properly signed by all interested parties and recover all identified overpayments. In addition, FSA should review the supporting documentation for payments made to two groups and determine whether the actions taken constitute a scheme or device and, if so, take action to collect all program payments. The agency agreed and initiated corrective action. We continue to work with the agency to reach management decisions on the recommendations.

9. Noninsured Assistance Program Payments for 1996 Crop Year Losses, Issued June 11, 1998

We recommended recovery of \$88,297 from 10 producers who falsified their grazing intention (reported graze-out for acreage intended for grain production), \$10,134 to 2 producers who did not have an interest in the crop for which benefits were claimed, and \$14,581 from 22 producers where county office errors were made in determining the amount of disaster benefits. FSA reported that the three county offices involved in the audit have made some progress in the resolution of three recommendations for recovery of questioned costs, and several misaction and/or finality cases were scheduled for the November 1998 State committee meeting. Limited progress has been achieved for the recommendation to review payments to all producers who received 1996 graze-out benefits to determine whether these producers misrepresented their grazing intention. The State executive director reported that county offices were working on other mandated

priorities, including implementing 1999 disaster programs. We will continue to work with FSA to resolve these outstanding cases.

10. Wool and Mohair Payment Limitation, Val Verde County, Texas, Issued September 30, 1998

We questioned over \$1.5 million in wool and mohair price support payments to a family group and recommended that the agency determine whether they adopted a scheme or device to evade payment limitation provisions. We also questioned about \$850,000 because the marketings for which incentive payments were claimed were not bona fide or they were based on false information. The State committee reviewed the case before the audit was completed and took action to recover payments of \$155,192. It granted relief on the remainder of the payments. The State committee took action based on a management alert as our audit was delayed because our authority to obtain records under OIG subpoena was challenged by the producer's attorney. After the audit was released, the State committee decided to obtain additional information from the producer about subsequent claims for incentive payments to determine if there was justification to change its original determination to grant relief. The U.S. attorney has also expressed interest to prosecute civilly. A management decision cannot be reached until decisions about possible civil remedies are made and requested information from the producer is obtained for State committee review.

11. CSREES Management of Facilities Construction Grants, Issued September 30, 1998

The university improperly expended \$567,132 of construction grant funds to pay for the routine operating and maintenance expenses of a newly constructed research facility. CSREES claimed that these expenditures were authorized by Congress and had given the university permission in some cases for this use. The agency agreed to recover expenditures that had not been authorized. Although an OGC opinion supported our determination that these expenditures were improper, CSREES declined the advice. Upon elevation to the Under Secretary, CSREES agreed to conduct a site review and provide us with a proposal on funds to be recovered.

**12. USDA Consolidated Financial Statements for
FY 1997, Issued July 16, 1998**

We are working with OCFO to reach management decision. We recommended that OCFO suspend agency initiatives/renovations of financial management systems until determinations are made as to whether each development meets the integrated plan of the Department. In general, to resolve longstanding deficiencies, OCFO must take a more proactive role in advising and assisting agencies in completing appropriate corrective actions in a timely manner. Also, the Department should develop a comprehensive plan to resolve all outstanding credit reform issues. In addition, many of the 31 material internal control weaknesses reported have had their estimated correction dates extended numerous times.

**13. Self-Help Housing Program - Grizzly Hollow
Project, Galt, California, Issued August 10, 1998**

On November 23, 1998, the Inspector General signed a decision memorandum for the Deputy Secretary, requesting a decision on the report's recommendations, to which we have not yet received a response. We have been unable to accept the agency's management decision on any of the recommendations.

14. Crop Insurance Claims, Issued April 10, 1998

Insurance guarantees and claims for losses were not properly established due to incorrect acreage, yields, shares, and production to count, as well as a questionable prevented-planting claim. RMA indicated in January 1999 that OGC had concurred with the OIG position and that RMA is moving forward on recovery of the payments by issuing initial determinations to the three reinsured companies. We continue to work with RMA to reach management decision on the open recommendations.

**15. Quality Control for Crop Insurance
Determinations, Issued July 14, 1998**

Quality control systems at 2 of the 19 reinsured companies operating in partnership with RMA to deliver multiple-peril crop insurance programs did not produce meaningful results for improving program delivery and maintaining program integrity. We have not accepted management decision on four recommendations involving strengthened management controls over conflict-of-interest issues. In its response to date, RMA did not prescribe adequate controls to prevent and detect conflicts of interest in the supervision, insurance sales, loss adjustment, and quality control reviews of a reinsured company's operations. We continue to work with RMA to reach management decision on the open recommendations.

Indictments and Convictions

Between October 1, 1998, and March 31, 1999, OIG completed 258 investigations. We referred 194 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 294 indictments and 227 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 227 convictions do not necessarily relate to the 294 indictments. Fines, recoveries/ collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled about \$36.8 million.

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

Indictments and Convictions October 1, 1998 - March 31, 1999

Agency	Indictments	Convictions*
AMS	13	4
APHIS	4	7
ARS	1	1
FSA	24	23
FNS	236	163
FSIS	8	8
GIPSA	0	2
NASS	1	1
NRCS	3	2
RHS	4	9
RMA	0	3
RUS	0	1
Other**	0	3
Totals	<u>294</u>	<u>227</u>

* This category includes pretrial diversions.

**This category includes cases involving multiple agencies (one conviction) and non-USDA/affiliated agencies (two convictions).

The Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,067 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 3 displays the volume and type of the complaints we received, and figure 4 displays the disposition of those complaints.

Figure 3

Hotline Complaints

October 1, 1998, to March 31, 1999
(Total = 1,067)

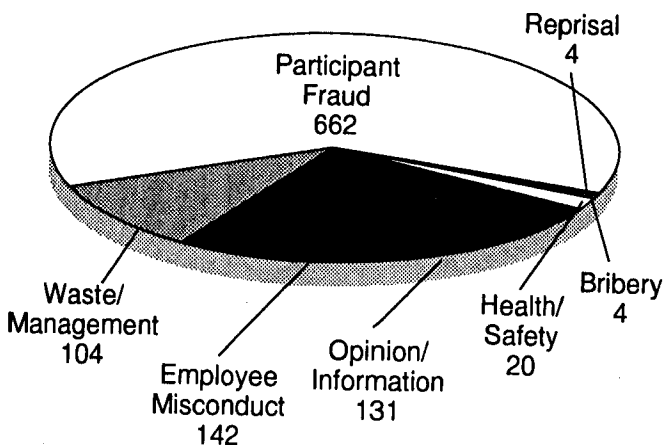
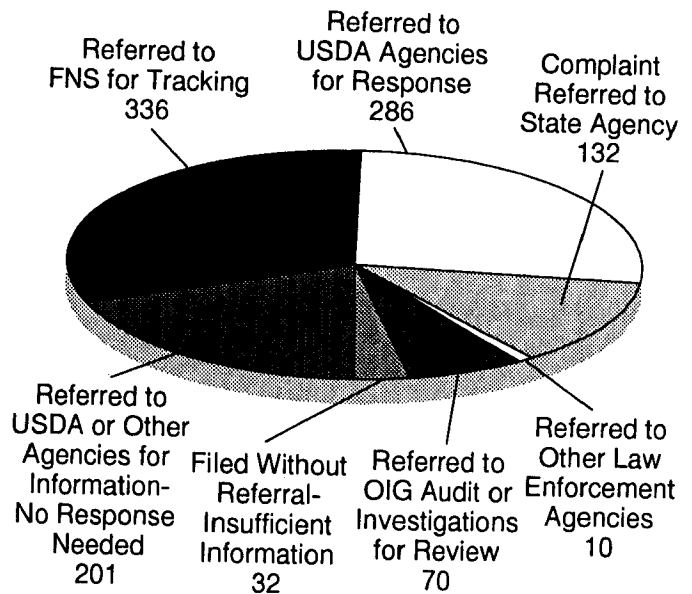


Figure 4

Disposition of Complaints

October 1, 1998, to March 31, 1999



**Freedom of Information Act (FOIA) and Privacy Act (PA) Requests
for the Period October 1, 1998, to March 31, 1999**

Number of FOIA/PA Requests Received 315

Number of FOIA/PA Requests Processed: 303

Number of Requests Granted in Full 174
 Number of Requests Granted in Part 73
 Number of Requests Not Granted 56

Reasons for Denial:

No Records Available 27
 Requests Denied in Full 20
 Referrals 9

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

Received 112
 Processed 118

Appeals Processed 16

Appeals Granted 0
 Appeals Denied in Full 16
 Appeals Denied in Part 0

**Number of OIG Reports Released
in Response to Requests** 333

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

	<u>DOLLAR VALUES</u>		
	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED* COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1998	76	\$414,443,028	\$37,582,376
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	49	49,670,704	18,910,215
TOTALS	<u>125</u>	<u>\$464,113,732</u>	<u>\$56,492,591</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	58		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$44,168,107	\$5,411,718
NOT RECOMMENDED FOR RECOVERY		\$135,225,789	\$390,060
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		13,099,443	3,827,326
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	67	272,739,645	47,927,618
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	35	224,782,771	29,017,403

*Unsupported values are included in questioned values.

Appendix II

INVENTORY OF AUDIT REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1998	21	\$108,611,953
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	13	143,100,432
TOTALS	<u>34</u>	<u>\$251,712,385</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	12	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$7,321,382
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		6,241,654
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	22	238,283,496
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	13	97,278,821

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 1998, AND MARCH 31, 1999

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 1998, AND MARCH 31, 1999, THE OFFICE OF INSPECTOR GENERAL ISSUED 91 AUDIT REPORTS, INCLUDING 4 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	REPORTS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	2			
AGRICULTURAL RESEARCH SERVICE	1	\$160,233		
FARM SERVICE AGENCY	11	\$1,421,455		\$2,064,389
RURAL HOUSING SERVICE	28	\$15,933,313	\$37,599	\$139,357,418
RISK MANAGEMENT AGENCY	5	\$4,098,080		\$23,818
COMMODITY CREDIT CORPORATION	1			
FOREST SERVICE	6	\$849,990	\$849,294	\$403,787
RURAL UTILITIES SERVICE	2			\$17,334
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
FOOD AND NUTRITION SERVICE	16	\$8,352,002	\$23,038	\$1,232,484
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1	\$153,742		\$1,202
RURAL BUSINESS-COOPERATIVE SERVICE	1			
ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION CORPORATION	1			
MULTIAGENCY	13	\$18,701,889	\$18,000,284	
CIVIL RIGHTS	1			
TOTALS	91	\$49,670,704	\$18,910,215	\$143,100,432
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	45			
MULTIAGENCY AUDIT	12			
SINGLE AGENCY EVALUATION	33			
MULTIAGENCY EVALUATION	1			
TOTAL RELEASED NATIONWIDE	91			
TOTAL COMPLETED UNDER CONTRACT^b	4			
TOTAL SINGLE AUDIT ISSUED^c	7			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 1998, AND MARCH 31, 1999**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE				
01-001-0001-AT 1999/03/31	IMPORTS OF MANUFACTURED TOBACCO PRODUCTS AND OTHER TOBACCOS			
01-801-0001-KC 1999/03/31	CONTROLS OVER PORK CHECK-OFF FUNDS			
TOTAL: AGRICULTURAL MARKETING SERVICE		<u>2</u>		
AGRICULTURAL RESEARCH SERVICE				
02-017-0004-AT 1999/02/08	JA JONES MANAGEMENT SERVICES, CY'S 1994 AND 1995 INCURRED COST	\$160,233		
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>1</u>	<u>\$160,233</u>	
FARM SERVICE AGENCY				
03-006-0006-SF 1999/02/08	EMERGENCY CONSERVATION PROGRAM - CALIFORNIA	\$13,515		
03-006-0014-CH 1999/03/11	COMMODITY LOAN PROGRAM - ADMINISTRATIVE ACTIONS IN PROGRAM VIOLATION CASES			
03-006-0020-AT 1999/03/30	PAYMENT LIMITATION - MITCHELL COUNTY, GA	\$881,924		
03-099-0001-HQ 1999/01/20	STORAGE OF CCC-OWNED FLUE-CURED TOBACCO			
03-099-0002-HQ 1999/03/31	OIG - FSA ROUNDTABLE MEETING			
03-099-0009-AT 1998/11/30	BOLL WEEVIL ERADICATION LOAN PROGRAM	\$526,016		\$2,064,389
03-099-0019-TE 1999/02/26	PRODUCTION FLEXIBILITY CONTRACTS			
03-099-0024-TE 1999/01/11	PREFERENTIAL TREATMENT FOR LOANS TO FSA EMPLOYEES IN OKLAHOMA			
03-099-0025-TE 1998/10/19	PAYMENT LIMITATION IN STARR COUNTY, TX			
03-801-0007-CH 1998/12/30	EVALUATION OF STATE ADMINISTERED MEDIATION PROGRAM - MINNESOTA			
03-801-0008-CH 1998/11/16	NORTHEAST INTERSTATE DAIRY COMPACT			
TOTAL: FARM SERVICE AGENCY		<u>11</u>	<u>\$1,421,455</u>	<u>\$2,064,389</u>
RURAL HOUSING SERVICE				
04-099-0002-CH 1999/02/02	COMMUNITY FACILITY LOAN APPROVALS			
04-099-0008-TE 1999/01/25	RRH PROGRAM OPERATIONS AT COLLEGE VIEW APTS BELTON, TX	\$5,670		
04-601-0002-AT 1999/03/25	GUARANTEED RURAL HOUSING LOAN PROGRAM	\$215,030		\$139,005,092
04-801-0003-AT 1998/12/08	RRH - INITIATIVE IN MISSISSIPPI	\$13,154		
04-801-0003-HY 1999/03/12	RRH - NATIONWIDE INITIATIVE - PENNSYLVANIA	\$82,324		
04-801-0003-KC 1999/03/31	RRH - NATIONWIDE INITIATIVE IN NE - BOSLEY MANAGEMENT, INC., SHERIDAN, WY	\$148,442		\$85,516
04-801-0004-AT 1999/01/15	RRH - INITIATIVE IN NORTH CAROLINA	\$183,957		
04-801-0004-CH 1999/02/12	EVALUATION OF RRRH INCOME VERIFICATION PROCESS	\$14,200,000		
04-801-0004-KC 1998/11/09	RRH - NATIONWIDE INITIATIVE IN NE - SELDIN COMPANY, OMAHA, NE	\$41,080	\$771	\$429

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	
04-801-0005-HY 1999/02/25	RRH - NATIONWIDE INITIATIVE - PENNSYLVANIA	\$2,000			
04-801-0005-KC 1998/11/02	RRH - NATIONWIDE INITIATIVE IN MO - BROOKVIEW MANAGEMENT CO, ST. LOUIS, MO				
04-801-0005-SF 1999/01/08	RRH PROGRAM - DUJARDIN PROPERTY MANAGEMENT INC., EVERETT, WA	\$77,435		\$148,030	
04-801-0006-AT 1999/01/29	RRH - INITIATIVE IN MISSISSIPPI	\$76,062	\$36,828		
04-801-0006-CH 1999/03/31	RRH PRESIDENTIAL INITIATIVE				
04-801-0006-HY 1999/03/17	RRH - NATIONWIDE INITIATIVE - NEW YORK	\$140,605			
04-801-0007-AT 1999/02/13	RRH - INITIATIVE IN NORTH CAROLINA	\$12,152		\$97,501	
04-801-0007-CH 1998/12/31	RRH PRESIDENTIAL INITIATIVE - LDI MGMT., INC	\$167,944			
04-801-0007-HY 1999/03/12	RRH - NATIONWIDE INITIATIVE - PENNSYLVANIA NDC MANAGEMENT COMPANY	\$2,299			
04-801-0008-AT 1998/12/31	RRH - INITIATIVE IN NORTH CAROLINA	\$12,383			
04-801-0008-CH 1998/10/30	RRH PRESIDENTIAL INITIATIVE - EQUITY CONCEPTS CO.	\$7,639			
04-801-0008-SF 1998/10/02	RRH PROGRAM - THE CBM GROUP INC., AUBURN, CA	\$35,297			
04-801-0009-SF 1999/01/27	RRH PROGRAM - DBSI REALTY CORPORATION, BOISE, ID	\$8,794		\$20,850	
04-801-0010-CH 1998/12/10	RRH - PRESIDENTIAL INITIATIVE - PROVIDENT MANAGEMENT, INC.	\$35,100			
04-801-0011-CH 1999/03/22	RRH PRESIDENTIAL INITIATIVE - RLJ MGMT. CO	\$333,561			
04-801-0012-CH 1999/02/08	RRH PRESIDENTIAL INITIATIVE - PROFESSIONAL PROPERTY MGMT., INC.	\$13,628			
04-801-0013-CH 1999/03/25	RRH PRESIDENTIAL INITIATIVE - NICKELS MGMT. CO	\$15,654			
04-801-0014-CH 1998/12/16	RRH PRESIDENTIAL INITIATIVE - VILLAGE MGMT. CO	\$12,208			
04-801-0014-TE 1999/03/30	RRH INITIATIVE - JTS MANAGEMENT (LA)	\$90,895			
TOTAL: RURAL HOUSING SERVICE		<u>28</u>	<u>\$15,933,313</u>	<u>\$37,599</u>	<u>\$139,357,418</u>
RISK MANAGEMENT AGENCY					
05-005-0001-CH 1999/01/22	CONTROLS OVER MONITORING OF PRIVATE INSURANCE COMPANIES				
05-099-0002-AT 1998/12/16	CROP INSURANCE FOR NURSERIES	\$3,963,468			
05-401-0005-FM 1999/02/11	FY 1998 FCIC FINANCIAL STATEMENTS				
05-401-0006-FM 1999/03/10	FY 1998 FCIC FINANCIAL STATEMENTS REPORT ON MANAGEMENT ISSUES				
05-601-0005-TE 1999/03/15	PREVENTED PLANTING OF 1996 INSURED CROPS	\$134,612		\$23,818	
TOTAL: RISK MANAGEMENT AGENCY		<u>5</u>	<u>\$4,098,080</u>		<u>\$23,818</u>
COMMODITY CREDIT CORPORATION					
06-401-0009-FM 1999/02/22	FY 1998 CCC FINANCIAL STATEMENTS				
TOTAL: COMMODITY CREDIT CORPORATION		<u>1</u>			

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FOREST SERVICE					
08-017-0006-KC 1999/02/01	AIR RESOURCE SPECIALISTS - CONTRACT CLOSEOUT				
08-017-0007-KC 1998/12/09	INTECS INTERNATIONAL, INC. INCURRED COST AUDIT	\$696			
08-017-0010-SF 1999/02/18	EQUITABLE PRICE ADJUSTMENT CLAIM - FLINTSTONE CRUSHING AND CONSTRUCTION COMPANY	\$849,294	\$849,294		
08-401-0008-AT 1999/02/23	FY 1998 FS FINANCIAL STATEMENTS				
08-801-0004-TE 1998/12/15	FOREST SERVICE'S COLLECTION OF ROYALTIES ON OIL AND GAS PRODUCTION			\$403,787	
08-801-0010-AT 1999/01/05	TIMBER SALE ENVIRONMENTAL ANALYSIS REQUIREMENTS				
TOTAL: FOREST SERVICE		6	\$849,990	\$849,294	\$403,787
RURAL UTILITIES SERVICE					
09-401-0004-FM 1999/01/29	FY 1998 RTB FINANCIAL STATEMENTS				
09-601-0002-TE 1999/03/31	DISTANCE LEARNING AND TELEMEDICINE LOAN PROGRAM			\$17,334	
TOTAL: RURAL UTILITIES SERVICE		2			\$17,334
NATURAL RESOURCES CONSERVATION SERVICE					
10-015-0001-HY 1999/03/22	NRCS COOPERATIVE AGREEMENTS				
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		1			
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-401-0005-FM 1998/12/09	AGREED-UPON PROCEDURES RETIREMENT, HEALTH, LIFE INSURANCE AND HEADCOUNT INFO SUBMITTED TO OPM				
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		1			
FOOD AND NUTRITION SERVICE					
27-010-0002-KC 1999/01/20	CACFP - NATIONAL INITIATIVE TO IDENTIFY PROBLEM SPONSORS	\$14,125			
27-010-0011-SF 1999/02/05	CACFP - ALADDIN CHILD CARE SERVICES, INC., CULVER CITY, CA	\$829,833			
27-010-0012-SF 1998/10/07	CACFP - KING COUNTY CHILD CARE ASSOCIATION, SEATTLE, WA	\$241,970			
27-010-0014-SF 1998/12/16	CACFP - A PERFECT BALANCE, DIAMOND BAR, CA	\$6,082		\$9,316	
27-010-0015-SF 1999/03/18	CACFP - PACIFIC ENRICHMENT INC.	\$139,720			
27-010-0021-HY 1999/03/31	CACFP - ADVANCED DEVELOPMENT OF NEW YORK, INC.	\$1,229,264			
27-016-0002-CH 1998/11/27	REDEMPTION CERTIFICATE PROCESSING FOLLOWUP FINANCIAL INSTITUTIONS				
27-099-0006-HY 1999/03/30	EBT SYSTEM - STATE OF MASSACHUSETTS				
27-099-0010-TE 1999/01/20	WIC PROGRAM IN SWR				

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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-099-0015-CH 1999/03/17	MONITORING OF THE ELECTRONIC BENEFITS TRANSFER SYSTEM IN ILLINOIS			
27-401-0014-HY 1999/02/01	FY 1998 FNS FINANCIAL STATEMENTS			
27-601-0006-SF 1999/03/16	OVERSIGHT OF CACFP SPONSORS - CALIFORNIA			
27-601-0007-AT 1998/12/07	CACFP - FAMILY DAY CARE SERVICES, INC., WEST PALM BEACH, FL	\$338,100		
27-601-0008-SF 1999/03/29	2-PERCENT FUND EXPENDITURES - CALIFORNIA	\$5,520,554		
27-601-0015-CH 1998/12/15	CACFP - WISCONSIN	\$32,354	\$23,038	\$1,223,168
27-801-0002-KC 1998/11/25	STRATEGIC MONITORING OF THE EBT SYSTEM DEVELOPMENT PHASE IV - KANSAS			
TOTAL: FOOD AND NUTRITION SERVICE		16	\$8,352,002	\$23,038
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-801-0002-TE 1999/01/20	KARNAL BUNT WHEAT SEED COMPENSATION FOR 1995/1996 GROWING SEASON	\$153,742		\$1,202
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1	\$153,742	\$1,202
RURAL BUSINESS-COOPERATIVE SERVICE				
34-601-0002-CH 1999/01/15	BUSINESS AND INDUSTRY LOANS - FINANCIAL STATEMENT ANALYSIS			
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		1		
ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION CORPORATION				
37-401-0002-FM 1999/01/27	FY 1997 AARCC FINANCIAL STATEMENTS			
TOTAL: ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION CORPORATION		1		
MULTIAGENCY				
50-017-0003-FM 1998/12/23	REVIEW OF CONTRACT COMPLIANCE FOR FFIS			
50-018-0007-HY 1998/11/05	PENNSYLVANIA SINGLE AUDIT, A-133, SFYE 6/30/97	\$69	\$69	
50-018-0012-SF 1998/12/14	A-133 DESK REVIEW OF AUDIT OF CITY OF SAN JOSE - FYE 6/30/97			
50-020-0043-KC 1998/12/07	A-128 STATE OF WYOMING (FY 6/96)			
50-020-0044-KC 1999/02/04	A-128, FLANDREAU SANTEE SIOUX TRIBE (FY 12/96), FLANDREAU, SD	\$75		
50-020-0065-SF 1999/01/20	A-128 AUDIT REPORT ON THE AMERICAN SAMOA GOVERNMENT FOR FYE 9/30/92	\$5,171		
50-020-0066-SF 1999/01/20	A-128 AUDIT REPORT ON THE AMERICAN SAMOA GOVERNMENT FOR FYE 9/30/93	\$50,944	\$50,944	
50-020-0067-HY 1999/03/19	PUERTO RICO DEPARTMENT OF EDUCATION A-128, 6/30/94 AND 6/30/95	\$16,072		
50-099-0017-FM 1999/03/31	REVIEW OF YEAR 2000 RENOVATION PHASE			
50-401-0028-FM 1999/02/01	FY 1998 RURAL DEVELOPMENT FINANCIAL STATEMENTS			

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50-401-0030-FM 1999/02/22	FY 1998 USDA CONSOLIDATED FINANCIAL STATEMENTS			
50-601-0004-KC 1999/03/23	ENVIRONMENTAL QUALITY INCENTIVES PROGRAM			
50-801-0006-AT 1999/03/30	PVO GRANT FUND ACCOUNTABILITY	\$18,629,558	\$17,949,271	
TOTAL: MULTIAGENCY		<u>13</u>	<u>\$18,701,889</u>	<u>\$18,000,284</u>
CIVIL RIGHTS				
60-801-0002-HQ 1999/03/24	EVALUATION OF OCR MANAGEMENT OF SETTLEMENT AGREEMENTS			
TOTAL: CIVIL RIGHTS		<u>1</u>		
TOTAL: RELEASE - NATIONWIDE		<u>91</u>	<u>\$49,670,704</u>	<u>\$18,910,215</u> <u>\$143,100,432</u>

Abbreviations of Organizations

AARCC	Alternative Agricultural Research and Commercialization Corporation
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CDE	California Department of Education
CR	Civil Rights office
CSREES	Cooperative State Research, Education, and Extension Service
EU	European Union
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	U.S. Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers, and Stockyards Administration
IRS	Internal Revenue Service
MBWMC	Mississippi Boll Weevil Management Corporation
MMS	Minerals Mining Service
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NPPC	National Pork Producers Council
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
USDA	U.S. Department of Agriculture