United States
Department of
Agriculture

Office of
Inspector
General

No. 44

NOVEMBER 2000

Office of Inspector General Semiannual Report to Congress

FY 2000—Second Half

On the cover: The eagle is used for the symbol of our law enforcement initiative “Operation Talon.” It represents law enforcement swooping down to snatch fugitive felons off the streets. See inside for details of this highly successful initiative. U.S. Fish and Wildlife Service photo.

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250

October 30, 2000

The 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 September 30, 2000.

During this period, our audits and investigations yielded approximately $61 million in recoveries, collections, restitutions, fines, claims established, and costs avoided. Further, management agreed to put more than $232 million to better use. We also identified nearly $16 million in questioned costs that cannot be recovered. In addition, our investigations produced 240 indictments and 251 convictions.

We are reporting on our Food Safety Initiative. We conducted a series of audits to determine whether the meat and poultry inspection program remains effective under the science-based Hazard Analysis and Critical Control Point (HACCP) System. We reviewed HACCP, laboratory analyses, foreign imports, and the compliance program that carried over from the previous system. Positive steps have been taken, but more needs to be done in all four areas reviewed.

I again extend my appreciation to you, the Deputy Secretary, and the Congress for your support in furthering our mutual efforts to improve the integrity and efficiency of the Department's programs and operations.

Sincerely,

Roger C. Viadero

ROGER C. VIADERO
Inspector General

Enclosure

Contents

Executive Summary

This is the 44th Semiannual Report of 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 April 1 through September 30, 2000.

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 51 audit and evaluation reports and reached management decisions on 56. Based on this work, management officials agreed to recover $10.2 million and to put an additional $232.4 million to better use.

We also issued 300 reports of investigation during this period. Our investigative efforts resulted in 240 indictments, 251 convictions, and approximately $50.5 million in recoveries, fines, restitutions, claims established, and cost avoidance.

Investigative Efforts

The owner of a San Francisco Bay area sausage company is in jail awaiting trial on charges that he shot and killed two Food Safety and Inspection Service (FSIS) compliance officers and a California Department of Food and Agriculture (CDFA) investigator. He is also charged with attempted murder of a second CDFA employee, an inspector. The four officers were at the sausage company plant to discuss suspected Federal and State meat production, labeling, and distribution violations. The death penalty is being sought by the State prosecutors.

Operation Talon arrests continue to climb. As of September 30, 2000, Operation Talon had resulted in 6,733 arrests of fugitive felons during joint OIG, State, and local law enforcement operations throughout the country. Serious crimes perpetrated by those arrested included homicide-related offenses (murder, attempted murder, manslaughter), sex offenses (child molestation, rape, attempted rape), kidnapping/abduction, assault, robbery, and drug/narcotics violations.

The former budget officer of the Natural Resources Conservation Service's (NRCS) National Business Management Center (NBMC) in Fort Worth, Texas, pled guilty in Federal court to embezzling over $300,000 from NRCS. He embezzled money as the budget officer at NBMC, as well as when assigned as an NRCS budget officer in Ohio. He was sentenced to serve 18 months in prison and ordered to make restitution of nearly $311,200.

The owner of cotton warehouses in Georgia and South Carolina was sentenced to serve 35 months in Federal prison for his scheme to defraud approximately 140 cotton farmers out of their cotton and sales proceeds worth more than $9 million. The defendant pled guilty to 32 felony counts involving mail fraud, wire fraud, and money laundering. The defendant was ordered to pay restitution of over $4 million.

A corporation, its president, and its vice president were indicted for contract fraud involving a renovation project at an Agricultural Research Service research station in Pennsylvania and renovation work for the U.S. Navy, with contracts totaling over $5.6 million. The president of the corporation has pled guilty to the charges and is awaiting sentencing. Trial is pending for the vice president and corporation.

A bookkeeper and two retail firm owners in Los Angeles have pled guilty to various tax and/or food stamp fraud charges following an investigation into a massive food stamp fraud conspiracy. One of the retailers was sentenced to 27 months in prison and $3 million in restitution, while the second retailer was sentenced to 9 months in prison and restitution of $4.1 million. We suspect that illegally obtained food stamp coupons worth in excess of $50 million were redeemed from 1994 to 1997 by the 24 firms targeted for investigation following the review of records seized from the bookkeeper.

In Minnesota, a husband and wife were found guilty of 46 felony counts that included conspiracy and various types of fraud. The couple created and operated two farming corporations, and elicited the assistance of an elderly neighbor as the “straw” president and sole shareholder of one of the corporations. From 1990 through 1999, the couple illegally obtained over $940,000 in payments and loans. Sentencing is pending.

The Foreign Agricultural Service and a U.S. Private Voluntary Organization (PVO) signed an agreement to provide for butter and butter oil, to be donated by the Commodity Credit Corporation, for assistance in the Russian Federation. The proceeds were to be used for humanitarian projects and investment in Russian agribusinesses. In December 1998, $980,000 was fraudulently wire-transferred from the account of the PVO, through three U.S. banks, to a bank in Latvia, where the funds were immediately withdrawn. To date, $966,000, or 98.6 percent of the stolen funds, has been recovered and returned to the PVO. However, no recovered funds have been returned to USDA for use in other U.S. food aid programs.

Audit Efforts

We are reporting on our Food Safety Initiative. OIG initiated a series of audits to determine whether FSIS' meat and poultry inspection program remains effective under the science-based Hazard Analysis and Critical Control Point (HACCP) System. We reviewed HACCP, laboratory analyses, foreign imports, and the compliance program that carried over from the previous system. FSIS has taken positive steps, but more needs to be done in all four areas reviewed.

This reporting period, we completed our final analysis of the $38 million Zephyr Cove Land Exchange at Lake Tahoe, which disclosed serious flaws in the Forest Service's (FS) administration of the land exchange program, as had been indicated in a 1998 interim report. Our most recent audit disclosed a pattern similar to practices described in an August 1998 audit report. However, one exchange demonstrated the value of OIG intervention.

As a part of a proactive approach and increased coordination and communication with the Risk Management Agency that resulted from our joint agency roundtable, we devoted a large portion of our resources during this reporting period to several key areas: three workgroups, the quality control system, and implementation of the Agricultural Risk Protection Act of 2000. Among other benefits, this work should contribute to a more accurate and meaningful error rate for the Federal crop insurance program and a decrease in the recurrence of the types of program abuses we have identified in the past.

Operation “Kiddie Care,” our nationwide initiative to identify, remove, and prosecute unscrupulous Child and Adult Care Food Program (CACFP) sponsoring organizations, continued to be successful. OIG worked closely with the Food and Nutrition Service (FNS) concerning needed regulatory and legislative changes recommended in our August 1999 audit report. In June 2000, Public Law 106-224 was enacted, which included provisions to restore program integrity to CACFP. We are specifically reporting on audits and investigations in New York, Arizona, California, Georgia, and Michigan.

OIG assisted the Farm Service Agency (FSA) in a critical area that is unnecessarily costing the Government many millions of dollars—the failure to establish guaranteed loan losses as Government debt, as required by law. As a result, losses in excess of $200 million were not reported to the U.S. Department of the Treasury during fiscal years (FY) 1997 through 2000 for collection. FSA has agreed to take the necessary steps to fulfill the law and collect the debt.

We audited the Department's implementation of Presidential Decision Directive (PDD) 63, “Policy on Critical Infrastructure Protection.” The Department has neither fully identified its mission-essential infrastructure nor performed the necessary assessments to identify the threats, vulnerabilities, and potential magnitude of harm that could result from an attack. Also, the planned formation of a Critical Infrastructure Assurance Council, composed of agency management representatives to ensure cyber infrastructure security and PDD 63 compliance, was never established. The Office of the Chief Information Officer agreed with all our recommendations and has initiated corrective actions.

Summary of Audit Activities

Reports Issued			51
Audits Performed by OIG	30		
Evaluations Performed by OIG	6		
Audits Performed Under the Single Audit Act	13		
Audits Performed by Others	2		
Management Decisions Made			
Number of Reports			56
Number of Recommendations			399
Total Dollar Impact (Millions)			$258.4
Questioned/Unsupported Costs		$ 26.0[a,b,c]	
Recommended for Recovery	$10.2		
Not Recommended for Recovery	$15.9		
Funds To Be Put to Better Use		$232.4	

[a] These were the amounts the auditees agreed to at the time of management decision.
[b] The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.
[c] Because of rounding, this number does not equal the addition of the two numbers composing it. See Appendix I for exact numbers.

Summary of Investigative Activities

Reports Issued		300
Cases Opened		348
Cases Closed		376
Cases Referred for Prosecution		205
Impact of Investigations		
Indictments		240
Convictions		251[a]
Searches		111
Arrests		931[b]
Total Dollar Impact (Millions)		$50.5
Recoveries/Collections	$ 9.3[c]	
Restitutions	$34.6[d]	
Fines	$ 3.9[e]	
Claims Established	$ 1.7[f]	
Cost Avoidance	$ 1.0[g]	
Administrative Sanctions		
Employees		31
Businesses/Persons		1,128

[a] Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 251 convictions do not necessarily relate to the 240 indictments.
[b] Includes 726 Operation Talon arrests and 205 arrests not related to Operation Talon.
[c] Includes money received by USDA or other Government agencies as a result of OIG investigations.
[d] Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[e] Fines are court-ordered penalties.
[f] Claims established are agency demands for repayment of USDA benefits.
[g] Consists of loans or benefits not granted as the result of an OIG investigation.

OIG in Focus

The following article is reprinted from the March/April 2000 issue of the Asset Forfeiture News, a bimonthly publication of the Asset Forfeiture and Money Laundering Section, Criminal Division, U.S. Department of Justice. The publication is a central source of Federal forfeiture information, and articles in the Asset Forfeiture News are intended to assist Federal prosecutors and agents in enforcing the forfeiture laws by providing guidance, information, and references.

In the Spotlight With USDA OIG Forfeiture Staff

The U.S. Department of Agriculture (USDA) programs and operations encompass much more than simply farm issues. They involve a variety of issues relating to food safety, marketing, and regulatory initiatives; natural resources and the environment; and rural development; as well as food, nutrition, and consumer services. Based on this broad scope of issues, forfeiture statutes can apply to a variety of cases involving USDA programs and operations.

In fact, the USDA Office of Inspector General (OIG) has been working to combat criminal activity relating to USDA programs through the use of forfeiture procedures for nearly a decade. For example, USDA loan, regulatory, and nutrition programs are vulnerable to fraud through money laundering (18 U.S.C. §§ 1956, 1957), specified unlawful activities, and other forfeiture-related violations. In addition, investigations involving smuggling may detect specified unlawful activities leading to forfeiture, such as false statements (18 U.S.C. § 542), smuggling (18 U.S.C. § 545), Racketeer Influenced and Corrupt Organization (RICO) (18 U.S.C. § 1963), and money laundering. Other forfeiture-related statutes applicable to cases investigated by USDA OIG include bribery of public officials (18 U.S.C. § 201), interference with commerce resulting from the taking or attempted taking of property by extortionate means (18 U.S.C. § 1951), and racketeering (18 U.S.C. § 1962(c)). USDA OIG has achieved successes in an array of asset forfeiture-related cases, and has worked with various Federal agencies during the investigations. Knowledge of these varied investigations could be useful to members of the asset forfeiture community because efforts along similar lines could be employed by other agencies. This article highlights some of these forfeiture-related investigative operations.

Success Stories

- Operation “Kiddie Care,” OIG’s Presidential Initiative to identify, remove, and prosecute unscrupulous Child and Adult Care Food Program (CACFP) sponsoring organizations, is one of those successes. Among those recently convicted were the president and her assistant of a day care operation in Michigan. They were found guilty of fraud, embezzlement, conspiracy, and money laundering related to defrauding CACFP of an estimated $17 million between 1989 and 1993. The jury also awarded forfeiture of more than $1.1 million in cash and three properties. The president was sentenced to 9 years in prison and ordered to pay more than $13.5 million in restitution and a $10 million fine. This case was handled jointly with the Federal Bureau of Investigation (FBI).

- A tobacco dealer was convicted of money laundering, false statements, mail fraud, and conspiracy for his role in a scheme that resulted in the illegal sale of more than 20 million pounds of excess tobacco. As a result of the conviction, the Government forfeited assets including the defendant’s residence in Spotsylvania County, Virginia, valued at $1.95 million; $3 million in cash or substitute assets; a rental house in Fredericksburg, Virginia, with a value of about $150,000; and a quarter horse purchased for $500,000 by the defendant. One of the tobacco dealer’s codefendants was a “Montana Freeman.” This investigation was conducted jointly with the Internal Revenue Service (IRS).

- Assets worth an estimated $4 million were seized from the vice president of a North Carolina vegetable oil supply company after the vice president and others were convicted of conspiring to underfill contracts to deliver vegetable oil to USDA's Commodity Credit Corporation (CCC). As a result of the scheme, CCC was defrauded of over $2 million in vegetable oil. After paying approximately $132,000 in kickbacks and bribes, the vice president laundered the remaining funds, paying off his home mortgage in South Carolina, making a downpayment on a lavish home in the mountains of North Carolina, and purchasing an oceanfront condominium. He also funded a baseball field that bears his name for a private college in South Carolina, bought gemstones from a New York diamond broker, and made downpayments on canning and bottling manufacturing equipment. The assets seized from the vice president include the two homes, the condominium, the manufacturing equipment, and $410,000 in cash. This case represents one of the largest successful prosecutions involving CCC contract fraud. The case was handled jointly with the U.S. Agency for International Development OIG, the FBI, and the IRS.

- Two owners operating a horse export/import business in Virginia and Germany and their company 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 officials of USDA's Animal and Plant Health Inspection Service in order to 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 in this case.

- In Morgan City, Louisiana, a former store owner pled guilty in Federal court to conspiracy and money laundering involving food stamp trafficking. Not authorized to accept food stamps herself, the former store owner operated her store under a fictitious name and fraudulently redeemed over $397,000 in food stamps. In her plea agreement, she agreed to forfeit over $68,000 in cash, a pickup truck, silver bars, and a coin collection, all of which were seized as the result of a search of her residence, store, bank accounts, and safe-deposit box. The former owner was sentenced to serve 4 years in prison and ordered to pay over $384,000 in restitution, in addition to forfeiting the above property.

A Recent Development

One fairly new development in forfeiture laws relating to USDA is a criminal forfeiture statute under the Special Supplemental Nutrition Program for Women, Infants, and Children, which is a USDA program commonly known as WIC. On October 31, 1998, President Clinton signed the William F. Goodling Child Nutrition Reauthorization Act of 1998 (Act), Pub. L. No. 105-336, 112 Stat. 3143 (1998). Section 203 of the Act contains criminal forfeiture provisions for certain WIC violations. These forfeiture provisions are not retroactive and apply only to WIC forfeiture violations that occurred after October 31, 1998.

The Future

There are ongoing USDA cases involving forfeiture actions in cities from coast to coast, and they are used to combat violations such as money laundering, smuggling, food stamp trafficking, and bribery, to name a few. As illustrated, USDA OIG has been employing asset forfeiture as a tool to further its law enforcement efforts in many areas for some time. Certain of these areas may offer ideas for parallel successes by other agencies. Building on existing efforts can only further invigorate already robust law enforcement efforts throughout the asset forfeiture community.

Public Corruption Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct. During the past 6 months, such investigations resulted in 15 convictions of current or former USDA employees and 31 personnel actions. Some recent investigations follow.

AMS Inspectors Sentenced to Prison for Bribery Scheme

We reported last period that a 2½-year investigation uncovered a scheme by which Agricultural Marketing Service (AMS) graders accepted bribes from produce wholesalers at the Hunts Point Market in New York City in return for downgrading produce. The wholesalers then used the lower grades to negotiate downward the price they paid growers for the produce. The scheme, detailed in a 65-count racketeering and bribery indictment unsealed in U.S. District Court, took place over 2 decades and was so pervasive that some of the inspectors took more than $100,000 a year in illegal payoffs. The actions of the AMS inspectors were organized, and, after completing an inspection, they would kick back a portion of the bribe proceeds to the night supervisor who was in charge of assigning them to "paying" locations. Nine AMS employees were indicted on Racketeer Influenced and Corrupt Organization (RICO) charges and pled guilty to charges of bribery. In addition, 15 owners or employees of produce wholesalers were indicted on bribery charges with 8 pleading guilty. One convicted inspector had a $100,000 brokerage account, which was seized as part of the investigation. Others used their bribe monies for drugs, prostitutes, and automobiles.

Since our last report, seven AMS graders were sentenced to imprisonment ranging from 15 to 30 months and fines of $4,000 to $70,000. Three owners or employees of produce wholesalers received sentences ranging from 6 months' home confinement to 15 months in prison and a total of over $45,000 in fines and restitution. One wholesale employee was acquitted. The investigation is continuing with additional trials and sentencing pending.

OIG Thwarts Several Embezzlements, Sentences Include Prison Terms

Several OIG investigations addressed embezzlements by USDA employees, including two cases involving hundreds of thousands of dollars. OIG efforts yielded significant prison terms in those cases, as well as full restitution. Three other cases also resulted in convictions.

- The former budget officer of the Natural Resources Conservation Service's (NRCS) National Business Management Center (NBMC) in Fort Worth, Texas, pled guilty in Federal court to embezzling over $300,000 from NRCS. He embezzled money as the budget officer at NBMC, as well as when assigned as an NRCS budget officer in Ohio. He was sentenced in Federal court to serve 18 months in prison, followed by 3 years' supervised release, and ordered to make restitution of nearly $311,200.

- A former County Executive Director (CED) for the Farm Service Agency (FSA) in Washington State pled guilty to charges stemming from her embezzlement of approximately $230,000. Over a 5-year period, the CED made, signed, and issued approximately 124 USDA checks that were purportedly either payments to farmers participating in USDA programs or payments of administrative expenses of the FSA office. The carbon copies of these checks and the underlying documentation showed that the checks were issued to various payees for legitimate expenses and payments. However, on each of the actual checks, the CED typed her own name as payee and then converted the funds to her own use. She was sentenced to serve 18 months in prison, to be followed by 3 years of supervised release, and ordered to make full restitution. An FSA County Office Review team initially uncovered the embezzlement.

- A former Forest Service (FS) employee in Arizona was charged in a County Superior Court with fraudulent schemes and artifices, as well as theft of Government funds. Our investigation showed that, from December 1998 through November 1999, the employee used an FS-issued Purchasing Card Management System credit card for more than 300 personal purchases totaling over $23,000. Sentencing is pending.

- An FS clerk in Arizona was convicted, along with her husband, of embezzling approximately $17,000. The clerk and her husband, who was a deputy sheriff, were both sentenced to 3 years' probation. They made full restitution at the time of sentencing. Both resigned from their agencies. This case was worked with FS Law Enforcement and Investigations agents.

- In Missouri, a former Rural Development loan processor pled guilty to embezzling $11,570 in Rural Development funds that were intended as payments toward borrowers' home loan accounts. From January to March 1999, the employee convinced 12 different borrowers whose home loan accounts were in or near default to send various sums of money directly to him under the guise that he would terminate foreclosure actions. The employee was sentenced to serve 1 month in prison and 5 months of home confinement, followed by 3 years' probation, and ordered to pay full restitution.

CED Pleads Guilty in Sexual Harassment of Employee

In Michigan, a former FSA CED pled guilty to one count of assault and battery in front of a County Circuit Court judge. He was sentenced to a 90-day jail sentence (which is suspended pending the completion of sexual abuse counseling), 1 year of probation, and payment of court costs and fees. The CED sexually harassed a subordinate employee by inappropriately touching her on at least 31 separate occasions over the course of 2 days. He also abused his time and attendance. He was suspended and finally removed from his position as CED before criminal sentencing.

Store Owners and WIC Clerks Convicted of Conspiracy and Money Laundering

In Minnesota, a joint investigation with the IRS led to the indictment of both the owner and the manager of a retail grocery store for money laundering, as well as food stamp and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) voucher trafficking. It also led to the indictment of two former WIC clerks for conspiracy to steal WIC vouchers. The former clerks, who worked for the city of Minneapolis, were stealing unclaimed vouchers and selling them at the neighborhood grocery store. The owner of the store admitted that he bought the vouchers from the WIC employees. He also purchased electronic food stamp benefits and stolen baby formula from other individuals. During 1 year, food stamp and WIC redemptions exceeded the store's reported retail food sales by nearly $200,000. The store owner and manager each pled guilty to money laundering. The WIC clerks pled guilty to conspiring to steal over $200,000 worth of vouchers from the program. All are awaiting sentencing.

Workplace Violence Investigations

Murder Charges Lodged in Deaths of Compliance Officers

The owner of a San Francisco Bay area sausage company is in jail awaiting trial on charges that he shot and killed two Food Safety and Inspection Service (FSIS) compliance officers and a California Department of Food and Agriculture (CDFA) investigator. He is also charged with attempted murder of a second CDFA employee, an inspector. The four officers were at the sausage company plant to discuss suspected Federal and State meat production, labeling, and distribution violations. The case is being prosecuted jointly under California State criminal statute by an Alameda County District Attorney with the assistance of an Assistant U.S. Attorney from the Northern District of California. The San Leandro Police Department, OIG, and the FBI are conducting the investigation with the assistance of FSIS. The death penalty is being sought by the State prosecutors.

FSIS Compliance Officer Assaulted

In Michigan, an FSIS compliance officer was assaulted by the owner of a deer processing and catering establishment after the owner suddenly became abusive during an inspection. The compliance officer, not injured in the scuffle, had to end the inspection and leave the premises. The owner pled guilty in Federal court to one count of assaulting a Federal officer and was sentenced to 2 months' home confinement, 3 years' probation, participation in a mental health treatment program, a $2,500 fine, and a fee of $276 for electronic monitoring equipment during the home confinement.

FS Special Agent and Law Enforcement Officer Assaulted

While investigating the origin of a suspicious fire in a national forest in Missouri, an FS special agent and a law enforcement officer (LEO) were confronted by a man with a handgun. The man, who owned property near the forest, ignored repeated instructions from the FS agent to put the weapon down. Once the man had finally placed the weapon on the ground, he ignored further instructions to step away. When he suddenly and unexpectedly reached for the weapon, the FS agent discharged his own firearm. The property owner was subsequently charged with assault on a Federal officer and pled guilty to a misdemeanor offense. He was sentenced to probation.

Four Arrested for Assaulting FS Law Enforcement Officer

Four men were arrested and charged in Federal court for assaulting an FS LEO who was performing routine patrol duties in a New Mexico national forest. The LEO approached the four men, who were in a parked vehicle in the forest, drinking alcohol and smoking. The four men got out of the vehicle and attacked the LEO, fracturing his skull, breaking his jaw, and causing lacerations to his face and head. The men fled the scene and were later arrested and charged. The four subjects were denied bail and are awaiting trial. OIG assisted the FBI in the investigation.

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 2000 totaled approximately $649 million.

Food Safety Initiative

OIG initiated a series of audits to determine whether FSIS' meat and poultry inspection program remains effective under the science-based Hazard Analysis and Critical Control Point (HACCP) System. We reviewed HACCP, laboratory analyses, foreign imports, and the compliance program that carried over from the previous system. FSIS has taken positive steps, but more needs to be done in all four areas reviewed. FSIS needs to take maximum advantage of the expanding role science now plays as a control over the meat, poultry, and egg products that enter the marketplace. Moreover, FSIS has reduced its oversight short of what is prudent and necessary for the protection of the consumer. Highlights of our major findings follow. You can access the full report on our Web site at www.usda.gov/oig/auditrpt/full_fsis.pdf.

- *HACCP Verification and Oversight Should Be Strengthened*
    - FSIS must more aggressively assert its authorities under the program and in the plants' testing programs.
    - FSIS concurred that it should:
        - Strengthen controls to provide greater verification of and oversight over HACCP implementation, pathogen testing, and independent reviews of plant and inspection activities;
        - expand language contained in its grant of inspection agreement to define FSIS oversight responsibilities; and
        - set out the requirements of the establishments, including access to records regarding the plants' operations.
- *Pathogen and Residue Testing Program by FSIS Laboratories Needs To Be Expanded and Controls Improved*
    - There were material control weaknesses:
        - An incomplete data base precluded many meat and poultry establishments from testing.
        - FSIS inspectors failed to respond to 24 percent of its Office of Public Health and Science's (OPHS) requests for samples to be collected for laboratory testing.
    - FSIS' quality assurance activities over the laboratories need to be strengthened, particularly with regard to microbiological testing operations.
    - FSIS generally agreed to correct the cited weaknesses through stronger procedures and controls.
- *FSIS Documentation and Management Controls Over the Import Inspection Program Need To Be Enhanced*
    - Assurance is lacking that, as required, foreign countries exporting meat and poultry to the United States maintain inspection systems equivalent to the U.S. inspection system.
    - FSIS did not adequately support its determinations that foreign countries importing meat and poultry products to the United States were eligible to do so.
    - We made recommendations for imported meat and poultry products leading to improvements in terms of:
        - Safety;
        - formal procedures; and
        - residue test plans, results, and certifications.
    - We also recommended that equivalency determinations:
        - Involve technical subject matter experts,

- are adequately documented and supported, and
- require onsite verification reviews before the granting of equivalency status.

  - FSIS generally agreed but is still developing corrective action to address the identified weaknesses in its control systems and oversight of import operations.

- *FSIS Needs To Enhance Its Efforts To Improve Food Safety Compliance*

  - FSIS needs to enhance its existing compliance review plan to ensure industry compliance with law.
  - Compliance officers need to be more consistent in reviews and thorough in documenting results and reporting violations.
  - FSIS does not have an effective system to accurately track the number, status, and disposition of consumer complaints.
  - FSIS enforcement actions consist only of a letter of warning, not fines.
  - FSIS agreed with our recommendations concerning the noted weaknesses, has initiated corrective actions, and continues to seek the authority to levy fines.

Meat Processor, President, and Production Manager Plead Guilty to Felonies

After an investigation by OIG, a Miami meat processor and two of its corporate officials pled guilty to conspiring to adulterate and misbrand meat at a plant in Miami. The president of the plant also pled guilty to failure to maintain accurate records, as required by Federal HACCP regulations. The two corporate officials and the corporation were each sentenced to 3 years' probation, each officer was fined $10,000, and the corporation was fined $90,000. Employees of the plant were adding soy to ground beef as an extender to maximize profits, creating serious health concerns for persons who are allergic to soy. The ground beef product was distributed to hospitals, nursing homes, restaurants, and hotels. Further investigation showed the plant was also distributing ungraded meat as "choice." OIG was assisted by FSIS compliance officers.

Poultry Plant Employee Pleads Guilty to Product Tampering

A poultry processing plant employee in Mississippi pled guilty in Federal court to product tampering. The employee admitted throwing a bottle of black ink into a prechiller, contaminating 3,742 pounds of poultry. The motivation for this act was to shut the plant down, allowing employees to go home. Sentencing is pending.

Texas Corporation Pleads Guilty to Adulteration of Meat and Poultry Products

A corporation in Brownsville, Texas, has pled guilty to a Federal indictment for the sale of adulterated meat and poultry products. The corporation sold and shipped rodent- and maggot-contaminated meat and poultry products to several retail outlets in Texas. The corporation has agreed to pay a $125,000 fine.

Natural Resources and Environment

FOREST SERVICE (FS)

FS has the responsibility for providing leadership in the protection, management, and use of the Nation's forest, grassland, and aquatic ecosystems on public and private lands. The FY 2000 budget for FS is projected at $3.5 billion, while receipts generated through timber sales and other activities are estimated at about $796 million.

Public's Interests Not Always Protected During FS Land Exchanges

Over the past several years, OIG has audited a number of land exchanges conducted by FS in the Western States. This reporting period, we completed our final analysis of the Zephyr Cove Land Exchange at Lake Tahoe, which disclosed serious flaws in FS' administration of the land exchange program, as had been indicated in a 1998 interim report.

The $38 million exchange failed to obtain clear title to a unique lakeshore property, now fenced off, restricting public access. The $38 million cost to the Government potentially is double the land's actual value. We concluded that the Zephyr Cove land exchange was seriously compromised by the inadequate actions of the FS regional office and the local FS personnel working the exchange. Also, as a result of the sale of the mansion at Zephyr Cove, a third party threatened litigation if FS did not issue it a special-use permit at a low rate to operate a concession in the mansion and develop the land around it.

View of the mansion at Zephyr Cove. OIG Photo.

Our most recent audit disclosed a pattern similar to practices described in an August 1998 audit report. FS staff let the private parties control many aspects of the exchanges. Consequently, the developers, the landowners, and their advocates tried to maximize their acquisitions in Las Vegas by overvaluing their own land to ensure the "equal" piece of Las Vegas property they received was of greater worth.

- In the Deer Creek exchange, FS staff on the Humboldt-Toiyabe National Forest let an advocate for the landowner override FS safeguards against excessive valuations, resulting in a $5.9 million loss to the Government.

- In the Mt. Rose exchange, FS staff on the Humboldt-Toiyabe allowed a private party to "presell" FS land worth $6.5 million to private investors with FS to receive other unspecified lands at some future date.

- In the Galena Resort exchange on the Humboldt-Toiyabe, FS paid the landowner $2.1 million for water rights it did not plan to use. The landowner had acquired the water rights for the property being exchanged with FS but did not inform FS that the rights would lapse if not used.

In some cases, landowners would give FS land encumbered with deed reservations, encroachments, or maintenance problems in exchange for the unencumbered Las Vegas property. However, one exchange—the Thunderbird Lodge at Lake Tahoe, reported previously—demonstrated the value of OIG intervention. FS would have accepted a deed that did not clear the Government of liability for an aging structure that it could not afford to maintain. As a result of our recommendations, FS added terms to the deed that required the landowner to furnish a 10-year, $2.3 million performance bond to guarantee that the current owners of the lodge maintain it.

Based on recommendations we have made in the issued reports, FS has agreed to implement additional controls over the land exchange process. Future reviews will evaluate the adequacy of these new controls.

Weaknesses Found in the Financial Disclosure Reporting Systems at FS

The financial disclosure reporting system helps employees avoid conflict-of-interest situations and is increasingly important as FS expands the use of collaborative ventures and partnerships with non-Federal entities (currently running in the hundreds of millions of dollars annually). FS units were not updating their system to identify and track employees designated to file confidential financial disclosure reports. We identified 272 designated filers (contract specialists, realty specialists, etc.) not included in the system and tracked by FS, as well as 476 LEO's and criminal investigators, whose duties fell within the general description in the act.

Controls to ensure that designated filers actually filed their financial disclosure reports on time were also inadequate, and the reports were not thoroughly reviewed. Four FS employees were able to conceal their interests in non-Federal entities and either grant favors to those entities or potentially receive favors from them. Two other employees who disclosed their interests had made decisions favorable to those interests, but ethics officials had not adequately reviewed the disclosure forms to identify and take action to prevent the conflict situation from arising.

We recommended that FS require all LEO's and criminal investigators to file financial disclosure reports and establish procedures to periodically review and update its tracking system, and that FS ethics officials adequately follow up on the nature and extent of outside employment/activities reported.

Farm and Foreign Agricultural Services

FARM SERVICE AGENCY (FSA)

FSA supports American farmers, and ultimately consumers, through commodity and disaster programs, loans, conservation, and food assistance. The FY 2000 budget is estimated at over $7 billion in funds available directly to FSA. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations at an estimated $32 billion.

Upfront Review of CLDAP Delivery to Producers Forestalls Improper Payments

OIG places a high priority on reviewing programs early on to forestall potentially massive problems. OIG teams frequently assist agency personnel in an assortment of programs intended to benefit farmers and help them recover from natural disasters. We move quickly to identify weaknesses and set a direction for effectively disbursing benefits to those entitled, while recommending controls to identify wrongdoers and institute measures of deterrence. Work we do at one location often has implications for a much wider area. In a prime example, we reviewed the Crop Loss Disaster Assistance Program (CLDAP), for the 1998 crop or for the 1994 to 1998 (multiyear) crops, in cooperation with FSA and the Risk Management Agency (RMA).

We identified improper payments on about 6.5 percent of the more than 1,800 applications we reviewed in 40 county FSA offices in 14 States.

- Through our interim notification of program deficiencies, FSA was able to preclude issuance of nearly $458,000 in overpayments and correct about $40,000 in underpayments before payments were disbursed.

- We found that producers did not accurately report qualifying data (such as acreage, production, and crop shares) and that county offices made technical errors, resulting in overpayments of about $1.1 million and in underpayments totaling about $66,000.

- We also identified about $150,000 in excessive RMA crop insurance indemnities and $2,400 in excessive (FSA) loan deficiency payments resulting from problems identified during the audit.

- Further, we questioned about $8.8 million in CLDAP payments that were issued to producers who were ineligible for crop insurance.

- As a result of the audit, OIG investigated two producers and one crop insurance agent for apparent misrepresentations on their disaster and/or crop insurance claims.

Overall, some procedural changes were needed.

- CLDAP neither prohibited payments in excess of producers' expected gross crop revenues (as did prior disaster programs) nor required adjustment of payments based on known inflated crop insurance indemnities.

- The CLDAP contract did not include a liquidated damage clause for noncompliance with crop insurance linkage provisions.

FSA generally agreed to collect cited overpayments and direct compliance reviews toward areas where most program errors occurred. FSA also agreed to grant FSA county committees authority to correct erroneous RMA data when RMA acknowledged such errors in writing. However, unlike OIG, FSA believed that sufficient safeguards were in place to limit future disaster program payments to producers' expected gross returns. FSA and RMA agreed to jointly develop and implement a plan to improve compliance with crop linkage requirements. RMA agreed to determine whether cited producers misrepresented their 1998 crop production to increase their crop insurance indemnities, and recover any overpayments.

Early Work Enhances Program Controls for LDP Program

OIG performed early work to identify what could be used to improve another large-dollar program. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 mandated a Loan Deficiency Payment (LDP) program on 16 different commodities for the 1996 through 2002 crop years. LDP's were intended to minimize the delivery of price support loan collateral to CCC by paying producers the difference between the established price support loan rate and the settlement prices received by producers. LDP activity exploded into a $2.7 billion program for the 1998 crop year. (LDP activity prior to 1998 was minimal because market prices were generally higher than loan rates.)

We found that county average (benchmark) yields established by some FSA county committees hindered reasonableness tests. Specifically, when yields claimed for LDP benefits appeared to exceed county average yields, the committees were to determine the reasonableness of the claimed yields. However, county average yields were established inconsistently and/or did not always reflect actual crop yields, which, coupled with the absence of formal second-party reviews, contributed to the disbursement of about $300,000 in error to producers.

FSA generally concurred with our findings and recommendations to provide additional guidance and direction over the establishment of county average yields, develop and implement an automated reasonableness test, and scrutinize questionable requests.

OIG Responds to Request, Finds Beneficial Interest Requirements Not Met

Program officials sometimes capitalize on our expertise by asking us to look at questionable situations. We often root out irregularities or provide guidance to clarify policies or enhance the efficiency and effectiveness of procedures. In one instance, we performed an audit at the request of North Dakota State FSA officials to determine whether producers in a county met beneficial interest requirements for 1998 LDP's. Producers must have control of and title to a commodity, and risk of loss, at the time LDP benefits are requested.

We reviewed 5 producers at each of 3 warehouses (to which a total of 652 county producers delivered commodities claimed for LDP benefits).

- Four producers delivered grain to two warehouses under delayed pricing contracts (did not meet the beneficial interest requirements of the program), were ineligible for LDP's totaling about $22,000, and are subject to liquidated damages totaling about $5,400.

- One of the warehouses provided misleading documentation to producers which showed grain claimed for LDP benefits was in open storage when, in fact, it had been applied to existing sales contracts.

We recommended that FSA notify producers of the need to request LDP benefits prior to delivery in cases where the grain is covered by sales or delayed pricing contracts that specify the loss of title at the time of delivery. We also recommended recovery of the monetary amounts cited in the report, as well as any other applicable 1998 LDP amounts disbursed to producers with similar contracts, and FSA has begun recovery.

OIG Confirms Suspicions, Finds Duplicated Claims and Overstated Losses

Oklahoma State FSA officials called on OIG's expertise to look at a questionable situation in one Oklahoma county. We responded to their requests, performed a thorough review, and came up with significant findings.

We initiated an audit to determine whether (as indicated by internal FSA reviews) producers improperly claimed disaster benefits and an FSA employee improperly made and/or serviced loans to family members. We reviewed 11 producers' disaster claims for hay and/or pasture losses in 1998 and 1999.

- In nine cases, producers had inaccurately self-certified their disaster losses.

- In seven cases, the producers improperly claimed duplicate losses under the 1998 CLDAP and Livestock Assistance Program (LAP) and were overpaid almost $162,000.

- In five cases, the producers inaccurately reported disaster acreage, types of pasture losses, and/or livestock on hand during the grazing period and were ineligible for 1998 and/or 1999 disaster benefits totaling almost $43,000.

- An employee was involved in completing overstated disaster claims for two of the producers, who were close relatives of the employee. The employee altered dates on the producers' livestock sales documents (used to determine livestock on hand) and provided FSA with overstated disaster acreage information and incorrect descriptions of pasture cover. This matter was referred for investigation because of the FSA employee's involvement.

Nothing came to our attention to indicate the employee made and/or serviced loans to family members, but there was an appearance of a conflict of interest between the employee and a farm loan borrower, who was both the employee's close relative and a business associate of the employee's spouse. The employee and borrower gave FSA required notice of their relationship and association, but FSA procedure did not require the borrower's loan file to be assigned to another county office.

We recommended, and FSA agreed, to collect the questioned payments and review remaining applications in the county for duplicate benefits under CLDAP and LAP. Based on the outcome of the investigation, FSA will consider whether the employee's conduct (with regard to completion of the overstated disaster claims for two producers) warrants action. FSA also decided to transfer the borrower's loan to another county for servicing.

Active Response Finds Payment Limitation Rules Violated in Oklahoma

Some programs, by their nature, lend themselves to continuing problems at the hands of individuals attempting to circumvent the law. We step in quickly at the first report of such irregularities. Our overall intent is to ensure that farmers throughout the country are adhering to established policies and following correct procedures. At the request of the Oklahoma State FSA Committee, we audited farming operations in an Oklahoma county to determine if producers violated Agricultural Market Transition Act (AMTA) payment limitation provisions.

We found that an individual operating as a corporation used two corporate employees to establish a joint venture, which participated in AMTA as a separate producer in 1997 and 1998. However, our reviews of the joint venture's and corporation's financial records showed the joint venture's operation was not separate and distinct from that of the corporation.

- The corporation provided the joint venture's 1997 and 1998 capital, land, equipment, and operating expenses.

- The joint venture did not maintain funds and accounts separate from the corporation. Other than a handwritten summary of revenue and expenses for 1997 and 1998, the joint venture did not maintain any records relating to expenses for equipment, notes, land lease payments, and other farming expenses.

- In summary, the corporation, which was also the joint venture's landowner, provided all the major investments and assumed the risk for the outcome of the joint venture's operation.

We concluded the producers used a scheme or device to evade payment limitation provisions, and recommended FSA recover $451,000 in program payments made to the joint venture and corporation for 1997 through 1999. (Program payments for 1999 are subject to refund if the agency determines the producers used a scheme or device for 1997 and 1998.) Oklahoma State FSA officials agreed to make determinations based on information provided in the audit and to notify the producers of the repayment required.

OIG Helps in Correcting SAA Data Base To Recapture Debt

OIG reviewed shared appreciation agreements (SAA) to assist FSA in getting better control over pertinent data and the associated recapture of certain Government debt. FSA implemented SAA's in 1989 to recapture part of the Government debt written down for Farm Loan Program borrowers. A percentage of shared appreciation is due if the market value of the secured property has risen during the term of the agreement. Borrowers may request partial or complete suspension of repayment annually up to three times.

The March 2000 SAA data base maintained by FSA showed that about 11,900 SAA's had been executed on debt writedowns of over $1.7 billion.

- The data base comprised 9,260 SAA's on real estate debt writedowns, totaling $1.2 billion, and

- over 2,600 agreements in writedowns for non-real estate loans (chattel). However, SAA's do not apply to non-real estate loans.

Also, when a borrower's shared appreciation due was approved for suspension, the information was tracked manually, because suspended SAA's are not identified as such in the data base. As of May 2000, over 1,000 suspended SAA's totaled about $45.5 million. In addition, although 272 SAA's showed no appreciation, the data showed recapture amounts totaling over $5 million because of incorrect data entry for the market values.

All told, we reviewed 258 SAA's in 3 States, noted discrepancies in the data for 29, and concluded that the SAA data base contained significant erroneous data that could adversely affect management information.

FSA agreed to:

- Correct the erroneous information in the data base,
- implement control procedures to better ensure the accuracy of the data, and
- remind all State and county office staffs that net sale proceeds are to be applied first to the SAA and then to the outstanding debt.

OIG Curtails Criminal Violations That Hurt People, Programs

OIG brought to bear law enforcement efforts to counter criminal violations and create a presence leading to deterrence. One multimillion-dollar case affected more than a hundred cotton farmers. Two other cases produced sizable restitution and a prison sentence.

- The owner of cotton warehouses in Georgia and South Carolina was sentenced to serve 35 months in Federal prison for his scheme to defraud approximately 140 cotton farmers out of their cotton and sales proceeds worth more than $9 million, as detailed last period. The defendant pled guilty to 32 felony counts involving mail fraud, wire fraud, and money laundering. The defendant was ordered to pay restitution of over $4 million, serve 3 years on probation after release from prison, and complete 200 hours of community service.
- As previously reported, two Texas businessmen pled guilty in Federal court to conspiracy to submit false feed receipts under the Emergency Feed Program. Payments of about $172,000 were made based on the false receipts submitted. One man was sentenced to prison for 18 months and ordered to make restitution of $90,000. The other was placed on 5 years' probation and ordered to make restitution of $12,000.
- An Alabama farmer was sentenced to pay over $90,000 in restitution and serve 6 months' home confinement and 5 years' probation after pleading guilty to three counts of unauthorized sale of mortgaged property. The defendant, who had previously received two FSA operating loans to purchase cattle, mortgaged the cattle to FSA. Before receiving the loans, the defendant presented false receipts to FSA regarding cattle purchases. The defendant also sold mortgaged cattle in other names and did not report the sales proceeds to FSA.

RISK MANAGEMENT AGENCY (RMA)

RMA administers 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 and revenue crop insurance through a private delivery system by means of reinsured companies. RMA's FY 2001 Government cost, net of producer-paid premiums of $968 million, is estimated at $2.2 billion.

Proactive Evaluation of Crop Insurance Programs, Regulations, and Policies

As a part of a proactive approach and increased coordination and communication with RMA that resulted from our joint agency roundtable, we devoted a large portion of our resources during this reporting period to several key areas.

- *Workgroups:* The three workgroups covered E-Commerce, Written Agreements, and Manual 14—Guidelines and Expectations for Delivery of the Federal Crop Insurance Program. We expended most of our efforts with the latter workgroup. Manual 14 outlines the program review and reporting requirements for the reinsured companies, including RMA's quality control (QC) system in which our audits had reported major weaknesses. All three workgroups are struggling with various issues, and we are continuing with our efforts and input.
- *Quality Control System*: We have monitored RMA's continuing implementation of a QC system that will provide RMA and FCIC an accurate and meaningful error rate for the Federal crop insurance program. Such an error rate—a potential indicator of program abuse and errors—has been a point of contention and concern for both OIG and RMA for a number of years. Furthermore, such an error rate would also provide an effective tool to evaluate RMA's program

management. Also, the Agricultural Risk Protection Act (ARPA) of 2000 seems to indicate a desire for this information for Congress.

RMA has proposed to accomplish this goal under its Compliance Crop Insurance Contract Reviews, which are conducted by the reinsurance companies. This is intended to be a statistically valid sample, with the results of each insurance provider supplied to FCIC in an Annual Summary Report. RMA compliance staff has completed its review of the reinsurance companies' Compliance Crop Insurance Contract Reviews for the 1998 crop year. However, RMA's review did not result in a projectable error rate due to inadequacies in the methodology and inadequacies or errors in the companies' reviews. We have had a number of meetings with RMA's Compliance and Insurance Services staff to review its plan and provided our comments. RMA has requested further assistance in monitoring and evaluating its QC system; however, we have declined further joint efforts until RMA has developed a formal plan of action.

- *ARPA Implementation*: We are currently working closely with RMA and FSA in their implementation of ARPA legislation. We have attended implementation meetings, provided comments when applicable, and reviewed and provided comments on any regulations as they were being drafted. Our primary role in this project is to assist both RMA and FSA to improve the QC system to assess maximum program integrity. Through this effort, we expect the policies that are implemented will decrease the recurrence of the types of program abuses we have identified in the past.

30 Subjects Agree To Pay $1.9 Million in Crop Insurance Case

Following an investigation in Minnesota conducted jointly with the Compliance Branch of RMA, 11 insurance companies, 12 grain elevator companies, and 7 individuals agreed to pay nearly $1.9 million to settle civil False Claim Act cases. In 1993, these entities conspired to improperly shift to FCIC the charges that grain elevators assessed to farmers in southern Minnesota and northern Iowa to dry high-moisture corn. The conspiracy resulted in over 450 false claims being submitted.

Bean Company President Causes False Crop Insurance Claims

In July, the president of a Wisconsin bean processing company agreed to pay $139,300 as a civil settlement for causing false Multi-Peril Crop Insurance (MPCI) claims. In 1995, most of Minnesota's dry edible bean crop sprouted in the pod prior to harvest because of excessive rainfall during the growing season. The processing company falsely substantiated to MPCI adjusters that sprout-damaged beans were worth only salvage value. The producers made MPCI claims and received indemnity payments, and at the same time received full market price for the damaged beans from the processor.

Two Found Guilty of Bankruptcy Fraud

In Minnesota, a husband and wife were found guilty of 46 felony counts that included conspiracy, bankruptcy fraud, mail fraud, wire fraud, and false statements to obtain USDA program payments. The couple created and operated two farming corporations, and elicited the assistance of an elderly neighbor as the "straw" president and sole shareholder of one of the corporations. From 1990 through 1999, the couple illegally obtained over $250,000 in FSA program payments, $240,000 in CCC-stored loans, and $450,000 in MPCI indemnity payments as a result of their hidden interests in the two corporations and the unlawful planting of a converted wetland. During the course of their subsequent bankruptcy proceedings, they hid their interests and assets in the two corporations, thereby reducing their debt from approximately $1.9 million to $300,000. Sentencing is pending.

Crop Insurance Agent Pleads Guilty to Fraud

A crop insurance agent in Clarksville, Texas, pled guilty to filing false reports regarding the identity of the insured. She agreed to pay restitution of $591,800 and voluntarily withdraw from all USDA programs, including the sale of crop insurance. This investigation involved multiple co-conspirators who were on the Nonstandard Classification System (NCS) list and had their crop insurance entity changed during the period from crop year 1993 through crop year 1997. The crop insurance agent admitted using her daughter's name, as well as other individuals' names, on crops in order to avoid the NCS listing. Sentencing is pending.

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS represents the interest of U.S. farmers and the food and agricultural sector abroad. Most notably, it seeks improved market access for U.S. products, carries out food aid and market-related technical assistance programs, and mobilizes expertise for agriculturally led economic growth in developing nations.

Most of $980,000 Stolen From Russian Bank Account of PVO Recovered

FAS and a U.S. Private Voluntary Organization (PVO) signed an agreement to provide for 2,500 metric tons of butter and 2,500 metric tons of butter oil, to be donated by CCC, for assistance in the Russian Federation. The agreement provided for half of the proceeds to be used for humanitarian projects, with the other half designated for investment in small and medium-sized Russian agribusinesses. In December 1998, $980,000 was fraudulently wire-transferred from the account of the PVO, through three U.S. banks, to a bank in Riga, Latvia, where the funds were immediately withdrawn. To date, $966,000, or 98.6 percent of the stolen funds, has been recovered and returned to the PVO. However, no recovered funds have been returned to USDA for use in other U.S. food aid programs. This investigation was conducted jointly with the FBI.

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 2000 is $34 billion. Three FNS programs receive the bulk of this funding: FSP ($19.8 billion), CNP ($9.8 billion), and WIC ($4.1 billion).

FOOD STAMP PROGRAM

Operation Talon Arrests Continue To Climb

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. As of September 30, 2000, Operation Talon had resulted in 6,733 arrests of fugitive felons during joint OIG, State, and local law enforcement operations throughout the country. Serious crimes perpetrated by those arrested included homicide-related offenses (murder, attempted murder, manslaughter), sex offenses (child molestation, rape, attempted rape), kidnapping/abduction, assault, robbery, and drug/narcotics violations.

Monitoring of Electronic Benefits Transfer (EBT) System Continues

Currently, 41 States and the District of Columbia use EBT systems to deliver food stamp benefits. Thirty-seven of the systems have been implemented statewide, including the District of Columbia. About 74 percent of all FSP benefits are being issued via EBT. During this semiannual period, we completed EBT systems audit work in Utah, North Dakota, South Dakota, and Florida. The EBT systems were successfully implemented in all four States; however, controls needed to be strengthened in some areas.

- *Utah*—We recommended that FNS require the State to (1) develop procedures to improve the security and accountability over EBT cards returned through the mail as undeliverable and (2) establish and implement written procedures for monitoring logon identifiers (ID), reviewing user access permission periodically, and canceling logon ID's no longer authorized.

- *The Dakotas*—North Dakota and South Dakota have a joint EBT system contract known as the Dakota EBT system. Both State agencies needed to improve controls in some areas to strengthen EBT administration and reduce the risk to FSP funds from waste, loss, unauthorized use, and misappropriation. We recommended that FNS require North Dakota to establish and implement written procedures for monitoring logon ID's, and require both North Dakota and South Dakota to review user access permission on a periodic basis and cancel logon ID's as appropriate.

- *Florida*—The State agency did not have sufficient control over system access ID's. In addition, the State agency did not (1) use expungement reports generated by the EBT system to identify accounts that became inactive or dormant, (2) maintain a separation of duties between personnel who authorized replacement of expunged benefits and those who reactivated the benefits in the EBT system, and (3) document expunged benefit restoration transactions properly. These conditions could result in denial to recipients of timely access to their food stamp benefits or permanent loss of benefits, misuse of benefits by ineligible individuals, and payment of excessive fees to the EBT processor. We made a series of recommendations to improve controls over system access ID's and inactive and dormant accounts.

During our review of the EBT development and implementation in each of these States, we also noted concerns over the need to include required monitoring visits for group living arrangements, as well as improvements in other related controls involving the participation of group homes. While the weakness is not an EBT weakness, we believe that it requires attention in each of the States.

Food Stamp Fraud Spawns Violent Criminals, Associated Activities

Increasingly, OIG has been encountering cases of food stamp fraud which extend into other, more violent areas of criminal enterprise. While the advent of EBT has provided additional means to uncover illegal activities, often the fraud is massive, the perpetrators violent and involved in more threatening pursuits directed against people, and the criminal organizations large. Three such examples involved kidnapping, large-scale criminal conspiracy, narcotics violations, and street crime, as well as widespread food stamp trafficking.

- A large food stamp trafficking and money laundering case involved an individual also implicated in a kidnapping. As reported previously, a 4-year investigation in Philadelphia, Pennsylvania, uncovered an elaborate scheme involving $15 million of food stamp trafficking and money laundering through six bogus grocery stores. Owners of two wholesale businesses and owners and employees of numerous Chinese takeout restaurants were indicted in the scheme. To date, two owners of one food wholesaler and six owners of the six grocery stores have been indicted on Federal money laundering and food stamp trafficking charges. Four of the grocery store owners have pled guilty and been sentenced.

  This reporting period, the co-owner of one grocery store received two concurrent 6-year sentences for money laundering $1.3 million. This defendant also pled guilty in a separate case to one charge of kidnapping for his role in the abduction and detention of a Chinese female in New York City, holding her against her will until a smuggling fee to gain entrance into the United States was paid by her relatives.

  In addition, a complaint for forfeiture was filed and an arrest warrant was served on a residence purchased by an indicted owner of one of the grocery stores. The owner had purchased the residence, valued at $65,000, for his girlfriend (now wife) with funds derived from the trafficking of food stamps. An additional $175,000 in seized cash is pending final disposition. This investigation was worked jointly with the U.S. Secret Service. The investigation is continuing with additional charges expected.

- In another case, food stamp trafficking financed further crime. In Rochester, New York, 36 individuals were indicted and arrested on food stamp trafficking and Immigration and Naturalization Service (INS) charges. Our joint investigation with INS uncovered a complex criminal conspiracy. Food stamps were discounted—and exchanged for cash and a vehicle—with the owners or employees of three authorized stores. The food stamps were laundered through approximately 20 other authorized grocery stores in the Rochester area. The proceeds from the food stamp trafficking conspiracy facilitated other criminal activity, including the smuggling and illegal entry of approximately 50 foreign nationals from Pakistan, INS marriage fraud, and visa fraud. During a joint arrest and search warrant operation, 36 of the 38 indicted and 1 unindicted individual were arrested. In addition, 10 individuals were detained for INS violations. All but five individuals have signed plea agreements. Charges were dropped against one individual. Two subjects have fled the country and are fugitives. All individuals who participated in the marriage fraud scheme have been deported. The investigation is continuing.

- An employee at a local tavern with a history of narcotics violations and other vice crimes, who exchanged cocaine for food stamps, was implicated in an investigation along with 17 others. Twelve already have been convicted for trafficking in food stamps after a joint investigation with the Seattle Police Department, the Washington Department of Revenue, the Washington Liquor Control Board, and the FBI. Street traffickers purchased over $269,000 in food stamps from undercover officers and sold them to FNS-authorized retailers in the Seattle area. Warrants served on subjects' bank accounts resulted in the seizure of over $120,000. Several local bars and taverns also were closed down for Liquor Control Board violations. This investigation was initiated at the request of the King County Executive and a member of the Washington House of Representatives after they had received numerous complaints from citizens and business owners about rampant food stamp trafficking in downtown Seattle and the street crime associated with it.

Retailers Sentenced to Prison in Massive Food Stamp Fraud Conspiracy

A bookkeeper and two retail firm owners in Los Angeles have pled guilty to various tax and/or food stamp fraud charges following an investigation ongoing since 1995. One of the retailers was sentenced to 27 months in prison, 3 years' supervised release, and $3 million in restitution; while the second retailer was sentenced to 9 months in prison, 1 month of home detention, 3 years' probation, and restitution of $4.1 million.

In 1995, we began an investigation of 12 FNS-authorized retailers in the Los Angeles metropolitan area that were identified as having redeemed unusually large quantities of food stamps. We linked several of those retailers, as well as more than 100 other FNS authorized retailers, to the same bookkeeper, who was furnishing contradictory information to FNS on the behalf of many of them on application forms. We served a search warrant on the bookkeeper's office in April 1997. Records seized there substantiated that he was inflating the authorized retailers' gross food sales in documents submitted to FNS in order to avoid detection of the retailers' high redemption of food stamps, while at the same time understating the client retailers' gross sales to the California Board of Equalization and the IRS. We suspect that illegally obtained food stamp coupons worth in excess of $50 million were redeemed from 1994 to 1997 by the 24 firms targeted for investigation following the review of records seized from the bookkeeper. The IRS and INS joined our investigation in 1998.

EBT Plays Large Role in Food Stamp Trafficking Cases

As noted above, EBT investigations are playing an ever-greater role in our law enforcement efforts to counter criminal violations in the food stamp area. Here are three representative cases.

- As previously reported, the husband and wife owners of a medium-sized grocery store in Baltimore City, Maryland, pled guilty in Federal court to access device fraud, via the EBT system. They have now been ordered to make restitution of $500,000 each, to total $1 million. The husband was also sentenced to 21 months in jail, followed by 3 years of supervised probation. The wife has been sentenced to 5 months in jail, followed by 3 years of supervised probation. While this store was under investigation by OIG, it was the largest redeemer of food stamp benefits in Maryland.

- An anonymous Hotline complaint set off a 2-year investigation by OIG into fraud by the owner of a small Baltimore market. The market owner conducted all EBT trafficking transactions personally and only through a known "runner," or trusted go-between who for a small fee obtains EBT cards from recipients and insulates the store owner. OIG agents were able to secure the services of a runner, who then trafficked EBT benefits monitored by OIG. The owner was sentenced to 18 months in prison and 3 years of supervised probation. In addition, she was ordered to pay $478,000 in restitution. FNS, which provided extensive assistance during the investigation, permanently disqualified the former store owner from participation in FSP. IRS agents and Baltimore City police officers also assisted OIG.

- Two owners of a store in Atlanta have pled guilty to food stamp and EBT trafficking charges and have been sentenced to serve 18 months in prison, followed by 3 years' supervised release, as well as pay restitution of $278,000. The pleas came after an 11-month investigation, during which OIG made several undercover transactions with the owners and also monitored the store's cash register terminal for EBT activity. Recipients who appeared to have sold their benefits were identified and interviewed. Several recipients admitted to selling benefits for cash at the store. In addition, a few recipients reported handing their EBT cards and personal identification numbers to a street merchant, who then contacted the store using a cellular telephone. The store owners used the information provided by the street merchant over the telephone to conduct manual transactions to remove benefits from the recipients' EBT accounts. Several recipients had their cases heard before an administrative law judge in a program violation hearing. All the cases were upheld, and each recipient was disqualified from FSP for 1 year.

Grocer and Silent Partner Charged in $7 Million Food Stamp Fraud Scheme

A Chicago grocery store owner and his silent partner were charged and pled guilty to an indictment involving conspiracy and aiding and abetting in a $7 million food stamp fraud scheme that occurred from 1992 to 1996. The individuals used the money to purchase three apartment buildings and a luxury automobile that the defendants have agreed to turn over through forfeiture. This case was worked jointly with the IRS.

Texas Retailer Forfeits Property

As a result of a criminal investigation for food stamp trafficking, the owner of a Texas authorized retailer was convicted in State court. Further financial analysis showed over $400,000 in fraudulent food stamp deposits. This resulted in a civil forfeiture action being filed in Federal court. The Federal judge ordered that three pieces of property, which included the store itself, be forfeited to the Government. The property is appraised at $500,000.

CHILD NUTRITION PROGRAMS

Operation “Kiddie Care” Continues To Identify Program Abuses

Operation “Kiddie Care,” our nationwide initiative to identify, remove, and prosecute unscrupulous Child and Adult Care Food Program (CACFP) sponsoring organizations (sponsors), continued to be successful. OIG worked closely with FNS concerning needed regulatory and legislative changes recommended in our August 1999 audit report. In June 2000, Public Law 106-224 was enacted, which included provisions to restore program integrity to CACFP. FNS is working on regulatory changes to implement these provisions.

To date, 47 CACFP sponsors, who were receiving about $82.7 million annually, have been found seriously deficient in their operation of the program. FNS took action to terminate 29 of these sponsors, who received about $52.9 million annually, because the sponsors did not take sufficient action to correct the deficiencies. Sixty-four individuals were indicted or named in criminal information documents for defrauding CACFP, and 51 individuals pled guilty or have been convicted. Audits and investigations continued to yield results.

- We found that a sponsor in New York needed to improve accountability over administrative costs and meal counts, and monitoring of meal service activities needed improvement. Sponsor employees were paid approximately $115,000 without required time and attendance reports. When such reports were prepared, we identified approximately $7,000 in overpayments because employees were paid for more hours worked than documented. Receipts or invoices did not support expenditures totaling approximately $2,500, and expenditures of approximately $17,000 were made for unallowable program costs.

- Based on the results of audits conducted in past reporting periods, a sponsor in Arizona and another in California were terminated from participating in CACFP for being seriously deficient in their administration of the program.

- In Georgia, another sponsor was terminated from CACFP because the director appeared to have inflated meal counts and created fictitious children.

- We previously reported that the owner of a multicenter day care operation in Michigan had been sentenced to 9 years in prison, followed by 3 years’ supervised release, and was ordered to pay more than $23.5 million in combined fines and restitution, as well as forfeit over $1.1 million in cash and three properties. A second individual, her assistant, has now pled guilty to conspiracy to commit program fraud and was sentenced to 15 months in prison and $13.5 million in restitution. This assistant, along with the owner of the operation, defrauded USDA of approximately $27 million in CACFP funds.

- A mother and her daughter pled guilty to embezzling CACFP funds from their New York corporation. The mother was executive director and her daughter was a corporate officer in their business, which provided meal service for day care centers in Brooklyn, Queens, and Nassau County, New York. From 1995 through 1997, the corporation received $1.6 million in CACFP funds from USDA. During that time, the subjects transferred $75,000 in grant money from a business account to personal savings and checking accounts. The money was used for travel, including a Hawaiian vacation, clothing, jewelry, gifts, and other personal uses. Sentencing is pending.

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 2000 is approximately $274 million.

AMS Needs To Strengthen Controls Over Inspections at Terminal Markets

The AMS Administrator requested that we evaluate controls over inspection activities at terminal markets after nine fruit and vegetable inspectors were arrested and charged with accepting bribes for downgrading loads of produce so that wholesalers could negotiate lower prices with shippers. AMS had developed a management action plan to strengthen inspection procedures and reduce the risk of further fraudulent activities, which we assessed along with AMS' applicable policies and operating procedures.

We concluded that no single modification to AMS' procedures would eliminate the risk of fraudulent activities at terminal markets. However, we did identify areas where improvements to AMS' existing or proposed management controls could deter or detect fraudulent activities in the future. Some of our observations and conclusions are that AMS supervision and oversight at terminal markets need to be expanded, formalized ethics and fraud awareness training should be provided to inspectors, and a rotation schedule for inspectors within and between markets should be considered. We also saw a need for AMS' data base capabilities/functions to be augmented to support trend analyses of inspections conducted, along with the use of digital imaging to record the condition of inspected commodity shipments. We further believe that improved communication with and between producers/shippers and the wholesale industry, along with independent, unannounced inspections by AMS at terminal markets, would help to deter abuse and promote uniformity of inspections nationwide.

AMS plans to implement its management action plan and incorporate our suggestions to improve its management controls.

Owner of Coffee Company Sentenced

The owner of a Bridgeport, Connecticut, coffee company has been sentenced to 5 years' probation and ordered to pay a $21,000 fine in a case in which he had previously pled guilty to one count of wire fraud. The company bid on eight contracts, worth about $400,000, with a food distributor in Illinois to manufacture and ship coffee. The contracts required official inspection and certification by USDA, because the coffee product was to be used in Illinois public institutions. The company obtained the contracts by submitting the lowest bid; but in order to make a profit on the contracts, the company never obtained USDA inspections and provided falsified documentation.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Through inspection, 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' available funding for FY 2000 is estimated at about $573 million.

Smugglers Sentenced in Government Official Bribery Case

A previously reported multiagency operation in San Francisco netted three importers who tried to bribe a Food and Drug Administration (FDA) official in order to expedite the entry of their food shipments from Hong Kong into the United States without regulatory inspections. The subjects submitted false entry documents that omitted the smuggled items. The importers had previously been convicted of criminal charges including bribery, money laundering, smuggling, entry of adulterated foodstuffs, and conspiracy.

In July 2000, one of the importers was sentenced to 7 years and 3 months in prison and 3 years' probation with a $12,500 fine. The court found that he was the leader and organizer of the criminal conduct and had obstructed justice by providing false testimony at his trial. In addition, the judge granted the Government's motion for upward departure from sentencing guidelines based on the serious risk to public health and safety caused by the smuggling of salmonella-laden seafood into the country. The second importer was sentenced to

5 years' probation and fined $3,000, while the third was sentenced to 8 months in prison, 3 years of supervised release, and a $3,000 fine.

This case resulted from work initiated by the San Francisco Interagency Import Task Force, which has been targeting firms involved in illegally importing plants and animals that may present a threat to America's food supply. OIG agents have been working with representatives from FDA, APHIS, the U.S. Customs Service, the U.S. National Marine Fisheries Service, the U.S. Fish and Wildlife Service, the IRS, and the California Department of Food and Agriculture at the direction of the U.S. Attorney for the Northern District of California.

Indictments for Conspiracy To Smuggle Commercial Agricultural Products

Following notification by the California Department of Food and Agriculture that a Los Angeles agricultural products import firm may have smuggled tons of Mexican sweet limes into the United States in the fall of 1999, we initiated a joint criminal investigation with the U.S. Customs Service. In June, a 27-count indictment was filed, charging three individuals and two firms with conspiracy, smuggling, and aiding and abetting.

Two of the three indicted subjects have been arrested and are awaiting trial on charges relating to the transport of various agricultural products, including Mexican sweet limes, into California from Mexico. Evidence was developed that a substantial portion of the illegally imported Mexican sweet limes was infested with Mexican fruit fly larvae.

Rural Development

RURAL HOUSING SERVICE (RHS)

RHS is responsible for making available decent, safe, sanitary, and affordable housing and community facilities through loans and grants for rural single-family housing, apartment complexes, fire stations, libraries, hospitals, and clinics. For FY 2000, program funding for RHS loans and grants totaled $5.8 billion.

RRH Nationwide Initiative Finds Problems in Missouri

A realty company and an identity of interest (IOI) reinsurance firm set in motion an insurance program which did not meet requirements of RHS regulations and did not comply with national office directions. From July 1992 through July 1998, the realty company withdrew insurance premiums, totaling about $4.3 million, from project accounts without providing satisfactory protection for projects securing RHS loans. While the realty company originally told RHS the IOI firm would save money, projects were actually charged excessive premiums. For example, annual insurance costs for the realty company's Missouri projects exceeded the State average by about $113,000. The realty company and the IOI firm did not respond to repeated agency directions to reduce insurance costs. In addition, the realty company and the IOI firm arranged outside financing, costing an estimated $3,500 annually in interest, to pay insurance premiums for 55 projects.

Decaying siding is representative of conditions found in apartment complexes managed by the realty company. OIG photo.

In addition, by not properly filing insurance claims, the realty company increased profits of the IOI firm. For several projects reviewed, losses totaling about $374,000 were not properly reported. In several cases, the realty company used operating and reserve funds for repairs instead of filing insurance claims against the IOI firm. Further, the realty company and the IOI reinsurance firm started an insurance loss control program that provided management company personnel with incentives, which were inconsistent with their fiduciary responsibilities to projects. Also, an officer of the realty company and the IOI firm used part of the IOI firm's assets as collateral for personal credit.

Moreover, the realty company charged nearly $109,000 in questionable costs to projects for central office administrative and supply costs in 1996 and 1997. The realty company charged projects an onsite labor markup rate without the knowledge and consent of servicing officials and did not always properly record and report payroll charges. For 29 projects, the realty company delayed payment of vendor invoices, resulting in unnecessary project charges totaling about $3,300. We referred this case for investigation during our fieldwork.

We recommended that RHS (1) debar or replace the realty company as a management agent, (2) require development of satisfactory plans to bring the physical condition of all projects up to minimum RHS requirements, and (3) instruct the realty company that the current property and liability insurance policy was not to be renewed. We also recommended that, after completion of any investigations, RHS instruct the realty company to refund to the projects the full premium paid to the IOI firm for insurance and the improper project expenses.

Farm Labor Housing Program Borrowers in Three States Overcharged $475,000

We reviewed 11 projects of RHS' Farm Labor Housing Program (designed to foster affordable rental housing) in California, Florida, and Washington. We identified over $475,000 in unallowable costs charged by borrowers to their projects and overpayments they received, and recommended that about $78,000 of that amount be collected.

In Washington, we found that one housing authority overcharged its three projects almost $397,000 in management fees between 1996 and 1998. It had charged fees equal to about 32 percent of rents, although a State office directive limited management fees to no more than 10 percent. We concluded that these overcharges likely resulted in excessive rental assistance costs to the Government. The housing authority also obtained compilations instead of the required annual audits, and, as a result, had less assurance that program funds were being properly expended. Another Washington State housing authority also overcharged its project more than $6,000 in management fees, exceeding the State office directive.

Shoddy Construction and Unauthorized Use of Loan Funds

At the request of the Oklahoma State Rural Development Office, we reviewed loan and grant activities under the section 504 program at the local field office in Antlers, Oklahoma. The request was made because of numerous borrower complaints about shoddy repair work to their homes. Section 504 rural housing loans and grants are intended to provide very-low-income rural homeowners an opportunity to make essential repairs to their homes when they cannot obtain credit otherwise.

We found that in 6 of 10 cases reviewed, loan and grant funds were released to contractors before work was completed or before releases were authorized under terms of the construction contracts. In all but one case, the work was eventually completed, although in five cases we found construction defects that should have been corrected before final payments were made. We also found that about $7,000 in loan funds was used to finance an outside storage building and add a third bedroom with bath. None of these improvements are authorized under the program.

We recommended that Rural Development monitor the future release of loan funds under the 504 program to ensure that sufficient materials are in place and/or labor is completed to justify fund releases. We also recommended that the cited construction defects be corrected and that future construction work be better monitored to ensure defects are corrected and funds are used for authorized purposes.

Rural Housing Contractor Pleads Guilty to Fraud

An Oregon building contractor who had committed fraud pled guilty in Federal District Court to failure to provide information to the IRS. He also pled guilty on behalf of his corporation to providing a false document to Rural Development. Sentencing in the criminal case is pending.

In a settlement of a civil action stemming from evidence developed during our criminal investigation, the contractor agreed to permanent exclusion from future Rural Development housing construction or operation of housing projects financed or guaranteed by RHS. As part of the civil settlement, the contractor agreed to pay the Federal Government $80,000 in fines and restitution. This case was worked jointly with the IRS.

Ohio Contractor Guilty of Theft

An Ohio contractor was indicted and pled guilty to State charges resulting from an OIG investigation into the misuse of Rural Development loan funds and forgery of checks. The contractor pled guilty to grand theft, was sentenced to 5 years' probation, and was ordered to pay $3,000 restitution.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

RBS enhances the quality of life for rural residents through grants or loans to rural-based cooperatives and businesses and through partnerships with rural communities. RBS national staff and Rural Development State office staff promote stable business environments in rural America through financial assistance, business promotion, and technical assistance, as well as research, education, and information.

Lender Did Not Obtain Sufficient Collateral To Secure B&I Loan

At the request of the Pennsylvania Rural Development State Office, we audited a $7 million Business and Industry (B&I) guaranteed loan. The borrower had defaulted on the loan, and subsequent appraisals of the borrower's machinery and equipment showed a large discrepancy in the original machinery and equipment appraisal.

The lender did not meet its responsibilities in processing the loan, because it:

- Allowed the borrower to obtain and submit an appraisal of the borrower's machinery and equipment to be used as security for the loan and

- did not follow up with the appraiser to request a certification that the work was prepared by him and that the values reflected were true and correct.

Affidavits the lender later obtained from individuals noted that the appraiser did not prepare the appraisal document submitted by the borrower. In one affidavit, it was stated that the individual was asked to help create an appraisal document valuing the company's assets, specifically to retype information furnished by an appraisal company. Moreover, the borrower requested additional appraisal information be added to the document.

The appraiser told us that the appraisal was completed in the office based on listings of equipment provided by the borrower. The appraiser did not determine whether the equipment was in good condition or even if the equipment existed. In addition, this "desktop appraisal" could not be used to accurately value a company's equipment, because the equipment is never viewed and total reliance is placed on the information provided by the company. Consequently, the lender had no assurance that the appraisal document provided by the borrower was prepared by a qualified appraiser or that the appraisal represented market values.

Rural Development personnel agreed that the lender did not meet program requirements for obtaining an appraisal on the borrower's collateral for the loan. We recommended that the agency take appropriate action to void the loan note guarantee of $4.2 million, in consultation with the Office of the General Counsel (OGC). Rural Development officials agreed with the findings and recommendations and are working with OGC to recover the loss.

Misclassifications Result in Grant to Business in Ineligible Urban Area

Prompted by a Hotline complaint, we found that Puerto Rico State Office misclassifications had resulted in a Rural Business Enterprise Grant (RBEG) of $850,000 to a nonprofit corporation in an ineligible area. The State Office's methodology used to classify areas as rural and, as such, eligible for RBEG funding, was flawed. State Office officials classified 165.9 of 3,426.5 square miles in Puerto Rico as nonrural areas ineligible for RBEG funding; we identified approximately 1,666 square miles of ineligible territory, including the area in question.

Research, Education, and Economics

AGRICULTURAL RESEARCH SERVICE (ARS)

Corporate President Convicted for $5.6 Million Contract Fraud

A corporation, its president, and its vice president were indicted for contract fraud involving a renovation project at an ARS research station in Pennsylvania and renovation work for the U.S. Navy. The contracts totaled over $5.6 million, with $4.5 million slated to overhaul the USDA Research Station and the remainder to remove asbestos and lead-based paint as well as renovate a minimart for the U.S. Navy. The corporation used subcontractors to complete the necessary renovation work and then failed to pay 16 of them, resulting in construction delays and subcontractors walking off the job until they received payment. The president of the corporation has pled guilty to the charges and is awaiting sentencing. Trial is pending for the vice president and corporation. Other agencies that worked jointly on this investigation included the Naval Criminal Investigative Service, the Small Business Administration OIG, and the Department of Labor OIG.

Financial, Administrative, and Information Technology

FINANCIAL MANAGEMENT

The Chief Financial Officers Act and the Government Management Reform Act require USDA to prepare and audit financial statements. Financial statements are generated from six separate systems operated by various USDA agencies.

OIG Works To Establish Defaulted Guaranteed Loan Losses as Government Debt, Presently a Multimillion-Dollar Shortcoming

OIG assisted FSA in a critical area that is unnecessarily costing the Government many millions of dollars. As part of its mission, FSA guarantees loans to farmers who otherwise cannot obtain financing in the private sector. The Debt Collection Improvement Act (DCIA) of 1996 specifies that:

- Losses on guaranteed loans are to be established as Government debt and

- Government debt delinquent for 180 days or more be submitted to the U.S. Department of the Treasury (Treasury) for collection.

Our review of loan guarantees to Farm Loan Program (FLP) borrowers revealed that FSA did not establish losses paid on defaulted guaranteed loans as debts to the Government. As a result, losses in excess of $200 million were not reported to Treasury during FY's 1997 through 2000 for collection in accordance with DCIA.

In a March 2000 opinion, USDA's OGC determined that FSA did not have the express statutory authority to treat losses paid to lenders as debts owed to the Government. OGC determined that, because the lender could not use DCIA to collect the debt, neither could FSA. However, OGC provided the steps necessary for FSA to fulfill DCIA (which we recommended FSA take):

- Revise FSA regulations by proposed rule to state that if FSA purchases the guaranteed portion from the holder of the note or pays a loss claim on the loan to the lender, FSA will use all remedies available to it, including DCIA, to recover the Federal debt directly from the borrower and

- require the borrower to sign a form stating the same.

The agency has agreed to:

- Develop a regulatory work plan for the approval of the Under Secretary for Farm and Foreign Agricultural Services to amend FLP regulations to establish future final loss claim payments on FSA-guaranteed loans as debts due the Federal Government and

- establish procedures for referral of such accounts to Treasury for collection under DCIA.

Financial Statement Audits

Commodity Credit Corporation's FY 1999 Financial Statement: Qualified Opinion

For the second consecutive year, we have been unable to issue a clean opinion on CCC's financial statements. Although CCC had reported that it had taken actions to correct some of the problems we noted in our FY 1998 report, we found, in fact, that the problems related to CCC foreign accounting operations had seriously worsened. For FY 1999, our opinion changed from a disclaimer to a qualification because substantial time was taken by CCC after the deadline established by the Department had passed to provide us the FY 1999 financial statements. Unless meaningful corrective actions are taken, achieving the reforms required by recent financial management legislation will not be accomplished. With assets of over $13.6 billion and costs of about $24.3 billion, it is essential that CCC make reforms.

Our internal control report described numerous control weaknesses, and our report on CCC's compliance with laws and regulations described its noncompliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 and provisions of DCIA.

We recommended a comprehensive review be performed, in consultation with the Office of the Chief Financial Officer (OCFO), of the problems we noted in our audit and that effective and meaningful actions be taken by CCC officials to resolve these weaknesses. We also recommended that CCC reorganize its financial accounting and reporting functions, improve the timeliness and accuracy of its financial information, and strengthen supervisory management oversight over financial account reconciliation, accounting entries, and adjustments.

CCC recognizes the need for improvement and has initiated actions to address the reported problems related to accounting for credit reform operations. CCC has developed project plans to address its foreign accounting operations and has hired a contractor who is looking into specified credit reform issues.

Federal Financial Management Improvement Act

Currently not in compliance with FFMIA requirements, USDA, as required by law, has developed a remediation plan, with detailed remediation plans for CCC, Rural Development, FS, and the National Finance Center. The Department has made progress and is generally on track with intermediate dates, but the plan is long-term in nature. Implementation of the Department's new accounting system has an estimated completion date of October 1, 2002, and Rural Development's individual remediation plan has target dates that extend to September 2003.

Controls Over Fund Advances Need Improvement

We evaluated OCFO and agency controls over fund advances to nonprofit organizations (NPO) and found that management of cash advances by USDA agencies to NPO's needed improvement. Three agencies reviewed (FAS, RHS, and RUS), representing $283.5 million (87 percent) of the grants reviewed, had not incorporated Title 7, Code of Federal Regulations (CFR) 3019, into their grant agreements with NPO's. Another agency (APHIS), representing $4.8 million (1 percent) of the grants, had incorporated the regulation but had not fully implemented the provisions. OCFO had not assured compliance with departmental regulations over cash management by USDA agencies.

USDA advances to NPO's resulted in profits to grant recipients, increased interest expense resulting from premature borrowing needs, and the potential of having agency administrative appropriations reduced by the increased borrowing needs of Treasury. For example, for the 26 grants reviewed with $81.6 million in advances, we found almost $74,000 in interest that had been earned on cash advances and not returned to Treasury, about $126,000 in interest lost to the Government for not putting advanced funds in interest-bearing accounts, and about $407,000 in unneeded interest expense to the Government to advance the funds.

FAS officials indicated CFR 3019 was not implemented because it did not apply to its grants and they had OGC's concurrence. This was not in the form of a written legal opinion. Nevertheless, Departmental Regulation 2120-0001 and Title 31, U.S. Code 3335, also impose cash management controls that apply to FAS, and FAS did not comply.

We recommended that OCFO develop and implement a strategy to ensure USDA agencies comply with CFR 3019 and that Departmental Regulation 2120-0001 be updated. We also recommended that $74,000 in interest be returned to Treasury and that efforts be made with Treasury to reduce agencies' appropriations by about $335,000 for the increased borrowing costs. Further, we recommended that USDA agencies be directed to review existing advances to recover earned interest not returned to Treasury, ensure advances are put in interest-bearing accounts, and that recipients promptly disburse advances.

OCFO agreed with the facts presented but disagreed with our contention that OCFO is responsible for assuring agency compliance.

INFORMATION TECHNOLOGY

PCIE Critical Infrastructure Protection Review

The President's Council on Integrity and Efficiency (PCIE) Audit Committee began a review of the Nation's critical infrastructure assurance program. As part of this review, we audited the Department's implementation of Presidential Decision Directive (PDD) 63, "Policy on Critical Infrastructure Protection." The Department has neither fully identified its mission-essential infrastructure nor performed the necessary assessments to identify the threats, vulnerabilities, and potential magnitude of harm that could result from an attack. Also, the planned formation of a Critical Infrastructure Assurance Council, composed of agency management representatives to ensure cyber infrastructure security and PDD 63 compliance, was never established.

We recommended that the Office of the Chief Information Officer (OCIO) revise its Critical Infrastructure Assurance Plan to update the timeframes for compliance with PDD 63 and establish an aggressive strategy to implement the plan. We also recommended that OCIO seek additional funding to ensure adequate resources and staff with the necessary skills to carry out the provisions of PDD 63 and its plan. The establishment of the OCIO-proposed Executive Council and Critical Infrastructure Assurance Council to ensure senior management involvement in cyber security was also recommended. OCIO agreed with all our recommendations and has initiated corrective actions.

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) OF 1993

FS Had Not Effectively Implemented GPRA

FS' FY 1999 Annual Performance Report was based on flawed data and assumptions to such an extent that the report did not provide reliable information about actual performance or the agency's progress in meeting its goals and objectives. Because these conditions had not been corrected, it is unlikely that a useful or reliable report will be produced for FY 2000.

Errors and omissions occurred because performance reporting was not incorporated into FS' business processes and field-level employees did not understand the need for or value of accurate performance reporting. Reported data was garnered through a patchwork of information systems that lacked such basic internal controls as programmatic reviews, documentation of reported results, and clearly written guidance. FS expended scarce resources to develop a report of dubious usefulness to decision makers, likely reinforcing the public perception that the agency lacks credibility. Internal controls over performance reporting were inadequate as designed and implemented. Further, for some performance measures, written policy guidance did not adequately describe reporting requirements.

We recommended that FS develop and implement a comprehensive strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data that include effective internal controls. We recommended that the agency continue the process of establishing, publishing, and ensuring adequate written guidance defining each performance measure and setting forth the documentation needed to support reported accomplishments. Until the agency can provide reasonable assurance of the quality of its Annual Performance Reports, FS should report the lack of an effective system of internal controls over performance reporting as a material weakness in the Federal Managers' Financial Integrity Act report.

As an example of the misreporting of performance, this road was improperly reported to be a stream. OIG photo.

If the agency cannot ensure the FY 2000 report provides accurate and meaningful performance data, we recommended that FS seek a waiver, report only those measures in which the agency has a reasonable degree of confidence, or issue a report without quantitative data that candidly describes problems and plans.

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)
APHIS	03/07/00	1. Plant Protection and Quarantine Activities in Florida (33004-1-At)	2,851	2,851
CR	03/10/00	2. Evaluation Report for the Secretary on Civil Rights Issues – Phase 7 (60801-3-HQ)	0	0
	03/10/00	3. Status of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0
FNS	03/22/00	4. CACFP - National Initiative To Identify Problem Sponsors - Wildwood (27010-3-KC)	319,279	319,279
FSA	03/31/00	5. Emergency Conservation Program (03601-15-KC)	2,952,472	2,952,472
Rural Development	02/22/00	6. Rural Development's Consolidated Financial Statements for FY 1999 (85401-1-FM)	0	0
RUS	02/11/00	7. Telephone Loan Program Policies and Procedures (09016-1-Te)	2,476,838,023	2,476,838,023
RMA	03/30/00	8. FY 1999 FCIC Financial Statements Report on Management Issues (05401-8-FM)	0	0

Agency	Date Issued		Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/00	9.	Standard Reinsurance Agreement (SRA) Reporting Requirements (05099-8-KC)	5,971,666	5,971,666
NRCS	03/31/00	10.	NRCS Contracting, Procurement, and Disbursement Activities, Fort Worth, TX (10601-1-Te)*	784,562	473,368

Previously Reported but Not Yet Resolved

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies have been informed of actions that must be taken to reach management decision, but for various reasons the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

Agency	Date Issued		Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
ARS	02/08/99	11.	J.A. Jones Management Services CY’s 1994 and 1995 Incurred Costs (02017-4-At)	160,233	160,233
CR	09/30/98	12.	Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-HQ)	0	0
	03/24/99	13.	Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0
CSREES	03/27/97	14.	Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
	03/31/98	15.	National Research Initiative Competitive Grants Program (13601-1-At)	32,757,862	32,757,862
FNS	09/22/97	16.	Child and Adult Care Food Program – Sponsor Abuses (27601-7-KC)*	56,296	56,296
	12/07/98	17.	CACFP – Family Day Care Services, Inc. – West Palm Beach, FL (27601-7-At)*	338,100	338,100

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	07/29/99	18. FSP – Cross-State Match (27601-9-KC)*	394,025	394,025
	08/23/99	19. Child and Adult Care Food Program, National Report on Program Abuse (27601-7-SF)	34,551,576	34,551,576
FS	07/18/96	20. FS Financial Statements (08401-4-At)	1,150,183,750	1,150,183,750
	09/30/96	21. Real and Personal Property Issues (08801-3-At)	0	0
	03/31/97	22. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)*	468,547	468,547
	07/13/98	23. FY 1997 FS Financial Statements (08401-7-At)	0	0
	02/23/99	24. FY 1998 FS Financial Statements (08401-8-At)	0	0
	02/25/00	25. FY 1999 FS Financial Statements (08401-9-At)	0	0
FSA	09/30/93	26. Disaster Program, Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	09/19/95	27. Management of the Dade County, FL, FSA Office (03006-1-At)*	75,175,410	909,437
	09/28/95	28. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	29. 1993 Crop Disaster Payments Brooks/ Jim Hogg, TX (03006-1-Te)*	2,469,829	2,418,167

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	05/02/96	30. Disaster Assistance Program–1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	09/18/96	31. Emergency Feed Program in Texas (03601-7-Te)*	626,182	115,425
	09/30/96	32. 1994 Disaster Assistance Program, ME (03601-1-Hy)	2,666,383	1,714,249
	04/30/98	33. Reeves County Office Operations, Pecos, TX (03801-36-Te)	1,365,640	421,152
	09/30/98	34. Wool and Mohair Payment Limitation, Val Verde County, TX (03099-20-Te)*	2,432,112	2,432,112
	03/30/99	35. Payment Limitation – Mitchell County, GA (03006-20-At)	881,924	881,924
Multiagency	09/30/98	36. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	3,281,534
	03/31/99	37. PVO Grant Fund Accountability (50801-6-At)	18,629,558	18,501,064
RBS	10/01/99	38. B&I Loan – Indiana Farms (34099-3-Ch)	595,511	595,511
Rural Development	02/01/99	39. FY 1998 Rural Development Financial Statements (50401-28-FM)	0	0
RHS	08/10/98	40. Self-Help Housing Program - Grizzly Hollow Project, Gatt, CA (04801-2-SF)*	0	0
	01/08/99	41. RRH Program – Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	02/13/99	42. RRH – Initiative in North Carolina (04801-7-At)	109,653	109,653

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/25/99	43. Guaranteed Rural Housing Loan Program (04601-2-At)	139,220,122	215,030
	03/31/99	44. RRH – Nationwide Initiative in NE – Bosley Management, Inc., Sheridan, WY (04801-3-KC)	233,958	233,958
	04/20/99	45. RRH Program – Owner/ Manager, Olympia, WA (04801-6-SF)	346,685	346,685
	06/03/99	46. RRH Program – Medlock Southwest Management Corporation (04099-7-Te)	78,865	73,865
	09/23/99	47. RRH Initiative – Calhoun Property Management (04801-11-Te)	12,931,081	0
RMA	01/31/94	48. Tobacco Indemnity Payments, Mitchell County, GA (05099-22-At)	88,631	88,631
	09/30/97	49. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	03/03/98	50. Transfer of CAT Policies to Reinsured Companies (05099-1-KC)	0	0
	04/10/98	51. Crop Insurance Claims (05601-1-KC)	126,787	0
	12/16/98	52. Crop Insurance on Nurseries (05099-2-At)	3,963,468	3,963,468
	09/30/99	53. Servicing of CAT Policies (05099-6-KC)	0	0

Audits Without Management Decision - Narrative for New Entries

1. Plant Protection and Quarantine (PPQ) Activities in Florida, Issued March 7, 2000

Our audit identified vulnerabilities and weaknesses in PPQ practices for inspecting air and ship cargos and passengers in the Miami and Fort Lauderdale ports, which increased the risk of prohibited agricultural products entering the United States. Of 16 recommendations to improve and strengthen controls over the PPQ inspection process, we were able to reach management decision on 4. For the remaining 12, APHIS officials must provide us with the results of their analysis and reevaluation of their risk assessment program, as well as specific timeframes for implementing corrective actions.

2. Evaluation Report for the Secretary on Civil Rights Issues – Phase 7, Issued March 10, 2000

The audit reported that the Office of Civil Rights' (CR) Equal Employment Opportunity (EEO) data base contained unreliable information and the condition of the case files was such that an accurate picture of a case's status could not be determined. CR was found to be inefficient in processing EEO complaints, and data furnished the Secretary on processing times was not accurate. We recommended that CR run routine searches for anomalies in its data base and reconcile its data with that of USDA agencies and the Equal Employment Opportunity Commission (EEOC) to bring integrity to CR's data base. We also recommended that CR locate missing case files and perform a document-by-document sweep of its case files to account for documentation, and provide full disclosure on its methodology for reporting its civil rights activities. Of the 21 recommendations, 10 remain without management decision, as CR must still address making a sweep of case files, performing reconciliations, and developing plans and procedures to increase its operation efficiency.

3. Status of Recommendations Made in Prior Evaluations of Program Complaints, Issued March 10, 2000

OIG concluded that CR remained inefficient in processing program complaints. While the original backlog of 1,088 cases had been reduced to 35, another 646 were stalled in CR's "intend-to-file" category, and 216 cases accepted since November 1997 may not be receiving due care. Including this current audit, 28 recommendations remain without management decision. Some of the more significant matters to be addressed are preparing and distributing aging reports on cases in process, finalizing plans to evaluate civil rights compliance in 15 USDA agencies, developing a case management system, locating missing files, referring cases of discrimination for disciplinary consideration, and reevaluating cases that were improperly closed.

4. Child and Adult Care Food Program - National Initiative To Identify Problem Sponsors - Wildwood, Issued March 22, 2000

The report had 22 recommendations, and management decision has been reached on 8. To achieve management decision on the remaining recommendations, OIG needs to be informed of the timeframes for corrective actions and provided evidence of billing for disallowed costs.

5. Emergency Conservation Program (ECP), Issued March 31, 2000

The audit found that while FSA payments were generally correct and were issued to rehabilitate farmland and rebuild conservation practices, not all payments were proper and FSA's spot-checks did not always include steps to identify the impropriety. We also found that FSA should review those cases where there was a maintenance default to determine whether producers should be required to make repayments with interest and/or penalty. We recommended that the FSA national office finalize updating the ECP Handbook and develop training material that could be used to train key personnel whenever ECP is authorized. Management decision has not been reached on any of the 16 recommendations. FSA indicated that a draft ECP proposed rule was in the clearance process and, after the final rule has been published, the ECP Handbook recommendation would have management decision. FSA also agreed to review the questioned payments. FSA needs to advise OIG of the publication dates of the ECP rule, revised ECP Handbook, or notice(s) that were cited in the response to the audit report. Although FSA responded to many of the questionable payments, it needs to advise OIG of all determinations made and/or actions taken, including claims established, funds collected, or additional cost shares approved, for the other questioned payments.

6. Rural Development's Consolidated Financial Statements for FY 1999, Issued February 22, 2000

Rural Development agrees that it needs to work with the Department's Chief Financial Officer to develop a long-range plan to consolidate, reengineer, and integrate financial/administrative systems. Rural Development is in the process of converting to the Department's Foundation Financial Information System to account for its salary and administrative expenses. Rural Development agrees to participate in any departmental initiatives to review other systems. However, we cannot reach management decision until OCFO begins to plan the reviews and provides a timeframe for accomplishing the contemplated actions.

7. Telephone Loan Program Policies and Procedures, Issued February 11, 2000

We recommended that the Rural Utilities Service (RUS) work with Congress to clarify RUS policy for the Telephone Loan Program regarding loan graduation and requiring financially strong borrowers to obtain credit from commercial sources. If Congress determines that RUS should graduate financially strong borrowers to commercial credit sources and require such borrowers to obtain credit from other sources, we recommended that RUS develop a strategy to establish a loan graduation program, require borrowers to be denied commercial credit as a condition for RUS financial assistance, and evaluate the financial condition of all borrowers and require those borrowers in strong financial condition to graduate their outstanding direct loan balances to other credit sources. We also recommended that RUS implement procedures to evaluate telephone loans annually to determine if the purposes for which the loans were made have been accomplished and deobligate all unused funds that are not needed. The agency disagreed to initiate action on the recommendations, and we elevated the management decision process to the Under Secretary for Rural Development. We continue to work with Department officials to reach management decision on the recommendations.

8. FY 1999 FCIC Financial Statements Report on Management Issues, Issued March 30, 2000

Two recommendations remain unresolved. Before we can accept management decision for one, we need to be provided a date for implementation of the planned Hot Site. For another, we need to be provided dates for accomplishing implementation of the cited software package and company data transmission using a secure Web server.

9. Standard Reinsurance Agreement (SRA) Reporting Requirements, Issued March 31, 2000

We reported that fund designation changes were not controlled, centralized approval for fund changes was needed, and controls over yields needed to be improved. In its written comments to the report dated March 31, 2000, and in its response dated June 2, 2000, RMA provided sufficient information to reach management decision on six of the eight recommendations. On June 16, 2000, we requested that RMA provide additional information for recommendation Nos. 1 and 2. For recommendation No. 1, RMA requested OGC to provide written documentation showing that RMA could not be successful in its efforts to collect amounts (about $6 million) improperly collected by the Rain and Hail Insurance Service. OGC has not provided the documentation to date. For recommendation No. 2, RMA stated that reports would be generated to compare previously approved and accepted fund designations to any changes in fund designations approved after the cutoff dates. However, the response did not provide a timeframe for implementation of the reports.

10. NRCS Contracting, Procurement, and Disbursement Activities, Fort Worth, TX, Issued March 31, 2000

OIG quantified funds misused by certain NRCS personnel at NRCS' National Business Management Center. We recommended that NRCS officials take appropriate administrative action. Regarding the unauthorized information technology procurement, we recommended that NRCS determine whether the funds could be recovered and whether additional funds were due the contractor. We also recommended that NRCS inform the General Services Administration's contracting officials of the contractor's unauthorized actions and initiate debarment. These matters have been referred to the U.S. attorney, following whose decisions administrative actions will be determined.

Indictments and Convictions

Between April 1 and September 30, 2000, OIG completed 300 investigations. We referred 205 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 240 indictments and 251 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 251 convictions do not necessarily relate to the 240 indictments. Fines, recoveries/collections, restitutions, claims established, and cost avoidance resulting from our investigations totaled about $50.5 million.

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

Indictments and Convictions
April 1 - September 30, 2000

Agency	Indictments	Convictions*
AMS	0	5
APHIS	10	4
ARS	3	1
CSREES	1	0
FNS	179	185
FSA	24	29
FSIS	4	5
FS	11	3
GIPSA	0	1
NRCS	1	4
OCIO	0	1
OIG	0	1
RHS	4	6
RMA	2	3
RUS	0	1
SEC	1	2
Totals	240	251

* This category includes pretrial diversions.

Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,134 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1

Hotline Complaints
April 1 to September 30, 2000
(Total = 1,134)

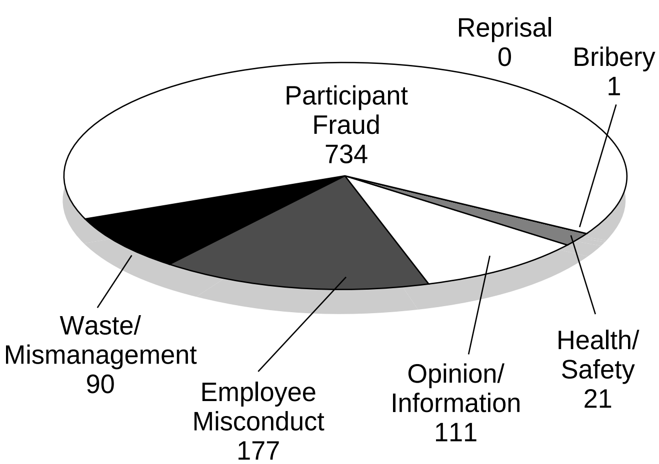
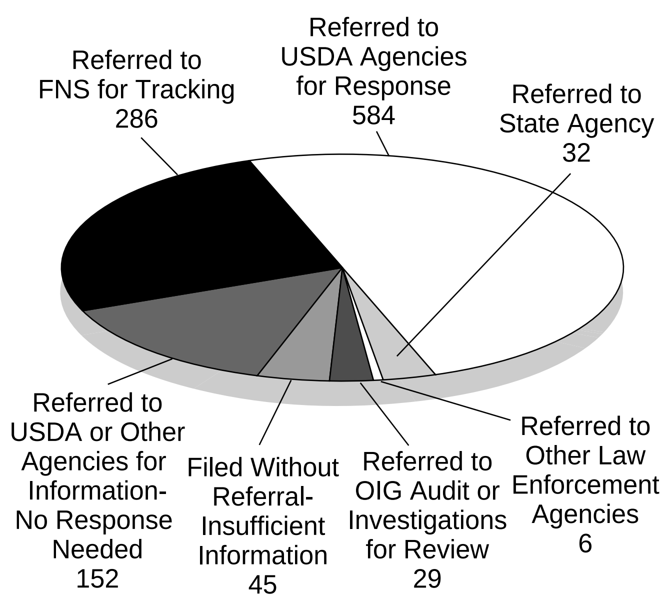


Figure 2

Disposition of Complaints
April 1 to September 30, 2000



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period April 1 to September 30, 2000

Number of FOIA/PA Requests Received		327
Number of FOIA/PA Requests Processed:		328
Number of Requests Granted in Full	205	
Number of Requests Granted in Part	54	
Number of Requests Not Granted	53	
Reasons for Denial:		
No Records Available	20	
Requests Denied in Full	25	
Referrals to Other Agencies	12	
Requests for OIG Reports From Congress and Other Government Agencies		
Received	102	
Processed	103	
Appeals Processed		7
Appeals Completely Upheld	7	
Appeals Partially Reversed	0	
Appeals Completely Reversed	0	
Number of OIG Reports/Documents Released in Response to Requests		473

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED
WITH QUESTIONED COSTS AND LOANS

		DOLLAR VALUES	
	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2000	57	$2,115,282,363	$87,171,085
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	22	37,867,401	1,367,079
TOTALS	79	$2,153,149,764	$88,538,164
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	22		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$10,163,877	$3,235,799
NOT RECOMMENDED FOR RECOVERY		$15,858,816	$11,910,369
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		25,360,088	11,187,907
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	57	2,101,833,748	62,204,089
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	40	2,067,022,207	62,073,971

[a]Unsupported values are included in questioned values.

Appendix II

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

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2000	22	$812,502,999
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	6	224,437,802
TOTALS	28	$1,036,940,801
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	10	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$232,365,352
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		70,000
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	18	808,846,056
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	14	808,357,054

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED
BETWEEN APRIL 1 AND SEPTEMBER 30, 2000

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 2000, THE OFFICE OF INSPECTOR GENERAL ISSUED 51 AUDIT REPORTS, INCLUDING 2 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	1			
FARM SERVICE AGENCY	6	$1,020,885	$12,710	$205,250,781
RURAL HOUSING SERVICE	5	$5,287,669		$115,878
RISK MANAGEMENT AGENCY	1			
COMMODITY CREDIT CORPORATION	1			
FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE	4	$1,350,000		$18,796,596
RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
FOOD SAFETY AND INSPECTION SERVICE	4			
FOOD AND NUTRITION SERVICE	6	$200,137	$117,408	
RURAL BUSINESS-COOPERATIVE SERVICE	2	$5,820,256		
MULTIAGENCY	16	$24,188,454	$1,236,961	$274,547
TOTALS	51	$37,867,401	$1,367,079	$224,437,802
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	31			
MULTIAGENCY AUDIT	14			
SINGLE AGENCY EVALUATION	4			
MULTIAGENCY EVALUATION	2			
TOTAL RELEASED NATIONWIDE	51			
TOTAL COMPLETED UNDER CONTRACT[b]	2			
TOTAL SINGLE AUDIT ISSUED[c]	13			

[a]Unsupported values are included in questioned values.
[b]Indicates audits performed by others.
[c]Indicates audits completed as Single Audit.

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2000

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE					
01-601-0003-CH 2000/08/14	EVALUATION OF GRADING ACTIVITIES AT TERMINAL				
TOTAL:	AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE					
02-017-0003-SF 2000/05/03	INCURRED COST AUDIT - GLOBAL ASSOCIATES, OAKLAND, CA				
TOTAL:	AGRICULTURAL RESEARCH SERVICE	1			
FARM SERVICE AGENCY					
03-006-0020-TE 2000/08/22	LAFLORE COUNTY FSA OFFICE DISASTER PROGRAMS		$226,785		$1,981
03-099-0026-TE 2000/06/23	PAYMENT LIMITATION IN BRYAN COUNTY, OK		$450,887		
03-099-0040-KC 2000/09/25	1998 LOAN DEFICIENCY PAYMENTS IN CASS COUNTY, ND		$27,089		
03-601-0017-KC 2000/09/29	1998 CROP LOAN DEFICIENCY PAYMENT ACTIVITIES		$316,124	$12,710	
03-601-0036-TE 2000/06/08	FARM LOAN PROGRAM GUARANTEED LOANS				$205,248,800
03-601-0037-TE 2000/08/07	RECAPTURE UNDER SHARED APPRECIATION AGREEMENTS				
TOTAL:	FARM SERVICE AGENCY	6	$1,020,885	$12,710	$205,250,781
RURAL HOUSING SERVICE					
04-005-0001-TE 2000/08/09	USE OF RHS LOAN FUNDS AT THE LOCAL FIELD OFFICE IN ANTLERS, OK		$6,814		
04-601-0006-SF 2000/08/16	FARM LABOR HOUSING PROGRAM - STATE OF CALIFORNIA		$54,152		
04-601-0007-SF 2000/08/03	FARM LABOR HOUSING PROGRAM - STATE OF FLORIDA		$16,745		
04-601-0008-SF 2000/05/12	FARM LABOR HOUSING PROGRAM - STATE OF WASHINGTON		$402,957		
04-801-0002-KC 2000/05/25	RRH - NATIONWIDE INITIATIVE IN MO - LOCKWOOD MANAGEMENT CO., ST. LOUIS, MO		$4,807,001		$115,878
TOTAL:	RURAL HOUSING SERVICE	5	$5,287,669		$115,878
RISK MANAGEMENT AGENCY					
05-001-0003-TE 2000/04/05	RATES AND YIELDS FOR CROP INSURANCE PILOT PROGRAMS				
TOTAL:	RISK MANAGEMENT AGENCY	1			
COMMODITY CREDIT CORPORATION					
06-401-0011-FM 2000/07/13	FISCAL YEAR 1999 CCC FINANCIAL STATEMENTS				
TOTAL:	COMMODITY CREDIT CORPORATION	1			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2000

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FOREIGN AGRICULTURAL SERVICE					
07-001-0001-CH 2000/05/26	REVIEW OF THE DAIRY EXPORT INCENTIVE PROGRAM				
	TOTAL: FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE					
08-001-0001-HQ 2000/06/28	FOREST SERVICE IMPLEMENTATION OF GPRA				
08-003-0006-SF 2000/07/14	ZEPHYR COVE LAND EXCHANGE, LAKE TAHOE BASIN MANAGEMENT UNIT, SOUTH LAKE TAHOE, CA		$1,350,000		$18,700,000
08-017-0013-SF 2000/09/19	EQUITABLE ADJUSTMENT CLAIM - ENVIRONMENTAL CONSULTING, PLANNING AND DESIGN, MT. SHASTA, CA				$96,596
08-801-0003-SF 2000/06/16	FINANCIAL DISCLOSURE AND OUTSIDE EMPLOYMENT REPORTING REQUIREMENTS				
	TOTAL: FOREST SERVICE	4	$1,350,000		$18,796,596
RURAL UTILITIES SERVICE					
09-099-0001-TE 2000/05/17	GRANTS FOR DOMESTIC WATER AND WASTEWATER PROJECTS				
	TOTAL: RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE					
10-099-0002-CH 2000/04/19	EVALUATION OF REGIONAL AND STATE OFFICE OVERSIGHT ACTIVITIES				
	TOTAL: NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-099-0014-FM 2000/09/18	VALIDATION OF CAS RECONCILIATION PROCESS				
	TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
FOOD SAFETY AND INSPECTION SERVICE					
24-001-0003-AT 2000/06/21	HACCP-IMPLEMENTATION AND COMPLIANCE				
24-099-0003-HY 2000/06/21	FSIS IMPORTED MEAT AND POULTRY INSPECTION PROCESS				
24-601-0001-CH 2000/06/21	LABORATORY TESTING OF MEAT AND POULTRY PRODUCTS				
24-601-0004-AT 2000/06/21	FOOD SAFETY AND INSPECTION SERVICE COMPLIANCE PROGRAM				
	TOTAL: FOOD SAFETY AND INSPECTION SERVICE	4			
FOOD AND NUTRITION SERVICE					
27-010-0029-HY 2000/09/27	CACFP - STERNHOLD RESOURCES, INC.		$141,484	$117,408	
27-099-0009-AT 2000/09/29	CONTINUED MONITORING OF EBT SYSTEM DEVELOPMENT IN FLORIDA				
27-099-0020-CH 2000/09/05	FOOD STAMP PROGRAM ADMINISTRATIVE COSTS - OHIO		$52,111		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2000

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-601-0007-TE 2000/05/17	CHILD AND ADULT CARE FOOD PROGRAM		$6,542		
27-801-0005-KC 2000/06/09	STRATEGIC MONITORING OF THE UTAH EBT SYSTEM DEVELOPMENT, PHASE IV				
27-801-0006-KC 2000/08/17	STRATEGIC MONITORING OF THE NORTH DAKOTA EBT SYSTEM DEVELOPMENT, PHASE IV				
	TOTAL: FOOD & NUTRITION SERVICE	6	$200,137	$117,408	
RURAL BUSINESS-COOPERATIVE SERVICE					
34-004-0004-HY 2000/07/11	RURAL BUSINESS ENTERPRISE GRANT TO VIVERO CAIMITO		$1,620,256		
34-004-0006-HY 2000/09/27	RURAL DEVELOPMENT, BUSINESS AND INDUSTRY LOAN, OTTMAN CUSTOM PROCESSORS		$4,200,000		
	TOTAL: RURAL BUSINESS–COOPERATIVE SERVICE	2	$5,820,256		
MULTIAGENCY					
50-018-0007-CH 2000/04/17	SINGLE AUDIT OF THE IL DEPT OF AGRICULTURE		$140,300		
50-018-0008-CH 2000/05/18	SINGLE AUDIT OF THE MI DEPT OF AGRICULTURE				
50-018-0009-CH 2000/05/18	SINGLE AUDIT OF THE MI DEPT OF COMMUNITY HEALTH		$5,148,538		
50-018-0009-HY 2000/09/05	COMMONWEALTH OF PUERTO RICO-DEPARTMENT OF AGRICULTURE, A-128, 6/30/95 & 6/30/94		$6,893,792		
50-018-0010-CH 2000/07/07	SINGLE AUDIT OF THE STATE OF MINNESOTA - 1998				
50-020-0067-SF 2000/05/15	A-128 AUDIT OF PUBLIC SCHOOL SYSTEM OF COMMON-WEALTH OF NORTHERN MARIANAS, FYE 9/30/95				
50-020-0068-SF 2000/05/15	A-128 OF PUBLIC SCHOOL SYSTEM OF THE COMMON-WEALTH OF NORTHERN MARIANAS FOR FYE 9/30/96				
50-020-0069-SF 2000/07/05	A-128 - AMERICAN SAMOA GOVERNMENT, 9/30/94		$1,289,547	$1,236,961	
50-020-0074-HY 2000/08/02	COMMONWEALTH OF PUERTO RICO – DEPARTMENT OF FAMILY, A-128, 6/30/96				
50-020-0075-HY 2000/07/11	COMMONWEALTH OF PR-DEPARTMENT OF EDUCATION, A-128, 6/30/96		$664		
50-021-0001-HY 2000/09/05	COMMONWEALTH OF PENNSYLVANIA, A-133, 6/30/99				
50-021-0002-SF 2000/07/05	A-133 AUDIT- HAWAII STATE DEPARTMENT OF AGRICULTURE				
50-021-0003-SF 2000/07/24	A-133 AUDIT - CITY OF SAN JOSE FOR THE FISCAL YEAR ENDED JUNE 30, 1999				
50-099-0028-FM 2000/07/18	PCIE/ECIE CRITICAL INFRASTRUCTURE PROTECTION REVIEW - PHASE 1 AND 2				
50-801-0003-KC 2000/09/28	CROP LOSS DISASTER ASSISTANCE PROGRAM		$10,318,505		$274,547
50-801-0011-TE	ADVANCES TO NONPROFIT ORGANIZATIONS FOR GRANTS/COOPERATIVE AGREEMENTS		$397,108		
	TOTAL: MULTIAGENCY	16	$24,188,454	$1,236,961	$274,547
	TOTAL: RELEASE - NATIONWIDE	51	$37,867,401	$1,367,079	$224,437,802

Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CDFA	California Department of Food and Agriculture
CR	Office of Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
EEOC	Equal Employment Opportunity Commission
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 Stockyard Administration
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
NBMC	National Business Management Center
NFC	National Finance Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OPHS	Office of Public Health and Safety
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture

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