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FY 2001—First Half

On the cover: The cover photo depicts an interior view of the Lincoln Memorial in Washington, D.C. When President Abraham Lincoln founded the U.S. Department of Agriculture (USDA) in 1862, he called it the "People's Department." USDA photo.

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

April 18, 2001

The Honorable Ann M. Veneman
Secretary of Agriculture
Washington, D.C. 20250

Dear Madam Secretary:

I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period that ended March 31, 2001.

During this period, our audits and investigations yielded $72 million in recoveries, collections, restitutions, fines, claims established, and costs avoided. Further, management agreed to put $43 million to better use. We also identified $6 million in questioned costs that cannot be recovered. In addition, our investigations produced 177 indictments and 180 convictions.

The number of arrests during Operation Talon is now approaching 7,400. We are continuing to emphasize our efforts to counter public corruption, workplace violence, and threats to food safety. Moreover, we cite numerous examples that illustrate how our active involvement can preclude future problems in the Department.

I extend my appreciation to you 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
Inspector General

Enclosure

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Executive Summary

This is the 45th 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 October 1, 2000, through March 31, 2001.

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 53 audit and evaluation reports and reached management decisions on 46. Based on this work, management officials agreed to recover $34.5 million and to put an additional $43.3 million to better use.

We also issued 221 reports of investigation during this period. Our investigative efforts resulted in 177 indictments, 180 convictions, and approximately $37.8 million in recoveries, fines, restitutions, claims established, and cost avoidance.

Investigative Efforts

In Miami, Florida, an Animal and Plant Health Inspection Service (APHIS) Plant Protection and Quarantine (PPQ) officer is awaiting sentencing after pleading guilty to conspiracy to possess narcotics with intent to distribute. Over 3 years, the PPQ officer accepted more than $91,500 in cash and drugs in exchange for allowing approximately 230 kilograms of cocaine, hidden inside vegetable containers he cleared at the Miami International Airport, to be smuggled into the United States.

A Federal judge has sentenced an Oklahoma landowner to serve 14 years in Federal prison for murdering his neighbor. A Federal jury had found this man guilty of second-degree murder for shooting and killing his neighbor, who was helping a Natural Resources Conservation Service (NRCS) employee check on land that was enrolled in the Wetlands Reserve Program.

A joint investigation by OIG special agents and Food Safety and Inspection Service (FSIS) compliance officers resulted in the indictment of two individuals and one corporation for distributing adulterated food products to California schools. The food service company distributed poultry products with rodent hair and feces and signs of rodent gnawing on the food items to schools during 1996 and 1997. The warehouse manager has pled guilty and is awaiting sentencing.

Three individuals and two firms had been indicted after our joint investigation with the U.S. Customs Service and the California Department of Food and Agriculture disclosed that they had smuggled into California 61,000 pounds of Mexican sweet limes, some of which were infested with fruit fly larvae. The owner of the firms has pled guilty and was sentenced to a year and a day in Federal prison. A representative of the two corporations entered guilty pleas on behalf of the two firms.

OIG special agents assisted APHIS in enforcing an order from the Secretary in the seizure of over 350 East Friesian sheep from three flocks in Vermont, and in monitoring their transport to an APHIS laboratory in Iowa. Four sheep from those flocks earlier had tested positive for a transmissible spongiform encephalopathy (TSE) (a class of diseases including bovine spongiform encephalopathy (BSE), also known as "mad cow" disease).

A husband and wife in Minnesota were each sentenced to 33 months of imprisonment, followed by 3 years' supervised release, and ordered to pay $633,000 in restitution. They had been found guilty of 46 felony counts that included conspiracy, bankruptcy fraud, mail fraud, wire fraud, and false statements to obtain over $900,000 in USDA program payments and loans. During the course of bankruptcy proceedings, they hid assets, which reduced their USDA debt from approximately $1.9 million to $300,000.

A crop insurance agent in Clarksville, Texas, was sent to Federal prison for 33 months, fined $10,000, and ordered to pay restitution of nearly $592,000. The crop insurance agent admitted using a relative's and others' names on crops in order to avoid the Nonstandard Classification System listing, which raised premiums and limited benefits.

Operation Talon has resulted in 7,372 arrests of fugitive felons during joint OIG, Federal, State, and local law enforcement operations throughout the country. We are working with the U.S. Marshals Service to apprehend Federal fugitives. Serious crimes perpetrated by those arrested included homicide-related offenses, sex offenses, kidnapping/abduction, assault, robbery, and drug/narcotics violations.

Audit Efforts

APHIS needs to strengthen controls over preclearance operations. The agency needs to complete a promised national port manual to provide updated guidance to port veterinarians on procedures for inspecting and quarantining animals at ports of entry. Also, reporting procedures for reviews of country preclearance programs were not enforced and/or did not always provide sufficient information to evaluate the effectiveness of preclearance operations in countries of origin. APHIS officials concurred with our recommendations.

OIG actively evaluated the implementation of the Agricultural Risk Protection Act of 2000. Our efforts have been focused primarily on the joint Farm Service Agency (FSA)-Risk Management Agency (RMA) implementation plan involving compliance and program integrity. One of our primary objectives in this effort is to assist both RMA and FSA in improving their quality control system and compliance procedures to assess program integrity. Through this effort, we anticipate the regulations and procedures to be implemented will help ensure that farmers are treated fairly, claims are paid quickly and correctly, and program abuses are detected and resolved early on.

We were able to work "up front" on computer systems with the Food and Nutrition Service (FNS) and the States as they were implementing the Electronic Benefits Transfer (EBT) systems. As a result, EBT is a success for us and FNS as well as the States. This period, we determined that actions taken by FNS on our September 1996 nationwide EBT system audit recommendations were generally adequate. FNS' work to ensure that all States implement EBT systems to deliver FSP benefits by October 2002 is functioning well overall, but FNS needs to strengthen controls over EBT benefit data reported to FNS and access controls to State EBT systems.

FNS needs to ensure consistency in its appeals process, which largely centers on Food Stamp Program cases. We found that decisions were inconsistent; decisions are not subject to program management level review; Administrative Review Officers served in only three locations, and appeal cases were assigned without regard for the appellant's location; and appeal cases were not always scheduled in a timely manner. We concluded that the system was not functioning as consistently as possible. FNS generally agreed with our recommendations.

In the Forest Service (FS) land exchange program, we found questionable practices on Lake Tahoe acquisitions and urban lot management. FS concurred with all the audit findings and recommendations, and has ceased further acquisitions of lots at Lake Tahoe until this issue is resolved. In addition, we found that controls are needed on acquisitions of lands in congressionally designated areas.

We found that RHS allows the effective interest rate of RRH loans to fall below the required 1 percent. Over the last 5 years, RHS has applied over $388 million in subsidy toward borrower principal on single and multifamily housing loans even though the enabling legislation allows the subsidy to be used to reduce interest charges only. Because the subsidy of RRH loans is granted for the life of a loan, we estimated that RHS would pay approximately $2.6 billion of principal if the 11,405 subsidized loans reach maturity.

In the financial statement audits, FNS, RMA, and the Rural Telephone Bank received unqualified opinions in FY 2000, but FS and the Commodity Credit Corporation (CCC) were unable to complete their financial statements on time, and Rural Development received a qualified opinion. We issued a disclaimer of opinion on the Department's consolidated financial statements for the seventh consecutive year. The USDA Working Capital Fund (WCF) financial statements for FY 1999 received an adverse opinion. The accounting deficiencies besetting WCF are pervasive and pronounced.

Summary of Audit Activities

Reports Issued			53
Audits Performed by OIG	39		
Evaluations Performed by OIG	2		
Audits Performed Under the Single Audit Act	1		
Audits Performed by Others	11		
Management Decisions Made			
Number of Reports			46
Number of Recommendations			342
Total Dollar Impact (Millions)			$84.3
Questioned/Unsupported Costs		$41.0[a,b,c]	
Recommended for Recovery	$34.5		
Not Recommended for Recovery	$ 6.4		
Funds To Be Put to Better Use		$43.3	

[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		221
Cases Opened		288
Cases Closed		250
Cases Referred for Prosecution		146
Impact of Investigations		
Indictments		177
Convictions		180[a]
Searches		50
Arrests		676[b]
Total Dollar Impact (Millions)		$37.8
Recoveries/Collections	$18.0[c]	
Restitutions	$14.1[d]	
Fines	$ 1.2[e]	
Claims Established	$ 1.3[f]	
Cost Avoidance	$ 3.2[g]	
Administrative Sanctions		
Employees		28
Businesses/Persons		828

[a] Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 180 convictions do not necessarily relate to the 177 indictments.
[b] Includes 594 Operation Talon arrests and 82 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.

Perspective

In a recent address to the Agricultural Outlook Forum, Secretary Ann M. Veneman identified the major challenges facing American agriculture. Trade policy with all our trading partners; research and development to find solutions for issues related to food safety, the environment, biotechnology, and energy; food safety and bovine spongiform encephalopathy (BSE) (and now foot-and-mouth disease (FMD)); a safety net for farmers that moves toward a more market-based economy; and consolidation and mergers in the food sector are all major challenges that the Secretary addressed.

OIG is in a unique position within the Department to assist the Secretary and other Department managers as well as the Congress in dealing with these challenges. Through our audits, we are often able to develop practical information about ongoing operations that is useful in making decisions impacting future operations. We also work with Department managers in the developmental stages of new programs and make recommendations for establishment of appropriate internal controls that will help safeguard program operations and expenditures. Our investigations deal with criminal issues and individuals whose goals are directly opposed to the program goals. We strive in OIG to utilize both the audit and investigative functions to help the Department meet its goals and to provide advice regarding the challenges facing USDA.

For example, in this report, there are discussions of our work in the food safety area. Also, as this report goes to press, we are working with USDA agencies as the Department deals with the emerging threat of FMD. In the event that the threat does in fact emerge, we will participate with USDA officials to facilitate trace-back of the origins of the viral contamination, assist with any necessary quarantines which might be implemented by the Secretary or State/local authorities, and conduct appropriate criminal investigations in concert with other Federal law enforcement entities as necessary. We also will work with the Department and the U.S. Customs Service on the design of an interagency system to identify and segregate high-risk cargoes of an agricultural interest. We are now working with Department officials to review existing controls for the entry of agricultural and related products at U.S. border points. We also have efforts underway to review similar controls for the importation of meat products into the United States. Further, we have an antismuggling initiative underway to assist the Department in its efforts to keep out harmful pests and diseases. For all these tasks, we have met with Department officials to coordinate our efforts with their work and to assist them through onsite field visits to provide feedback on the current operating systems and suggestions for improvements in these areas.

Another major challenge for the Department is financial management and accountability. While the Department has made much progress, a number of hurdles must be overcome before the Department has effective control over its financial resources. Three of the agencies at USDA have obtained clean opinions on their financial statement audits—the Food and Nutrition Service, the Federal Crop Insurance Corporation, and the Rural Telephone Bank. However, the Department overall has not yet achieved this level of success. But we believe that a number of positive steps have been taken that will lead to better financial integrity, including the development of a new accounting system which all USDA agencies will be using beginning in October 2001. This new accounting system, accompanied by corrective actions now underway in credit reform and property inventory management, should allow the Department to have financial accountability once the corrective actions are fully implemented. Our goal in OIG is to be a full partner with USDA managers in offering advice, conducting reviews and investigations, and being part of the team that makes USDA truly the “People’s Department.”

Public Corruption

A continuing priority for OIG is the investigation of criminal acts committed by USDA employees. We have identified approximately 55,000 USDA employees whose positions place them in direct contact with the public. The percentage of wrongdoers is small, but to maintain the public trust, internal controls must be in place and operating. During the past 6 months, public corruption investigations resulted in 10 convictions of current or former USDA employees and 28 personnel actions. Descriptions of some recent investigations follow.

APHIS Officer at Miami Airport Arrested for Drug Smuggling

In Miami, Florida, an Animal and Plant Health Inspection Service (APHIS) Plant Protection and Quarantine (PPQ) officer is awaiting sentencing after pleading guilty to conspiracy to possess narcotics with intent to distribute. Over 3 years, the PPQ officer accepted more than $91,500 in cash and drugs in exchange for allowing approximately 230 kilograms of cocaine, hidden inside vegetable containers he cleared at the Miami International Airport, to be smuggled into the United States. Special agents from OIG and the Drug Enforcement Administration (DEA) arrested the man at the airport. He pled guilty after being indicted by a Federal grand jury. This case was worked jointly with DEA, the Internal Revenue Service's Criminal Investigation Division (IRS-CID), the U.S. Customs Service, and the Federal Bureau of Investigation (FBI).

Louisiana NRCS Employee Sentenced for Accepting a Bribe

A former Natural Resources Conservation Service (NRCS) district conservationist in Louisiana was sentenced to serve 30 days in Federal prison and fined $4,000 after he pled guilty to bribery for soliciting $3,000 from a landowner who sought to obtain a wetlands permit needed to build a lake. After completing the prison sentence, he will be placed on supervised release for 1 year. The former district conservationist resigned after being confronted by an OIG agent and has repaid the $3,000 he admitted soliciting. He had worked for the Federal Government for 19 years.

More Wholesalers Indicted, Convicted, Fined in Produce Bribery Scheme

We previously reported that a 2½-year investigation uncovered a scheme by which Agricultural Marketing Service (AMS) graders accepted bribes from produce wholesalers at the Hunts Point Terminal Market in New York City in return for downgrading produce. The wholesalers used the lower grades to reduce the price they paid growers for the produce. Recently, an additional wholesale company owner was indicted and arrested on conspiracy charges, and one wholesaler employee was convicted on 14 counts of bribery and conspiracy. Another wholesaler employee pled guilty to Federal misdemeanor charges, three others pled guilty to one count of conspiracy each, and two were sentenced. Fines and restitution in this case now total more than $64,000. The investigation is continuing, with one possible trial and sentencing pending.

Former FS Employee Sentenced for Embezzlement

As previously reported, a former Forest Service (FS) employee in Arizona was charged with committing fraud in the theft of Government funds. The employee used an FS-issued VISA credit card for more than 300 personal purchases totaling over $23,000, including food, gas, clothing, and personal computer parts. He has now been placed on 3 years' probation and ordered to pay full restitution.

Workplace Violence

Landowner Sent to Federal Prison for 14 Years in NRCS Murder/Assault Case

A Federal judge has sentenced an Oklahoma landowner to serve 14 years in Federal prison for murdering his neighbor. As previously reported, a Federal jury had found this man guilty of second-degree murder for shooting and killing his neighbor, who was helping an NRCS employee check on land that was enrolled in the Wetlands Reserve Program. The jury also found the subject guilty of the assault of a Federal employee for holding the NRCS employee at gunpoint for a time before allowing him to flee the scene.

Maine Man Found Guilty of Making Death Threats

Sentencing is pending for a hops grower from the State of Maine who was convicted on three counts of making threatening communications against a professor at the University of Vermont. On at least three occasions, the subject made telephone calls to individuals, including some USDA personnel, threatening to commit bodily harm and kill the professor. The subject stated that the professor had illegally plagiarized his research results on hops production in the Northeast United States without compensating him. The subject also alleged the professor published inaccurate reports under the sponsorship of USDA's Cooperative State Research, Education, and Extension Service (CSREES) that distorted the subject's research, and that the professor was acting as a representative of USDA.

APHIS Employee Threatened With Firearm

Trial is pending for a landowner who threatened an APHIS animal health technician with a firearm while the employee was engaged in official duties monitoring gypsy moth infestation in south-central Missouri. The APHIS employee had placed gypsy moth traps on trees in the area, including one tree belonging to the landowner. When the APHIS employee went to the man's house to explain what was being done, the landowner became angry, displayed a handgun, and threatened to shoot the technician. The man also cursed and verbally threatened the APHIS employee. Two days after the incident, the county sheriff and OIG executed a State search warrant at the man's residence and obtained the firearm. The man was arrested and subsequently charged under Missouri State law with a Class D felony of unlawful use of a weapon.

Four Men Sentenced to Federal Prison for Assaulting FS LEO

Three men were sentenced to serve 57 months in Federal prison and another to serve 24 months for assaulting an FS Law Enforcement Officer (LEO) who was performing routine patrol duties in a New Mexico national forest. The four men attacked the LEO, fractured his jaw, and caused lacerations to his face and head serious enough to keep him in the hospital for about a week. The men fled but were later arrested. OIG agents participated in arresting one of the four. The four men were in the United States illegally, and were ordered to be deported to Mexico when released from prison.

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' estimated program level for FY 2001 is $771 million. Food safety is a major management challenge for USDA, and we consider it a top priority. Prompted by recent scrutiny of food safety and quality issues, OIG undertook a food safety initiative to review FSIS' meat and poultry inspection activities, finding that more needed to be done in each of the four major areas reviewed.

Indictments, Conviction in Distribution of Rodent-Damaged Food to Schools

A joint investigation by OIG special agents and FSIS compliance officers resulted in the indictment of two individuals and one corporation for distributing adulterated food products to California schools. The food service company managed, stored, and distributed both USDA-donated and commercial commodities to 47 school districts. It distributed poultry products with rodent hair and feces and signs of rodent gnawing on the food items to schools during 1996 and 1997. The warehouse manager has pled guilty and is awaiting sentencing. The company and its owner are awaiting trial.

There was evidence of rodents having gnawed on food items. OIG photo.

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 2001 is approximately $270 million.

Seven Milk Drivers and Dairymen Indicted for Milk Adulteration

A series of investigations dubbed "Operation Got Water" in Louisiana and Mississippi found that numerous milk truck drivers and dairymen were illegally adding salt and water to raw milk in order to increase the weight of daily milk production. Higher weights resulted in higher payments to the dairymen. To date, 7 drivers and dairymen have been indicted, and plea negotiations with at least 20 others continue. This matter was worked jointly with the U.S. attorney's office for the Eastern District of Louisiana and the Food and Drug Administration's Office of Criminal Investigation (FDA-OCI).

Dairy Pays $1.3 Million To Settle Civil Suit in Milk Mislabeling Case

We previously reported that the president, vice president, and controller of a Pennsylvania dairy were sentenced to probation and community service, and ordered to pay a fine of $5,250 for selling more than 19 million pounds of reconstituted skim milk that was mislabeled as "milk." A civil settlement has now been signed by the dairy and the Department of Justice on behalf of USDA, the Department of Defense, and the Department of Veterans Affairs. As a result of the settlement, the dairy has paid more than $1.3 million, which is to be divided equally among the victim agencies. The dairy and its officers were debarred from participating in Federal programs. This investigation was conducted jointly with FDA-OCI and AMS.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Through inspections, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for FY 2001 are estimated at over $645 million.

APHIS Needs To Strengthen Controls Over Preclearance Operations

Following up on audit of preclearance inspection operations and the inspecting and quarantining of animals prior to entry into the United States, we found that APHIS was in compliance with preclearance procedures at the ports of entry visited and with inspection and quarantine procedures at the land borders visited. However, we identified several areas that needed to be strengthened.

- APHIS had agreed to develop a national port manual to provide updated guidance to port veterinarians on procedures for inspecting and quarantining animals at ports of entry. We found the port manual was not completed, and responsible officials had no explanation why APHIS had prematurely reported that the manual had been developed and distributed to field personnel. Consequently, there is reduced assurance that diseased animals entering the United States will be detected.

- Reporting procedures for reviews of country preclearance programs were not enforced and/or did not always provide sufficient information to evaluate the effectiveness of preclearance operations in countries of origin. Of the 25 trip reports reviewed for countries with active preclearance programs during FY 1998, Mexico and the Netherlands did not include sufficient information to evaluate their preclearance operations, and those for Argentina, Guatemala, Nicaragua, Spain, and Venezuela were not submitted to the appropriate official. We concluded there is no assurance that the countries with preclearance programs are operating in accordance with regulations and the annual workplan. Further, there is reduced assurance that program controls are working to preclude the entry of nonprecleared fruits and vegetables into the United States.

We recommended that APHIS develop the national port manual with instructions for the port veterinarians in inspecting and quarantining animals at ports of entry and certifying them free of communicable diseases, update existing agency reporting policies and procedures to include specific areas that should be identified in trip reports, and enforce established procedures that would require Plant Protection and Quarantine officials to follow up and obtain reports not submitted within the established timeframe. APHIS officials concurred.

Importer Sentenced to Year in Prison for Smuggling Infested Fruit

As noted previously, three individuals and two firms were indicted after our joint investigation with the U.S. Customs Service and the California Department of Food and Agriculture disclosed that they had smuggled into California 61,000 pounds of Mexican sweet limes, some of which were infested with fruit fly larvae. The owner of the firms has since pled guilty and was sentenced to a year and a day in Federal prison. A representative of the two corporations, one based in California and the other in Mexico City, entered guilty pleas on behalf of the two firms. The former general manager of one of the firms is awaiting trial. The third individual is a fugitive believed to be in Mexico.

OIG Assists APHIS With Seizure of Sheep

OIG special agents assisted APHIS in enforcing an order from the Secretary in the seizure of over 350 East Friesian sheep from three flocks in Vermont, and in monitoring their transport to the APHIS National Veterinary Services Laboratory in Ames, Iowa. Four sheep from those flocks earlier had tested positive for a transmissible spongiform encephalopathy (TSE) (a class of diseases including bovine spongiform encephalopathy (BSE), also known as “mad cow” disease). Three different Vermont farmers purchased these milk sheep from Belgium in the spring of 1996, through a change in Federal regulations that permitted limited importation of sheep from countries affected with the disease. In response to the test results, the Secretary issued a declaration of extraordinary emergency because of atypical transmissible spongiform encephalopathy of foreign origin, which enabled USDA to seize the sheep. The seizure was challenged in Federal court, but a judge upheld the Secretary’s order. Although there was a crowd of protesters at one of the farms, the sheep were seized, transported, and euthanized without incident. The Vermont State Police and the Hardwick, Vermont, Police Department provided assistance during this operation. Each assisted OIG in motor movement.

OIG special agents assisted in the seizure and transport of the sheep. APHIS photo.

Iowa Veterinarian Sentenced for Submitting False Pseudorabies Forms

An Iowa veterinarian was found guilty at trial on two counts of submitting false official pseudorabies serology forms under the National Pseudorabies Program administered by APHIS. The forms submitted by the veterinarian falsely documented his collection of blood samples from the swineherds of three Iowa swine producers. He also submitted false billing statements for blood collection to the State of Iowa and USDA. The veterinarian was sentenced to 1 month of imprisonment and 5 months’ home confinement, 2 years’ supervised release, $580 restitution, and a $10,000 fine. His appeal is pending.

Farm and Foreign Agricultural Services

FARM SERVICE AGENCY (FSA)

FSA supports American agriculture and the American public through agricultural commodity, farm loan, conservation, environmental, and emergency assistance, as well as domestic and international food assistance programs. The FY 2001 budgeted program level for FSA is estimated at over $32 billion, including more than $26 billion for operations funded by the Commodity Credit Corporation (CCC), a Government corporation. A major management challenge for USDA is farm credit, and management of the $21 billion farm loan portfolio remains of major importance to the Department.

Joint Review Uncovers Deficient Administration at Arkansas County FSA Office

At the request of FSA national office officials, we performed this audit of an Arkansas county FSA office to expand on findings identified during an internal FSA review. Our joint review with FSA identified serious problems in program administration at the county office and generally confirmed FSA's initial findings that FSA county office employees and/or producers violated or took deliberate action to circumvent farm program provisions. The extent of irregularities and abuse was so pervasive that we concluded the county office was mismanaged and that State office oversight and supervision were inadequate. As a result, FSA issued approximately $3.5 million in improper or excessive program payments. We also identified cost savings totaling approximately $5 million in program payments applicable for the 1998 through 2002 crop-years (CY) which FSA was able to correct prior to payment. In addition, we noted that an FSA county agricultural official and a relative received about $490,000 of the questioned payments.

We found that FSA county office employees and county committee members generally allowed producers to use improper "planted and considered planted" credit, as well as farm reconstitutions, to increase rice crop acreage bases (CAB) and disaster acreage for payment. We also identified instances in which county office employees took deliberate unauthorized action to increase producers' FSA program payments, including cases in which farm reconstitution contribution percentages were changed without justification, and rice yields and CABs were increased. Similarly, in 1996, the county committee approved unauthorized cotton yield increases on 18 of the county's 23 cotton farms. All of these unauthorized actions increased program payments for subsequent years.

During the audit, FSA initiated action to preclude payment of $5.5 million of the questioned costs for 1998 through 2002 and took action against some of the employees responsible for irregularities disclosed by the joint review. FSA is considering whether to pursue collection of the prior years' overpayments.

Two Convicted, Sentenced in Million-Dollar Fraud and Bribery Scheme

A Mississippi farmer was sentenced to 2 years in Federal prison following conviction on five counts of making false statements and two counts of bribery after a 3-week Federal trial. An FSA loan official who received a total of $5,000 in bribes on three occasions from the farmer was convicted on two counts of receiving a bribe and sentenced to 3 years' probation. Our investigation showed that the farmer had conspired to form partnerships with family members residing in three other States to circumvent the FSA operating loan limits and raise the maximum FSA deficiency payments. In 1997 and 1998, the family applied for and received illegal FSA loans and subordinations in excess of $1 million for five separate entities by filing false financial statements, production records, and legal documents.

Cotton Investigation Yields $5.5 Million in Fines and Restitution

An extensive investigation of the Upland Cotton Domestic User/Exporter Program, known commonly as "Step 2," has concluded with the seizure of $1.5 million in assets; fines and restitutions totaling $5.5 million; convictions of four corporations; a civil settlement with one corporation; and a 2-year prison sentence for the president of a cotton exporter firm. As previously reported, OIG investigators determined that exporters were involved in a major fraud conspiracy where "shell corporations" and foreign affiliates were used to register false sales to CCC.

Cotton Industrialist Pleads Guilty in Loan Fraud and Check-Kiting Scheme

Sentencing is pending for a prominent Louisiana businessman who pled guilty in Federal court to violations of bank fraud and making false statements. The man was a cotton farmer, shipper, gin owner, and director on the boards of a cotton warehouse and a Louisiana bank. Our investigation showed that he fraudulently received $216,000 in CCC cotton loans and payments by purchasing about 1,000 bales of 1998 cotton, repacking it, and identifying it as cotton he grew in 1999. He also defrauded two banks by writing checks for which he had insufficient funds. The total fraud was about $5 million. This investigation was worked jointly with the FBI.

Virginian Convicted of Defrauding U.S. Bankruptcy Court and FSA

A Virginia dairy farmer pled guilty in U.S. district court to devising a scheme to defraud the U.S. Bankruptcy Court and his creditors, including FSA, by concealing assets from the bankruptcy trustee assigned to his case and making false oaths and declarations in bankruptcy proceedings. Sentencing is pending. During bankruptcy liquidation, the farmer failed to disclose an inheritance he received and concealed the transfer of over $200,000 in assets. The farmer also converted to his personal use more than $17,000 in proceeds from the sale of cattle that had been pledged as security for FSA loans. During this investigation, OIG received substantial assistance from USDA's Office of the General Counsel (OGC) and FSA.

Individual in Montana Convicted for False Statements

A Montana farmer was found guilty at trial and ordered to pay over $181,000 in restitution and serve 5 years' probation for concealing information and making false statements to FSA. The farmer's actions resulted in his receiving an unwarranted $2 million write-down of his USDA debt. Civil action is pending.

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 insurance companies. RMA's FY 2001 Government cost, after producer-paid premiums of $968 million, is estimated at $2.2 billion. One of the major management challenges for the Department is Federal crop insurance, which has become the USDA farmer "safety net," as Congress has provided about $28 billion to compensate producers for recent low commodity prices and crop losses, and to expand and cut the cost of Federal crop insurance over the next 5 years.

Errors on Specialty Crop Policies and Loss Claims Not Detected by Insurance Companies

The work of sales agents and loss adjusters is critical in ensuring that indemnity payments are correct and proper. Prior to accepting the insured's policy, the sales agent should verify the insured's actual production history or yield. In the event of an insurable loss, the loss adjustor should verify and accurately appraise any production losses when processing the loss claims. Furthermore, prior to the issuance of indemnity payments, insurance companies should require reviews of specific loss claims to ensure that the claims have been properly calculated. In many of our prior reports involving the Federal crop insurance program, we have recommended that RMA strengthen its management controls of these critical processes. In our current report on specialty crops issued this period, we identified similar weaknesses in the processing of crop insurance policies and loss claims.

We identified questionable indemnities totaling $2.2 million of the $16 million reviewed for CYs 1996, 1997, and 1998. We found that sales agents, loss adjusters, and insureds did not comply with Federal crop insurance procedures when establishing actual production yields, calculating appraised production, and establishing insurable acreage and value of production to count. For example, an agent used popcorn ear weights instead of the required shelled ear weights in calculating the prior year's production yields, which overstated the insured's guarantee and premiums. As a result of this error (and other errors), the insured's indemnity payments were overstated by $257,000. In another example, the insured received $16 per ton for harvested production, but the loss adjuster used only $1 per ton, thereby undervaluing the production actually harvested. As a result, the insured's indemnity payment was overstated by $426,000.

RMA's procedures required that insurance companies review any loss claim where the loss exceeds $100,000 per unit. Since some of the loss claims that we reviewed should have been reviewed by the insurance companies prior to payment, we checked the adequacy of their reviews. In some cases, we found that the required reviews by the insurance companies had not been performed. For those cases where the reviews had been performed, the insurance company reviews were ineffective in detecting the incorrect premiums and indemnity payments.

We recommended that RMA officials review the cited cases and recover the questioned and unsupported indemnities. We also recommended that RMA take other appropriate management actions to ensure compliance with program regulations. Since the insured can divide his/her farming operation into a number of units for insurance purposes, we recommended that RMA apply the $100,000 threshold for a loss claim review to the total indemnity payments for a crop (and not limit that threshold level to a unit).

In its response to the questioned and unsupported payments and premiums, RMA agreed to recover the amounts after it reviewed our working papers and made a final determination. RMA also agreed that the threshold of $100,000 indemnity to trigger a review would be on a crop basis rather than on a unit basis. RMA stated that it is incorporating this change (plus others) into the Manual 14 handbook.

OIG Actively Evaluates ARPA Implementation

During this reporting period, we continued our close association and coordination with RMA and FSA during their implementation of the Agricultural Risk Protection Act of 2000 (ARPA). In order to strengthen program integrity, ARPA mandated that the two agencies coordinate their resources and staffs in the following areas:

- The two agencies should reconcile relevant producer-derived information for producers obtaining crop insurance coverage under ARPA.
- FSA, through its field staff, should assist in RMA's ongoing monitoring of the programs authorized under ARPA.
- RMA should consult with the FSA State committees with respect to policies, plans of insurance, farm practices, etc.

Our efforts have been focused primarily on their joint implementation plan involving compliance and program integrity. We participated in their meetings and discussions to draft the implementation plan and provided comments to their plan. We also attended meetings where RMA and FSA officials briefed departmental staff, congressional staff, and insurance companies on the draft plan. In addition, we participated in the various working groups and provided comments on the draft regulations as they were drafted.

On January 12, 2001, the Secretary approved the joint implementation plan. This implementation plan provides timetables for drafting and issuance of program procedures, joint training sessions, joint field reviews, and other actions in five major areas—consultation with FSA State committees, utilizing FSA's field structure, claim reviews, referrals and investigations, and data reconciliation. RMA has also been working with the insurance industry on its implementation.

One of our primary objectives in this effort is to assist both RMA and FSA in improving their quality control system and compliance procedures to assess program integrity. Through this effort, we anticipate the regulations and procedures to be implemented will help ensure that farmers are treated fairly, claims are paid quickly and correctly, and program abuses are detected and resolved early on.

Two Sentenced in Minnesota Bankruptcy Fraud

We reported last period that a Minnesota husband and wife were found guilty of 46 felony counts that included conspiracy, bankruptcy fraud, mail fraud, wire fraud, and false statements to obtain over $900,000 in USDA program payments and loans. In addition, during the course of bankruptcy proceedings, they hid assets, which reduced their USDA debt from approximately $1.9 million to $300,000.

Since our last report, the husband and wife were each sentenced to 33 months of imprisonment, followed by 3 years' supervised release. They were also ordered to pay a total of $633,000 in restitution.

Following the criminal action on the husband and wife, the National Appeals Division (NAD) upheld the Minnesota State FSA committee's determination that a relative participated in a scheme or device from 1992 through 2000 to receive FSA program payments totaling

$472,750. They determined a failure to disclose to FSA the involvement in the relatives' corporations and a failure to keep separate accounts. Though unqualified, since 1996 the relative also received more than $1.1 million in CCC loans, based on false representations to FSA.

Crop Insurance Agent Sentenced to Federal Prison

A crop insurance agent in Clarksville, Texas, was sent to Federal prison for 33 months, fined $10,000, and ordered to pay restitution of nearly $592,000. Our investigation involved coconspirators who were on the Nonstandard Classification System (NCS) list and had their crop insurance entity changed during CYs 1993 through 1997. The crop insurance agent admitted using a relative's and others' names on crops in order to avoid the NCS listing, which raised premiums and limited benefits.

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. The bulk of FNS' $34.2 billion funding for FY 2001 goes to FSP ($20.1 billion), CNP ($9.6 billion), and WIC ($4 billion).

FOOD STAMP PROGRAM (FSP)

Because of the size and vulnerability of the Food Stamp Program (FSP), we devote significant resources to audit this program, focusing primarily on Electronic Benefits Transfer (EBT) systems implementation, household and retailer eligibility, and administrative costs.

Operation Talon Arrests Near 7,400

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 March 31, 2001, Operation Talon had resulted in 7,372 arrests of fugitive felons during joint OIG, Federal, State, and local law enforcement operations throughout the country. On the Federal level, we are working with the U.S. Marshals Service to apprehend Federal fugitives. 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. See figure 1, on pages 16 and 17, for a detailed breakout of results, listed by Uniform Crime Reporting (UCR) categories.

Monitoring of EBT Systems Continues

We were able to work "up front" on computer systems with FNS and the States as they were implementing EBT. As a result, EBT is a success for us and FNS as well as the States. It is now much easier to detect retailers who harm the program by buying benefits at half their cost or less, rather than selling food. With EBT, this can be more readily pinpointed.

Currently, 41 States and the District of Columbia use EBT systems (38 implemented statewide) to deliver food stamp benefits, with about 76 percent of FSP benefits being issued via EBT. This period, we determined that actions taken by FNS on our September 1996 nationwide EBT system audit recommendations were generally adequate. In FY 1999, FNS implemented EBT reconciliation guidance for State agencies to address, in part, continuing problems identified by our audit reports related to issuance data reported to FNS by States. FNS' work to ensure that all States implement EBT systems to deliver FSP benefits by October 2002 is functioning well overall, but FNS needs to strengthen controls over EBT benefit data reported to FNS and access controls to State EBT systems.

- Obligations at fiscal yearend were not accurately reflected in FNS' accounting records because of flawed methodology for expunged benefits. As a result, current-year obligations of food stamp benefits were understated, and prior year obligations remained in the accounting system even though no longer available to recipients. FNS agreed to modify the existing manual fiscal year integrity calculation to correct this flaw.

- States did not always report the proper amount of expunged food stamp benefits within the required timeframes, and FNS had not adequately monitored reported expungement data for reasonableness. As a result, FY 1999 obligations for food stamp benefits were overstated in FNS' accounting system by $2.5 million. FNS agreed to implement a system to review reported expungement data.

- We had previously reported that the Account Management Agent (AMA) system design permits the EBT processor to adjust issuance without obtaining State approval. FNS required EBT processors to use batch processing to minimize the number of necessary adjustments and requested that the Federal Reserve Bank modify the AMA system, but design changes were not expected to be implemented until the second quarter of FY 2001. FNS allows States to report corrections to EBT issuance for 90 days, which is excessive, and EBT processors can gain access to a larger amount of Federal funds than authorized by the State. FNS agreed to expedite an enhancement to AMA that requires prior approval by the State of all processor-initiated adjustments. FNS agreed to modify the time period. States and EBT processors now have 30 days after the reporting month ends to make adjustments to food stamp issuance data.

- We have identified more than 180 individuals in 7 States whose access to a State EBT system should have been removed because their job duties had changed or they were no longer employed by the State. FNS agreed to direct States to tighten existing controls over EBT access by conducting at least semiannual reviews of system access and to reinforce the importance of reviewing EBT system access at regional meetings.

FNS Needs To Ensure Consistency in Its Appeals Process

Individuals who are accused of violating the rules of an FNS program and have an adverse action taken against them may appeal that action. Most appeals occur in FSP, where retailers who are licensed to accept food stamp benefits are subject to fines and/or removal from the program if FNS has found them to be out of compliance with program requirements (accepting food stamp benefits for nonfood items, etc.). Retailers who disagree with FNS' action may appeal it to the agency's Administrative Review Branch (ARB). Administrative Review Officers (ARO) may sustain, reduce, or reverse the action, based on regulatory requirements and the evidence presented with regard to the violation.

We reviewed 125 of the 1,024 appeals that were accepted for a review over a recent 13-month period. We concluded that the system did not always function in a manner that resulted in consistent application of policy.

Cases were identified in which ARB rendered decisions that were inconsistent from one ARO to the next. In our review of five trafficking cases, two AROs used their discretion to overturn cases involving small dollar amounts while others let them stand. For EBT cases, some AROs would admit all evidentiary material while others would not. Based on our review of 14 cases involving the transfer of ownership of a store (often done to evade administrative punishment), some AROs upheld the imposition of a monetary penalty, required by regulation, while at least two other AROs did not.

In most of the cases noted above, FNS issued no final guidance to establish consistency in policy or in interpreting regulations. Although it issued guidance in the case of understocked stores, that guidance was less precise than the policy described in regulations which were under development and allowed AROs considerable discretion when ruling on such cases.

The AROs' decisions are not subject to program management level review. The FNS national office is generally unaware of discrepancies prior to the AROs' rulings because the AROs are not required to consult anyone before rendering their decisions. Similarly, program officials do not have the opportunity to review questionable ARO rulings after they have been made. However, appellants may pursue through the courts any ruling they believe was rendered in error. FNS agreed that the statute provides considerable latitude with regard to designing the appeals process and that the institution of such a program management review system was appropriate and feasible and would increase the effectiveness of the administrative review process.

AROs served in only three locations—Washington, D.C., Dallas, and Redding (in Northern California)—and appeal cases were assigned without regard for the appellant's location. While the opportunity to request a face-to-face meeting with the ARO is an option in the regulations, appellants requesting face-to-face meetings with an ARO have had to travel thousands of miles to exercise this option.

Appeal cases were not always scheduled in a timely manner. AROs decided when a case could be heard and were not restricted by any regulatory timeframe. One quarter of the appeals accepted in 1999 had not been heard by the time of our audit.

We concluded that the system was not functioning as consistently as possible, potentially creating issues of equity to retailers participating in FSP. We therefore recommended that the appeals process be strengthened to ensure consistent application of FNS policy. FNS needs to continue its efforts to clarify regulations, policies, and procedures that affect the actions its field personnel take against accused violators and the rulings AROs hand down on those actions. The FNS national office also needs to track ARO decisions and clarify those that are ambiguous, in order to maintain consistency in actions among field personnel.

Figure 1
Operation Talon Results

CRIMES – UCR Categories	AZ	CA	CO	CT	DE	DC	FL	GA	IL	IN	KS	KY	MD
Group A Offenses													
Arson	1					1				2	2		1
Assault Offenses: Aggravated Assault, Simple Assault, Intimidation	20	5	9	4		3	5	23	13	26	4	16	73
Bribery													
Burglary/Breaking and Entering	5	3	7			2	2	11		18	3	4	7
Counterfeiting/Forgery	8	2	7				9	6		36	1	11	10
Destruction/Damage/Vandalism of Property												1	11
Drug/Narcotic Offense: Drug/Narcotic Violations, Drug Equipment Violations	116	36	15	3		4	15	14	361	52	12	45	35
Embezzlement		2											
Extortion/Blackmail	1												
Fraud Offenses: False Pretenses/Swindle/ Confidence Game/Credit Card/ Automatic Teller Machine Fraud, Impersonations, Welfare Fraud, Wire Fraud	22	313	4		4		6	2		8	5	62	35
Gambling Offenses: Betting/Wagering/ Operating/Promoting/Assisting Gambling, Gambling Equipment Violations, Sports Tampering													2
Homicide Offenses: Murder and Nonnegligent Manslaughter, Negligent Manslaughter, Justifiable Homicide							2	3	1	2		1	7
Kidnapping/Abduction								5				1	2
Larceny/Theft Offenses: Pocket-picking, Purse-snatching, Shoplifting, Theft from Building, Theft from Motor Vehicle, Theft of Motor Vehicle Parts or Accessories, All Other Larceny	35	14	48	3	1	1	15	16		123	1	21	71
Motor Vehicle Theft	2	1					1	3		6			2
Pornography/Obscene Material													
Prostitution Offenses: Prostitution, Assisting or Promoting Prostitution										4			2
Robbery	1	2					9	27	6	5	4	6	7
Sex Offenses: Forcible Rape, Forcible Sodomy, Sexual Assault With An Object, Forcible Fondling								9	1	2	1		3
Sex Offenses: Nonforcible Incest, Statutory Rape	1	2								2			
Stolen Property Offenses (Receiving, etc.)		4									4	3	
Weapon Law Violations	1	2		1		1	1	4		2			2
Group B Offenses													
Bad Checks	3						11	2		2	11	2	27
Curfew/Loitering/Vagrancy Violations													1
Disorderly Conduct	1										2		2
Driving Under the Influence	24	2								24	8	2	
Drunkenness													
Family Offenses, Nonviolent		1					1	5			8	3	
Liquor Law Violations													2
Peeping Tom													
Runaway													
Trespass of Real Property	2		3										6
All Other Offenses	34	16	23	8		30	42	24	161	35	43	70	487
TOTALS	**277**	**405**	**116**	**19**	**5**	**42**	**119**	**154**	**543**	**349**	**109**	**248**	**795**

	MA	MI	MS	MN	MO	NC	NJ	NY	NV	OH	OK	OR	PA	TX	VA	WA	WI	Totals
		1					2		1	1			1	3				16
	7	4		2	8		45		2	34	1	2	2	67	16	8	4	403
														5				5
	2	6			6	4	44	4	1	3		7		68	1	3	3	214
	2	6	3		8	5	9		2	11		7	5	191	6		3	348
		4			1		1			1		3		9	1			32
	14	16	1	21	46	9	224	7	2	148	1	111	3	252	34	22	9	1,628
		6				4			2						1			15
																		1
		21			7	25	175	3		12	4	13		83	18	3	27	852
																		2
		1			2		4			2				6	3	1		35
	1	1				1	1			2		1			1			16
		22	3		7	7	89	1	4	37	12	27	4	110	23	13	3	711
	3	2					7			4		11		20	5	1		68
														1		1		8
	2	1			5	1	35	1		86	1	2	2	12	7		1	223
	2			1	6		4			2				9		1		41
							1			1								7
	2	5	1		39		45		1	16								120
		1			5		8			4		4		5			2	43
		12	18		86				21	7		3		23	3			231
																		1
																	1	6
									2			6		37				105
					2		60					2	1	9			1	93
																		2
										2								2
					2									1				14
	6	81	16	38	19	19	289	54	2	361		10	1	22	217	7	15	2,130
	41	**190**	**42**	**62**	**249**	**75**	**1043**	**70**	**40**	**734**	**19**	**209**	**19**	**933**	**336**	**60**	**69**	**7,372**

Finally, FNS needs to take into account the location of case volume when filling future ARO vacancies. FNS generally agreed with our recommendations.

Trafficking Cases Yield Substantial Prison Sentences, Fines, Restitutions

- The owner of a convenience store in Miami was convicted at trial of conspiracy to commit food stamp/EBT fraud and food stamp trafficking. An extensive financial investigation disclosed that the owner on record was, in fact, a ghost owner and the true owner previously had been disqualified from FSP. The proceeds from illegal food stamp transactions were traced through numerous corporate accounts to the legitimate owner of the business, who was sentenced to 37 months in prison, followed by 3 years' supervised release, and ordered to pay USDA $867,600 in restitution.

- The owner of a large grocery store in Campbell, Ohio, was sentenced to 15 months' imprisonment and ordered to pay nearly $388,000 following his guilty plea to charges of conspiracy to traffic and possess food stamps. The grocery store redeemed approximately $1.5 million in food stamps in 1995 and 1996. Our investigation showed that the owner personally accepted approximately $400,000 in food stamps purchased by other large-scale food stamp traffickers in the area and redeemed them through his store. This investigation was conducted jointly with the IRS and FBI. Information from this investigation assisted in the investigation and prosecution of an additional 29 individuals in the Youngstown, Ohio, area for public corruption and organized crime.

- Our joint investigation with the Alameda County, California, district attorney's office regarding persistent food stamp street trafficking in Oakland resulted in the conviction of 10 individuals who were involved in the illegal purchase and redemption of over $430,000 in food stamps. The investigation disclosed that the subjects, who were all friends or relatives from a small town in Yemen, were involved in a conspiracy to launder illegally obtained food stamps through various grocery stores they owned in northern California. The defendants, some of whom received prison sentences, have been ordered to pay over $150,000 in restitution.

- In a previously reported Michigan case, the owner of a large wholesale food distribution network pled guilty to one count of trafficking in food stamps. The distribution network owner conspired with a major narcotics trafficker in Detroit and others to launder several million dollars in USDA food stamps. He was sentenced to 24 months' imprisonment, 2 years' supervised release, $2 million in restitution, and participation in a substance abuse program. His authorization to redeem food stamps was also revoked. This investigation was conducted jointly by members of the Organized Crime Drug Enforcement Task Force, which included OIG, DEA, IRS, and the Detroit Police Department.

- We previously reported the indictment of 20 individuals and 4 corporations involved in an organized food stamp trafficking operation in Honolulu, Hawaii. Our investigation, which was conducted jointly with the FBI, the Immigration and Naturalization Service (INS), and the Honolulu Police Department, disclosed that the corporations' officers financed large-scale purchases of food stamps by "runners" who, in turn, resold the food stamps to various other retailers, as well as those financing the operation. A review of various business records disclosed that the retailers had more than $2 million in excessive redemptions over a 5-year period. Nineteen of the individuals subsequently pled guilty to various charges of food stamp trafficking, money laundering, conspiracy, and tax evasion. To date, the defendants have paid approximately $3 million in fines, restitution, and civil forfeitures.

Update on Food Stamp and Marriage Fraud Scam

As previously reported, 36 individuals were indicted and arrested on food stamp trafficking and INS charges in Rochester, New York. Our investigation uncovered a complex criminal conspiracy in which food stamps were discounted and widely laundered to facilitate the smuggling and illegal entry of approximately 50 foreign nationals from Pakistan, INS marriage fraud, and visa fraud. All of the subjects now have pled guilty. The three masterminds of the conspiracy, who are naturalized U.S. citizens, were sentenced to home confinement and 3 years' probation. The remaining subjects were deported, with the exception of two still at large.

Family Members Jailed in Food Stamp, Prescription Narcotics Investigation

Three members of a Columbus, Ohio, family were sentenced to jail terms of 23 years, 10 years, and 3 years for operating what prosecutors described as the largest prescription narcotics ring in the Columbus area. The mother and two sons were charged in a 64-count State indictment with various drug and food stamp trafficking charges. A judge also ordered that the residence where the "pill house" operated from be closed down.

OIG and the Columbus Division of Police made multiple purchases of prescription narcotics with food stamps, performed searches, and made a series of arrests. Seized were 46,800 unit doses of prescription narcotics with an approximate street value of $125,000, two automobiles, more than $26,000 in currency, over $10,000 in food stamps, jewelry, and several guns. This case was investigated in conjunction with the Columbus Division of Police and the Franklin County Prosecutor's office, with assistance from the Ohio Pharmacy Board.

First EBT Prosecution in Massachusetts Results in Prison Sentence

The owner of a grocery store located in Massachusetts was sentenced to 5 months in Federal prison and ordered to pay $118,000 in restitution and $4,000 in fines after being convicted in a Federal food stamp scam. The owner exchanged EBT benefits for cash with an undercover agent for approximately 65 cents on the dollar. This was the first EBT prosecution in Massachusetts.

CHILD NUTRITION PROGRAMS

Operation "Kiddie Care" Continues

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. During this reporting period, in addition to our reviews of sponsors of daycare homes, we found that the California Department of Education (the State agency) needed to strengthen controls to improve its oversight of small, independent childcare centers. We reviewed 15 childcare centers participating in CACFP in California and identified multiple problems at each.

All centers reviewed made errors in determining the eligibility of some of their enrolled children and reporting this information to the State agency, which is critical because it affects the amount of a center's payment. Five centers served meals that did not meet program nutritional requirements, eight did not exercise sufficient care in handling food, and three violated State licensing regulations by having too few adults present for the number of children in attendance. Three had deficiencies so serious that we recommended the State agency immediately consider terminating these centers from the program. These three centers also claimed substantially more meals than they were entitled to claim. Furthermore, one was ineligible even to participate in the program because it was a private for-profit, rather than not-for-profit, entity.

We recommended that FNS require the State agency to revise its center monitoring procedures to include routine unannounced visits to centers and to provide additional emphasis of licensing requirements and verification that centers are nonprofit food service operations. We also recommended that the State agency be required to take specific followup action to review the operations of the three centers we identified as having the most serious deficiencies and recover almost $102,000 paid to the ineligible center. FNS concurred and agreed to take corrective action.

Audits and investigations of sponsors also continued to yield results.

- A sponsor in Illinois charged unallowable, unsupported, and questionable expenses of almost $165,000 to CACFP, including investments, personal loans, and payments of personal income taxes for a sponsor official. This sponsor also did not timely reimburse its childcare centers $2.5 million for meals served during FYs 1997 and 1998. This sponsor is under investigation.

- The owner of a Colorado daycare center pled guilty to inflating meal claim forms and was sentenced to 400 hours of community service and 12 years' probation. The sponsor repaid $70,000 to CACFP to offset the illegal claims.

- In a previously reported case, a mother and her daughter were each sentenced to 3 years' probation and to repay almost $24,000 in restitution for embezzling CACFP funds from their New York corporation. They used $75,000 in grant money for travel including a Hawaiian vacation, clothing, jewelry, and gifts.

- We determined that 59 providers of a Louisiana sponsor did not comply with record-keeping requirements and did not operate during approved hours of care and meal times. The State agency terminated the sponsor from program participation.

- Sentencing is pending for a former Louisiana home daycare provider who pled guilty in Federal court to fraudulent use of CACFP funds. A total of 45 false claims amounting to more than $14,000 was submitted to the Louisiana Department of Education.

- The husband and wife operators of a Utah sponsorship were sentenced for fraudulently receiving payments under CACFP through kickbacks from low-income families and submitting false claims to the Government. The husband was sentenced to 27 months in prison and the wife to 30 months, and they were ordered to make restitution of $112,000. Two employees who assisted the couple pled guilty and were sentenced to probation. The couple was charged in November 1998 in a 117-count indictment. They had issued monthly meal reimbursement checks in the names of providers who had quit the program, cashed meal reimbursement checks without the providers' knowledge, falsified daycare provider files for ineligible providers, and demanded kickbacks from providers to remain in the program.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

Ohio State and Local Agencies Retained Federal Funds in Excess of Needs

We found that the WIC Ohio State agency did not adequately control administrative grant funds for FYs 1996 through 1999. Local agencies maintained excess cash balances of up to $1.1 million during the year because the State agency advanced funds quarterly based on the local agency budgets rather than on actual expenditures and amounts of unspent funds. Doing so could cause funds to be drawn from the Federal Treasury prematurely and increase the risk of misappropriation.

WIC Food Delivery Systems Final Rule Published

Our June 1988 nationwide report on WIC vendor monitoring and food instrument (i.e., vouchers for purchasing food) delivery systems identified significant levels of vendor abuses, including overcharges by 76 percent of the vendors reviewed. It also identified deficiencies over the accountability and control of food instruments. These weaknesses showed that FNS needed to improve its overall management of the WIC program by strengthening its monitoring efforts at FNS regional offices and at State and local agencies. FNS agreed to implement regulations to strengthen State agency operations in vendor management and related food delivery areas, and in December 1990 the Department published a proposed rule to address these concerns. However, many comments submitted by State and local agencies, vendors, Members of Congress, and WIC participants indicated that significant modifications to the proposed rulemaking were required, warranting further opportunity for public input. The rule was retracted, eventually revised, and republished as a proposed rule in June 1999. In December 2000, the rule was published as a final regulation. It strengthens vendor management in retail food delivery systems by establishing training requirements, criteria to identify high-risk vendors, monitoring requirements, and compliance investigations. The rule also strengthens food instrument accountability and sanctions for participants who violate program requirements.

Natural Resources and Environment

The Natural Resources and Environment mission area plays a critical role in the sound stewardship of the Nation's land and natural resources. FS and NRCS share responsibility for fostering sound stewardship on 75 percent of the country's land.

NRCS and FS Work To Resolve Audit Issues in URP Program

NRCS and FS have recently completed a detailed plan that, if accomplished, should adequately address all the major issues identified in our recent audit of the Urban Resources Partnership (URP) program. The agencies have agreed to take necessary actions on any FY 1999 and 2000 grants that did not comply with the proper program and funding authority. The agencies also agreed to resolve funding issues for the URP coordinators, develop a strategy to review 1999 and 2000 grants for cost allowability, and collect any unallowable costs. Finally, NRCS has recommended that the URP program be terminated immediately.

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 2001 budget for FS is projected at $4 billion, a significant increase over FY 2000 appropriations, while receipts generated through timber sales and other activities are estimated at about $780 million. Major management challenges for FS include key management and program delivery issues, land exchanges, and grant and agreement administration.

Continuing Audits of FS Land Exchange Program Uncover Additional Weaknesses

Questionable Practices Found on Lake Tahoe Acquisitions and Urban Lot Management

Our review focused on the land acquisition and urban lot management program at Lake Tahoe, on the California-Nevada border. Since the passage of the Santini-Burton Act of 1980, FS has purchased 3,494 parcels of land that together comprise almost 12,000 acres at a cost of $97 million. While the land acquisition program has been successful in purchasing lands that meet the broad intent of the acquisition authorities, we found the following areas where inefficiencies could have been overcome by better direction and planning:

- The forest plan does not adequately address the unique problems associated with land acquisitions and management of urban lots, and the plan has not been updated since 1988, even though demands on forest resources proved to be greater than anticipated.

- FS unnecessarily paid almost $300,000 by repeatedly appraising private lots that were never acquired and making inappropriate payments during the acquisition process.

- FS appraisers approved questionable appraisal valuations that overstated the costs of the lands acquired.

- FS paid $444,000 for development and water rights it did not acquire, which could be used by other individuals without compensation to the Government.

- FS acquired lands and buildings, valued at $9.5 million, that were inappropriate or unnecessary, were left to deteriorate for years, and have been seriously damaged by vandals, resulting in hazardous conditions for the public.

Building damaged in fire set by vandals. OIG photo.

Our review of the urban lot management program found that FS has not adequately managed the environmentally sensitive lands it has acquired. Almost 75 percent of lots acquired by FS have not been maintained since their acquisition, increasing the risk of hazards from dead or dying trees that could fall at any time, heavy brush that is susceptible to fires, and encroachments from adjacent landowners.

FS estimates it needs at least $7 million to meet its current maintenance obligation. FS also needs to consolidate its ownership of numerous, scattered urban lots with those owned by the States of Nevada and California to achieve greater efficiency in management and maintenance work. Finally, FS needs to upgrade its computerized land acquisition database so that it can replace the use of unreliable and inefficient manual record-keeping systems.

FS concurred with all the audit findings and recommendations. FS also stated that it received congressional criticism which pointed out that the role of FS in acquiring, administering, and maintaining urban lots at Lake Tahoe appears inappropriate and often ineffective. FS has ceased further acquisitions of lots at Lake Tahoe until this issue is resolved.

Controls Needed on Acquisitions of Lands in Congressionally Designated Areas

Our audit survey at the Pacific Northwest Region disclosed that FS staff may be improperly valuing lands acquired in congressionally designated areas, specifically the Columbia River Gorge National Scenic Area (Columbia River), located in Oregon and Washington. Since 1986, FS has purchased approximately 31,000 acres at Columbia River for about $44 million.

FS improperly valued lands at Columbia River by using the historical zoning in place before 1986 rather than the more restrictive current zoning, as required by Federal appraisal standards. To prevent the acquisition of potentially overvalued land at Columbia River, FS has suspended 35 land exchanges and purchases, valued at $48 million.

Because of concerns that inconsistent direction may have led to valuation errors in other regions, OIG issued a management alert to FS, which took immediate action to address the potential problem. In August 2000, the FS Deputy Chief sent a letter to all regional foresters on valuations in congressionally designated areas to clarify that all lands in such areas were subject to normal valuation procedures unless congressional legislation specifically directed otherwise. The Deputy Chief also instructed regional foresters to review all pending and completed appraisals done over the past 3 years to determine if valuations in specially legislated areas had been properly conducted.

OIG Responds to Congressional and Secretarial Concerns on Land Exchanges

As a result of both OIG and U.S. General Accounting Office (GAO) audits of the land exchange program, Congressman George Miller of California requested on July 12, 2000, that the Secretary of Agriculture direct FS to enact a moratorium on land exchanges until the agency demonstrated it could ensure all exchanges were in the public interest and the land was valued in accordance with the law. In response, the Secretary stated that he would direct the FS Chief to review all corrective actions taken to date and their impact on the land exchange program, provide an action plan for any additional measures needed to further improve the program, and provide a report to the Secretary within 30 days.

On October 2, 2000, the FS Chief provided the Secretary with a report that outlined FS efforts to strengthen the land exchange program, emphasizing improvements in the valuation function, organization, training, accountability, and consistency. The report also identified the remaining actions to be taken and a timeline for their completion.

OIG concluded that the report and the accompanying action plan constituted a comprehensive document for improving accountability and consistency in the land exchange program. FS has taken the initiative not only to address OIG and GAO recommendations in previous audits but also expanded its corrective action to a national perspective when necessary. FS lands staff stated that they have completed action on all OIG recommendations and are preparing the documentation for final action. In the coming months, OIG plans to conduct a comprehensive nationwide review of the actions FS has recently implemented to evaluate their effectiveness.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

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

NRCS Did Not Justify Implementation of EWP in Arizona

The Emergency Watershed Protection (EWP) program provides assistance to relieve imminent hazards to life and property caused by floods, fires, windstorms, and other natural occurrences. In June 1999, the Governor of Arizona issued a statewide drought proclamation and sent it to the Secretary of Agriculture with a letter requesting a determination of drought. USDA, through the Arizona NRCS, declared a drought emergency throughout the State and planned to make the EWP program available to assist the local ranchers. OIG reviewed the program after a whistleblower alleged that the Arizona NRCS State office was unable to justify EWP's implementation. We determined that the allegations raised by the whistleblower were valid.

EWP regulations require that the cost of the work performed to reduce the threat to life or property be less than the anticipated damages. However, the Arizona NRCS State office spent over $11 million in EWP funds to reduce the threat to life or property, yet it did not identify what properties were threatened and what the potential damages would be to those properties, bringing into question a need for the program. We also identified program participants who did not complete the work required under their EWP contracts. In other cases, EWP participants were required to perform work that achieved the same purpose as work that was to be performed and reimbursed by USDA under their existing Environmental Quality Incentives Program contracts.

We recommended that NRCS compare properties at risk with potential damages to ensure cost effectiveness. We also recommended that NRCS terminate contracts where participants did not perform the agreed-upon measures and collect the amount disbursed for performing similar work under separate NRCS programs. The NRCS national office agreed with our findings and recommendations.

Based on the results of the audit, the funding for the EWP program in the State of Arizona in the subsequent year was limited, and additional documentation was required to substantiate the implementation of the program.

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 2001, program funding for RHS loans and grants totaled $6.6 billion. RRH programs are vulnerable to program fraud and abuse because of the large cashflows ($640 million in rental assistance and over $12 billion in loans) involved.

Mutual Self-Help Housing Program Grantee Did Not Have Controls and Procedures To Ensure That All Borrowers Were Treated Equitably

Through the Mutual Self-Help Housing Program, RHS awards grants to nonprofit organizations and government entities to provide technical assistance to low-income borrowers who want to construct their own homes. One grantee in California received nearly $1.4 million to administer the program and oversee the construction of three mutual self-help housing projects, and supervised the use of more than $15 million in RHS construction loans and $1.8 million in non-RHS financial assistance.

Typical mutual self-help home constructed by the grantee. OIG photo.

We found that the grantee did not have sufficient controls or written procedures to equitably distribute the $1.8 million of non-RHS financial assistance to the borrowers. The grantee provided some borrowers with significantly more assistance than they needed to qualify for an RHS loan yet provided no assistance to other borrowers even though their financial circumstances were similar. In the worst cases, some applicants did not receive enough non-RHS assistance to qualify for the program and therefore were denied housing. As a result, by not treating all applicants in a consistent and equitable manner, the grantee may be subjecting RHS to complaints of unfair treatment. The grantee also charged some borrowers with smaller housing lots the same price or more than it charged their neighbors with larger lots and, in some cases, disregarded appraisal values.

We recommended that the Rural Development State office require the grantee to establish written procedures to equitably distribute non-RHS financial assistance and develop procedures that price the housing lots equitably and in a manner consistent with the lot appraisals. The State office has agreed to the finding and will implement the recommendations.

RHS Allows Effective Interest Rate To Fall Below Required 1 Percent

Over the last 5 years, RHS has applied over $388 million in subsidy toward borrower principal on single and multifamily housing loans even though the enabling legislation allows the subsidy to be used to reduce interest charges only. Because the subsidy of RRH loans is granted for the life of a loan, we estimated that RHS would pay approximately $2.6 billion of principal if the 11,405 subsidized loans reach maturity.

The Housing Act of 1949 allows the Secretary of Agriculture to assist borrowers with credits to reduce the effective interest rate to “not less than 1 percent, per annum.” However, RHS will pay $877 million more in subsidy on RRH loans than it should if the loans are financed for the entire term, because the effective interest rate does fall below 1 percent over the lifetime of a loan. RHS applies a fixed amount of interest subsidy to borrowers’ accounts rather than an amount that correlates to the interest accruing on the loan. As a loan ages, interest decreases in proportion to the reduction of principal. The size of the fixed subsidy will gradually overtake and ultimately exceed the interest charge, cause the effective interest rate to fall below 1 percent, and result in the subsequent application of subsidy against loan principal.

We recommended RHS revise its methodology to prevent the effective interest rate from falling below 1 percent and implement procedures to ensure the collection of subsidy applied to the principal of single-family housing loans, as well as the excess subsidy applied to multifamily housing loans. RHS officials disagreed with our findings and recommendations. They cited a 1979 OGC opinion; however, we interpreted the opinion differently. To resolve the issue, we have requested that RHS obtain another OGC opinion, which has been done.

Administration of EC Program Needs Improvement

The Enterprise Community (EC) program is designed to afford communities opportunities for growth and revitalization. The EC program facilitates the targeting and funding of Rural Development program monies to needy rural communities designated as being most in need. The Northeast Louisiana Delta Community Development Corporation (Corporation) is the lead entity for the Northeast Louisiana Delta Enterprise Community, consisting of four census tracts in Madison Parish, Louisiana, in the heart of one of the poorest regions of the Nation. Our audit was prompted by allegations made by Louisiana's Legislative Auditor and Louisiana's 5th District Congressman, who alleged that the Corporation did not accurately or timely report its budget information, funding requests, and achievement of performance measures (called benchmarks), allowed substandard housing repairs and improvements, and was involved in questionable use of program funds.

- The Corporation did not timely and accurately report its benchmark funding, progress reports, and performance data, as required by agency guidelines. Benchmark funding is the amount of funds budgeted, requested, and received for a specific benchmark (measurable activity). As a result, objectives were not met, program accomplishments were misstated, and the EC program could be subjected to abuse and misuse of funds.

- The Corporation was deficient in housing repairs and improvements along with supporting documentation, contract execution, inspections, and payments to contractors. This resulted in substandard repairs, safety hazards, program abuse, widespread criticism of the Corporation's EC housing initiative, and questionable costs of almost $90,000 for repairs of the 11 properties reviewed.

- The Corporation improperly approved and funded two loans totaling $155,000 to projects that did not provide the requisite 75-percent minimum benefits to residents within the designated enterprise community boundaries.

- The Corporation's rental payments for administrative office space exceeded the limits of allowable costs by approximately $16,000, when the Corporation improperly rented the space from a for-profit corporation controlled by a Corporation officer.

We recommended that Rural Development work with the Corporation to improve overall operation of the EC program, correct the defective housing repairs, collect the outstanding balance of the two improper loans, recover the excess rental payments, and ensure future rent payments are in compliance with established criteria. Rural Development has made considerable efforts to address our recommendations. We are working with Rural Development on those recommendations where there is disagreement.

RRH Insurance Expenses Were Excessive

Of 22 States that we surveyed, 10 were either not aware of or did not react to significant variances in insurance cost per unit for similar RHS projects. This occurred because they had either not assembled and/or not used the required statewide databases to determine the reasonableness of insurance costs. RHS projects within the States were vulnerable to insurance company overcharges. RHS responded that it will have use of cost data by September 30, 2001, on their new database to allow managers to make these comparisons. They will also conduct internal reviews to place greater emphasis on enforcing accurate and consistent reporting. We are working with RHS to ensure that these corrective actions are taken and to develop interim controls to compare line item costs, including insurance.

Field visits to two management companies with high insurance costs disclosed that one insurance agent charged projects significantly more than the insurance company's premium amount, unbeknownst to management company officials. The RRH projects were charged approximately $652,000 in excess premiums, which, at 5-percent interest, would amount to an estimated $75,800 of lost interest earnings to the projects.

Excess insurance premiums are the difference between the estimated and the actual cost (i.e., premium) of the insurance. The management company paid the premiums up to 5 months in advance of the coverage date. In December, the insurance agent would estimate the insurance premiums for a policy that began coverage the following May. The management company paid the premium in December. In May, the insurance agent paid the actual premium to the insurance company, but did not refund the difference (between the estimated and actual) to the management company. During our review, the insurance agent returned about $381,000 (about $376,000 attributable to RRH projects) in overcharges to the management company.

We found the management company charged projects twice for more than $122,000 in workers' compensation insurance in Mississippi. The management company also charged over $25,000 to the projects for an errors and omissions insurance policy and fidelity coverage the company should have paid. The management company and insurance agent charged the projects an annual percentage interest rate of up to 35 percent, resulting in insurance financing expenses of about $18,500 without Rural Development consent.

We found that the second management company had established a $25,000 insurance deductible, which exceeded the deductible allowed by regulations and resulted in a $21,500 loss to the project. This company failed to disclose its identity-of-interest construction firm and improperly charged projects for fidelity coverage (protects management from the results of employee errors).

We recommended RHS instruct the States to (1) analyze insurance cost data to allow meaningful cost comparisons and follow up on questionable costs, (2) require management companies to classify expenses properly, (3) require the cited management companies to limit insurance charges to projects to only those allowable, and (4) ensure management companies are obtaining insurance policies with deductibles that meet regulations. In addition, RHS servicing officials should require the management companies to repay projects for the unallowable charges.

RHS officials stated that a number of steps are being taken to ensure adequate internal controls are in place to address OIG's recommendations. We are working with RHS to ensure that the controls are sufficient.

Apartment Employee Solicits Bribe Payments

In Missouri, an employee of a federally subsidized apartment complex solicited and received $8,300 from at least five prospective tenants—one an OIG informant—to move them to the top of the availability list, in violation of Rural Development program regulations. The employee admitted wrongdoing, was fired, was placed into a pretrial diversion program, and paid $8,300 in 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. Considered an area of major management challenge, issues include unauthorized assistance, improper exceptions to Business and Industry (B&I) loan financial underwriting regulations, deficient lender underwriting reviews and servicing of guaranteed B&I loans, and underreporting of problems with guaranteed B&I loans.

Administrator Jeopardizes B&I Loan Program

The integrity of the B&I Loan Program was jeopardized by the former Administrator's issuing 59 general exceptions to regulatory standards in authorizing loan applications totaling over $80 million. While the system of internal controls at the State and national offices, as designed, was generally adequate to protect the integrity of the program, the Administrator granted nonstandard treatment and made exceptions to important regulatory provisions relating to credit quality, collateral, and basic eligibility for 23 applicants.

The former Administrator did not have the regulatory authority to waive those requirements, did not record the basis for his exceptions, sometimes cited inaccurate facts, and overruled competent detailed financial pro forma analysis by professional staff without providing any alternative analysis. The former Administrator also disbanded a longstanding national office loan committee that reviewed high-value or unusual loan requests. During the 4 months of the committee's hiatus, the Administrator authorized over $34 million in loans to seven interrelated entities that did not meet many B&I regulations. He issued numerous exceptions to each of these entities as they, individually and as a group, did not meet credit, collateral, and job creation regulations.

We recommended that documentation supporting the Administrator's exceptions to regulations be provided to the Under Secretary and OGC, and that this documentation identify any professional or analytical reasons for the exceptions. We recommended that the longstanding national office loan committee be continued. We also recommended that the extant loan approvals based on the Administrator's exception authority be reevaluated and approval canceled if the loans do not meet regulatory standards.

Financial, Administrative, and Information Technology

FINANCIAL MANAGEMENT

One of the greatest management challenges confronting USDA is achieving financial accountability.

Financial Statement Audits

The Chief Financial Officer's Act and the Government Management Reform Act require USDA to prepare and audit financial statements. While some of the Department's agencies have achieved success with their financial systems and received clean financial opinions, other major systems have not. FNS, RMA, and the Rural Telephone Bank received unqualified opinions in FY 2000, which means their financial statements fairly presented their financial position. But FS and CCC were unable to complete their financial statements in time for us to audit them by the legislatively mandated timeframe of March 1. Also, Rural Development has not been able to properly determine the cost of its loan programs. Thus, it received a qualified opinion.

USDA—FY 2000 Consolidated Financial Statements: Disclaimer of Opinion

The individual conditions of the agencies when taken together mean that for the past 7 fiscal years—1994 through 1999 and in our just released audit for 2000—we have issued a disclaimer of opinion on the Department's consolidated financial statements. This disclaimer means that the Department overall does not know whether it correctly reports all collected monies, the cost of its operations, or other meaningful measures of financial performance. Most important, some USDA managers do not have reliable financial information regarding how much has been spent on the cost of program operations and are being forced to make decisions "in the dark" without solid financial data. Not only can flawed decisions result, but also the integrity of program dollars is put at risk of misuse or theft. Given USDA's annual budget authority of about $82 billion in FY 2001, the importance of having a strong financial reporting capability cannot be overstated.

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

These major problems contribute to conditions that keep the Department from achieving a clean audit opinion. For example, we have been unable to substantiate the Department's fund balance with the Department of Treasury (Treasury), reported at over $38 billion. This account represents monies that can be spent in the future for authorized transactions. Last year we reported that Treasury records and the Department's records were out of balance by $5 billion. At the close of FY 2000, the difference had been reduced to about $450 million. In other words, the Department still has reported differences with Treasury of this amount, $450 million, and does not know the reason why. The situation is akin to that of a personal checking account. The check register says one thing, but the bank says the account holder spent a higher amount, and the account holder cannot figure out the difference.

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

Rural Development—FY 2000 Financial Statements: Qualified Opinion

Our qualification of opinion (for the last 7 years) stemmed from Rural Development's inability to ensure that the cost of its direct loan programs is reasonably estimated (at over $11 billion) as required by the Credit Reform Act of 1990. In FY 1999, the Department established a task force, to include the Office of the Chief Financial Officer (OCFO), GAO, and OIG, that is making progress to resolve credit reform issues. However, much work remains.

We recommended that Rural Development develop methods and measures that comply with Federal accounting standards to estimate future losses for loans made before 1992. No further recommendations were made because of Rural Development's participation in the credit reform task force. Rural Development generally agreed with the issues and recommendation in the report.

USDA Working Capital Fund (WCF)—FY 1999 Financial Statements: Adverse Opinion

In our opinion, the financial statements of WCF did not present fairly, in all material respects, the financial position and results of operations. The accounting deficiencies besetting WCF are pervasive and pronounced.

WCF uses the problem-ridden National Finance Center (NFC) Central Accounting System as its primary financial management system. As a result, WCF officials function without reliable, accurate, and consistent financial information for operations, payroll, and other administrative expenses processed by NFC, which exceeded $250 million for the fiscal year. WCF is scheduled to convert to the Department's new FFIS on October 1, 2001. Further, NFC did not always perform timely and/or accurate FY 1999 billings of WCF customers, because proper internal controls had not been established. As a result, customers were not always able to effectively manage their resources.

Preparation and support for the statements were inadequate. WCF was unable to provide us with subsidiary ledger detail and aging schedules to support the accounts receivable balance reported on the financial statements. WCF continued to make material adjustments to revenue at fiscal yearend without adequate research or supporting documentation and did not reconcile the income shown in the general ledger with the amounts actually billed and collected.

We made 22 recommendations directed at strengthening WCF's accounting processes and controls. OCFO/NFC generally agreed and pledged corrective action.

FINANCIAL-RELATED AUDITS

Department Should Strengthen Controls Over Unliquidated Obligations

For FY 1999, USDA reported more than $27 billion in unliquidated obligations. Departmental Regulation (DR) 2230-001 was designed to establish departmental controls and protect against abuse of unliquidated obligations, with required reviews and disposition of inactive, unliquidated obligations through deobligation or reprogramming. However, our current review and two recent OIG audits have revealed significant weaknesses in applicable controls.

A February 2000 audit of the Rural Utilities Service's telephone loan program policies and procedures identified loans over 5 years old with unused balances of about $602.3 million that should have been reviewed to determine those unliquidated loans that no longer represent valid obligations and could have been deobligated. A March 2000 audit of NRCS' contracting, procurement, and disbursement activities at the National Business Management Center in Fort Worth, Texas, revealed the theft of more than $311,000 and unauthorized procurement expenditures of more than $473,000. In both instances, prior-year unliquidated obligations were used as sources of funding, made possible, in part, by deficiencies in internal controls.

We concluded that departmental and agency policies did not provide adequate controls to ensure that unliquidated obligations were properly managed. We recommended that the Department update and reissue its regulation (circa 1984) to strengthen accountability and reduce the vulnerability to waste and abuse.

Federal Financial Management Improvement Act (FFMIA)

Currently not in compliance with FFMIA requirements, USDA, as required by law, has developed an overall remediation plan, with detailed remediation plans in effect for CCC, Rural Development, FS, and NFC. The Department's plan is long term in nature. Generally, the remedial action completion dates have been extended an additional year due to the agencies' inability to comply with applicable accounting standards. Implementation of the Department's new accounting system has an estimated completion date of October 1, 2002, while Rural Development's and FS' target dates have been extended to September 2003 and October 2002, respectively.

INFORMATION TECHNOLOGY (IT)

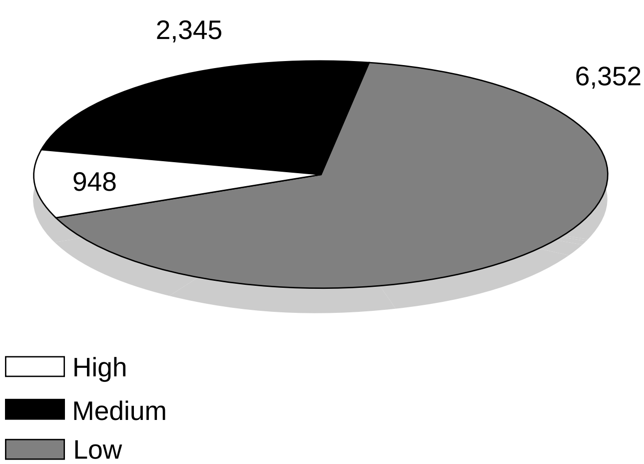
One of the greatest management challenges confronting USDA is ensuring the security of its data from manipulation, theft, or other misuse.

Security Over USDA IT Resources Needs Improvement

We identified widespread and serious weaknesses in the Department's ability to adequately protect assets from fraud and misuse, sensitive information from inappropriate disclosure, and critical operations from disruption. Significant information security weaknesses were reported in each of the seven agencies tested, with inadequately restricted access to sensitive data being the most widely reported problem. Our assessments identified nearly 3,300 high and medium IT security vulnerabilities and numerous low-risk vulnerabilities, as shown in figure 2.

Figure 2

Total Vulnerabilities



The Department has not yet fully implemented a comprehensive security program, attributable to a lack of funding and personnel as well as isolated approaches taken by individual agencies. However, the Office of the Chief Information Officer (OCIO) hired a senior manager for cyber-security in February 2000, assigned staff members to work on the cyber-security team, and is establishing a comprehensive information security program and a Risk Assessment Work Group, with significant actions substantially slated for completion by the end of FY 2001.

We recommended that OCIO establish a comprehensive security program within USDA to include policies addressing agency and departmental security plans and risk assessments, planning for contingencies and continuity of operations, system certifications, and system vulnerability reviews.

Security Over Regional IT Systems Needs Improvement

Our review disclosed that the FS Pacific Northwest Region's controls over access to the USDA IT systems it maintained to carry out agency programs and manage Federal resources needed improvement. The region's Intranet and connected computers, routers, etc., were vulnerable to unauthorized intrusions, both internal and external.

- Security measures did not meet industry standards. Of 126 regional systems tested, 124 contained 72 areas highly vulnerable to penetration and 119 moderately vulnerable areas. Regional actions taken during our audit have strengthened these areas.

- Individuals were not forced to change their passwords with a required frequency, the regional systems did not limit the number of logon attempts a user could make with an incorrect password, and personnel who left the region were still authorized to access the system.

The region also could not show that it had received approval from OCIO for use of an Internet service provider outside the FS computer system.

We recommended that the region eliminate the vulnerabilities we identified, limit access to the system to only those users who need access, strengthen logon and password management controls, and update its procedures to ensure that any agreements it has with Internet service providers receive the appropriate approval.

GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993 (GPRA)

Rural Development's Performance Report Did Not Meet GPRA Requirements

In response to a Congressional request, we initiated an ongoing examination of agencies' activities pursuant to GPRA. This period, we reviewed Rural Development. Rural Development had not met the requirements for the implementation of GPRA, resulting in an Annual Performance Report that did not provide reliable information about actual performance and progress in achieving the mission area's goals and objectives. The Annual Performance Report for FY 1999 was not accurate and supported in all cases, and results reported were not verified and validated. Rural Development's implementation of GPRA was deficient because it had not issued guidelines or procedures for accumulating, collecting, validating, and reporting the performance results or for documenting the methodology used in any of these processes. Because of Rural Development's weak controls, readers of the performance report, including those in Congress, should not use the report as credible evidence of accomplishments or as a basis for decisionmaking.

We found that 16 of 21 performance indicators we reviewed were inaccurate, unsupported, and/or ambiguous. Rural Development did not have viable verification and validation processes over performance results, and performance indicators did not always relate to the goal they were intended to measure. In addition, the Management's Discussion and Analysis section of the consolidated financial statements for FY 2000 needed to contain performance indicators that were outcome oriented.

We recommended that Rural Development implement procedures to ensure the collection and reporting of accurate, complete, and meaningful performance data. This should include the establishment of internal controls and the definition of each performance indicator and the documentation needed to support the indicators. We also recommended that the Management's Discussion and Analysis section of Rural Development's financial statements include outcome-oriented performance indicators that directly relate to vital agency goals. The mission area and agencies generally agreed with our findings and are taking corrective actions.

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)
CCC	07/13/00	1. Audit of CCC Financial Statements for FY 1999 (06401-11-FM)	520,150,596	0
FSA	08/22/00	2. LaFlore County FSA Office Disaster Program (03006-20-Te)*	228,764	228,764
	09/29/00	3. 1998 Crop Loan Deficiency Payment Activities (03601-17-KC)	332,883	0
FSIS	06/21/00	4. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	5. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0
Multiagency	02/22/00	6. Audit of FY 1999 USDA Consolidated Financial Statements (50401-35-FM)	18,650,000,000	0
	04/17/00	7. Single Audit of the IL Department of Agriculture (50018-7-Ch)	140,300	140,300
	09/28/00	8. Crop Loss Disaster Assistance Program (50801-3-KC)	10,728,872	10,454,325

Agency	Date Issued		Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/29/00	9.	Audit of Advances to Nonprofit Organizations for Grants and Cooperative Agreements (50801-11-TE)	397,108	73,768
Rural Development	02/22/00	10.	Audit of FY 1999 Rural Development Financial Statements (85401-1-FM)	60,673,267	0
RHS	05/25/00	11.	RRH Nationwide Initiative in MO (04801-2-KC)*	4,922,879	4,919,579
RMA	03/30/00	12.	Audit of RMA/FCIC Financial Statements for FY 1999, Report on Management Issues (05401-8-FM)	0	0

Previously Reported but Not Yet Resolved

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

APHIS	03/07/00	13.	Plant Protection and Quarantine in Florida (33004-1-At)	2,851	2,851
ARS	02/08/99	14.	Audit of J.A. Jones Management Services, CY's 1994 and 1995 (02017-4-AT)	160,233	160,233
CR	02/27/97	15.	Evaluation Report for the Secretary on CR Issues - Phase 1 (50801-2-HQ)	0	0
	09/30/98	16.	Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-HQ)	0	0
	03/24/99	17.	Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/10/00	18. Evaluation Report for the Secretary on CR Issues - Phase 7 (60801-3-HQ)	0	0
	03/10/00	19. Status for Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0
CSREES	03/27/97	20. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
	03/31/98	21. National Research Initiative Competitive Grants Program (13601-1-At)	32,757,862	32,757,862
FNS	09/22/97	22. CACFP - Sponsor Abuses (27601-7-KC)*	56,296	56,296
	12/07/98	23. CACFP - Family Day Care Services, Inc. - West Palm Beach, FL (27601-7-At)*	338,100	338,100
	07/29/99	24. FSP – Cross State Match (27601-9-KC)*	394,025	394,025
	03/22/00	25. CACFP – National Initiative To Identify Problem Sponsors - Wildwood (27010-3-KC)	319,279	0
FS	07/18/96	26. FY 1995 FS Financial Statements (08401-4-At)	1,150,183,750	1,150,183,750
	09/30/96	27. Real and Personal Property Issues (08801-3-At)	0	0
	03/31/97	28. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	468,547	468,547
	07/13/98	29. FY 1997 FS Financial Statements (08401-7-At)	1,914,800,000	1,914,800,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/24/98	30. Assistance Agreements to Nonprofit Organizations (08801-2-Te)	7,098,026	200,795
	02/23/99	31. FY 1998 FS Financial Statements (08401-8-At)	8,275,700,000	0
	02/25/00	32. FY 1999 FS Financial Statements (08401-9-At)	1,091,300,000	1,091,300,000
FSA	09/30/93	33. Disaster Program, Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	09/19/95	34. Management of the Dade County, FL, FSA Office (03006-1-At)*	75,175,410	909,437
	09/28/95	35. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	36. 1993 Crop Disaster Payments Brooks/ Jim Hogg, TX (03006-1-Te)	2,469,829	2,393,241
	05/02/96	37. Disaster Assistance Program –1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	09/30/96	38. 1994 Disaster Assistance Program, ME (03601-1-Hy)*	2,666,383	1,690,606
	09/30/98	39. Wool and Mohair Payment Limitation, Val Verde County, TX (03099-20-Te)	2,432,120	2,432,120
	03/30/99	40. Payment Limitation - Mitchell County, GA (03006-20-At)*	881,924	881,924

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/00	41. Emergency Conservation Program (03601-15-KC)	2,952,472	131,010
Multiagency	03/25/98	42. Verification of Data Input Into NFC Payroll/Personnel System (50099-11-FM)	27,259	27,259
	09/30/98	43. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	2,651,292
	02/01/99	44. Audit of FY 1998 Rural Development Financial Statements (50401-28-FM)	9,529,862,000	0
	03/31/99	45. Private Voluntary Organization Grant Fund Accountability (50801-6-At)	18,629,558	18,501,064
NRCS	03/31/00	46. NRCS Contracting, Procurement, and Disbursement Activities (10601-1-Te)*	784,562	473,368
RBS	10/01/99	47. B&I Loan - Indiana Farms (34099-3-Ch)	595,511	595,511
	07/01/00	48. Rural Business Enterprise Grant - Vivero Caimito Project (34004-4-Hy)	1,620,256	1,620,256
	09/27/00	49. B&I Loan - Ottman (34004-6-Hy)	4,200,00	4,200,00
RHS	08/10/98	50. Self-Help Housing Program - Grizzly Hollow Project, Galt, CA (04801-2-SF)*	0	0
	01/08/99	51. RRH Program – Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	03/25/99	52. Guaranteed Rural Housing Loan Program (04601-2-At)	139,220,122	215,030

Agency	Date Issued		Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/31/99	53.	RRH – Nationwide Initiative in NE – Bosley Management, Inc., Sheridan, WY (04801-3-KC)*	233,958	148,442
	04/20/99	54.	RRH Program – Owner/ Manager, Olympia, WA (04801-6-SF)*	346,685	346,685
	09/23/99	55.	RRH Initiative – Calhoun Property Management (04801-11-Te)*	12,931,081	0
RMA	01/31/94	56.	Tobacco Indemnity Payments, Mitchell County, GA (05099-22-At)	88,631	88,631
	09/30/97	57.	Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	04/10/98	58.	Crop Insurance Claims (05601-1-KC)	126,787	0
	12/16/98	59.	Crop Insurance on Nurseries (05099-2-At)*	3,963,468	3,963,468
	03/30/00	60.	FY 1999 FCIC Financial Statements (05401-8-FM)	0	0
RUS	02/11/00	61.	Telephone Loan Program Policies and Procedures (09016-1-Te)*	2,476,838,023	2,476,838,023

Audits Without Management Decision - Narrative for New Entries

1. **Audit of CCC Financial Statements for FY 1999, Issued July 13, 2000**

We have been unable to reach management decision for seven recommendations. CCC needs to conduct a study, in consultation with OCFO, to ensure that its financial management operations are objectively evaluated and appropriate organizational changes, system enhancements, and internal control structures are implemented to correct the problems with CCC foreign accounting operations. Also, CCC needs to improve the way in which foreign accounting reconciliations are conducted, because they are untimely prepared and do not facilitate the preparation of necessary accounting adjustments before the close of the fiscal year. Finally, CCC needs to provide revised timeframes for accomplishing all corrective actions.

2. **LaFlore County FSA Office Disaster Program, Issued August 22, 2000**

Of 11 producers' disaster claims for hay and/or pasture losses in 1998 and 1999, 9 inaccurately self-certified disaster losses; 7 improperly claimed duplicate losses under the 1998 Crop Loss Disaster Assistance Program (CLDAP) and the Livestock Assistance Program (LAP) and were overpaid almost $162,000; and 5 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 of over $65,000. This matter was referred for investigation. We recommended, and FSA agreed, to collect the questioned payments and review remaining applications in the county for duplicate benefits under CLDAP and LAP.

3. **1998 Crop Loan Deficiency Payment Activities, Issued September 29, 2000**

Of 336 producers, 106 (32 percent) received erroneous Loan Deficiency Payment and price support loan disbursements totaling $333,000. We concluded that FSA needed to take aggressive action to strengthen or fully implement existing program controls. We have reached management decision for 11 of the 12 recommendations. We need to be advised that FSA has taken action to provide for an annual review of county committee yield estimates for each applicable commodity, including the proposed timeframes for implementation.

4. **Implementation of the Hazard Analysis and Critical Control Point System, Issued June 21, 2000**

OIG reported that FSIS must assert its authorities under the Hazard Analysis and Critical Control Point system for the system to reach its full potential. Because FSIS was uncertain of its authorities and had not established needed procedures, it had reduced its oversight to less than what was prudent and necessary for the protection of the consumer. Management decisions have been accepted for 7 of the 20 recommendations. We continue to work with FSIS to resolve the remaining recommendations.

5. **Imported Meat and Poultry Inspection Process, Issued June 21, 2000**

The audit found that detailed control processes and procedures for determining the equivalency or the continuing eligibility of foreign inspection programs to export meat and poultry products to the United States were not adequately developed, were not incorporated in formal agency procedures for distribution to responsible agency personnel, or were not functioning as required by regulation. Management decisions have been reached on 31 of the 35 recommendations. Nothing came to our attention during this audit that indicated FSIS allowed products to enter U.S. commerce. We continue to work with FSIS to achieve management decision on the remaining recommendations.

6. **Audit of FY 1999 USDA Consolidated Financial Statements, Issued February 22, 2000**

Management decision has not been reached on one recommendation. A methodology is needed to establish an allowance for losses of accounts receivable at NFC. OIG continues to believe that the allowance methodology for establishing bad debts needs to be revised to include documented analyses of historical performance, including aging of debts. Timeframes for revising this methodology also need to be addressed.

7. Single Audit of the Illinois Department of Agriculture, Issued April 17, 2000

The State charged the same amount as both the direct and indirect payroll costs to the Federal Cooperative Meat and Poultry Inspection Program. As a result, the program was overcharged $13,584. The report recommended FSIS ensure that the FY 1999 Financial Status Report be adjusted to deduct the improper charges and the State implement procedures to preclude future similar charges. The State also did not maintain support for how employee time was allocated to the Federal Cooperative Meat and Poultry Inspection Program and the Brucellosis Information System Program. The State improperly charged $126,716 to the Federal programs. The report recommended FSIS require the State to reimburse any unsupported costs. To achieve management decision, FSIS needs to provide documentation that questioned costs have been collected and that the State has implemented controls.

8. Crop Loss Disaster Assistance Program, Issued September 28, 2000

Some producers received CLDAP benefits based on inflated crop insurance indemnities, did not accurately report required program data, did not meet eligibility requirements, or improperly received both single and multiyear program payments. FSA provided sufficient information to reach management decision on 3 of the 15 recommendations. The RMA response to three recommendations was inadequate.

9. Audit of Advances to Nonprofit Organizations for Grants and Cooperative Agreements, Issued September 29, 2000

For two recommendations, OCFO needs to develop, implement, and successfully test a strategy that compels USDA agencies to comply with the cash management controls of Title 7, CFR 3019, and needs to strengthen DR 2120-1, Cash Management, to provide that controls be established to ensure compliance with the Department's cash management practices through publication of the proposed rule, part 3020. OCFO concurred with a recommendation that requires $73,768 in interest earned on advanced funds be returned to the Department of the Treasury; we await documentation of actions accomplishing this. Another recommendation requests that OCFO require each USDA agency to review existing advances and recover all interest earned on advanced Federal funds, ensure all advances are placed in interest-bearing accounts, and ensure disbursements are made by grantees immediately upon receipt of an advance. OCFO generally concurred but disagreed that the agency review be conducted before issuance of the proposed rule, part 3020. OCFO also needs to provide timeframes for all actions.

10. Audit of FY 1999 Rural Development Financial Statements, Issued February 22, 2000

Management decision has not been achieved for one recommendation. Rural development agreed with OIG's position but states that it needs to work with OCFO to develop the recommended long-range plan. Rural Development has converted to FFIS to account for its salary and administrative expenses, and agreed to participate in any departmental initiatives to review other systems. However, management decision cannot be reached until OCFO begins to plan the reviews and provides a timeframe for accomplishing the contemplated actions.

11. RRH Nationwide Initiative in Missouri, Issued May 25, 2000

At the time of report issuance, we requested that RHS not take any administrative action on the subject company until OIG-Investigations clears such action. OIG-Investigations is continuing to work with the U.S. attorney's office on these cases. No action is required by RHS until those proceedings have concluded.

12. Audit of RMA/FCIC Financial Statements for FY 1999, Report on Management Issues, Issued March 30, 2000

Management decision has not been reached for two recommendations. RMA reports that its budget request includes funds to purchase a software package to secure the transmission of data; we need an implementation date.

Indictments and Convictions

Between October 1, 2000, and March 31, 2001, OIG completed 221 investigations. We referred 146 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 177 indictments and 180 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 180 convictions do not necessarily relate to the 177 indictments. Fines, recoveries/collections, restitutions, claims established, and cost avoidance resulting from our investigations totaled about $37.8 million.

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

Indictments and Convictions
October 1, 2000 - March 31, 2001

Agency	**Indictments**	**Convictions***
AMS	12	9
APHIS	6	3
ARS	0	2
FAS	0	1
FNS	113	127
FS	2	3
FSA	20	19
FSIS	9	4
GIPSA	0	1
NRCS	3	3
RHS	5	6
RMA	6	1
SEC	1	1
Totals	177	180

* 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 996 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 3 displays the volume and type of the complaints we received, and figure 4 displays the disposition of those complaints.

Figure 3

Hotline Complaints
October 1, 2000, to March 31, 2001
(Total = 996)

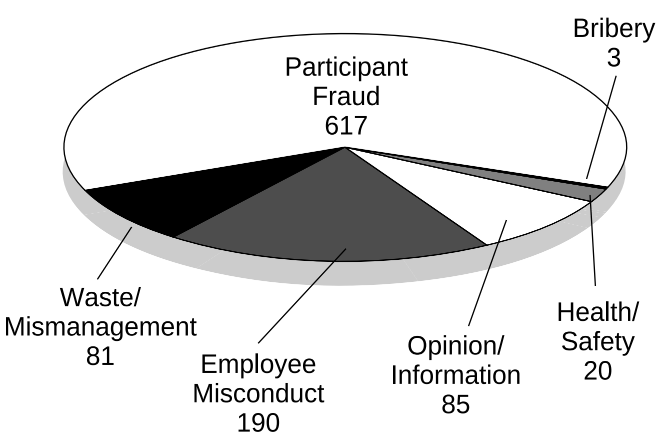
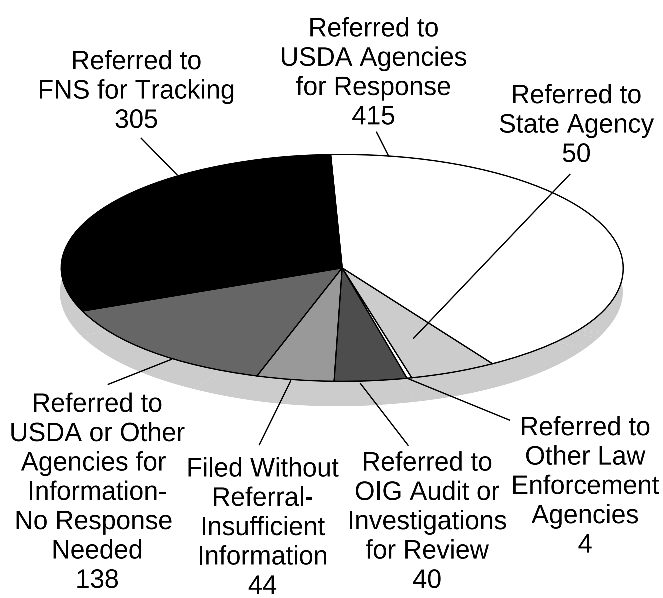


Figure 4

Disposition of Complaints
October 1, 2000, to March 31, 2001



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period October 1, 2000, to March 31, 2001

Number of FOIA/PA Requests Received		224
Number of FOIA/PA Requests Processed:		250
Number of Requests Granted in Full		123
Number of Requests Granted in Part		57
Number of Requests Not Granted		51
Reasons for Denial:		
No Records Available	18	
Requests Denied in Full	18	
Referrals to Other Agencies	21	
Requests for OIG Reports From Congress and Other Government Agencies		
Received	99	
Processed	99	
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		235

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 OCTOBER 1, 2000	57	$2,101,833,748	$62,204,089
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	17	396,175,490	1,212,614
TOTALS	74	$2,498,009,238	$63,416,703
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	20		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$34,541,728	$20,565,957
NOT RECOMMENDED FOR RECOVERY		$6,417,766	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		587,759	126,741
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	54	2,456,483,893	42,724,005
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	42	2,061,270,767	41,516,755

[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 OCTOBER 1, 2000	18	$808,846,056
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	12	947,852,600
TOTALS	30	$1,756,698,656
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	5	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$43,334,657
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		5,854
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	25	1,713,260,644
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	15	807,798,044

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED
BETWEEN OCTOBER 1, 2000, AND MARCH 31, 2001

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 2000, AND MARCH 31, 2001, THE OFFICE OF INSPECTOR GENERAL ISSUED 53 AUDIT REPORTS, INCLUDING 11 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
FARM SERVICE AGENCY	2	$3,515,049		$5,047,290
RURAL HOUSING SERVICE	6	$389,161,884	$5,364	$877,009,000
RISK MANAGEMENT AGENCY	5	$2,138,177	$1,084,528	
COMMODITY CREDIT CORPORATION	1			
FOREST SERVICE	10			$12,248,706
RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE	1	$15,283		$11,154,008
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
OFFICE OF OPERATIONS	1			
FOOD AND NUTRITION SERVICE	12	$616,707		$3,596
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
RURAL BUSINESS-COOPERATIVE SERVICE	2	$228,390	$122,722	$42,300,000
MULTIAGENCY	8	$500,000		
RURAL DEVELOPMENT	2			$90,000
TOTALS	53	$396,175,490	$1,212,614	$947,852,600

TOTAL COMPLETED:	
SINGLE AGENCY AUDIT	43
MULTIAGENCY AUDIT	8
SINGLE AGENCY EVALUATION	2
MULTIAGENCY EVALUATION	0
TOTAL RELEASED NATIONWIDE	53
TOTAL COMPLETED UNDER CONTRACT[b]	11
TOTAL SINGLE AUDIT ISSUED[c]	1

[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 OCTOBER 1, 2000, AND MARCH 31, 2001

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FARM SERVICE AGENCY					
03-006-0018-TE 2000/10/03	JACKSON COUNTY OFFICE OPERATIONS - ARKANSAS		$3,515,049		$5,047,290
03-099-0038-KC 2000/12/07	FLOOD COMPENSATION PROGRAM				
	TOTAL: FARM SERVICE AGENCY	2	$3,515,049		$5,047,290
RURAL HOUSING SERVICE					
04-004-0002-AT 2001/03/30	CITY OF SHELBY HOUSING AUTHORITY MANAGEMENT OF RURAL RENTAL HOUSING PROJECTS		$240,769		
04-005-0006-SF 2001/03/29	CITRUS MANOR DEVELOPMENT - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED DECEMBER 31, 2000				
04-005-0007-SF 2001/03/29	PARKVIEW PROPERTIES - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED DECEMBER 31, 2000				
04-099-0003-SF 2001/03/29	TECHNICAL ASSISTANCE GRANT – PEOPLES' SELF-HELP HOUSING CORPORATION		$5,364	$5,364	
04-601-0007-CH 2000/11/20	LOAN AMORTIZATION USING PREDETERMINED AMORTIZATION SCHEDULE SYSTEM		$388,000,000		$877,000,000
04-801-0006-KC 2000/12/18	INSURANCE EXPENSE		$915,751		$9,000
	TOTAL: RURAL HOUSING SERVICE	6	$389,161,884	$5,364	$877,009,000
RISK MANAGEMENT AGENCY					
05-099-0002-CH 2001/03/09	REVIEW OF CROP ROTATION REQUIREMENTS		$7,192		
05-099-0003-SF 2001/03/30	INDEMNITY PAYMENTS TO PRUNE PRODUCERS IN CALIFORNIA - PRODUCER A		$2,142		
05-401-0001-HQ 2001/02/28	FY 2000 FCIC FINANCIAL STATEMENTS				
05-401-0002-HQ 2001/03/12	RMA/FCIC FY 2000 FINANCIAL STATEMENTS REPORT ON MANAGEMENT ISSUES				
05-601-0004-AT 2001/03/14	CROP INSURANCE FOR SPECIALTY CROPS		$2,128,843	$1,084,528	
	TOTAL: RISK MANAGEMENT AGENCY	5	$2,138,177	$1,084,528	
COMMODITY CREDIT CORPORATION					
06-401-0013-FM 2001/02/15	FISCAL YEAR 2000 CCC FINANCIAL STATEMENTS				
	TOTAL: COMMODITY CREDIT CORPORATION	1			
FOREST SERVICE					
08-002-0002-SF 2000/11/28	VALUATION OF LANDS ACQUIRED IN CONGRESSIONALLY DESIGNATED AREAS LAND ADJUSTMENT PROGRAM				
08-003-0005-SF 2000/12/15	LAND ACQUISITIONS AND URBAN LOT MANAGEMENT PROGRAM, LAKE TAHOE BASIN MANAGEMENT UNIT				$10,329,300
08-017-0008-KC 2001/01/04	CH2M HILL, INC.-CONTRACT CLOSE OUT				
08-017-0009-KC 2001/03/28	INTECS INTERNATIONAL INC., CONTRACT AUDIT				
08-017-0012-SF 2001/01/25	EQUITABLE PRICE ADJUSTMENT AUDIT - ROEBBELEN CONTRACTING, INC.				$849,895
08-017-0014-SF 2001/01/22	CONTRACT CLAIM - RYCO CONSTRUCTION, GARDENA, CA				$531,646
08-017-0015-SF 2001/01/25	EQUITABLE PRICE ADJUSTMENT - AIR SYSTEMS INC, SACRAMENTO, CA				$349,475

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 2000, AND MARCH 31, 2001

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
08-017-0016-SF 2001/01/25	EQUITABLE PRICE ADJUSTMENT - MCINTOSH ELECTRIC, INC., SANTA ROSA, CA				$188,390
08-099-0006-SF 2001/03/27	SECURITY OVER USDA INFORMATION TECHNOLOGY RESOURCES				
08-801-0007-SF 2000/12/05	EVALUATION OF FS ACTIONS TO STRENGTHEN LAND EXCHANGE PROGRAM CONTROLS				
	TOTAL: FOREST SERVICE	10			$12,248,706
RURAL UTILITIES SERVICE					
09-401-0004-HQ 2001/02/20	FISCAL YEAR 2000 RURAL TELEPHONE BANK FINANCIAL STATEMENT AUDIT				
	TOTAL: RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE					
10-099-0001-SF 2001/02/20	EMERGENCY WATERSHED PROTECTION PROGRAM		$15,283		$11,154,008
	TOTAL: NATURAL RESOURCES CONSERVATION SERVICE	1	$15,283		$11,154,008
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-401-0008-FM 2000/12/14	AGREED-UPON PROCEDURES: RETIREMENT, HEALTH, LIFE CONTRIBUTIONS AND HEADCOUNT REPORT SUBMITTED TO OPM				
	TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
OFFICE OF OPERATIONS					
23-017-0009-HY 2000/11/09	HENSEL PHELPS CONSTRUCTION, INC. DECEMBER 15, 1998, THRU JULY 12, 1999				
	TOTAL: OFFICE OF OPERATIONS	1			
FOOD AND NUTRITION SERVICE					
27-004-0004-CH 2001/01/25	SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, & CHILDREN, STATE ADMINISTRATIVE COSTS IN OHIO		$283,638		
27-010-0020-SF 2000/11/30	STATE OVERSIGHT OF SMALL, INDEPENDENT CENTERS - STATE OF CALIFORNIA		$101,668		
27-017-0017-HY 2001/02/01	ABT ASSOCIATES, INC.,—AUDIT OF THREE MAJOR SYSTEMS AND INTERNAL CONTROLS FOR 1998				
27-017-0021-HY 2000/11/02	ZGS COMMUNICATIONS, INC., INCURRED COST AUDIT				
27-099-0011-HY 2001/01/24	EBT SYSTEM - FNS NATIONAL OFFICE OVERSIGHT				
27-099-0013-SF 2001/03/28	FNS - APPEALS PROCESS				
27-401-0020-HY 2001/02/01	FY 2000 FNS FINANCIAL STATEMENTS AUDIT				
27-601-0008-TE 2001/03/14	CHILD AND ADULT CARE FOOD PROGRAM INITIATIVE FY 2000		$9,567		$3,596
27-601-0009-TE 2001/03/28	NSLP - FOOD SERVICE MANAGEMENT COMPANIES		$48,472		
27-601-0010-AT 2001/02/16	NSLP - FOOD SERVICE MANAGEMENT COMPANIES				
27-601-0023-CH 2000/11/24	CACFP - BROINC		$168,913		
27-601-0025-CH 2000/12/18	CACFP - ECONOMIC OPPORTUNITY PLANNING ASSOCIATION		$4,449		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 2000, AND MARCH 31, 2001

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
TOTAL: FOOD AND NUTRITION SERVICE		12	$616,707		$3,596
ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-099-0002-HY 2001/01/25	APHIS INTERNATIONAL PROGRAMS				
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1			
RURAL BUSINESS-COOPERATIVE SERVICE					
34-001-0003-HQ 2001/01/22	NATIONAL OFFICE PROCESSING: BUSINESS AND INDUSTRY PROGRAM				$42,300,000
34-099-0004-TE 2001/03/28	RURAL ECONOMIC DEVELOPMENT LOANS AND GRANTS, NE LOUISIANA DELTA CDC		$228,390	$122,722	
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		2	$228,390	$122,722	$42,300,000
MULTIAGENCY					
50-020-0014-CH 2000/10/02	SINGLE AUDIT OF LEECH LAKE RESERVATION, SPECIAL REVENUE FUND		$500,000		
50-099-0019-FM 2001/01/02	REVIEW OF CONTROLS OVER SELECTED USDA ADMIN-ISTRATIVE SYSTEMS & RELATED PAYMENTS -PHASE II				
50-099-0025-FM 2001/01/02	IT SECURITY - NFC PURCHASE CARD MANAGEMENT SYSTEM				
50-099-0027-FM 2001/03/30	SECURITY OF USDA INFORMATION TECHNOLOGY RESOURCES				
50-401-0036-FM 2000/11/09	FY 1999 USDA WORKING CAPITAL FUND FINANCIAL STATEMENTS				
50-401-0039-FM 2001/02/26	FY 2000 USDA FINANCIAL STATEMENTS				
50-601-0001-TE 2001/03/30	CONTROLS OVER UNLIQUIDATED OBLIGATIONS				
50-601-0002-CH 2001/03/30	VERIFICATION OF GPRA PROGRAM PERFORMANCE IN RURAL DEVELOPMENT				
TOTAL: MULTIAGENCY		8	$500,000		
RURAL DEVELOPMENT					
85-099-0001-SF 2000/12/28	CA COASTAL RURAL DEVELOPMENT - INTERMEDIARY RELENDING PROGRAM				$90,000
85-401-0001-CH 2001/02/16	FISCAL YEAR 2000 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT				
TOTAL: RURAL DEVELOPMENT		2			$90,000
TOTAL: RELEASE - NATIONWIDE		53	$396,175,490	$1,212,614	$947,852,600

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
DEA	Drug Enforcement Administration
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
GAO	U.S. General Accounting Office
GIPSA	Grain Inspection, Packers, and Stockyard Administration
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
NAD	National Appeals Division
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
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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