

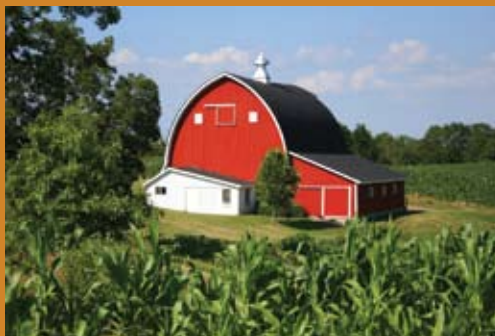


United States  
Department of  
Agriculture

Office of  
Inspector  
General

No. 63  
May 2010

# Office of Inspector General Semiannual Report to Congress



# First Half 2010

October 1, 2009 - March 31, 2010

# KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

## RESULTS IN KEY CATEGORIES

### SUMMARY OF AUDIT ACTIVITIES

#### Reports Issued

Number of Reports	31
Number of Recommendations	167

#### Management Decisions Made

Number of Reports	18
Number of Recommendations	119

#### Total Dollar Impact (Millions) of Management-Decided Reports

Questioned/Unsupported Costs	\$0.1
Funds To Be Put To Better Use	\$15.9

### SUMMARY OF INVESTIGATIVE ACTIVITIES

#### Reports Issued

131

#### Impact of Investigations

Indictments	164
Convictions	187
Arrests	148

#### Total Dollar Impact (Millions)

\$95.1

#### Administrative Sanctions

119

## OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2009)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

*Related material can be found on pages 8 and 14.*

2) Implementation of Strong, Integrated, Internal Control Systems Still Needed

*Related material can be found on pages 9, 12-15, 17-18, 22-25.*

3) Continuing Improvements Needed in Information Technology (IT) Security

*Related material can be found on pages 22-25.*

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

*Related material can be found on page 4.*

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

*No work was reported during this period.*

6) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

*Related material can be found on page 26.*

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

*Related material can be found on pages 4 and 23.*

8) Improved Controls Needed for Food Safety Inspection Systems

*Related material can be found on page 1.*

9) Implementation of Renewable Energy Programs at USDA

*No work was reported during this period.*

10) Implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act)

*Related material can be found on pages 13-18, 25, 29-32.*

# Message From the Inspector General

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I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA) for the 6-month period ending March 31, 2010. Our overall statistical accomplishments this period have been impressive. We conducted successful investigations and audits that led to 148 arrests, 164 convictions, \$95.1 million in recoveries and restitutions, 156 program improvement recommendations, and \$16 million in financial recommendations.

During this period, OIG has devoted a significant portion of its resources to supporting the effective implementation of \$22.5 billion in funding provided to USDA programs through the American Recovery and Reinvestment Act of 2009 (Recovery Act). We have 31 Recovery Act audit projects underway, with an additional 11 planned for the remainder of the fiscal year. OIG's investigation program is also supporting effective implementation of the Recovery Act by providing enhanced fraud awareness training and materials to USDA employees, contractors, and grantees. The scope and effectiveness of our Recovery Act work would not have been possible without the support of the Administration and additional resources provided by the Congress.

This report summarizes the most significant OIG activities (including our Recovery Act activities) during the period, organized according to our strategic goals, as outlined in the OIG Strategic Plan for Fiscal Years (FY) 2007-2012:

- **Safety, Security, and Public Health** – We found that the Agricultural Marketing Service needs to refine its oversight of the National Organic Program to ensure the authenticity of products advertised as “organic.” We also conducted a joint investigation with the U.S. Department of Homeland Security into the smuggling of prohibited poultry and meat products. As a result of this operation, two individuals were convicted and more than 1 million pounds of illegal food products were destroyed, which could have harbored diseases posing a threat to American agriculture. Additionally, OIG, working with other law enforcement agencies, had significant success in combating dogfighting in a number of States.
- **Integrity of Benefits** – Investigations into USDA's Supplemental Nutrition Assistance Program (SNAP) resulted in 50 arrests and approximately \$9.5 million in monetary results during the reporting period. The program, as administered by USDA's Food and Nutrition Service, is intended to improve access to a healthy diet for low-income households and also provide economic benefits to participating retailers, as well as farmers. Our investigations help stop fraudulent activities that divert resources from these vital program goals. An audit revealed that the Natural Resources Conservation Service (NRCS) should provide more oversight in its Watershed Protection and Flood Prevention Operations Program. Although awarded \$145 million through the Recovery Act, NRCS issued insufficient guidelines to its recipients in terms of their reporting obligations.
- **Management Improvement Initiatives** – Our audit work found that the Forest Service needs to reconsider management of its firefighting labor crews. We made a series of recommendations concerning the need to identify data trends to determine personnel needs every year. We also found that USDA has provided significant Recovery Act information and assistance to its agencies, but has not established an internal control structure with formal policies and procedures that provide a clear indication of Departmental versus agency responsibility for determining the completeness and validity of Recovery Act recipient reporting.
- **Stewardship Over Natural Resources** – Our audit work found that the Forest Service needs to modify its contract templates in I-Web (a web-enabled General Support System) to include Recovery Act provisions used for Recovery Act-funded projects.

As Inspector General, I am deeply appreciative of the commitment and expertise USDA OIG staff members bring to their work. The accomplishments documented in this report are the result of their work. These successes are also due in large part to the continued support of USDA Secretary Tom Vilsack, Deputy Secretary Kathleen Merrigan and the Congress.



Phyllis K. Fong  
Inspector General



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# Safety, Security, and Public Health

## OIG Strategic Goal 1:

### **Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.**

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent and professional audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the first half of FY 2010, we devoted 11 percent of our total direct resources to Goal 1, with 99.8 percent of these resources assigned to critical-risk and high-impact work. A total of 100 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 60 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 67 indictments, 84 convictions, and \$630,203 in monetary results during this reporting period.

### **Management Challenges Addressed UNDER GOAL 1**

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in IT Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 3)
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 3 and 4)
- Improved Controls Needed for Food Safety Inspection Systems

### **EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1**

#### **Oversight of the National Organic Program Needs Strengthening**

Agricultural Marketing Service (AMS) officials made improvements to the National Organic Program (NOP) in response to our 2005 audit, including implementing a protocol for resolving conflicts with the National Organic Standards Board. However, further improvements are needed to ensure effective oversight of the program.

NOP officials did not have adequate procedures or a system for tracking the receipt, review, and disposition of complaints and any subsequent enforcement actions. As a result, NOP did not issue an enforcement action against an organic operation that

marketed nonorganic mint under USDA's organic label for 2 years. In another four cases, enforcement actions took between 7 and 32 months. During this time, the operations continued to improperly market their products as certified organic. Although 41 complaint cases had opened since 2004, only 22 were resolved by NOP officials within a reasonable timeframe. The remaining 19 complaints remained unresolved on average for 3 years. When we informed management, AMS officials issued a new complaint procedure and resolved all but 6 of the 19 complaints.

We also found that the California State Organic Program (SOP) is not equipped to properly enforce NOP requirements because of a lack of compliance and enforcement procedures. Despite being required to periodically test residue at organic operations under the Organic Food Production Act of 1990,

AMS left it optional for certifying agents to test for residue. NOP officials also did not ensure consistent oversight of organic operations by certifying agents or provide adequate guidance to the certifying agents. Finally, NOP did not complete required onsite reviews at 5 of the 44 foreign certifying agents in a timely manner.

AMS agreed to strengthen its enforcement procedures and to resolve and track complaints in a timely manner, implement a plan for achieving compliance from California's SOP, obtain an Office of the General Counsel (OGC) opinion on residue testing, and strengthen oversight of certifying agents and operations. (Audit Report 01601-3-Hy, Oversight of the National Organic Program)

### Owner Misrepresents Conventional Crops as Organic to Consumers

In February 2010, the managing owner of an organic company in the Northern District of Texas was sentenced to serve 24 months of imprisonment, followed by 36 months of supervised release. During inspections conducted by the Texas Department of Agriculture (TDA) in 2006, he provided false statements and documents in order to conceal sales of 3,242,771 pounds of conventional milo, 132,000 pounds of conventional garbanzo beans, and 509,660 pounds of conventional pinto beans, which were represented as organic crops and sold to the company's customers in 2005 and 2006. As part of his sentence, he was also ordered to pay \$523,692 in restitution and is not allowed to participate in any USDA programs for the next 60 months.

### Animal Fighting and Related Offenses Result in Prison Sentences and Monetary Recoveries

■ During this reporting period, 15 defendants pled guilty to conspiracy and/or engaging in dogfighting, and 6 were sentenced as part of what has been referred to as the largest crackdown on dogfighting in the United States. These defendants were among 28 people in 7 states who were indicted and arrested in or about July 2009, when OIG agents, with assistance from the FBI and the Missouri State Highway Patrol (MSHP), directed the simultaneous execution of more than 50 Federal search warrants in a multi-jurisdictional operation. The operation took months of intricate planning and the cooperation of over 100 Federal, State, and local law enforcement officers. Those arrested were indicted on charges of engaging in dogfighting and buying, selling, and breeding of dogs destined for the

fighting rings. Guns, drugs, dogs, and stolen property were also seized during the raids. Many of those arrested had extensive prior criminal convictions.

The actions in this reporting period now bring the total to 20 defendants who have pled guilty to conspiracy and/or engaging in dogfighting. A total of 6 individuals have been sentenced to upward departure prison terms ranging between 12 and 18 months, and probation terms between 24 and 36 months.

- An animal fighting initiative in Michigan resulted in the identification of several groups actively engaged in dogfighting in the Lansing area. Investigators worked in conjunction with the Ingham County Animal Control. In November 2009, a State search warrant was issued for a subject's residence, and the two individuals were arrested. During the warrant operation, six fighting dogs were seized along with a marijuana growing operation, underground dogfighting publications, and dogfighting paraphernalia. The individuals were charged with animal fighting and attending an animal fight. During March 2010, two individuals were sentenced in Ingham County Circuit Court to incarceration ranging from 2 to 6 months, and 18 to 24 months probation. Both individuals are also prohibited from possessing animals for 5 years.
- An 18-month investigation of a far-reaching dogfighting conspiracy led to the first ever Federal indictments in Michigan for this activity. At the conclusion of our operation, search and arrest warrants were served on the residences of three subjects who were found in possession of 47 fighting dogs. All three individuals pled guilty to Federal felony animal fighting and conspiracy charges. During February and March 2010, the individuals were sentenced in U.S. District Court, Eastern District of Michigan to sentences ranging from 6 to 13 months incarceration, 2 years probation, and a 2-year prohibition from owning, buying, selling, or possessing dogs. The case was worked with the assistance of the Lenawee and Huron County Sheriff's Departments.
- As we reported in the *Semiannual Report to Congress (SARC), Second Half of 2009*, an extensive investigation of illegal cockfighting in Virginia resulted in the successful Federal prosecution of numerous individuals. Our investigation focused on four individuals who owned, operated, or supported a sportsman's club that hosted illegal cockfights. Participants throughout the East Coast brought their fighting birds, paid entry fees, and illegally gambled on the



outcomes of the fights. The then-sheriff of Page County accepted campaign contributions to protect the club from raids by law enforcement.

In December 2009, the former sheriff of Page County was sentenced to 19 months in prison, after pleading guilty to charges of racketeering, misusing inmate labor for personal gain, and obstruction of justice by intimidating witnesses. He was also ordered to pay fines and restitution totaling about \$5,000 and to forfeit \$75,000. A game bird association that lobbied to make cockfighting a legal sport and its president were prosecuted for violating Federal campaign contribution laws. In fall 2008, the owner of the sportsman's club was sentenced to 16 months in prison and forfeiture of \$100,000; its manager was sentenced to 18 months in prison and a \$1,000 fine; and two other individuals who supported the club were sentenced to 6 months in prison and home confinement and probation, along with \$5,750 in fines. The game bird association forfeited approximately \$13,000, and its president was fined \$7,500.

### **Operation Foul Play Nets Significant Results**

Through a joint investigation conducted by USDA and the U.S. Department of Homeland Security OIGs, 20 importers were found to have smuggled prohibited poultry and meat products, including duck, wild snake, chicken feet, and suckling pig, commingled with other manifested products from China into the United States. The investigation, dubbed "Operation Foul Play," determined that this had been occurring between 2001 and 2007. The investigation led to the conviction of two individuals, one of whom pled guilty in February 2010. Sentencing is pending for these individuals. Additionally, these efforts resulted in the imposition of \$6.7 million in administrative penalties over the course of the investigation, which have been included in statistics for prior reporting periods. During the course of the operation, 1.1 million pounds of prohibited agricultural food products and 21,404 liters of prohibited liquid products were seized and destroyed. The illegal importation of these agricultural products has the potential of spreading diseases such as Exotic Newcastle Disease or highly pathogenic avian influenza, which pose a threat to the United States agriculture industry.

### **Houston Businessman Bilks Government Out of Millions in Procurement Fraud Scam Involving Food Shipped to Middle Eastern Companies**

The owner and employees of a Houston, Texas, food company forged export certificates to send expired and non-expired food to Middle Eastern companies, including suppliers to U.S. troops, and conspired with a transport company to inflate charges for delivering food and other items. In April 2009, a former purchasing agent for the food company pled guilty to conspiracy charges and is awaiting sentencing. In December 2009, in the Southern District of Texas, the owner was sentenced to serve 24 months in jail and ordered to pay \$3.9 million in restitution. That same month, a contractor was sentenced to serve 36 months of probation and ordered to pay a \$2,000 fine and \$42,000 in restitution. A civil action is also pending against the business and its owners. This investigation was conducted jointly with the Defense Criminal Investigative Service and the U.S. Army Criminal Investigation Command-Procurement Fraud Unit.

### **Michigan Company Sentenced for Shipping Contaminated Product**

During November 2007 and February 2008, Food and Drug Administration (FDA) inspections of a low acid food processing facility in Michigan, discovered samples of vegetable product which tested positive for viable *Clostridium botulinum*, a bacterium that causes a deadly form of food poisoning. USDA Food Programs constituted 18 percent of the company's overall sales. The FDA's Office of Criminal Investigations requested our assistance, and in June 2008, a Federal search warrant was served at this facility. The investigation disclosed numerous instances where company employees fixed the appearance of damaged canned goods and shipped the product to customers throughout the country. Several nationwide recalls of the product were initiated by FDA. During September 2009, the company pled guilty to introducing or delivering adulterated food via interstate commerce. In January 2010, the company was sentenced to a \$5,000 fine.

### **FSIS Administration of the National Residue Program for Cattle**

One public food safety issue facing the United States is contamination with residual veterinary drugs, pesticides, and heavy metals of beef presented for slaughter and potentially

consumed by the public. Food Safety and Inspection Service (FSIS) tests samples of meat processed through slaughter plants for residue and compares results to tolerances established by the FDA and the Environmental Protection Agency (EPA). Based on our review, FSIS' National Residue Program (NRP) is not accomplishing its mission of monitoring the food supply for harmful residues.

We found that FSIS, EPA, and FDA need to coordinate with one another to redefine their testing criteria and procedures to better identify residue before it enters into commerce. Additionally, FSIS needs to strengthen the program by requiring slaughter plants to increase controls when processing dairy cattle and bob veal (male calves). FSIS cannot readily identify the producers of cattle that have tested positive for residue, especially if the animal passed through several buyers and sellers. Although obtaining the producer identification would be a proactive measure, FSIS does not have the authority to require this information. We also found that FSIS does not recall meat adulterated with harmful residue, even when it is aware that the meat has failed its laboratory tests. FSIS explained that it must be able to show acute harm from consuming a single serving of the meat and convince a U.S. Attorney to file an action for product seizure. However, we noted that, in the past, FSIS has requested that plants initiate voluntary Class II recalls for other "low" risk health situations. Finally, we found that FSIS needs to modernize its process for sampling carcasses at slaughter plants and then testing those samples at its laboratories so that the agency can make use of readily available technologies. FSIS and OIG have reached management decision on all of the recommendations. (Audit Report 24601-08-KC, FSIS National Residue Program for Cattle)

### **Former Food Inspector for FSIS Threatens FSIS Employee and OIG Agents**

In February 2009, OIG agents attempted to interview a former FSIS inspector at his residence. The subject, disgruntled by his recent termination from FSIS, made verbal threats to his former District Director. As the OIG agents approached the residence, he threatened them with a semiautomatic assault rifle. In March 2009, in the Southern District of Mississippi, he was charged with one count of threatening a Federal employee and three counts of assault on a Federal officer. In September 2009, he pled guilty to one count of assault on a Federal officer.

In December 2009, he was sentenced to serve 11 months of incarceration and 24 months of supervised release, and ordered to pay a \$1,000 fine.

### **Forest Service (FS) Needs National Workforce Plan Specific to Firefighters**

Like most Federal agencies, FS faces a significant number of retirements during the next 5-10 years. In 2009, approximately 26 percent of its critical firefighting personnel were eligible to retire, increasing to 64 percent by 2014. In assessing FS plans for recruiting, training, developing, and retaining those personnel who fill critical fire management positions, we found that FS had not taken the necessary steps to ensure that it has a sufficient number of qualified staff to meet its future wildland fire management responsibilities.

Specifically, FS did not have a national workforce plan or firefighter training program that ensured the continued availability of qualified personnel to meet its firefighting needs. With an average age of 45 and suboptimal training progress, many trainees will be almost eligible to retire by the time they qualify for the critical positions for which they are training. Furthermore, 40 percent of employees who take fire training never follow through to qualify for a firefighter position, a potential waste of \$12 million annually. FS' ability to effectively suppress wildfires is also challenged by a lack of participation from its firefighters because it does not require them to actually participate during wildfire events or reward them for doing so. In 2008, only 9 percent of FS' qualified firefighters actually took part in suppressing the agency's largest, costliest wildfires while the vast majority remained at home.

We also found that FS' ability to fight fires may soon be compromised if it continues to classify certain members of its fire management staff under a job series for natural resources management and biological sciences (GS-401). The series makes academic course work a precondition for employment, but many FS staff may not meet this requirement by an October 2010 deadline established by the Office of Personnel Management (OPM). Although intended to increase safety by upgrading certain fire management staff's educational requirements, classifying these staff under the GS-401 series will likely have the opposite effect. FS generally agreed with the recommendations to correct these shortcomings. (Audit Report 08601-54-SF, Forest Service's Firefighting Succession Planning Process)

## GOVERNMENTWIDE ACTIVITIES – GOAL 1

### *Participation on Committees, Working Groups, and Task Forces*

- *Assessment of Federal Agency Recovery Act Review Procedures.* OIG participated with representatives from the Recovery Accountability and Transparency Board, the Department of Health and Human Services OIG, and the National Endowment for the Arts OIG in developing an audit guide for assessing Federal agency processes for performing limited data-quality reviews of recipient-reported information on the use of Recovery Act funds. This guide was then used by USDA OIG and 20 other OIGs in determining whether Federal agencies had designed effective processes for performing data quality reviews and notifying Recovery Act recipients of the need to make appropriate and timely changes to Recovery Act reported data. Our report, issued October 2009, disclosed that USDA had provided significant information and assistance to its agencies, but had not established an internal control system with formal policies and procedures that provided a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting.
- *Review of the Effectiveness of Federal Agency Recovery Act Data Quality Review Processes.* In conjunction with the Recovery Accountability and Transparency Board, OIG has taken the lead in developing an audit guide and coordinating a governmentwide audit of Recovery Act reporting. The audit will determine whether Federal departments have fully implemented an internal control structure that is effective in ensuring that Recovery Act program recipients report on the use of their Recovery Act funds completely, accurately, timely, and in accordance with OMB guidelines, and that any material omissions and/or significant errors are identified and corrected. Five OIGs are participating in this review. A final audit report is expected by June 2010.
- *CIGIE (the Council of the Inspectors General on Integrity and Efficiency) Emergency Management Working Group.* As part of an IG community project led by the CIGIE Emergency Management Working Group, we are conducting a review to

determine whether USDA established controls to fulfill its roles and responsibilities as outlined in the Federal Emergency Management Agency's National Response Framework Emergency Support Function 11 – Agriculture and Natural Resources. The expected release date for the report is June 2010.

- An OIG Special Agent is assigned full-time to the FBI's National Joint Terrorism Task Force (NJTTF). The agent attends NJTTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department. OIG Special Agents nationwide maintain liaison with the FBI's local Joint Terrorism Task Forces. OIG's participation on the NJTTF has provided an excellent conduit for sharing critical law enforcement intelligence. It has also broadened the FBI's knowledge and that of other law enforcement agencies with regard to conducting criminal investigations connected to the food and agriculture sector.
- OIG's Emergency Response Team (ERT) continues to participate on the FBI's Joint Interagency Agroterrorism Working Group. The overall goal of the working group is to develop protocols and processes among the FBI, the Animal and Plant Health Inspection Service (APHIS), and OIG that are needed to facilitate a coordinated interagency response to an agroterrorism event. In addition, to enhance its operational experience, the ERT participates in numerous multiagency scenario-based exercises throughout the country.

## ONGOING AND PLANNED REVIEWS FOR GOAL 1

### *Topics that will be covered in ongoing or planned reviews under Goal 1 include:*

- implementation of country of origin labeling (AMS),
- followup on the National Organic Program as requested by Congress (AMS),
- evaluation of Food Emergency Response Network capabilities (FSIS),
- in-commerce surveillance activities (FSIS),
- state inspection programs (FSIS),
- controls over the voluntary inspection of slaughtered bison (FSIS),

- assessment of inspection personnel shortages in processing establishments (FSIS),
- N60 testing protocol on beef trim for *E. coli* (FSIS),
- evaluation of the collection and analysis of meat samples for *E. coli* testing (FSIS),
- food defense verification procedures (FSIS),
- effectiveness of the Safeguarding Intervention and Trade Compliance Units' controls to identify and prevent unauthorized entry of prohibited products (APHIS),
- followup on evaluation of the implementation of select agent or toxin regulations (APHIS),
- oversight of designated qualified persons enforcing the Horse Protection Act (APHIS),
- licensing of animal exhibitors (APHIS),
- controls over animal import centers (APHIS),
- animal care inspections of dealers (APHIS),
- implementation of the Lacey Act for prevention of illegal logging practices (APHIS),
- USDA's response to Colony Collapse Disorder (APHIS, ARS, FSA, NASS, NRCS, and RMA),
- USDA homeland security initiative in the 2008 Farm Bill (Office of Homeland Security and Emergency Coordination (OHSEC)), and
- followup on prior firefighter safety audits (FS).

## ONGOING AND PLANNED REVIEWS FOR GOAL 1 UNDER RECOVERY ACT FUNDS

- implementation of flood control dams rehabilitation, phase II (NRCS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

# Integrity of Benefits

## OIG Strategic Goal 2:

### **Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.**

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: the Supplemental Nutrition Assistance Program (SNAP) alone accounts for approximately \$40 billion in benefits annually, while well over \$20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

The \$28 billion in funding USDA received under the Recovery Act will be administered in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, and several rural development programs (such as rural housing, rural business, water and waste disposal, and broadband). The Recovery Act also provided OIG with \$22.5 million (to remain available until September 30, 2013) for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture.”

OIG began working immediately with USDA and the IG community, as well as the Government Accountability Office (GAO) and the Recovery Accountability and Transparency Board, to carry out oversight responsibilities. Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work, and can be found on our Web site at <http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf>.

For FY 2010, we have 51 audit projects both planned and in process. As of March 29, 2010, we have completed 9 audits and issued 29 *fast reports* (quick turnaround reports intended to alert management to immediate Recovery Act issues). There are 31 Recovery Act projects currently ongoing and 11 scheduled to begin during the remainder of FY 2010.

The completed audit reports and *fast reports* reviewed development of USDA agency program guidance and requirements, internal controls, eligibility criteria, and USDA compliance activities related to Recovery Act requirements.

Those issued during this reporting period are described in this semiannual report. We anticipate that our audit efforts will continue into FY 2012.

In addition, OIG staff has engaged in training and outreach initiatives through presentations to professional organizations involving State, local, and independent audit groups. OIG investigators are working to ensure the integrity of Recovery Act programs by investigating potential fraud as warranted, pursuing prosecution where needed, and implementing a Recovery Act whistleblower investigation program. To increase fraud awareness, Investigators have participated in 46 meetings, outreach activities, and training sessions with our Federal, State, and local partners. We have reviewed and adjusted our hotline procedures so that we can identify complaints related to the Recovery Act and handle them expeditiously in order to meet the timeframes specified in the law. We have also concluded investigative compliance reviews into referrals we received from the Recovery Accountability and Transparency Board (RATB) involving possible irregularities in a number of contracts issued by the Forest Service soon after passage of the legislation. Our review did not disclose any significant issues, but identified some procedural issues which have been addressed by FS.

In the first half of FY 2010, we devoted 53 percent of our total direct resources to Goal 2, with 93.2 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 71 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 14 audit reports and 7 Recovery Act *fast reports* under Goal 2 during this reporting period. OIG’s investigations under Goal 2 yielded 90 indictments, 91 convictions, and about \$37.4 million in monetary results during this reporting period.

### **Management Challenges Addressed UNDER GOAL 2**

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 3, and 4)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 3)
- Implementation of the Recovery Act (also under Goal 4)



## EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

### Missouri Farmer Convicted of Bank Fraud, False Statements, Conversion, and Obstruction of Justice

In September 2009, a Missouri man was sentenced in the Western District of Missouri to serve 9 months in Federal prison, followed by 36 months of supervised release, and was ordered to pay \$348,761 in restitution to the Commodity Credit Corporation (CCC) and \$204,423 to a local bank as a result of his guilty plea to bank fraud, false statements, conversion, and obstruction of justice.

The man committed bank fraud when, in order to obtain bank loans of \$855,000, he represented that he had filed income taxes when, in fact, he had not. The man also falsely claimed that he had 285,420 bushels of grain stored to secure loans of \$733,616. The obstruction of justice charge came after the man threatened to shoot the Federal Bankruptcy Trustee and the real estate auctioneer who had been hired to sell the man's property if either came onto his property.

In October 2009, he was granted permission to be conditionally released in order to complete the fall harvest. During that release, the man attempted to sexually assault his ex-wife. He was rearrested by local authorities and returned to Leavenworth Federal Penitentiary. In December 2009, with less than 10 days to complete his sentence, the man walked away from the prison during a winter work detail. He was subsequently seen walking across a Missouri River bridge from Kansas into Missouri, dressed only in prison garb and barefooted. He was arrested and charged with escape.

### Missouri Grain Dealer Sentenced as a Result of "Ponzi Scheme"

In September 2009, a Missouri woman who owned a large grain trucking and marketing company in the Eastern District of Missouri was charged with mail fraud, wire fraud, interstate transportation of stolen property, and conversion of property pledged to CCC. She pled guilty two months later. In February 2010, she was sentenced to serve 108 months in Federal prison followed by 36 months supervised release, and ordered to pay \$27.4 million in restitution. Between 2002 and 2009, she marketed and sold grain for farmers at allegedly higher-than-market prices. As a result of the false representations, the woman

quickly became one of the largest grain dealers/shippers in Missouri. Contrary to her claims, the woman could not guarantee higher-than-market prices for the farmers' grain. Operating what is referred to as a "Ponzi Scheme," the woman only sold the farmers' grain at market prices, and used the proceeds from subsequent grain transactions to pay the above-market prices she had previously quoted and promised to other farmers. Over time, the woman was unable to pay all farmers because insufficient funds were generated to actually make payment.

She ultimately defrauded over 180 farmers out of \$27 - \$50 million in proceeds from grain sales. In addition, CCC was not paid following the sale of approximately \$481,417 worth of mortgaged grain made by the dealer. State fraud charges are still pending against the dealer.

### Approved Insurance Providers (AIP) Made Unsupported Changes

In May 2006, the Secretary of Agriculture authorized the Farm Service Agency's (FSA) Hurricane Indemnity Program (HIP) to help producers who suffered crop losses during the 2005 hurricane season. FSA relied on crop insurance loss claim information maintained by the Risk Management Agency (RMA) to determine which insured producers qualified for HIP. FSA could not change RMA's data, but Approved Insurance Providers (AIP) could. When AIPs make such changes, they are required to acquire and maintain supporting documents, such as statements from a loss adjuster and producer, which confirm that the changes are accurate. In August 2006, FSA discovered that AIPs were changing producers' causes of loss and dates of damage in RMA's database in order to retroactively qualify producers for HIP payments. FSA officials alerted RMA, which sent a list of 206 policies with cause of loss changes to the AIPs responsible and required them to certify to the changes' legitimacy and to provide supporting documentation. In total, AIPs made unsupported changes totaling over \$1 million. As a result of our audit work, we recommended that RMA review all supporting documentation provided by AIPs in response to the agency's requests for justification for loss claim changes, and that FSA recover any overpayments. In addition, we recommended that RMA and FSA implement policies that require interagency data-sharing agreements to include specific procedures and timeframes to resolve concerns, and to elevate matters to the appropriate official when timely resolution does not occur.

Both FSA and RMA agreed with our recommendations. (Audit Report 50601-15-At Hurricane Indemnity Program – Integrity of Data Provided by RMA)

### **Louisiana Farmer Convicted of Conversion of Mortgaged Collateral**

In May 2009, in the Western District of Louisiana, a farmer was charged with one count of conversion of property mortgaged to the Government after he sold collateral mortgaged to FSA and converted proceeds to his own personal use. In August 2009, he pled guilty to one count of conversion of mortgaged property and in November 2009, he was sentenced to serve 3 months of home confinement and 60 months of probation, and was ordered to pay \$129,052 in restitution.

### **Michigan Apple Producer Sentenced Following Guilty Plea for Forgery**

An apple producer in Dowagiac, Michigan, admitted to altering a two-party check as part of a scheme to convert approximately \$300,000 worth of apples which were pledged as security for FSA direct operating loans. The producer and his brother used proceeds from sales of converted apples to pay unsecured creditors and personal expenses from 2003 to 2004. In February 2010, the producer pled guilty to one count of forgery in the Van Buren County Circuit Court. He was sentenced to 18 months of probation, and ordered to pay \$10,000 in restitution and \$578 in fines. The producer, his father, and brother also agreed to be debarred from further participation in USDA-funded programs.

### **Correction: Former Montana State Committee Chairman Conspired with Farm Foreman, Not FSA Employee, to Defraud FSA**

In a correction to a previously reported investigation in the *SARC, Second Half of 2009*, it was inaccurately reported that an FSA employee conspired with a former Montana State Committee Chairman to create a fictitious farming partnership and submit false documents to FSA in order to avoid payment limitation provisions. From 1986 to 2006, the former Montana State Committee Chairman actually conspired with his farm foreman to receive more than \$773,000 in farm program funds to which he otherwise would not have been entitled. The former Montana State Committee Chairman agreed to pay \$275,000 and to step down as State Committee Chairman as a result of our investigation.

### **FSA Overfunded an Emergency Loan Because a Crop Insurance Payment Was Not Subtracted From the Total Loss**

We found that FSA's controls adequately prevented duplication of payment, although we noted the agency did not prescribe that its officials verify the amount of disaster compensation that producers reported (e.g., insurance claims). Upon reviewing 58 loans, our audit noted that FSA overfunded only one by \$29,029, as it mistakenly did not subtract a crop insurance payment from the total loss amount. Agency officials calculate the loan amount partly based on producers' eligibility for other disaster compensation. FSA agreed with the internal control weakness and accepted our recommendation to revise its handbook to require officials to verify disaster-related compensation before issuing emergency loans. FSA also agreed to recover the \$29,029 from the overfunded loan. (Audit Report 03601-13-SF, Controls Over Emergency Loans - Reductions for Duplicate Benefits)

### **Former Oklahoma Child and Adult Care Food Program Sponsor Ordered to Pay \$1.6 Million for Theft of Federal Funds**

A former Tuttle, Oklahoma, Child and Adult Care Food Program (CACFP) sponsor pled guilty to the theft of approximately \$1.6 million from the CACFP. In January 2010, in the Western District of Oklahoma, the sponsor was sentenced to serve 41 months in prison and to pay \$1.6 million in restitution, as well as a \$100 fine. In addition, the former sponsor was ordered to forfeit all right, title, and interest in \$1.6 million in assets, including vehicles, residential and commercial property, and investment accounts, in an attempt to recover the stolen Food and Nutrition Service (FNS) funds.

### **Community Center's Director Sentenced to Prison and Restitution for CACFP Fraud**

In an update to an investigation reported in the *SARC, Second Half of 2009*, the former director of a Brooklyn community center was sentenced in December 2009 to 18 months in prison and ordered to pay restitution of \$500,517. From December 2004 to July 2006, the community center received approximately that amount in CACFP funds for meals and snacks reportedly served in its after-school programs and day care center. Our joint investigation with the FBI and the New York Department of Health revealed that none of the

community center's programs had access to kitchen facilities and that no meals were served to children in the community center's care. In December 2008, the center's former director was charged in the Eastern District of New York with CACFP fraud and submitting false claims and pled guilty.

### **FNS Has Implemented Controls to Address Past Deficiencies Related to SNAP Electronic Benefit Transfer (EBT) Transactions**

We found that FNS had implemented recommendations to address past control deficiencies and that States had contingency plans to replace prime processors if they became insolvent. We evaluated controls over transactions processed through third party processors and identified a small number of instances in which retailers redeemed SNAP benefits using incorrect store authorization numbers. Most of these instances involved either chain stores that incorrectly assigned the same authorization number to more than one of their stores or input errors made by the third party processor. The items identified were not material enough to justify a formal audit recommendation. However, FNS has agreed to take actions to address this issue. FNS plans to work with the EBT community to ensure that the proper retailer authorization number is used and, if necessary, updated with accurate information in a timely manner. (Audit Report 27099-71-Hy, Summary of Nationwide EBT Operations)

### **SNAP and Related Offenses Result in Significant Prison Sentences and Monetary Recoveries**

- A SNAP investigation involving a Detroit gas station determined that from May 2005 through February 2007, the station owner and an employee purchased more than \$98,000 in SNAP benefits from welfare recipients. In April 2009, the station owner pled guilty to wire fraud and in October 2009, was sentenced in United States District Court to 14 months incarceration, \$98,000 restitution, and 36 months supervised release. This investigation was conducted with the assistance of the IRS-CI and the Michigan State Police.
- From June 2008 to March 2009, undercover trafficking of SNAP benefits took place at a Westville, New Jersey, gas station and food store, during which approximately \$1,000 in SNAP benefits were exchanged for approximately \$500 in cash. Through the investigation and analysis of financial data, the store's fraudulent SNAP transactions were determined to total \$283,350. In April 2009, the

store owner and two store employees were arrested based on a criminal complaint charging them with conspiracy to commit theft of Government funds and a Federal search warrant was executed at the store. In November 2009, all of the subjects pled guilty in U.S. District Court, District of New Jersey. In February 2010, the store owner was sentenced to 18 months imprisonment and the store employees were sentenced to 15 months imprisonment and 12 months and one day imprisonment, respectively. All three defendants were also ordered jointly and severally to pay restitution of \$283,350.

- The investigation of a Columbus, Ohio, retailer disclosed \$200,000 in SNAP and Women, Infants, and Children (WIC) benefit trafficking. The owner was charged with SNAP fraud, WIC fraud, theft of Government funds, money laundering, and filing a false tax return. The owner pled guilty and was sentenced to 6 months home confinement, 6 months in a half-way house, 36 months probation, restitution of \$86,000 to USDA and \$49,501 to IRS, and was ordered to file an amended tax return.
- An OIG investigation disclosed that two individuals who owned a store in Pembroke, Georgia, were trafficking in SNAP benefits. In March 2009, a search warrant was served at the store location. Two consent searches were also conducted at that time, and business records and \$237,562 in cash were seized. In April 2009, the man and woman were charged in U.S. District Court, Southern District of Georgia, with conspiracy to commit SNAP fraud. In February 2010, the man and woman were each sentenced to 18 months of imprisonment and 36 months of probation. The Court ordered that the man be detained by Immigration and Customs Enforcement for deportation proceedings after his sentence was served. Forfeiture in the amount of \$237,562 was also ordered by the court.
- A joint investigation with the Florida Department of Law Enforcement, Florida Division of Alcoholic Beverages and Tobacco, and the Palm Beach County Sheriff's Office disclosed that two individuals were trafficking in SNAP benefits at a store in Belle Glade, Florida. In April 2009, a search warrant was served at the store location. During the search, investigators seized evidence of trafficking, weapons, and illegal drugs. The individuals were subsequently charged in the 15th Judicial Circuit for Palm Beach County, Florida, with organized fraud, grand theft, and food stamp fraud. In February 2010, one individual was sentenced to 36 months imprisonment and 60 months probation. The second individual was sentenced to 188 days imprisonment (time served) and 48 months probation.



- A joint investigation named “Operation Inconvenience” conducted by OIG, the FBI, the Bureau of Alcohol, Tobacco and Firearms (ATF), and other North Carolina State law enforcement agencies between May 2009 and December 2009 was initiated to address systemic criminal activity involving three convenience stores in Greenville, North Carolina. This investigation focused on gang activity, drug activity, fencing operations, and SNAP fraud involving all three stores.

The investigation resulted in the arrest and indictments of 6 Yemen Nationals on Federal conspiracy charges for the interstate transportation of stolen property and theft of Government programs funds. The six individuals who worked in the stores were participating and facilitating criminal gang activity that was deemed a community nuisance by the city of Greenville. As a result of this joint investigation, the three stores were permanently closed and one store was seized and demolished. Two of the six defendants pled guilty in December 2009, and two pled guilty in January 2010. During this reporting period, these four defendants pled guilty and were sentenced to prison terms of between 6 and 20 months. They are subject to deportation proceedings upon release. Charges were dismissed against one defendant and legal action is pending for the sixth individual.



*(1) Store in Greenville, NC being demolished to prevent the possibility of illegal activities resuming at the site. Greenville, NC Police Department Photo.*

- A joint investigation between OIG and the FBI identified a small Somali-owned store in Ypsilanti, Michigan, engaged in SNAP and WIC benefit trafficking. The defendants

also operated an illegal overseas money transfer business, commonly known as “hawala,” through which they facilitated the exchange of SNAP and WIC benefits for cash and overseas money transfers. Of particular significance, the investigation determined that store owners and employees routinely allowed customers to use SNAP benefits to fund the transfer of money overseas, generally to persons located in the Middle East and the Horn of Africa. In September and November 2009, the owners pled guilty to over \$750,000 in SNAP and WIC fraud. They are scheduled to be sentenced in April 2010.

- An OIG investigation, conducted with IRS-CI, identified two Detroit area liquor stores engaged in SNAP benefit fraud and money laundering activities. From 2003 through 2006, store owners and employees trafficked more than \$2 million in SNAP benefits and deliberately structured hundreds of financial transactions in order to circumvent IRS reporting requirements. OIG and IRS-CI special agents utilized informants to conduct over 20 undercover operations at the store. The owner evidently knew he was being investigated, as he repeatedly told the informants, “I have to be careful, the IRS is watching me,” while completing fraudulent SNAP transactions. Four defendants were sentenced in February 2010, and were collectively ordered to serve over 90 months imprisonment and pay fines and restitution totaling approximately \$6 million. In addition, the defendants agreed to forfeit more than \$500,000 cash seized during search warrant operations. During March 2010, the owner was sentenced to 51 months incarceration and ordered to pay \$1.6 million in restitution to FNS.
- Our joint investigation with the U.S. Department of Housing and Urban Development (HUD), OIG revealed that an Arlington, Virginia, man failed to report income and other financial assets to the Arlington County Department of Human Services. As a result, from June 15, 2000 to March 2008, he received \$31,542 in SNAP benefits and from November 2001 to March 2008, he received \$70,684 in Section 8 Housing Assistance Payments, \$7,390 in Temporary Assistance for Needy Families, and \$42,005 in Medicaid benefits to which he and his family were not entitled. In July 2009, the man was charged in the Eastern District of Virginia with one count of theft of Government funds. He subsequently pled guilty and in November 2009, was sentenced to 60 days in prison and ordered to pay restitution in the amount of \$97,865 to USDA, HUD, and the U.S. Department of Health and Human Services.

- A series of SNAP benefit recipient fraud investigations conducted throughout the State of Montana have been brought to a successful conclusion. As previously reported in the SARC for the first half of FY 2009, the investigations were conducted under the oversight of the U.S. Attorney's Office in an effort to combat SNAP fraud in Montana. The investigations disclosed that 11 different recipients made false statements to the Montana Department of Public Health and Human Services (MDPHHS) over a 5-year period, and as a result, received a total of \$151,305 in benefits to which they were not entitled. All 11 individuals ultimately pled guilty to Federal charges of making false statements.

Sentences for the 11 individuals ranged between 36 to 72 months of probation, 6 months home confinement to 24 months in prison, and restitution amounts between \$5,520 and \$35,064. The most egregious case involved an MDPHHS employee who failed to disclose her total income in order to receive SNAP benefits. She was sentenced to serve 24 months in Federal prison, followed by 36 months probation, and was ordered to pay restitution of \$9,282 to MDPHHS.

### **RMA and AIPs Need to Strengthen Controls Over Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) Policies**

RMA and AIPs offer producers the option of choosing many different insurance products. For Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) policies, producers are indemnified if the county's actual yield for the year falls below the county's historical yield. This payment is made regardless of the individual farmer's yield, which could be above or below the county yield. Of the 15 AIPs that participated in the program in crop years 2005 and 2006, we visited 4 of them, who were insured for \$4.4 of \$10.3 billion (43 percent). They paid \$87.5 of \$223.8 million (39 percent) in indemnities on 6,504 of 14,943 indemnified policies.

For GRP and GRIP policies, we found that AIPs are not required to verify any of the producers' data at signup or before acceptance of the insurance policy. They are only required to self-certify the acreage they have planted, and are not required to file a loss claim. An AIP's only opportunity to verify that producers have accurately self-certified their acreage is the acreage report field reviews, which were not

being adequately performed. Furthermore, the AIPs are not submitting summaries of the results of their acreage report field reviews in a timely manner, with the required information, in a consistent format that would enable an RMA program reviewer to compare results among different AIPs. Also, RMA is not tracking the receipt of these summaries, reviewing them, and determining if they indicate any problematic trends. While RMA has a number of quality control reviews that would apply to GRP and GRIP policies *after indemnities have been paid*, the AIPs' summaries of "acreage report field reviews" are RMA's only way to monitor how the AIPs are administering these policies *before indemnities are paid*. By not reviewing them, RMA is restricting its oversight, limiting itself to attempting to correct errors after they have been made, rather than preventing any potential overpayments.

We recommended that RMA (1) notify the AIPs in writing that they are required to physically verify the crops they have insured as part of the acreage report field reviews, (2) issue clarification to the AIPs regarding how they are to select GRP and GRIP policies for acreage report field reviews, (3) develop procedures for tracking the receipt of acreage report field review summaries to ensure that each AIP is submitting timely, complete, and accurate information, and (4) develop procedures for reviewing the information AIPs submit. RMA agreed with our recommendations. (Audit Report 05601-14-Te, Group Risk Crop Insurance)

### **Owner of a Management Company Pleads Guilty to Theft of Government Funds**

From 2003 through 2006, a management company owner, who managed eight Rural Rental Housing apartment complexes located in Mississippi and Alabama, illegally obtained over \$300,000 held as Rural Development security from the bank accounts of Rural Rental Housing apartment complexes. In January 2010, the owner, who had previously pled guilty was sentenced to serve 27 months in prison, 36 months of probation, and ordered to pay \$101,033 in restitution.

### **Substandard Loan Not Eligible for Guarantee**

USDA's Rural Business-Cooperative Service (RBS) asked OIG to review the loan portfolio of one of its lenders because of the elevated default rates of its loans. One borrower is a textile company based in Pulaski County, Virginia. The lender obtained a loan note guarantee of 90 percent on a \$5 million

loan. The loan funds were to be used for refinancing prior debts on equipment and real estate, and for paying closing costs. Although this loan should have been classified as substandard and thus not eligible for a Business and Industry (B&I) guarantee, the lender did not misrepresent or conceal significant deficiencies in the borrower's financial position and the decreasing value of the borrower's assets. The Virginia State Rural Development Office was aware of this, but granted the lender a 90-percent B&I guarantee upon receiving approval from the RBS national office. We did not make any recommendations; however, we strongly suggest that RBS reconsider approving future loans with problems of this size and scope. (Audit Report No. 34099-10-Te, Review of Lender with Business and Industry Guaranteed Loan in Virginia)

### **Control Weaknesses Provide Opportunities for Guarantees on Ineligible Loans**

RBS identified a lender with a history of known defaults. At RBS' request, we reviewed its loan portfolio, as well as a specific borrower's loan information. We found no misrepresentation or negligent servicing by the lender, who obtained a loan note guarantee of 80 percent on a \$4 million loan and then disclosed all required information to the RBS State office. All conditions upon which the loan was approved were met by the date of loan closing or within an acceptable timeframe.

We identified two weaknesses in the B&I Guaranteed Loan Program, however, that could put funds provided by the Recovery Act at risk. First, RBS continues to allow the use of leasehold properties to be used as loan collateral. Second, the Recovery Act prohibits borrowers from having any gross income derived from gambling activities, whereas current B&I regulations allow income from such activities to be no more than 10 percent. We recommended that RBS: (1) not allow leasehold properties to be used as collateral for Recovery Act loans and (2) require lenders and borrowers that receive Recovery Act funds to certify that none of the borrower's income is derived directly or indirectly from gambling operations, in order to ensure that funds directed for the B&I Program are properly used. RBS did not concur with our recommendations and stated that their current internal controls were sufficient on these issues of leasehold properties and gambling revenues. They did, however, issue additional guidance regarding the gambling issue. We agreed to assess

these two issues during our continued review of the Recovery Act B&I Guaranteed Loan Program. (Audit Report No. 34099-12-Te, Review of Lender with Business and Industry Guaranteed Loan in Louisiana)

## **RECOVERY ACT REVIEWS**

### **Direct Farm Operating Loan Compliance Procedures Could Be Improved to More Timely Detect Ineligible Borrowers**

The Recovery Act authorized over \$173 million for FSA to fund direct farm operating loans. OIG's role, as mandated by the Recovery Act, is to oversee agency activities and to ensure funds are expended in a manner that minimizes the risk of improper use. During this phase, we evaluated the Agency's policies, procedures, and internal controls in distributing Recovery Act funds.

We determined that FSA's compliance review process could be improved to make timelier detections of ineligible borrowers. The current compliance procedures do not ensure that reviews of direct farm operating loans are performed during the early stages of the loan making process. In addition, given the relatively small number of Recovery Act-funded direct farm operating loans in the total population from which compliance review samples are drawn, there is no assurance that FSA will sample a sufficient number of Recovery Act-funded loans to provide adequate assurance as to the accountability and propriety of Recovery Act expenditures.

We recommended that FSA revise compliance review sampling procedures to ensure that adequate samples of Recovery Act-funded loans are selected for review. FSA agreed with our recommendation and took immediate corrective action. We plan to test the controls identified by FSA as we continue our assessment of the program. The second phase of this audit is currently ongoing to test compliance with the controls established by FSA. (Audit Report 03703-1-Te, American Recovery and Reinvestment Act – Direct Farm Operating Loans – Phase 1)

### **Administration of the Recovery Act's Aquaculture Grant Program Needed Improvement (Phase 1)**

The Recovery Act included \$50 million in grants to States to assist eligible aquaculture producers for losses associated with

high feed costs during the 2008 calendar year. We evaluated FSA's internal controls to ensure that assistance provided under the Recovery Act to aquaculture producers is in accordance with program requirements. We conducted oversight activities to assess early implementation of the program. We identified a number of policy and internal control weaknesses that required immediate corrective actions by FSA program officials; for example, we recommended a number of changes to strengthen procedures in the Memorandum of Agreement between FSA and State agencies.

During this first phase of our review of the aquaculture grant funds, we issued 2 interim reports which included a total of 16 recommendations for strengthening program procedures. FSA officials generally agreed with our findings and immediately took corrective action. The findings and recommendations, and the agency's response from the interim reports, are summarized in this final report. The second phase of this audit is currently ongoing to test compliance with the internal controls established by FSA. (Audit Report 03703-1-Ch, Controls Over Aquaculture Grant Recovery Act Funds – Phase 1)

### **Thrifty Food Plan Provides a Healthy Baseline for Establishment of SNAP Benefits**

The Recovery Act provided for an increase in SNAP benefits equal to 1.136 times the level of the Thrifty Food Plan (TFP) as established in June 2008. The USDA Center for Nutrition Policy and Promotion is responsible for development and maintenance of the TFP, one of four food plans designed to set forth healthy, nutritious diets at corresponding levels of cost. We performed an audit that focused on the legislated increase in SNAP benefits and the role of the TFP in supporting such an increase. We examined the food consumption and corresponding price data used in establishing the most recent update of the TFP and found no reportable concerns. The legislated increase in SNAP benefits was not related to an update or adjustment of the TFP. (Audit Report 27703-1-KC, SNAP Benefits and the Thrifty Food Plan)

### **The Food and Nutrition Service (FNS) Intends to Use Recovery Act Funds for SNAP Oversight in Accordance with the Act**

We performed an audit of FNS' use of funds provided by the Recovery Act for management and oversight of SNAP. The Recovery Act provided \$295 million in additional

administrative expenses to handle the anticipated increase in SNAP caseloads for the next 2 years, of which Congress appropriated \$290.5 million to the States. Our audit was limited to the remaining portion of these funds (\$4.5 million) that was appropriated for FNS management and oversight of SNAP and for monitoring the integrity and evaluating the effects of payments made under the Recovery Act. We found that FNS officials' plans for using the oversight funds – \$4.35 million for two studies focused on Recovery Act outcomes and \$150,000 for financial management reviews – were allowed by the provisions of the Recovery Act. (Audit Report 27703-1-Hy, Funds Provided by the Recovery Act for Management and Oversight of SNAP)

### **FNS Should Take Steps to Improve its Oversight of The Emergency Food Assistance Program**

FNS operates The Emergency Food Assistance Program (TEFAP), which is designed to supplement the diets of low-income Americans by providing emergency food and nutrition assistance at no cost. Under TEFAP, USDA buys, processes, packages, and ships food to individual States. The Recovery Act provided \$150 million in additional funds to the program.

We found that FNS was not frequently or consistently reviewing States' operation of TEFAP. Of the 55 States and territories administering TEFAP, FNS had not performed a management review of 25 since FY 2005. In addition, FNS regional offices reviewed their States and territories inconsistently. FNS officials believed there was a low risk of fraud, waste, and abuse in the program, as TEFAP had significantly fewer dollars than other FNS programs. However, FNS' low risk determination was not supported, given the fact that management evaluations were not performed frequently or consistently. Moreover, given the oversight requirements of the Recovery Act, FNS needs to scrutinize TEFAP on a regular basis. In light of its limited resources, FNS agreed to explore the use of a risk-based approach to identifying State agencies that should receive priority attention for management evaluations and to develop guidance regarding the use of the management evaluation module to avoid inconsistency. FNS generally agreed with the finding and recommendations. (Audit Report 27703-1-At, Review of FNS' Controls Over TEFAP - Phase I)



### FNS Did Not Timely Report Significant Recovery Act Budget Estimates for SNAP

Due to the lack of Departmental guidance, FNS did not report a significant change in budget estimates for SNAP in a timely manner. It did not report on its Recovery Act website an additional \$28 billion that would be needed to fund SNAP until January 2010, even though the need for this additional funding was determined in June 2009. When the Recovery Act was passed in February 2009, the estimated increase in benefits totaled more than \$19.8 billion. This amount was also included in FNS' Recovery Act Plan, dated May 2009. However, in June 2009, FNS estimated the increase in benefits would be \$48 billion. The need for this additional funding was determined in June 2009 when the agency developed estimates reported as part of the midsession review of the budget of the U.S. Government. At that time, FNS did not report the need for increased funding for SNAP benefits on *Recovery.gov* or websites maintained by the agency or USDA related to the Recovery Act. The amount of benefits funded through the Recovery Act further increased when estimated for the FY 2011 budget. According to FNS, Recovery Act funding for SNAP is estimated to total \$65.8 billion through FY 2019. We recommended that the Department establish a process for consistently and timely reporting changes in budget estimates for all USDA programs that received Recovery Act funding. The Department generally agreed with our finding and recommendation. *Recovery Act Fast Report* (Audit Report 27703-2-At (1), Recovery Act Impacts on SNAP)

### Forest Service Needs to Strengthen Controls Over Recovery Act Contracting Activities

RATB referred nine Recovery Act contracts due to concerns with information FS posted on the public website, Federal Business Opportunities (FedBizOpps). We found that FS needs to reconcile contract information posted on FedBizOpps with information posted on their internal procurement systems. The agency posted inaccurate information for all nine contracts reviewed. Inaccuracies included incorrect names and addresses for contracting staff, incomplete descriptions of projects, and improperly recorded work performance reports. In addition, the agency did not post the information for seven of the nine contracts in a timely manner. We also found FS needs to improve its review of the work the contracting staff performs to ensure that the staff considers past performance ratings prior to awarding contracts.

We recommended that FS require contracting officials to reconcile information posted on FedBizOpps to contract information in its procurement system, supervisory contracting officials review accuracy of contract information posted on FedBizOpps, and contracting officials verify that contractors have an acceptable past performance rating prior to awarding contracts. FS agreed to take corrective actions based on our finding and recommendations. *Recovery Act Fast Report* (Audit Report 08703-1-Hy (1), Oversight and Control of Forest Service American Recovery and Reinvestment Act Activities)

### Incorrect Procedures Provided to Report Award of Recovery Act Funds and Project Selections Based on Environmental not Economic Factors

NRCS received \$145 million for its Watershed Protection and Flood Prevention Operations Program (Watershed Operations), which provides financial and technical assistance for watershed protection, flood mitigation, and water quality improvements. NRCS records show that 80 projects, totaling \$127 million, were selected for funding. Although NRCS issued guidelines to award recipients regarding their reporting requirements, they were not specific enough. OMB requires that recipients report to a designated Web site – *www.FederalReporting.gov* – the amount of the award, the amount they received, and the amount they spent. If recipients have received or spent no funds, then OMB requires that they report zeroes. Reporting no funds received or spent is important because it will enable OMB and others to judge the speed at which funds are being sent out and spent. OIG recommended NRCS provide clear direction to the State offices that conforms to OMB's requirements on how recipients are to report on the amounts they are awarded, but have not yet received. NRCS concurred that a correction was needed and issued a bulletin regarding proper reporting procedures.

As we reported in our second interim report, NRCS based its decision on which projects would be funded on environmental benefits generated by the project rather than economic factors such as job creation in areas of high unemployment. Specifically, NRCS stated on its recovery website and implementation plan that the main factors considered when selecting projects for Recovery Act funding were ones to promote economic recovery in areas most affected by the recession and create or retain jobs in economically distressed areas. After analysis of both projects selected for funding and

those that were not funded, we concluded this was not the case. There was not an apparent effort to fund projects in economically distressed areas.

Prior to the Recovery Act, NRCS had 219 environmentally sound project agreements, totaling about \$308 million, awaiting funding. NRCS officials indicated their main objective was to get projects started quickly. In fact, over a third of the allocated Recovery Act funds (75 projects, totaling about \$59 million) went to communities whose unemployment rates were lower than the national average while 45 projects, totaling about \$97 million, were not funded at all, despite being located in communities whose unemployment rates were greater than the national average.

We recommended that NRCS provide clarification on the Recovery website and to the Department that details the actual methodology used to analyze projects for Recovery Act funding, and that it provide justification for funding the 75 projects approved in locations where unemployment rates were less than the national average. NRCS responded that it adequately addressed the applicable Recovery Act priorities when selecting projects. NRCS will consider communities and citizens impacted when funding new projects with withdrawn and unused funds. NRCS generally disagreed with our findings but agreed to prioritize the selection of any new (or replacement) projects in economically distressed areas. NRCS continues to assert that while the primary project selection factors were related to “shovel readiness” its selection was in accordance with Recovery Act’s specific statutory mandates and the methodology it followed was appropriately represented in its implementation report. *Recovery Act Fast Reports* (Audit Report 10703-2-KC, Watershed Protection and Flood Prevention Operations Program 10703-2-KC (1-2)).

### **NRCS Program Decisions to Purchase Easements on Small Tracts of Lands and Valuation Methodologies Used To Compensate Landowners Questioned**

The Recovery Act provided \$145 million to NRCS so that the agency, through its Emergency Watershed Protection Program, could purchase easements on floodplain lands that have been recently flooded or that have a history of repeated flooding. In June 2009, 289 applications, totaling \$138 million, were approved.

As reported in the *SARC, Second Half of 2009*, we found that NRCS does not have adequate procedures to conduct

purchases of floodplain easements or to establish value for easement acquisition. We found that NRCS procedures do not address many important factors regarding acquisition of these homes. We recommended that NRCS re-evaluate this approach and, if used, establish additional procedures to address purchasing easements on small parcels of land where acquisition and demolition costs for the homes are the prime cost. NRCS indicated that it reviewed the policies authorizing purchase of easements on small tracts of land with existing structures and determined that the purposes of the program were met. It agreed to establish standard operating procedures for purchasing easements on small parcels with structures and incorporate these procedures into the program manual.

Our second interim report found that when NRCS received Recovery Act funds, it used the same method for determining easement value that it uses under Wetlands Reserve Program (WRP). NRCS based its use of the WRP methodology for Recovery Act funded transactions because of a determination that it was unable to meet the time constraints of Recovery Act using the normal appraisal process, but the NRCS decision did not include any data or documentation about the time line of the normal appraisal process to support its decision. NRCS consulted with OGC, but had not adequately addressed their concerns over the valuation methodology adopted for easements acquired through the Floodplain Easement Program. OGC stated that NRCS might be able to make a finding that using the NRCS normal appraisal process is “NOT to the greatest extent practicable,” and it would be prudent for NRCS to document how it arrived at its decision. OGC also noted that NRCS’s decision to use the WRP methodology for the existing Emergency Watershed Protection Program (non-Recovery Act) may require legislative action.

We recommended that NRCS stop approving further easement option agreements until it demonstrates that the required appraisal method is not practicable for easements funded through the Recovery Act. NRCS submitted that its decision adopting an alternative easement compensation methodology is justified because the use of extensive individual appraisal procedures prevents it from meeting the strict timeframes required by the Recovery Act. NRCS agreed to place a temporary hold on the use of the WRP valuation methodology for regular funding (non-Recovery Act) easements and is currently discussing, with OGC, the appropriate valuation

procedures for the floodplain easement programs. (Audit Report 10703-1-KC, Emergency Watershed Protection Program 10703-1-KC (2))

### **Controls Over Grant Eligibility and Servicing for Rural Business Enterprise Grants (RBEG) Recovery Act Funds**

The Recovery Act includes \$20 million for RBS to provide RBEG funds for rural projects. Before issuance of any Recovery Act RBEGs, we reviewed the internal controls over the RBEG program. In two prior interim reports, we reported that some recipients of RBEG grants were not submitting quarterly performance reports, while others submitted inadequate ones. Without these reports, RBS cannot determine if project goals are being met. We also reported that State offices had not ensured that grant recipients submitted required documentation to support grant expenditures. We recommended that RD provide additional training to the States to clarify and reinforce the quarterly reporting requirements, develop a formal process for monitoring the submission of quarterly reports, ensure that each State adheres to reporting requirements, assess all RD State and area offices to determine whether adequate documentation is obtained from RBEG recipients, and develop additional guidance to define the type of support necessary for grant-related reimbursement. RD agreed with the issues reported and has agreed to take corrective actions to address our concerns. (Audit Report 34703-1-KC, Rural Business Enterprise Grants)

### **B&I Guaranteed Loan Recommendations Left Unresolved Due to Withdrawal of Interim Rule**

The Recovery Act authorized the funding of B&I loan guarantees under USDA's Rural Development (RD). To assist RD in achieving its Recovery Act objectives and to minimize the risks of inefficient or improper actions that could put taxpayers' money at risk, we reviewed outstanding prior audit recommendations that could impact internal controls over Recovery Act funds. We identified two audit recommendations left unresolved due to the withdrawal of an interim rule by the agency. In a previous audit released in December 2002, we recommended that RD coordinate with OGC to develop and implement a process to provide a realistic discount for the value of collateral for certain industries and specialized equipment. In another report issued in 2003, we recommended that RD consult with OGC to rescind a loan note guarantee or

substantially reduce the loss payment, due to a lender's failure to exercise due diligence in ensuring that the construction of a facility was properly planned, designed, and equipped with available funding to produce the quantities of the product sufficient to make loan payments. The previous regulation held lenders liable only for negligent servicing, not loan origination.

With the available program level of \$1.6 billion to support loan guarantees for RBS's B&I Guaranteed Loan Program under the Recovery Act, it is essential that RD mitigate potential losses by addressing these areas of concern. Therefore, we recommended that RD issue directives to address these prior recommendations and the risks associated with them until more permanent action can be taken. RD agreed with us and issued administrative notices as a temporary corrective action in November 2009. (Audit Report No. 34703-1-Te, American Recovery and Reinvestment Act – Business & Industry Guaranteed Loans Phase 1)

### **Rural Housing Service (RHS) Should Establish Stronger Controls for Single Family Housing (SFH) Direct Loans**

USDA's RHS received approximately \$1.2 billion in Recovery Act funding to directly finance housing loans for low-income and very low-income individuals living in rural areas. As part of our ongoing Recovery Act oversight efforts, we assessed RHS' internal controls over SFH Program Direct Loan Recovery Act funding and identified several concerns that we reported to the agency in three *fast reports*.

We identified additional performance measures that RD could be tracking and reporting to better define its accomplishments in meeting the goals of the Recovery Act. We noted that RD had established only one measure of performance for Recovery Act-related SFH Direct Loan Program activity. From interviews with RHS State officials, we identified several additional performance measures that potentially would better reflect the agency's success in meeting the goals of the Recovery Act. RHS agreed to establish two additional performance measures to reflect the agency's success.

Although the Recovery Act almost doubled the funding for SFH Direct Loans, the RD national office has not specified—nor have the State offices adopted—any additional compliance activities to review the quality of loan underwriting for Recovery Act loans. In addition, the States we visited

were not effectively performing loan underwriting reviews of delinquent loans. To address these concerns, RD agreed to establish a formal process for monitoring and ensuring that each State performs underwriting reviews at least quarterly. RD will perform an improper payment review nationwide to immediately assess the quality of loan underwriting for Recovery Act loans to ensure the proper and prudent use of these funds.

We further determined that State offices are not fully using administrative cost funds provided by the Recovery Act to

mitigate staff shortages in RD's SFH Direct Loan Program. We also found areas where RD could optimize the use of current field office staff. State office officials we interviewed foresee difficulties in processing the direct loans funded by the Recovery Act because of the shortage of qualified, experienced staff. RD agreed to require State offices to develop and implement an effective plan to use the available administrative funding and consider additional ways to optimize the use of current staff resources. (Audit Report 04703-1-KC, Single Family Housing Direct Loans Stimulus Controls)



## GOVERNMENTWIDE ACTIVITIES – GOAL 2

### *Review of Legislation, Regulations, Directives, and Memoranda*

- *Non-Federal Employee Whistleblower Protection Act of 2009.* OIG provided comments on S. 1745, which would, in part, amend section 315 of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. § 265), by providing new whistleblower protection rights for State, local, and private sector contractor employees and establishing timeframes within which an IG must investigate and respond to a complaint of reprisal submitted by these employees. OIG raised a concern that the whistleblower provisions in the bill could divert IG oversight resources away from the more urgent and higher impact investigations and reviews that are desired by Congress and achieve broader, more beneficial results for the public.

### *Reviews Coordinated with Other Government Entities*

- *Questionable Activities Under the Biomass Crop Assistance Program.* OIG met with FSA officials to discuss their concerns relating to potentially illegal activities under the Biomass Crop Assistance Program (BCAP), particularly under the Collection, Harvest, Storage and Transportation (CHST) Matching Payments Program of BCAP. Agency officials had received reports of questionable financial transactions involving biomass conversion facilities and material owners. In addition to requesting that OIG initiate an audit of BCAP, which is currently ongoing, agency officials solicited suggestions for interim measures that FSA could undertake to minimize or reduce potential abuse of BCAP. OIG suggested a number of interim measures to reduce the vulnerability of BCAP to abuse. The meeting resulted in FSA issuing Notice BCAP-8, on January 6, 2010, to their State and county offices regarding these questionable activities. It provided clarification about BCAP policies, defined an “arm-length transaction,” and instructed their offices to report possible fraud, waste, and abuse to OIG. In early February, OIG initiated an audit of the BCAP Collection, Harvest, Storage and Transportation Matching Payments Program.

- *Re-negotiation of the Standard Reinsurance Agreement (SRA).* On January 19, 2010, OIG provided written comments to RMA for its consideration in the draft SRA. Overall, we concurred with the concept of linking a satisfactory performance record by the AIPs in order to obtain and hold a SRA through the reinsurance year. We also agreed with RMA’s proposed approach for indexing the Administrative and Operation expense subsidy. We also provided comments on the following topics: restructuring/reduction in the available insurance funds; consolidation of the residual fund; changes in the maximum premium cession limits; changes in the disbursement of net book quota share; and proposed changes in the policies and procedures in Appendix IV, Quality Standards and Controls, with the intent of strengthening these management controls. We are reviewing and plan to comment on the proposed changes in the second draft. We also plan to issue a rollup report on the proposed changes to the SRA after RMA completes the renegotiation process.

### *Participation on Committees, Working Groups, and Task Forces*

- USDA OIG led a CIGIE review to examine whether agency Web sites meet OMB guidance on providing easy Internet access to (1) mechanisms for reporting fraud in agency Recovery Act programs to the cognizant OIG and (2) access to OIG Recovery Act reports. The report found that 93 percent (28 of 30) of the agencies reviewed did maintain Recovery Act Home pages that met these requirements. The report also found that 87 percent (26 of the 30) of the OIGs with oversight responsibilities under the Recovery Act follow the spirit of this guidance (although it does not directly apply to the OIGs) by having a direct link from the OIG’s homepage to an OIG Recovery Act page with mechanisms for reporting fraud, as well as access to OIG Recovery Act reports. The report contains no formal recommendations. During CIGIE’s consideration of the draft of this report, many OIGs and/or their agencies made updates to their respective Recovery Act Web sites. These updates were taken into account in preparation of the final report.
- Work continues on investigations opened by OIG Special Agents who have been participating in

Hurricane Katrina/Rita Fraud Task Forces. From November 1, 2005, to date, OIG has conducted 96 cases in which FNS, FSA, RD, and other Federal agencies have been defrauded by individuals who submitted false claims or provided false statements to obtain Federal benefits. During that period, 139 individuals have been indicted, 101 have been convicted, and fines and restitution thus far have totaled \$1,586,963 respectively.

- OIG investigators are participating on a Bridge Card Enforcement Team (BCET) task force to investigate criminal violations of SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Members include the Michigan State Police and IRS-CI. The FBI, Social Security Administration OIG, and DHS' Immigration and Customs Enforcement have provided assistance during warrant operations. The initiative, which has been operational since 2007, has resulted in 89 arrests and 107 search warrants served throughout the State of Michigan. Criminal prosecutions are being pursued through the United States Attorney's Office for the Eastern District of Michigan and the Michigan Attorney General's Office. The cases so far have resulted in 78 guilty pleas, and sentences which included incarceration, fines, and restitution. Forfeiture actions of over \$2 million have been initiated by the United States Attorney's Office. The taskforce will continue through FY 2010.
- Two OIG investigators are also participating part-time with the U.S. Marshals Service on the Southern Ohio Fugitive Apprehension Strike Team (SOFAST) in both Columbus and Cincinnati, Ohio. They are helping to locate and arrest fugitives by comparing fugitive identification information against the list of SNAP recipients.
- An OIG investigator is participating on the Ohio Organized Crime Investigations Commission (OOCIC) Task Force in Dayton. OOCIC provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated in the OOCIC Dayton Task Force since 1996 and have conducted investigations involving welfare recipients, SNAP benefits trafficking, mortgaged

farm equipment stolen from farmers, stolen property trafficking, and dogfighting.

- One OIG investigator is participating part-time with the Indianapolis Metropolitan Police Department (IMPD) and Indianapolis Animal Care and Control (IACC) in Indianapolis, Indiana. The task force is investigating illegal animal fighting, including dogfighting and cockfighting.
- OIG investigative personnel are participating on Mortgage Fraud Task Forces in the Eastern District of California in the Sacramento and Fresno areas and in the Eastern District of Michigan in the Detroit area. These task forces are intended to improve information sharing and coordination of investigative efforts among agencies with ongoing or potential involvement in work related to mortgage fraud. The task forces are headed from representatives from the U.S. Attorney's Office and the FBI. Among other agencies participating are the U.S. Department of Housing and Urban Development, IRS, the Social Security Administration, local District Attorney's offices, a United States Bankruptcy Trustee's Office, and a local police department.

## ONGOING AND PLANNED REVIEWS FOR GOAL 2

*Topics that will be covered in ongoing or planned reviews under Goal 2 include:*

- CACFP follow up (FNS),
- status of improper payment information reporting (FNS),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- USDA payments for 2005 citrus canker losses (RMA, APHIS),
- NASS establishment of average yields (NASS),
- oversight of AIPs quality control process (RMA),
- controls over the use of new producer designation by AIPs (RMA),
- controls over Pasture, Rangeland, and Forage Pilot Program (RMA),
- Biotech Yield Endorsement Pilot Program (RMA),
- Catastrophic Risk Protection Program (RMA),

- oversight of organic crop insurance insureds (RMA),
- WIC vendor monitoring (FNS),
- 2008 Farm Bill's changes to payment limitation (FSA),
- Biomass Crop Assistance Program: Collection, Harvest, Storage, and Transportation Matching Payments Program (FSA),
- Conservation Reserve Program soil rental rates (FSA),
- Emergency Conservation Program (ECP) - emergency disaster assistance for the 2008 natural disasters (FSA),
- verification of income eligibility for program payments (FSA) ,
- Farm Storage Facility Loan Program (FSA),
- Rural Rental Housing (RRH) Program construction costs (RHS),
- controls over expenditures in Water and Waste Disposal Grants – Alaska (RUS),
- intermediary re-lending program (RBS),
- RRH maintenance costs and inspection procedures (RHS),
- controls over rural housing disaster assistance payments (RHS), and
- review of distance learning and telemedicine grants (RUS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

### **ONGOING AND PLANNED REVIEWS FOR GOAL 2 UNDER RECOVERY ACT FUNDS**

*Topics that will be covered in ongoing or planned reviews for Goal 2 under Recovery Act include:*

- WIC contingency funding (FNS),
- Recovery Act impacts on SNAP (FNS),
- controls over TEFAP – Phase II (FNS),
- State fraud detection efforts for SNAP (FNS),
- equipment grants for child nutrition programs (FNS),
- equipment grants for the Food Distribution Program on Indian Reservations (FNS),
- controls over outsourcing of SNAP EBT customer assistance (FNS),

- direct farm operating loans (Phase 2) (FSA),
- controls over Aquaculture Grants (Phase 2) (FSA),
- monitoring implementation of trade adjustment assistance for farmers (Foreign Agricultural Service (FAS), FSA, Economic Research Service, ARS, and the National Institute for Food and Agriculture (NIFA),
- FS administration of grants (FS),
- FS capital improvement and maintenance (FS),
- wildland fire management (FS),
- Rural Business Enterprise Grants (RBS),
- B&I loan guarantees (RBS),
- rural communities facilities loans and grants (RHS),
- controls over single-family housing (SFH) direct loans recovery act funds (RHS), and
- controls over water and waste disposal loan and grant program (RUS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

# Management Improvement Initiatives

## OIG Strategic Goal 3:

### Support USDA in implementing its management improvement initiatives.

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the first half of FY 2010, we devoted 30 percent of our total direct resources to Goal 3, with 96.7 percent of these resources assigned to critical/high-impact work. A total of 94.6 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 75 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 13 audit reports and 1 Recovery Act *fast report* under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 7 indictments, 12 convictions, and \$57.1 million in monetary results during this reporting period.

### EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

#### Although Improvements Have Been Made in IT Security, Many Longstanding Weaknesses Remain

We found that improvements have been made in the Department's IT security. For example, the Department is continuing to implement the Cyber Security Assessment Management System to manage USDA's IT system inventory and track related system security threats and risks. However, in order to mitigate the continuing material weaknesses that we have noted since FY 2001, we recommended that the Department and its agencies work in cooperation to define and accomplish one or two critical objectives prior to proceeding on to the next set of priorities. The Department then needs to systematically mitigate the risks, set realistic goals and milestones, and continuously communicate with agencies to maintain their commitment to, and progress towards, implementing the needed corrective actions. Until this occurs, critical data may be exposed to an increased risk of inappropriate disclosure, modification, or deletion because of USDA's current security program. OCIO concurred with our recommendations and is in the process of implementing corrective action. (Audit Report 50501-15-FM, U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2009 Federal Information Security Management Act Report)

### Management Challenges Addressed UNDER GOAL 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 4)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 1)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 4)

### **FS Needs to Better Manage Contract Labor Crews Used to Fight Forest Fires**

We identified inefficiencies in how FS managed its contracted firefighting labor crews. We found that they did not have an annual pre-fire process to analyze data from previous fire seasons and identify trends on how firefighting labor crews are utilized in conjunction with other resources. We also found that FS lacked reliable estimates for its firefighting crew costs. Without seasonal trend analysis and reliable firefighting estimates, FS management is limited in determining the most efficient and effective variations of firefighting resources, which could ultimately affect the agency's ability to fight fires. As a result, we recommended that FS develop and implement an annual pre-fire season analysis process that would assist in determining the most effective mix of in-house and contract crews needed to suppress fires. In addition, FS should identify all direct and indirect costs associated with the different types of firefighting crews. By establishing annual pre-fire season analysis and capturing important cost data, FS could better estimate the suitable number and type of available contracted labor crews needed to maintain adequate firefighting capacity. To further ensure that these evaluations and analysis provide useful information, we recommended that FS establish clear and objective standards for evaluating the effectiveness of firefighting crews and revise its current evaluation form to reflect the new standards.

We also found that FS lacked a process to determine whether contractors are properly verifying that contract firefighters are legally authorized to work in the United States. Per our review, we determined that at least 49 of the 60 contract employees, hired by three separate contractors, had questionable employment status that had not been properly verified. As a result, we recommended that as FS performs annual reviews of contractors, it should also include procedures to determine whether contractors have verified employment eligibility of their workers.

We are working with FS to reach agreement on the corrective action to take on these recommendations. FS concurred with 6 of our 10 recommendations. (Audit Report 08001-2-At, Forest Service Contract Labor Crews)

### **FS Employee Sentenced for Soliciting Child Pornography with Government Computer**

In October 2009, a Forester with the FS pled guilty in U.S. District Court, Northern District of California to attempted receipt of child pornography. The employee admitted to using his Government computer to solicit and purchase images of child pornography. He also admitted to storing images of child pornography on a personally owned computer. On January 12, 2010, he was sentenced to 70 months in Federal prison, 60 months supervised release, and a \$100 special assessment. This was a joint investigation with the U.S. Postal Inspection Service.

### **Former RD State Director for Mississippi Pleads Guilty to Ethics Violations**

In August 2006, shortly after leaving his position with USDA and while employed as a financial consultant working on behalf of a regional medical center, a former RD State Director submitted an \$11 million community facilities loan application for the medical center to RD. In December 2009, in the Southern District of Mississippi, Jackson, the former RD State Director, was sentenced on one count of violating post-employment conflict-of-interest restrictions on former employees of the Executive Branch. The court ordered him to serve 36 months probation and to pay a \$1,000 fine. As a special condition of his probation, he was ordered by the court for the first 12 months of his probation to have no direct communication with any Mississippi USDA office or agency.

### **USDA FY 2009/2008 Consolidated Financial Statements – Unqualified Opinion**

The USDA FY 2009/2008 consolidated financial statements received an unqualified opinion. USDA also received a clean opinion on its FY 2009/2008 special purpose financial statements. For internal control over financial reporting for FY 2009, we identified two significant deficiencies, which we believe are material weaknesses: improvements are needed in overall financial management and in IT security and controls. Our consideration of compliance with laws and regulations disclosed two instances of noncompliance relating to the Federal Financial Management Improvement Act (FFMIA) and certain aspects of appropriation law. As discussed in its Federal Managers' Financial Integrity Act of 1982 report, the Department has plans to address the majority of the weaknesses discussed in the report. The key recommendations in this report

were limited to additional improvements needed in financial management with respect to obligations as well as required system documentation for selected critical financial systems. The Department generally agreed with the recommendations and will develop corrective action plans.

In addition to auditing the Department's consolidated and special purpose financial statements, audits of six USDA agencies were also performed. Details of these financial audits follow:

- **CCC – Unqualified Opinion in FY 2009.** In its unqualified opinion, an independent certified public accounting firm found that the CCC, as of September 30, 2009, presented its financial position and related budgetary concerns in a fair and accurate manner. The firm also identified seven significant deficiencies (the first was a material weakness): (1) financial management system functionality, (2) controls over farm storage facility loans, (3) reconciliation controls over the Statement of Budgetary Resources gross outlays and offsetting collections, (4) controls over intra-governmental balances, (5) controls over accounts receivable and revenue, (6) controls over child agency financial reporting, and (7) information security controls. The results of tests of compliance with laws and regulations disclosed noncompliance with the Federal Financial Management Improvement Act (FFMIA). CCC and OIG are currently in the process of reaching management decision.
- **Federal Crop Insurance Corporation (FCIC)/RMA – Unqualified Opinion in FY 2009.** In its unqualified opinion, an independent certified public accounting firm found the FCIC/RMA financial statements presented fairly, in all material respects, the financial position of the FCIC/RMA as of September 30, 2009, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, the firm identified no significant deficiencies or material weaknesses related to internal controls of FCIC/RMA nor any noncompliances with laws and regulations.
- **FNS – Unqualified Opinion in FY 2009/2008.** The audit of the FNS FY 2009 Financial Statements resulted in an unqualified opinion and did not identify any significant deficiencies; however, one instance of noncompliance with laws and regulations was reported related to the Improper Payment Information Act of 2002.
- **FS – Unqualified Opinion in FY 2009/2008.** In its unqualified opinion, an independent certified public accounting firm found that FS, as of September 30, 2009, presented its financial position and related budgetary concerns in a fair and accurate manner. The firm also identified seven significant deficiencies in FS internal controls: (1) IT control environment, (2) period-end expense accrual processes, (3) procedures and analysis to document and support management assumptions regarding revenue accruals, (4) implementation of new accounting standards and financial reporting requirements, (5) management review of credit card transactions and controls over the programs, (6) internal controls for revenue related transactions, and (7) physical inventory policies and procedures of pooled real property. The firm did not classify any of the significant deficiencies as material weaknesses. Instances of non-compliance with the FFMIA were also identified. FS generally agreed with the significant deficiencies discussed in the report and is implementing actions.
- **NRCS Disclaimer of Opinion in FY 2009/2008.** In its disclaimer of opinion, an independent certified public accounting firm reported that as of September 30, 2009, NRCS did not present its financial statements in a clear or concise manner, particularly with respect to obligations, including accrued expenses and undelivered orders, unfilled customer orders, leases, internal use software, and stewardship property, plant and equipment. The firm's report on NRCS' internal control structure over financial reporting identified seven significant deficiencies (the first five are considered material weaknesses) in NRCS' accounting and controls over (1) undelivered orders, (2) revenue and unfulfilled customer orders process, (3) accrued expenses, (4) property, plant and equipment, (5) financial reporting, (6) general and application controls environment, and (7) purchase and fleet card transactions. The results of their tests of compliance with laws and regulations disclosed instances of noncompliance with appropriations law and the Federal Financial Management Improvement Act of 1996 (FFMIA). NRCS generally agreed with the significant deficiencies discussed in the report and is implementing corrective actions.
- **RD – Unqualified Opinion on FY 2009/2008.** In OIG's opinion, RD as of September 30, 2009, presented its financial position and related budgetary concerns in a fair and accurate manner. We noted no instances of noncompliance with laws and regulations. However,



we identified three significant deficiencies (the first was a material weakness) in RD's: (1) controls over assumptions used to predict future cash flows for its loan portfolio, (2) IT controls in the automated Rural Utilities Service legacy system, and (3) the annual review of Rural Telecommunications Program open obligations. OIG recommended that RD improve controls over the development, validation, and approval of assumptions used to predict cash flows, and that funds that are no longer needed be de-obligated. RD generally agreed with the deficiencies and recommendations discussed in the report and is implementing corrective actions.

(Audit Report Nos. 50401-67-FM, 50401-69-FM, 06401-24-FM, 27401-34-Hy, 05401-18-FM, 08401-10-FM, 10401-3-FM, and 85401-17-FM, respectively, for the USDA consolidated and special purpose, FCIC/RMA,CCC, and FS financial statements for FY 2009/2008; NRCS financial statements for FY 2009/2008; and the RD and FNS financial statements for FY 2009/2008)

## RECOVERY ACT REVIEWS

### Recovery Act Reporting Oversight

We found that USDA has provided significant information and assistance to its agencies, but has not established an internal control structure with formal policies and procedures that provide a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting. This audit focused on the internal controls, policies, and procedures for implementing recipient reporting requirements specified in OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act (Recovery Act) of 2009*, dated June 22, 2009, which are the responsibility of

USDA when dispersing Recovery Act funds. OMB's guidance calls for agencies receiving Recovery Act funds to implement a limited data review process to identify material omissions and/or significant errors and to notify the recipients of the need to make complete, accurate, and timely adjustments. OCFO agreed with our recommendation and issued guidance in October 2009. (Audit Report 11703-1-HQ, American Recovery and Reinvestment Act Reporting Oversight)

### Recovery Act Equipment Assistance Grants

We reviewed the grant evaluation processes used by State Agencies (SA) in the allocation of \$100 million in Recovery Act funds. The funds were awarded to school food authorities participating in the FNS National School Lunch Program (NSLP). We found that FNS regional offices did not review or obtain an understanding of the competitive grant application process for their respective States. We also found that the FNS national office did not issue guidance requiring the regional offices to conduct a review or obtain an understanding of their respective SA's competitive grant evaluation processes. We learned that each SA assigned an application score based on its own unique criteria. We met with personnel from the FNS regional office and discussed the oversight processes. As a result, FNS cannot ensure that NSLP equipment assistance grants are competitively awarded based upon the need for equipment assistance, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced-price meals, as mandated under the National School Lunch Act. We continue to work with FNS to address our concerns. Recovery Act *Fast Report* (Audit Report 27703-1-HQ, American Recovery and Reinvestment Act of 2009 Equipment Assistance Grants)

## GOVERNMENTWIDE ACTIVITIES – GOAL 3

### *Review of Legislation, Regulations, Directives, and Memoranda*

- *Improving FISMA Reporting.* As part of the workgroup effort, OMB asked the Federal Audit Executive Committee (FAEC) for input into improving the IG's annual FISMA reporting (developing more meaningful questions for OMB to ask IGs to address in their FISMA analysis). OMB stated that while the CIOs' draft metrics focus on specific controls, it would like the OIGs to analyze the agencies' IT security program management. A draft OIG FISMA metrics spreadsheet developed by the IT committee was provided for review and comment. OIG reviewed the draft release and requested no changes.
- *Executive Order 13520: Reducing Improper Payments and Eliminating Waste in Federal Programs.* OIG reviewed Executive Order (EO) 13520, which establishes additional requirements, such as requiring agencies to designate an accountable official, and post improper payment data on the Internet. Draft OMB guidance to agencies for implementing EO 13520 was also reviewed, as well as draft Department of Treasury guidance to agencies required to post improper payment data on the Internet and draft memorandum for heads of executive departments and agencies, which expands the use of recovery audits to identify improper payments. We generally concurred with the proposed guidances.
- *"Government Accountability Office Improvement Act of 2010" (S. 2991).* OIG reviewed this proposed legislation, which would enhance the authority of GAO with regard to inspecting records, making and retaining copies of records, interviewing agency employees, and administering oaths and taking sworn testimony. OIG neither supported nor opposed this proposed legislation, but suggested that language be added recognizing the ability and authority of OIGs and other law enforcement agencies to withhold sensitive and investigative records during the pendency of an open investigation or ongoing grand jury or criminal proceedings.

### *Participation on Committees, Working Groups, and Task Forces*

- *Trade Adjustment Assistance for Farmers Program under the Recovery Act.* The Recovery Act reauthorized

\$202 million for the Trade Adjustment Assistance for Farmers Program (TAAFP). OIG continues to participate in meetings of the intra-departmental task force to develop new policies and procedures for TAAFP, providing informal comments and feedback to strengthen the management controls of this mandated program. Our comments included strengthening the oversight and monitoring processes and establishing performance measures to determine the effectiveness of the program.

- *Intra-Departmental Coordinating Committee on International Affairs.* OIG Audit staff members have been attending and participating in meetings of the USDA's Intra-Departmental Coordinating Committee on International Affairs. This working group—headed by FAS—includes representatives from most of the agencies in the Department. Some of the topics and updates discussed at these meetings include Departmental efforts in the areas of Global Market Strategy or the National Export Initiative; reconstruction efforts in Haiti, Pakistan, and Afghanistan; and Global Food Security. We provided informal comments on the Department's proposed Global Market Strategy, stressing the needs for timetables, performance measurements, and other improvements.
- *Acquisition and Grant Communities Disbursing Recovery Act Funds.* At the request of, and in consultation with RATB, the Department of Commerce OIG developed a survey to obtain a current benchmark of the acquisition and grant communities in the Federal Government as Recovery Act funds are being awarded. The survey attempts to capture projected workforce staffing and qualifications data over the next year as Recovery Act funds continue to be disbursed. OIGs were asked to determine the method for completing the survey that is best suited to their agency, taking into consideration recent or ongoing audit work of the acquisition and grants workforce and the agencies' handling of Recovery Act funds for contracts and grants. We participated in a pilot program conducted by Commerce in the development of the survey. We selected and worked with two USDA agencies—FNS and ARS.
- *National Single Audit Sampling Project.* This project is being conducted under the auspices of the [then]



President's Council on Integrity and Efficiency (PCIE) Audit Committee study, *Report on National Single Audit Sampling Project*, issued to OMB in June 2007. The purpose of this project is to evaluate the quality of audits performed under OMB Circular A133 and how to improve them.

- *Financial Statement Audit Network (FSAN) Workgroup.* OIG auditors are members of the FSAN workgroup. FSAN consists of OIG auditors from numerous Federal agencies, and its main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits.
- *Inter-Agency Suspension and Debarment Committee.* A USDA/OIG Audit official is a member of the Inter-Agency Suspension and Debarment Committee (ISDC). The ISDC is a forum for the advancement of suspension and debarment policy and activities within the Federal Government. Our OIG official serves as a Co-Chair on the ISDC Subcommittee on Parallel Proceedings, whose goal is the coordination of suspension and debarment proceedings with contemporaneous civil and criminal actions.
- *CIGIE.* The USDA IG chairs this Council of 69 Federal IGs. The IG Reform Act of 2008 established CIGIE by merging two previous IG Councils: PCIE and the Executive Council on Integrity and Efficiency. CIGIE's mission is to address integrity, economy, and effectiveness issues that transcend individual Government agencies, and to increase the professionalism and effectiveness of the IG workforce. CIGIE has embarked on several studies, two studies led by USDA OIG. The first study, examined whether agency Recovery Act websites met Governmentwide standards for providing members of the public with easy access to (1) report fraud directly to OIGs and (2) OIG Recovery Act oversight reports. The second study, that is in process, is identifying proactive steps IGs took in the first 6 months after being entrusted to oversee \$787 billion in expenditures authorized by the Recovery Act.
- *National Procurement Fraud Task Force (NPFTF).* OIG is a member of this task force, formed by DOJ in October 2006 as a partnership among Federal agencies charged with the investigation and prosecution of illegal acts in connection with Government contracting

and grant activities. The task force has worked to better allocate resources and improve coordination in procurement and grant fraud cases and to otherwise accelerate investigations and prosecutions. At the regional level, OIG Investigations field offices in the Northeast, Great Plains, Midwest, Southeast, Southwest, and Western Regions participate on procurement fraud task forces initiated by the local United States Attorneys' Offices. The Counsel to the IG participates as a member of the NPFTF Legislation Committee.

- The National Computer Forensic Division (NCFD) is an active participant in the CIGIE IT Committee's Investigations Subcommittee and the Working Group on Computer Forensics, which focused on pertinent nationwide issues such as the Trusted Internet Connection (TIC) issue. The subcommittee is expected to continue through FY 2010.
- A forensic analyst from NCFD participates full time at the FBI's Heart of America Regional Computer Forensics Laboratory (HARCFL) in Kansas City, Missouri. Participation in HARCFL has been beneficial in obtaining direct access to a Regional Computer Forensics Laboratory, training, sample policies and procedures, and, as needed, FBI assistance in OIG's forensic examinations.

### ONGOING AND PLANNED REVIEWS FOR GOAL 3

*Topics that will be covered in ongoing or planned reviews under Goal 3 include:*

- oversight of Federally-authorized research and promotion board activities (AMS),
- FSA farm loan security (FSA),
- effectiveness of FSA's counter-cyclical payments based on historic yield (FSA),
- international trade policy and procedures (FAS, APHIS, FSIS, NIFA, and ERS),
- monitoring the implementation of 2008 Farm Bill provisions and mandates (FSA, NRCS, RMS, and RD),
- USDA's management and security over wireless handheld devices (multi agency -Departmentwide),
- Recovery Act spending for WIC management information system (FNS),

- Recovery Act spending for FSA IT Issues (FSA),
- FY 2010 FISMA (OCIO),
- ITS general controls review (FSA, NRCS, RD),
- FS acquisition of IT software/hardware (FS),
- effectiveness and enforcement of debarment and suspension regulations in USDA,
- Department and standalone agencies' financial statements for FY 2010 (OCFO),
- FY 2010 National Finance Center (NFC) general controls (OCFO),
- retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to the Office of Personnel Management, FY 2010 (OCFO), and
- FY 2010 National IT Center general controls (OCIO).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

### **ONGOING AND PLANNED REVIEWS FOR GOAL 3 UNDER RECOVERY ACT FUNDS**

Topics that will be covered in ongoing or planned reviews for Goal 3 under Recovery Act include:

- healthy forest initiatives (FS), and
- FS wood to energy projects (FS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

# Stewardship Over Natural Resources

## OIG Strategic Goal 4:

**Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.**

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as 193 million acres of national forests and wetlands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the first half of FY 2010, we devoted 6 percent of our total direct resources to Goal 4, with 99.8 percent of these resources assigned to critical/high-impact work. We had no audit recommendations under Goal 4, and no investigative cases resulted in criminal, civil, or administrative action. OIG issued 1 audit report and 4 Recovery Act *fast reports* under Goal 4 during this reporting period. OIG's investigations under Goal 4 yielded no indictment, convictions, or monetary results during this reporting period.

### Management Challenges Addressed UNDER GOAL 4

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 3)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 3)
- Implementation of the Recovery Act (also under Goal 2)

### EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

#### Wisconsin Landowner Charged With Violating Terms of Conservation Easement

A Wisconsin landowner, who had been paid approximately \$230,000 by NRCS for a permanent conservation easement on 487 acres of land, pled guilty in Federal court to deliberately violating terms of the agreement by unlawfully cutting trees. Our investigation determined that the landowner entered into a contract with a timber company and received payment for hard wood removal, without NRCS' consultation or approval, which was in direct violation of the easement. In October 2009, the landowner was sentenced in United States District Court, Eastern District of Wisconsin, to 4 months of probation, and ordered to pay \$8,000 restitution to NRCS.

#### Esperanza Fire Investigation Concluded

In December 2009, OIG issued the *Report of Investigation on the Esperanza Fire*, which occurred in October 2006, in Southern California, near the town of Cabazon. Shortly after the fire began, five FS firefighters were trapped. Three lost their lives attempting to contain and suppress the blaze. Two others were critically injured and died at the hospital as a result of their injuries. By law, OIG must conduct an independent investigation of each fatality of a FS firefighter that occurs as the result of a wildfire entrapment or burnover. The investigation did not disclose any misconduct or unauthorized actions on the part of agency personnel involved in the fire.

### RECOVERY ACT REVIEWS

#### Forest Service (FS) Did Not Have a Standard Template For Its Grants and Agreements That Contained All the Required Recovery Act Provisions

FS established four specialized Economic Recovery Operations Centers (EROCs) responsible for executing and managing FS Recovery Act awards in a consistent manner agencywide. We found that the grant and agreement template used at one of these EROCs either inadequately stated or lacked a number of required or necessary Recovery Act provisions. As part of FS' standardization effort, EROC staff use standard grant and agreement templates from I-Web, a web-enabled General Support System used to host a suite of database applications as the basis for every FS Recovery Act award. However, the

grant and agreement template did not include language stating that: (1) award and sub-award recipients are responsible for complying with all applicable Recovery Act requirements; (2) recipients are required to closely monitor and report Recovery Act-funded program activities and accomplishments; (3) FS has the right to terminate awards for non-compliance or non-performance; (4) OIG has access to recipient and sub-recipient records; and (5) reprisals against whistleblowers are prohibited.

We recommended that FS immediately modify its grant templates in I-Web to include the required Recovery Act provisions listed above. FS agreed to take immediate action to modify the grant templates used for the Recovery Act-funded projects. Recovery Act *Fast Report* (Audit Report 08703-05-SF (1), Recovery Act – FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

### **FS Did Not Have A Standard Template For Its Contracts That Contained All the Required Recovery Act Provisions**

We found that the contract templates at one of FS' four EROCs lacked a number of required or necessary Recovery Act provisions. As part of FS' standardization effort, EROC staff use standard contract templates from FS' Integrated Acquisition System (IAS) a commercial software application used to administer Government contracts, as the basis for every FS Recovery Act award. However, the contracts did not include language stating that: (1) contractors and their sub-contractors are responsible for complying with all applicable Recovery Act requirements; (2) contractors and their sub-contractors are required to comply with the Recovery Act's Buy American requirement; (3) contract recipients are responsible for complying with the Recovery Act's recipient reporting requirements; (4) OIG has access to contractor and sub-contractor records; and (5) FS has the right to suspend or terminate the contract and debar the contractor for failure to comply with Recovery Act requirements.

We recommended that FS immediately modify its contract templates in IAS to include the required Recovery Act provisions listed above. FS agreed to take immediate action to create standard contract templates for the Recovery Act-funded projects. Recovery Act *Fast Report* (Audit Report 08703-06-SF (1), Recovery Act – FS Abandoned Mine Remediation)

### **RATB Expressed Concerns Over Two Recovery Act Funded Projects for Green Mountain National Forest**

We conducted a contract compliance review based on a referral from RATB, who expressed concerns about two contracts totaling \$1.7 million for the grading and graveling of 30 miles of roads within the Green Mountain National Forest in Vermont. The Board's referral expressed concerns as to whether the contractors: (1) were registered in the Small Business Administration's Online Representations and Certification Application (ORCA) system, and (2) had the ability to complete the scope of work under each contract. We analyzed contract files, interviewed FS contracting personnel and both contractors, and performed site visits. Since both contractors were registered in ORCA and both contractors possessed the staff, expertise, and equipment to complete the scope of work, we found no evidence to support the Board's concerns. In the areas we reviewed, we determined that the contracts complied with Federal Acquisition Regulation and Recovery Act requirements. RATB Referral Report Recovery Act *Fast Report* (Audit Report 08703-03-SF (1), Green Mountain National Forest Deferred Road Maintenance)

### **FS Did Not Provide Descriptions of Deliverables in FedBizOpps (FBO) for Six Task Orders**

We conducted a contract compliance review based on a referral from RATB, who expressed concerns that task orders totaling about \$1.18 million for a facility reconstruction project lacked the required "Recovery Act identifying information" and that the "descriptions of deliverables were not provided." Our review determined that FS did not: (1) follow the OMB guidance to publicize pre-solicitation announcements in FedBizOpps, and (2) post the required descriptions of deliverables under the FBO Synopsis as required by the Federal Acquisition Regulation (FAR), Subpart 5.301(4), March 31, 2009. However, the OMB Recovery guidance was not published in the *Federal Register* until after these task orders were awarded.

We recommended that FS should immediately notify all contracting officers concerning OMB guidance once it is issued. In addition, we recommended that the Apache-Sitgreaves National Forest provide descriptions of the deliverables in the Synopsis posted under FBO for the six task orders as required by FAR. In response to our report, FS assigned the Southwest EROC—one of four specialized Economic

Recovery Operations Centers responsible for management of ARRA related acquisitions—to the Apache-Sitgreaves National Forest to assure compliance with applicable Recovery Act provisions. (Audit Report 08703-02-SF, Contract Compliance Review: Apache-Sitgreaves National Forest, Arizona—Hoyer Campground Facility Reconstruction Project)

### **Incorrect Procedures Provided to Report Award of Recovery Act Funds and Project Selections Based on Environmental Benefits, not Economic Factors**

NRCS received \$145 million for its Watershed Protection and Flood Prevention Operations Program (Watershed Operations), which provides financial and technical assistance for watershed protection, flood mitigation, and water quality improvements. NRCS records show that 80 projects, totaling \$127 million, were selected for funding. Although NRCS issued guidelines to award recipients regarding their reporting requirements, they were not specific enough. OMB requires that recipients report to a designated Web site – *www.FederalReporting.gov* – the amount of the award, the amount they received, and the amount they spent. If recipients have received or spent no funds, then OMB requires that they report zeroes. Reporting no funds received or spent is important because it will enable OMB and others to judge the speed at which funds are being sent out and spent. OIG recommended NRCS provide clear direction to the State offices that conforms to OMB's requirements on how recipients are to report on the amounts they are awarded, but have not yet received. NRCS concurred that a correction was needed and issued a bulletin regarding proper reporting procedures.

As we reported in our second interim report, NRCS based its decision on which projects would be funded on environmental benefits generated by the project rather than economic factors such as job creation in areas of high unemployment. Specifically, NRCS stated on its recovery Website and implementation plan that the main factors considered when selecting projects for Recovery Act funding were ones to promote economic recovery in areas most affected by the recession and create or retain jobs in economically distressed areas. After analysis of both projects selected for funding and those that were not funded, we concluded this was not the case. There was not an apparent effort to fund projects in economically distressed areas.

Prior to the Recovery Act, NRCS had 219 environmentally sound project agreements, totaling about \$308 million, awaiting funding. NRCS officials indicated their main objective was to get projects started quickly. In fact, over a third of the allocated Recovery Act funds (75 projects, totaling about \$59 million) went to communities whose unemployment rates were lower than the national average while 45 projects, totaling about \$97 million, were not funded at all, despite being located in communities whose unemployment rates were greater than the national average.

We recommended that NRCS provide clarification on the Recovery Website and to the Department that details the actual methodology used to analyze projects for Recovery Act funding, and that it provide justification for funding the 75 projects approved in locations where unemployment rates were less than the national average. NRCS responded that it adequately addressed the applicable Recovery Act priorities when selecting projects. NRCS will consider communities and citizens impacted when funding new projects with withdrawn and unused funds. NRCS generally disagreed with our findings, but agreed to prioritize the selection of any new (or replacement) projects in economically distressed areas. NRCS continues to assert that while the primary project selection factors were related to “shovel readiness,” its selection was in accordance with Recovery Act's specific statutory mandates and the methodology it followed was appropriately represented in its implementation report. *Recovery Act Fast Reports* (Audit Report 10703-2-KC, Watershed Protection and Flood Prevention Operations Program 10703-2-KC (1-2)).

### **NRCS Program Decisions to Purchase Easements on Small Tracts of Lands and Valuation Methodologies Used To Compensate Landowners Questioned**

The Recovery Act provided \$145 million to NRCS so that the agency, through its Emergency Watershed Protection Program, could purchase easements on floodplain lands that have been recently flooded or that have a history of repeated flooding. In June 2009, 289 applications, totaling \$138 million, were approved.

As reported in the *SARC, Second Half of 2009*, we found that NRCS does not have adequate procedures to conduct purchases of floodplain easements or to establish value for easement acquisition. We found that NRCS procedures do

not address many important factors regarding acquisition of these homes. We recommended that NRCS re-evaluate this approach and, if used, establish additional procedures to address purchasing easements on small parcels of land where acquisition and demolition costs for the homes are the prime cost. NRCS indicated that it reviewed the policies authorizing purchase of easements on small tracts of land with existing structures and determined that the purposes of the program were met. It agreed to establish standard operating procedures for purchasing easements on small parcels with structures and incorporate these procedures into the program manual.

Our second interim report found that when NRCS received Recovery Act funds, it used the same method for determining easement value that it uses under WRP. NRCS based its use of the WRP methodology for Recovery Act funded transactions because of a determination that it was unable to meet the time constraints of Recovery Act using the normal appraisal process, but the NRCS decision did not include any data or documentation about the time line of the normal appraisal process to support its decision. NRCS consulted with OGC, but had not adequately addressed their concerns over the valuation methodology adopted for easements acquired through

the Floodplain Easement Program. OGC stated that NRCS might be able to make a finding that using the NRCS normal appraisal process is “NOT to the greatest extent practicable,” and it would be prudent for NRCS to document how it arrived at its decision. OGC also noted that NRCS’s decision to use the WRP methodology for the standard (non-Recovery Act) program may require legislative action.

We recommended that NRCS stop approving further easement option agreements until it demonstrates that the required appraisal method is not practicable for easements funded through the Recovery Act. NRCS submitted that its decision adopting an alternative easement compensation methodology is justified because the use of extensive individual appraisal procedures prevents it from meeting the strict timeframes required by the Recovery Act. NRCS agreed to place a temporary hold on the use of the WRP valuation methodology for regular funding (non-Recovery Act) easements and is currently discussing with OGC the appropriate valuation procedures for the floodplain easement programs. (Audit Report 10703-1-KC, Emergency Watershed Protection Program 10703-1-KC (2))

## GOVERNMENTWIDE ACTIVITIES - GOAL 4

Review of Legislation, Regulations, Directives, and Memoranda

*Interim Final Rule 7 C.F.R. Part 1470, "Conservation Stewardship Program (CSP)."* OIG provided comments on this NRCS and CCC interim final rule, which would implement the CSP's authorizing legislation enacted in 2008. The interim final rule provided for an annual payment under the CSP to compensate producers for the costs of additional conservation activities and of improving, maintaining, and managing existing conservation activities. Since NRCS may be reimbursing some CSP participants for some of these costs through other NRCS programs, such as the Environmental Quality Incentives Program and the Wildlife Habitat Incentive Program, OIG recommended that the interim final rule explicitly exclude from the CSP annual payment rate calculation, costs incurred from conservation practices or enhancements applied with financial assistance through all other USDA conservation programs. In addition, the interim final rule provided NRCS with the right to enter an agricultural operation for the purposes of determining eligibility and for ascertaining the accuracy of any representations provided by an applicant for the CSP. Since other representatives of USDA may also have a need to access an agricultural operation for CSP-related purposes, OIG recommended that the right to access be extended to any representative of USDA.

## ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- controls and management of drug enforcement issues on National Forest System Land (FS),
- Forest Legacy Program (FS),
- FS processes to obtain and grant rights of way and easements (FS), and
- FS administration of special use permits (FS),

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

## ONGOING AND PLANNED REVIEWS FOR GOAL 4 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews for Goal 4 under Recovery Act include:

- oversight and control of Watershed and Flood Prevention Operations (NRCS),
- oversight and control of Watershed Rehabilitation Program (NRCS),
- hazardous fuels reduction/ecosystem restoration on non-Federal lands (FS), and
- oversight and control of FS activities (FS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.



# Gauging the Impact of OIG

## MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our newly revised goals that became effective in FY 2008:

1. Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
2. Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
3. Support USDA in implementing its management improvement initiatives.
4. Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

## IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the IG Act of 1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

### For audits we show

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- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- audits without management decision

### For investigations we show

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- indictments
- convictions
- arrests
- total dollar impact (recoveries, restitutions, fines)
- administrative sanctions
- OIG Hotline complaints



**PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS**

<b>Performance Measures</b>	<b>FY 2009 Actual</b>	<b>FY 2010 Target</b>	<b>FY 2010 1<sup>st</sup> Half Actual</b>
OIG direct resources dedicated to critical-risk and high-impact work.	95.3%	90%	95.4%
Audit recommendations resulting in management decisions within 1 year of report issuance.	88.8%	85%	98.3%
Mandatory and Congressional, Secretarial, and agency-requested audits completed within required or agreed-to timeframes.	100%	90%	100%
Closed investigations that resulted in a referral for action to the Department of Justice, State/local law enforcement officials, or relevant administrative authority.	74.6%	70%	58.5%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action or monetary result.	76.8%	65%	70.8%

**RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS**

<b>Performance Measures</b>	<b>FY 2010 Target</b>	<b>FY 2010 1<sup>st</sup> Half Actual</b>
Review internal controls related to individual Recovery Act programs prior to substantial funds being obligated or expended. <sup>1</sup>	75%	40%
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	80%	80%
Respond to Recovery Accountability and Transparency Board sponsored requests and projects within established schedules or agreed-to timeframes.	85%	100%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt. <sup>2</sup>	75%	N/A
Investigations staff will participate in 10 Outreach/Training meetings each quarter on Recovery Act work.	80%	125%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt. <sup>2</sup>	100%	N/A
Monthly reporting to Office of Management and Budget on Recovery Act funds within required deadline	100%	100%
<sup>1</sup> Reporting is cumulative and it is expected that we will meet the 2010 goal by the end of the fiscal year. <sup>2</sup> No allegations of whistleblower retaliation were received.		

**SUMMARY OF AUDIT ACTIVITIES—OCTOBER 2009—MARCH 2010**

<b>Reports Issued</b>	<b>31</b>
Audits Performed by OIG	24
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	7
<b>Management Decisions Made</b>	
Number of Reports	18
Number of Recommendations	119
<b>Total Dollar Impact (Millions) of Management-Decided Reports</b>	<b>\$16.0</b>
Questioned/Unsupported Costs	\$0.1 <sup>ab</sup>
Recommended for Recovery	\$0.1
Not Recommended for Recovery	\$0.0
Funds To Be Put to Better Use	\$15.9
<sup>a</sup> These were the amounts the auditees agreed to at the time of management decision.	
<sup>b</sup> 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.	

**SUMMARY OF INVESTIGATIVE ACTIVITIES—OCTOBER 2009—MARCH 2010**

Reports Issued	131
Cases Opened	239
Cases Referred for Prosecution	76
<b>Impact of Investigations</b>	
Indictments	164
Convictions	187 <sup>a</sup>
Searches	81
Arrests	148
<b>Total Dollar Impact (Millions)</b>	<b>\$95.1</b>
Recoveries/Collections	\$3.9 <sup>b</sup>
Restitutions	\$87.6 <sup>c</sup>
Fines	\$1.2 <sup>d</sup>
Asset Forfeitures	\$2.0 <sup>e</sup>
Claims Established	\$0.2 <sup>f</sup>
Cost Avoidance	\$0.1 <sup>g</sup>
Administrative Penalties	\$0.1 <sup>h</sup>
<b>Administrative Sanctions</b>	<b>119</b>
Employees	13
Businesses/Persons	106
<sup>a</sup> Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 187 convictions do not necessarily relate to the 164 indictments.	
<sup>b</sup> Includes money received by USDA or other Government agencies as a result of OIG investigations.	
<sup>c</sup> Restitutions are court-ordered repayments of money lost through a crime or program abuse.	
<sup>d</sup> Fines are court-ordered penalties.	
<sup>e</sup> Asset Forfeitures are judicial or administrative results.	
<sup>f</sup> Claims established are agency demands for repayment of USDA benefits.	
<sup>g</sup> Consists of loans or benefits not granted as the result of an OIG investigation.	
<sup>h</sup> Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.	

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE  
FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY OCTOBER 1, 2009	4	\$19,536,963
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	1	\$27,500,000
	<b>TOTALS</b>	<b>5</b>	<b>\$47,036,963</b>
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	3	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$15,910,729
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$255,632
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	2	\$30,870,602
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	\$3,370,602

**INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS  
FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010**

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2009	7	\$237,807,833	\$1,063,024
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	2	\$1,090,987	\$1,061,958
	<b>TOTALS</b>	<b>9</b>	<b>\$238,898,820</b>	<b>\$2,124,982</b>
C.	FOR WHICH MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	2		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$105,451	\$23,889
	NOT RECOMMENDED FOR RECOVERY		\$0	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0	\$0
D.	FOR WHICH MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	7	\$238,793,432	\$2,101,093
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	6	\$237,731,474	\$1,039,135

\*Unsupported values are included in questioned values

## PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 156 program improvement recommendations, and management agreed to implement a total of 104 that were issued this period or earlier. Examples of those issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- AMS agreed to strengthen its enforcement procedures and to resolve and track complaints in a timely manner, implement a plan for achieving compliance from California's SOP, obtain an OGC opinion on residue testing, and strengthen oversight of certifying agents and operations.
- FNS agreed to explore the use of a risk-based approach to identifying State agencies that should receive priority attention for management evaluations, and develop guidance regarding the use of the management evaluation module to avoid inconsistency.
- RHS agreed to establish at least two additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act.
- RD agreed to require State offices to develop and implement an effective plan to use the available administrative funding and consider additional ways to optimize the use of current staff resources.
- FS agreed to take immediate action to modify the grant templates in I-Web to include the required Recovery Act provisions used for the Recovery Act-funded projects.
- NRCS agreed to place a temporary hold on the use of the WRP valuation methodology for regular funding (non-Recovery Act) easements and is currently discussing with OGC the appropriate valuation procedures for the floodplain easement programs.

**SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010  
DURING THE 6-MONTH PERIOD FROM OCTOBER 1, 2009, THROUGH MARCH 31, 2010, OIG ISSUED  
31 AUDIT REPORTS, INCLUDING 7 PERFORMED BY OTHERS.  
THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY**

<b>AGENCY</b>	<b>AUDITS RELEASED</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED<sup>a</sup> COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	3			
COMMODITY CREDIT CORPORATION	1			
FARM SERVICE AGENCY	3	\$29,029		
FOOD AND NUTRITION SERVICE	5			
FOOD SAFETY AND INSPECTION SERVICE	1			
FOREST SERVICE	3			\$27,500,000
MULTIAGENCY	4	\$1,061,958	\$1,061,958	
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
RISK MANAGEMENT AGENCY	2			
RURAL BUSINESS-COOPERATIVE SERVICE	4			
RURAL DEVELOPMENT	1			
RURAL HOUSING SERVICE	1			
<b>TOTALS</b>	<b>31</b>	<b>\$1,090,987</b>	<b>\$1,061,958</b>	<b>\$27,500,000</b>
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	27			
MULTIAGENCY AUDIT	4			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	31			
TOTAL COMPLETED UNDER CONTRACT <sup>b</sup>	7			
TOTAL SINGLE AUDIT ISSUED <sup>c</sup>				

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  
FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010**

<b>Agricultural Marketing Service</b>						
<b>AUDIT NUMBER</b>	<b>RELEASE DATE</b>	<b>TITLE</b>		<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>
016010003HY	2010/03/09	Oversight of the National Organic Program				
Total: Agricultural Marketing Service			1			
<b>Agricultural Research Service</b>						
020170011HQ	2009/11/04	DCAA Audit of International Science and Technology Center's Internal Controls for FY 2009 Funded by ARS – Project 3468P				
020170012HQ	2010/03/03	DCAA Audit of International Science and Technology Center's Internal Controls for FY 2009 Funded by ARS – Project T-1419P				
020170013HQ	2010/03/10	DCAA Audit of International Science and Technology Center's Internal Controls for FY 2009 Funded by ARS – Project 3431P				
Total: Agricultural Research Service			3			
<b>Commodity Credit Corporation</b>						
064010024FM	2009/11/12	Fiscal Year 2009 CCC Financial Statements				
Total: Commodity Credit Corporation			1			
<b>Farm Service Agency</b>						
036010013SF	2009/12/15	Emergency Loan Reductions		\$29,029		
037030001CH	2009/12/29	Controls Over Aquaculture Grants Stimulus Funds (Phase I)				
037030001TE	2010/02/25	Recovery – Direct Farm Operating Loans (Phase I)				
Total: Farm Service Agency			3	\$29,029		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010**

<b>Food and Nutrition Service</b>						
270990071HY	2010/01/26	Summary of Nationwide Electronic Benefits Transfer System Operations				
274010034HY	2009/11/06	FY 2009 FNS Financial Statements				
277030001AT	2010/03/31	The Emergency Food Assistance Program				
277030001HY	2009/12/16	Funds Provided by the Recovery Act for Management and Oversight of the Supplemental Nutrition Assistance Program				
277030001KC	2009/12/03	Supplemental Nutrition Assistance Program Benefits and the Thrifty Food Plan				
<b>Total: Food and Nutrition Service</b>			<b>5</b>			
<b>Food Safety and Inspection Service</b>						
246010008KC	2010/03/25	FSIS National Residue Program for Cattle				
<b>Total: Food Safety and Inspection Service</b>			<b>1</b>			
<b>Forest Service</b>						
080010002AT	2010/03/29	FS Contracted Labor Crews				
084010010FM	2009/11/13	Fiscal Year 2009 Forest Service Financial Statements				
086010054SF	2010/03/31	FS Firefighting Succession Plans				\$27,500,000
<b>Total: Forest Service</b>			<b>3</b>			<b>\$27,500,000</b>
<b>Multi-Agency</b>						
504010067FM	2009/11/16	Fiscal Year 2009 USDA Financial Statements				
504010069FM	2009/11/16	Fiscal Year 2009 Audit of USDA's Closing Package				
505010015FM	2009/11/18	Fiscal Year 2009 Federal Information Security Management Act Report				
506010015AT	2010/03/31	Hurricane Indemnity Program – Integrity of Data Provided by RMA		\$1,061,958	\$1,061,958	
<b>Total: Multi-Agency</b>			<b>4</b>	<b>\$1,061,958</b>	<b>\$1,061,958</b>	



**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM OCTOBER 1, 2009 THROUGH MARCH 31, 2010**

<b>Natural Resources Conservation Service</b>						
104010003FM	2009/11/04	Fiscal Year 2009 NRCS Financial Statements				
Total: Natural Resources Conservation Service			1			
<b>Office of the Chief Financial Officer</b>						
117030001HQ	2009/10/23	Recovery Act Reporting Oversight				
Total: Office of the Chief Financial Officer			1			
<b>Risk Management Agency</b>						
054010018FM	2009/11/06	Fiscal Year 2009 FCIC Financial Statements				
054010014TE	2010/03/30	Group Risk Crop Insurance				
Total: Risk Management Agency			2			
<b>Rural Business-Cooperative Service</b>						
340990010TE	2009/12/29	Review of Lender With Business and Industry (B&I) Guaranteed Loan in Virginia				
340990012TE	2009/12/29	Review of Lender With B&I Guaranteed Loan in Louisiana				
347030001KC	2009/03/31	Rural Business Enterprise Grants				
347030001TE	2010/03/31	Recovery Act – B&I Guaranteed Loan Program				
Total: Rural Business-Cooperative Service			4			
<b>Rural Development</b>						
854010017FM	2009/11/10	Fiscal Year 2009 Rural Development Financial Statements				
Total: Rural Development			1			
<b>Rural Housing Service</b>						
047030001KC	2009/11/05	Single-Family Housing Direct Loans Recovery Act Controls (Phase I)				
Total: Rural Housing Service			1			
<b>Grand Total</b>			<b>31</b>	<b>\$1,090,987</b>	<b>\$1,061,958</b>	<b>\$27,500,000</b>

**AUDITS WITHOUT MANAGEMENT DECISION**

The IG Act has a number of reporting requirements, among them tracking audits without management decision. The following audits did not have management decisions made within the 6month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (\*) indicates that an audit is pending judicial, legal, or investigative proceedings that 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)
NRCS	06/25/09	1.	Conservation Security Program (10601-4-KC)	\$4,895,958	\$4,895,958
	07/06/09	2.	Farm and Ranch Lands Protection Program – Nationwide Selected Non-Governmental Organization (10099-6-SF)	716,563	716,563
RMA	09/16/09	3.	RMA Compliance Activities (05601-11-At)	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.

FSA	02/02/09	4.	Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-23-KC)	\$1,866,412	\$1,688,247
Multi-agency	09/30/03	5.	Implementation of the Agricultural Risk Protection Act (50099-12-KC)	0	0
	02/23/04	6.	Homeland Security Issues for USDA Grain and Commodities Inventories (50099-13-KC)	0	0
	03/28/07	7.	Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
	03/31/08	8.	USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch)	0	0
RMA	03/15/02	9.	Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	03/26/07	10.	Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes (05099-27-At)	415,710	415,710
	09/30/08	11.	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)	15,951,016	15,951,016
	03/04/09	12.	RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-28-At)	217,256,417	217,256,417

## AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

### 1. Conservation Security Program (CSP) (10099-4-KC, issued June 25, 2009)

Although CSP's goal is to encourage producers to reach "the pinnacle of good land stewardship" by entering into 5-10 year contracts that pay them for maintaining high conservation standards and enhancing existing practices, NRCS did not ensure participation by only those who met the program's standards. We found that NRCS awarded over half the contracts in our sample (38 of 75) to participants who did not qualify for the CSP or some portion of the conservation payments received or expected to be received throughout the contract period. When implementing the program, NRCS tried to maximize its restricted resources by limiting program sign-ups to selected priority watersheds and utilizing unverified information provided by interested producers in their *SelfAssessment Workbook* to determine eligibility. By doing so, NRCS trusted the applicants to provide accurate information for this complex program. NRCS, however, did not implement sufficient management controls, such as procedures requiring confirmation of key producer-supplied information prior to contract approval. Due to the inadequacy of controls that would have helped identify ineligible producers, NRCS has paid about \$1.4 million for 38 questionable contracts for 2006 and 2007 and is expected to pay nearly \$4.3 million more throughout the contract period. Without adequate controls to establish the eligibility of program participants and the propriety of payments made, NRCS lacks assurance that the \$424 million spent since 2004 has been effectively used to reward and encourage excellent conservation, which is CSP's central purpose. Consequently, additional reviews and verification processes, such as ensuring consistent delineation at all USDA agencies, may prevent applicants from gaining an unfair advantage and exceeding the established payment limits. NRCS awarded 23 of the 38 questionable contracts to applicants who certified to erroneous information about their operations.

NRCS generally agreed with the recommendations. We have reached management decision on 14 of the recommendations and are awaiting NRCS' response on the remaining 9. In order for management to form a decision regarding them, we require additional materials from the 38 producers we identified as

having specific monetary exceptions regarding NRCS' determination as to whether or not to collect. They are asked to provide a copy of the bill for collection for amounts owed to the Government, and support that the amounts have been entered as a receivable on the agency's accounting records or evidence of collection. If the agency opts not to collect from the cited producers, we need NRCS' justification for that action.

### 2. Farm and Ranch Lands Protection Program (FRPP) – Nationwide Selected Non-Governmental Organizations (NGO) (10099-6-SF, issued July 6, 2009)

Overall, we found that NRCS has not implemented an effective management control system to monitor NGO's compliance with program rules and to ensure that landowners are treated equitably. In general, NRCS presumed participating NGOs followed the rules instead of taking steps (such as performing reviews of NGO operations). We found that one of the nine NGOs we reviewed used landowner funds to pay its share of the purchase price for its four FRPP easements—in violation of program regulations. The NGO misrepresented the source of its funds by certifying that it had not obtained the money from landowners when it had. As a result, NRCS overpaid \$716,563 for the easements.

In order to accept NRCS' management decision, we need their final administrative determination whether to collect the questioned amount from the NGO. We will then include its justification for not collecting the questioned amount or a copy of the bill for collection for amounts owed to the Government and support that the amounts have been entered as a receivable in the agency's accounting records or evidence of collection. However, we confirmed in February 2010 that the case is still pending at the United States Attorney's Office for possible civil prosecution, barring NRCS from taking any administrative action.

### 3. RMA Compliance Activities (05601-11-At, issued September 16, 2009)

We found that RMA needs to develop an overall strategy for improving integrity of the Federal Crop Insurance Program. In addition, RMA needs to complete a risk assessment of its program operations, improve its methodology for complying with the Improper Payment Information Act (IPIA), improve its large claims review process, and comply with requirements outlined in the Agricultural Risk Protection

Act of 2000 (ARPA). RMA generally agreed with 14 of our 22 recommendations. We have reached management decision on 12 recommendations and are awaiting RMA's response on the remaining 10. Open recommendations include establishing a comprehensive, well-defined strategy for improving program

integrity, performing a risk assessment of program operations to identify major program vulnerabilities, revising its IPIA sampling methodology and identifying causes of improper payments, and implementing policies and procedures for reviewing disparate performance, as required by ARPA.

## INDICTMENTS AND CONVICTIONS

From October 1, 2009 through March 31, 2010, OIG completed 131 investigations. We referred 76 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 164 indictments and 187 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 187 convictions do not necessarily relate to the 164 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$95.1 million.

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

### Indictments and Convictions—October 1, 2009 – March 31, 2010

Agency	Indictments	Convictions*
AMS	0	2
APHIS	59	65
FNS	85	99
FS	1	1
FSA	8	10
FSIS	4	4
GIPSA	0	0
NRCS	0	0
OCFO	0	0
OIG	1	0
RBS	0	0
RHS	3	2
RMA	3	4
RUS	0	0
<b>Totals</b>	<b>164</b>	<b>187</b>

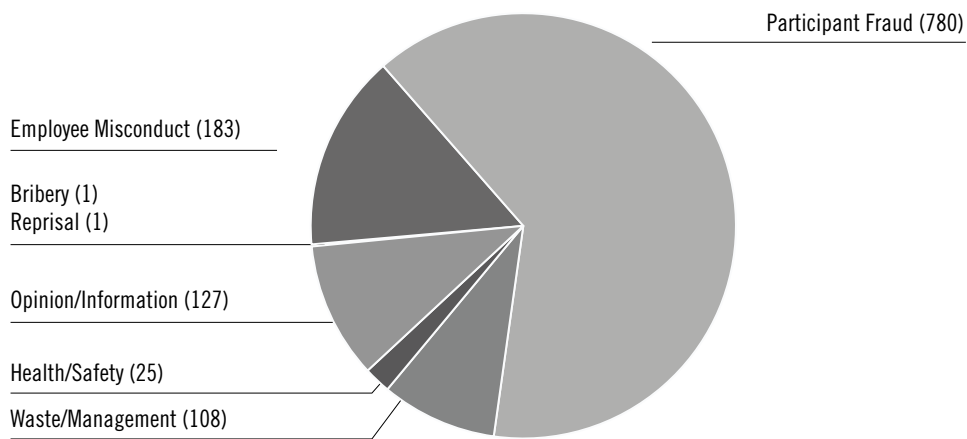
\*This category includes pretrial diversions.

### OFFICE OF INSPECTOR GENERAL HOTLINE

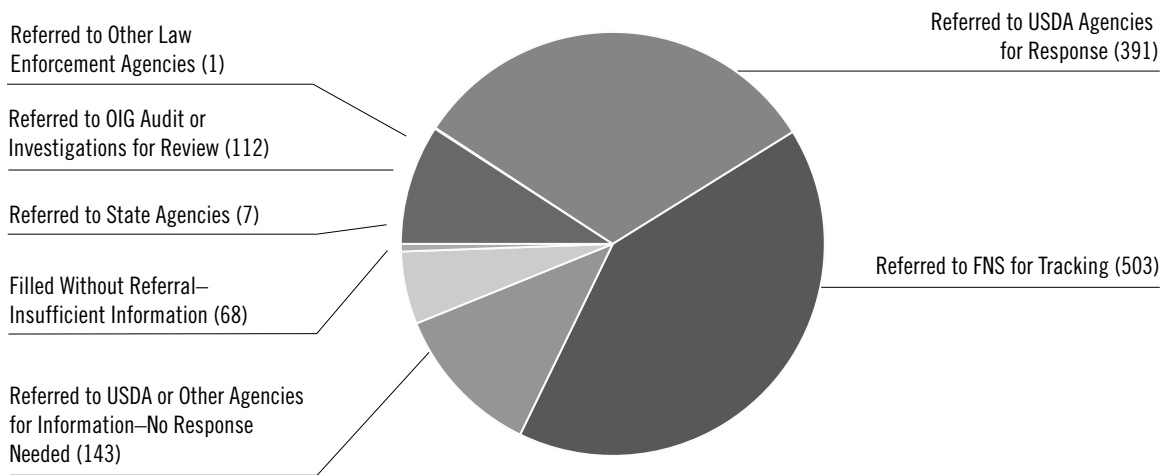
The OIG Hotline serves as a national intake-point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the

OIG Hotline received 1,225 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

**Figure 1. Volume and Type**



**Figure 2. Disposition of Complaints Received**



### FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD OCTOBER 1, 2009 TO MARCH 31, 2010

<b>Number of FOIA/PA Requests Received</b>	<b>57</b>
<b>Number of FOIA/PA Requests Processed</b>	<b>69</b>
Number Granted	2
Number Partially Granted	25
Number Not Granted	42
<b>Reasons for Denial</b>	
No Records Available	15
Referred to Other Agencies	2
Requests Denied in Full Exemption 3	1
Requests Denied in Full Exemption 5	1
Requests Denied in Full Exemption 7(A)	12
Requests Denied in Full Exemption 7(C)	2
Request Withdrawn	5
Fee-Related	0
Not a Proper FOIA Request	0
Not an Agency Record	0
Duplicate Request	1
Other	3
<b>Requests for OIG Reports From Congress and Other Government Agencies</b>	
Received	0
Processed	1
<b>Appeals Received</b>	<b>7</b>
<b>Appeals Processed</b>	<b>7</b>
Appeals Completely Upheld	5
Appeals Partially Reversed	1
Not Proper FOIA request	1
Other	0
<b>Number of OIG Reports/Documents Released in Response to Requests</b>	<b>49</b>
NOTE 1: A request may involve more than one report.	
NOTE 2: During this 6-month period, 44 audit reports were posted online on the OIG Web site: <a href="http://www.usda.gov/oig">http://www.usda.gov/oig</a>	



Abbreviations	
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CACFP	Child and Adult Care Food Program
CCC	Commodity Credit Corporation
CI	Criminal Investigation (IRS)
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DHS	U.S. Department of Homeland Security
EROC	Economic Recovery Operations Center
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GAO	Government Accountability Office
HARCFL	Heart of America Regional Computer Forensics Lab
HUD	Housing and Urban Development
IRS	Internal Revenue Service
NCFD	National Computer Forensic Division
NSLP	National School Lunch Program
NFC	National Finance Center
NIFA	National Institute of Food and Agriculture

Abbreviations	
NITC	National Information Technology Center
NJTTF	National Joint Terrorism Task Force
NMHSB	New Mexico Human Services Department
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
OMB	Office of Management and Budget
OOCIC	Ohio Organized Crime Investigations Commission
RATB	Recovery Accountability and Transparency Board
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SNAP	Supplemental Nutrition Assistance Program
SRA	Standard Reinsurance Agreement
SSA	Social Security Administration
TAAF	Trade Adjustment Assistance for Farmers
TEFAP	The Emergency Food Assistance Program
TFP	Thrifty Food Program
USDA	U.S. Department of Agriculture

## **EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (104 TOTAL)**

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- AMS agreed to strengthen its enforcement procedures and to resolve and track complaints in a timely manner, implement a plan for achieving compliance from California's SOP, obtain an OGC opinion on residue testing, and strengthen oversight of certifying agents and operations.
- FSA agreed with the internal control weakness and accepted our recommendation to revise its handbook to require officials to verify disaster-related compensation before issuing emergency loans.
- RHS agreed to establish at least two additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act.
- FS agreed to take immediate action to modify the grant templates in I-Web to include the required Recovery Act provisions used for the Recovery Act-funded projects.
- NRCS agreed to place a temporary hold on the use of the WRP valuation methodology for regular funding (non-Recovery Act) easements and is currently discussing with OGC the appropriate valuation procedures for the floodplain easement programs.

### **MISSION OF OIG**

- OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

### **OIG STRATEGIC GOALS**

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- We have focused nearly all of our audit and investigative direct resources on our four goals:
- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
- Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Support USDA in implementing its management improvement initiatives.
- Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

To learn more about OIG, visit our website at  
<http://www.usda.gov/oig/index.html>

### How To Report Suspected Wrongdoing in USDA Programs

#### Fraud, Waste and Abuse

In Washington, DC 202-690-1622  
Outside DC 800-424-9121  
TDD (Call Collect) 202-690-1202

#### Bribes or Gratuities

202-720-7257 (Monday-Friday, 9:00 a.m.- 3 p.m. ET)  
888-620-4185 (24 hours)



# Semiannual Report to Congress

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