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Office of Inspector General
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Office of Inspector General Semiannual Report to Congress

April 1, 2011 – September 30, 2011



Second Half

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD— April 2011-September 2011

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	24
Number of Recommendations	154

Management Decisions Reached

Number of Reports	19
Number of Recommendations	171

Total Dollar Impact of Reports with Management Decisions (Millions) \$4,178.4

Questioned/Unsupported Costs	\$4,169.8
Funds To Be Put To Better Use	\$8.6

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued 177

Impact of Investigations

Indictments	363
Convictions	200
Arrests	831

Total Dollar Impact (Millions) \$65.8

Administrative Sanctions 131

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2011)

- 1) Interagency Communications, Coordination, and Program Integration Need Improvement
Related material can be found on pages 7 and 10-12.
- 2) Implementation of Strong, Integrated, Internal Control Systems Still Needed
Related material can be found on pages 7, 26, and 35.
- 3) Continuing Improvements Needed in Information Technology Security
Related material can be found on page 25.
- 4) Material Control Weaknesses in Civil Rights Control Should Be Mitigated
No work was reported during this period.
- 5) USDA Needs To Develop a Proactive, Integrated Strategy To Increase Agricultural Commerce and Trade
Related material can be found on page 4.
- 6) Better Forest Service Management and Community Action Needed To Improve Forest Health and Reduce Firefighting Costs
Related material can be found on page 34-35.
- 7) Improved Controls Needed for Food Safety Inspection Systems
Related material can be found on page 7-8.
- 8) Implementation of the American Recovery and Reinvestment Act of 2009
Related material can be found on pages 19-21, 29-30, and 35-37.
- 9) Strengthen Efforts To Identify, Report, and Reduce Improper Payments
Related material can be found on page 26.

Message from the Inspector General

This Semiannual Report to Congress (SARC) covers the 6-month period ending September 30, 2011, and summarizes the most significant accomplishments of the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG). During the last half of the year, our office has continued to work extensively with the Department, Congress, and other Federal agencies to ensure the integrity and efficiency of USDA programs, safeguard the taxpayers' investment in these programs, and investigate those who allegedly abuse USDA programs.

A significant portion of our resources during this period have been directed to overseeing \$28 billion in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds provided for USDA programs. We have 35 Recovery Act audit projects in progress, and OIG's investigations program provided fraud awareness training and materials to USDA employees, contractors, and grantees.

Our accomplishments during this period have been significant. We conducted successful investigations and audits that led to 831 arrests, 200 convictions, \$65.8 million in recoveries and restitutions, 150 program improvement recommendations, and \$4.2 billion in financial recommendations. Our activities, including our Recovery Act work, are described according to our strategic goals, as outlined in the OIG Strategic Plan for FYs 2007-2012:

- **Safety, Security, and Public Health**—The Agricultural Marketing Service (AMS) recently implemented new country of origin labeling (COOL) regulations so that consumers can make informed purchasing decisions about the food they put on the table, but OIG found that AMS was falling behind in responding to retailers who have not complied with COOL. During this period, OIG also acted quickly to investigate and bring to justice a USDA official accused of sexually assaulting his subordinate. This official was sentenced to 5 months in prison.
- **Integrity of Benefits**—OIG continues to focus much of its investigative resources on fighting fraud in the Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP). Since April, our work has resulted in 100 convictions and \$20.7 million in monetary results. OIG has also conducted important audit work to determine if borrowers who obtained single family housing loan guarantees were eligible for their loans. Based on our review of 100 loans, we estimated that 30,310 loans—with a projected total value of \$4.16 billion—were issued to ineligible borrowers.
- **Management Improvement Initiatives**—OIG participated in an investigation prompted by a whistleblower's allegation that drivers working for a well-known package delivery service were abusing delivery delay codes in order to excuse their lateness in delivering packages to Government offices. As a result of a joint investigation with the U.S. Department of Justice and the General Services Administration Office of Inspector General, the package delivery service agreed to an \$8 million civil settlement addressing the false claims regarding delayed packages. Additionally, an audit found that USDA needs to improve how it reports its high-dollar overpayments in high-risk programs, as in 2010 the Department's high-dollar overpayment reports were late, inaccurate, and incomplete.
- **Stewardship Over Natural Resources**—The Forest Service (FS) is responsible for processing thousands of applications to use Federal forest lands for a wide variety of special purposes, including setting up communication relays, bottling spring water, and outfitting and guiding backcountry and river trips. An OIG audit found, however, that FS has fallen behind in this work, building a substantial backlog of expired authorizations, uninspected special use land authorizations, and communication sites without current communication site management plans. Another audit found that grant recipients who did not have financial accounting processes in place to properly allocate and support the salary costs they charged to their Recovery Act and non-Recovery Act-funded grants may have received FS grants with a projected total value of \$28 million.

As always, USDA OIG's team of dedicated and professional staff is committed to helping USDA improve the services it provides American taxpayers—the accomplishments reported here are the direct results of their efforts. We appreciate the interest and support shown by Secretary Thomas J. Vilsack and his management team and look forward to working together to reduce fraud, waste, and abuse; ensure that USDA programs are efficient and cost-effective; and help USDA respond to the demands of a challenging budget environment.



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 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 second half of FY 2011, we devoted 12 percent of our total direct resources to Goal 1, with 100 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 63 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 3 audit reports and 1 Recovery Act *fast report* under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 58 indictments, 44 convictions, and \$608,683 in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goal 2)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in Information Technology Security (also under Goal 3)
- USDA Needs To Develop a Proactive, Integrated Strategy To Increase Agricultural Commerce and Trade
- Improved Controls Needed for Food Safety Inspection Systems

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

USDA Needs To Strengthen its Regulations and Controls Over Genetically Engineered (GE) Animals and Insects

The Animal and Plant Health Inspection Service (APHIS) has published regulations for GE plants, but it has not issued regulations pertaining specifically to the import, interstate movement, or field release of GE animals and insects. APHIS officials explained that they have been responding, case by case, when researchers request regulatory information, and there have been many more requests related to GE plants than GE animals and insects. OIG acknowledged that APHIS' approach has been reasonable for regulating the few instances of experimentation relating to GE animals and insects that have taken place to date, but APHIS needs to implement its regulations before such experimentation becomes more common. We also found that USDA agency-funded laboratories performing research involving GE animals and insects need to improve how they operate their facilities by developing and implementing (1) a formal process for

reporting and monitoring research incidents, (2) a formal research approval and review process, (3) a process for tracking recommendations from their internal inspections, and (4) a comprehensive security plan. APHIS agreed with our recommendations to develop a regulatory framework clearly defining its scope of coverage and regulatory requirements, and the USDA agencies responsible for GE animal research also agreed to strengthen their controls at their laboratories. (Audit Report 50601-0016-Te, Controls over Genetically Engineered Animal and Insect Research)

AMS Needs To Strengthen Retailer Compliance with Country of Origin Labeling (COOL) Requirements

In March 2009, Federal regulations went into effect requiring food retailers to provide consumers with country of origin labels on certain food products so that consumers can make informed purchasing decisions. OIG evaluated how AMS implemented COOL regulations and found that the agency has made significant progress, but that it needs to strengthen its process for selecting and reviewing retailers for compliance and improve the timeliness with which it handles any noncompliances disclosed by its reviews. AMS was falling

behind in responding to retailers who have not complied with the new regulations. Of the 5,528 calendar year 2010 reviews identifying retailers who did not label their products correctly, AMS did not promptly provide formal written notice to 1,719 retailers of their failure to comply with COOL requirements.

Problems of this sort occurred because AMS was temporarily understaffed and the agency was not always identifying all retailers who must adhere to COOL. AMS selects stores for review based on the type of store (supermarket and wholesale club stores) and the amount of sales (greater than \$2 million annually), but at least 40 retailers in 15 States were not included in the selection process even though they should have been. Unless it corrects these types of problems, AMS will have reduced assurance that all retailers are properly labeling the country of origin for all covered commodities. AMS agreed with our conclusions that it needed to strengthen its oversight of the program, including improving its retailer review process, enhancing its compliance procedures, and improving how it communicates with retailers. (Audit Report 01601-0004-Hy, Implementation of Country of Origin Labeling)

Food Safety and Inspection Service (FSIS) Needs To Better Identify High-Risk Commercial Food Companies for Surveillance

In order to assure the American public that the Nation's commercial supplies of meat, poultry, and egg products are safe, wholesome, and correctly labeled and packaged, FSIS assesses approximately 145,000 businesses engaged in the interstate transport, storage, distribution, and sale of these foods. Based on our review of this in-commerce surveillance program, we found that FSIS conducts surveillance reviews and pursues followup appropriately, but that the agency can improve its methodology for selecting firms for surveillance. Although FSIS investigators are required to prioritize surveillance based on risk, they have not established selection criteria that makes risk a primary consideration. OIG concluded, based on its findings, that surveillance reviews are being decided primarily based on proximity to other sites and for the investigator's convenience. In addition, we found that the In-Commerce System—a web-based application FSIS uses to store program data—had a significant number of duplicate or inactive firms listed, which affects the agency's ability to efficiently search for or select firms for review. FSIS agreed with our recommendations to improve how the agency selects high-risk

firms for review. (Audit Report 24601-0008-At, Food Safety and Inspection Service In-Commerce Surveillance Program)

Courts Impose Stricter Oversight Conditions for Meat Company Responsible for Japan's Rejection of U.S. Beef Imports

From January to July 2006, Japan halted U.S. beef imports—worth more than \$1 billion annually—due to the discovery of vertebrae in a shipment of beef product originating from a U.S. company in Brooklyn, New York. OIG and FSIS jointly conducted a criminal investigation into this matter and, in response to our work, the Government filed a civil complaint in U.S. District Court, Eastern District of New York, charging the Brooklyn company with violations of the Federal Meat Inspection Act. In April 2011, the U.S. District Court approved legal measures providing for permanent injunctive relief and escalating monetary penalties to prevent this company from violating the Act or AMS Export Verification Program rules in the future. Additionally, in the event of future violations, the consent decree authorizes USDA to halt any future exports, perform onsite inspections, and require onsite verification of the sufficiency of corrective actions by this company.

California Company Falsifies Certificates To Allow Cotton Exports to Bangladesh

In March 2006, APHIS Plant Protection and Quarantine officials informed OIG that a California company had submitted 11 forms that had been altered in order to obtain export certificates for cotton bound for Bangladesh. Our investigation revealed that the company's employees had falsified the forms to conceal the fact that the time period between the actual inspection date and the departure date for these shipments of cotton exceeded 14 days, the export inspection time limit. The company employees we interviewed admitted falsifying the forms, and stated that manipulating these dates was a common industry practice. In April 2011, plea negotiations between the prosecuting Assistant United States Attorney and the company's defense attorney resulted in a pre-trial diversion agreement, which imposed a \$7,000 fine and implemented additional oversight conditions to ensure the company complies with public health and safety laws and regulations.

Michigan Dog-Fighting Ring Broken Up

Working with the Monroe County, Michigan, Sheriff's Department, the Michigan State Police, and the Michigan Humane Society, an OIG investigation led to the arrest of 27 individuals for organizing and attending a championship dog-fighting match in southeast Michigan. The event drew participants from four States, including individuals from as far away as Georgia. With the assistance of the Monroe County Prosecutor's Office, OIG agents obtained a search warrant, disrupted the fight, and arrested the participants. Five pit bull fighting dogs were seized during the raid, two of which died from injuries suffered during the championship fight. Officers also seized approximately \$40,000 in cash, cocaine, marijuana, two firearms, and dog-fighting paraphernalia. Many of the defendants pled guilty to felony charges of attending and participating in an animal-fighting venture. During August and September 2011, two of the ringleaders received sentences ranging from 8 to 15 years' incarceration and fines totaling \$7,849. The remaining participants await sentencing.

GOVERNMENT-WIDE ACTIVITIES—GOAL 1

Participation on Committees, Working Groups, and Task Forces

- *The Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force.* One OIG special agent is assigned full-time to the national task force and other special agents work with local task forces. While the national task force special agent attends threat briefings and provides terrorist intelligence products to OIG and other USDA agencies and offices, local task forces work on matters that involve the investigation of both criminal activity and intelligence gathering involving individuals or entities that may have connection to terrorist activity or may provide support for terrorist activity. Overall, OIG's participation provides an excellent conduit for sharing critical law enforcement intelligence and has broadened the FBI's and other law enforcement agencies' knowledge of how to conduct criminal investigations connected to food and agriculture.

USDA Official Sentenced for Aggravated Sexual Assault of a Subordinate

In January 2011, OIG received allegations that a USDA official engaged in inappropriate behavior towards a woman who worked for him. Our investigation disclosed that, from 2009 through 2010, the USDA official sexually assaulted his subordinate on multiple occasions. As a manager, this individual was expected to be a role model of professional conduct and non-discriminatory behavior in his work relationships; instead, he used his position and status to victimize his employee. In February 2011, this official was charged in Superior Court for the District of Columbia with four counts of aggravated sexual assault. In March 2011, he pled guilty to one misdemeanor count of sexual assault, and he was sentenced in April 2011 to 5 months' incarceration. He retired from his position with the Government.

- *The FBI's Joint Interagency Agroterrorism Working Group.* OIG's emergency response team continues to participate in this working group, which develops protocols and procedures for the FBI, APHIS, and OIG to coordinate their response to agroterrorism.
- *U.S. Marshals Service (USMS) Fugitive Task Forces.* OIG agents in Minnesota, Mississippi, and North Dakota participate on USMS Fugitive Task Forces which were established under the Presidential Threat Protection Act of 2000. The purpose of these task forces is to locate and apprehend the most dangerous fugitives and assist in high-profile investigations. In addition to providing assistance in locating fugitives, task forces can provide help in serving warrants.
- *Food and Drug Administration (FDA) Task Force.* OIG agents are working on an FDA task force in southern California investigating violations related to FDA-regulated commodities, especially those being imported from overseas into the United States. The task force investigates violations of laws involving all FDA-regulated products, including food, drugs, medical

devices, and cosmetics. Other agencies on the task force are the Los Angeles Police Department (LAPD), Immigration and Custom Enforcement, the U.S. Fish and Wildlife Service, and the National Oceanic and Atmospheric Administration.

- *Arrowhead Counter-Terrorism Task Force.* OIG participates in a group of regional law enforcement and emergency response providers, led by the FBI field office in Duluth, Minnesota, which meets monthly for training sessions and sharing information on various terrorist organizations, as well as related topics, such as crisis response scenarios.
- *Anti-Terrorism Advisory Councils.* In many judicial districts, including the Northern District of Illinois, the Eastern District of Michigan, the Eastern and Western Districts of Missouri, the Northern and Southern Districts of Iowa, and the Districts of Colorado, Kansas, and Minnesota, OIG participates on Anti-Terrorism Advisory Councils. These councils are umbrella organizations including local, State, and Federal agencies and private-sector security representatives which work with the U.S. Attorney's Offices for their geographic areas to disrupt, prevent, and prosecute terrorism through intelligence-sharing, training, strategic planning, policy review, and problem-solving.

ONGOING REVIEWS FOR GOAL 1

- implementation of select agent or toxin regulations—followup (APHIS),
- effectiveness of the smuggling, interdiction, and trade compliance unit (APHIS),

- oversight of research facilities (APHIS),
- assessment of inspection personnel shortages in processing establishments (FSIS),
- application of sampling protocol for testing beef trim for *Escherichia coli* O157:H7 (FSIS),
- inspection of swine slaughter facilities (FSIS),
- food defense verification procedures (FSIS),
- USDA controls over shell egg inspections (FSIS, AMS, APHIS),
- review of appeals of humane handling noncompliance records (FSIS),
- USDA's response to colony collapse disorder (Agricultural Research Service (ARS), National Institute of Food and Agriculture (NIFA), APHIS, Risk Management Agency (RMA), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), National Agricultural Statistics Service (NASS)), and
- the National Organic Program's list of allowed and prohibited substances (AMS).

ONGOING REVIEWS FOR GOAL 1 USING RECOVERY ACT FUNDS

- rehabilitation of flood control dams (NRCS).

OIG's annual plan for future audit and investigative work under this goal may be found online at <http://www.usda.gov/oig/webdocs/2012ABPFinal.pdf>.

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 various USDA benefit and entitlement programs, including a variety of programs that provide payments directly and indirectly to individuals or entities. Some of the programs are among the largest in Government: SNAP alone accounted for approximately \$68 billion in FY 2011 benefits, while well over \$25 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 other rural residents. These programs support nutrition, farm production, and rural development.

The \$28 billion in funding USDA received under the Recovery Act is being 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 for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture.”

To carry out these oversight responsibilities, OIG works with USDA and the Inspector General community, as well as the Government Accountability Office and the Recovery Accountability and Transparency Board (Recovery Board). Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work. It can be found on our website at <http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf>.

As of September 30, 2011, we had 42 Recovery Act audit projects both planned and in process. Since February 17, 2009, we have completed 33 audits and issued 59 *fast reports* (quick turnaround reports intended to alert management to immediate Recovery Act issues). There are 35 Recovery Act projects currently ongoing, and 7 scheduled to begin in FY 2012.

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 have worked to ensure the integrity of Recovery Act programs by investigating potential fraud as warranted, pursuing prosecutions, and overseeing a Recovery Act whistleblower investigation program. We continue to work closely with the Recovery Board and other IG offices to coordinate analytic and investigative work into potential Recovery Act fraud. Since February 2009, investigators have participated in 125 meetings, outreach activities, and training sessions with our Federal, State, and local partners to increase fraud awareness. We continue to expeditiously process hotline complaints related to the Recovery Act and track them closely in order to meet the timeframes specified in the law. We also search for trends in the problems being reported in the use of Recovery Act funds.

In the second half of FY 2011, we devoted 50 percent of our total direct resources to Goal 2, with 96.8 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 70 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued seven audit reports and three Recovery Act *fast reports* under Goal 2 during this reporting period. OIG’s investigations under Goal 2 yielded 288 indictments, 139 convictions, and about \$51.7 million in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 2

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

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Private Approved Insurance Providers (AIP) Did Not Follow RMA's Established Loss Adjustment Procedures

When Hurricane Wilma struck Florida on October 24, 2005, it damaged citrus crops that many producers had insured with insurance policies reinsured by RMA. Though these policies were sold and serviced by AIPs, RMA reinsures losses the AIPs suffer. Based on our review of 144 claims, we found that two AIPs paid \$37 million in indemnities, but did so by circumventing established procedures for adjusting citrus losses. They did not follow RMA's general loss procedures for adjusting citrus losses nor the emergency loss procedures RMA issued to expedite Hurricane Wilma-related payments. Instead, they used procedures or allowed options that were not approved by RMA, essentially indemnifying producers based on an average yield even though the producers had farming records that would have helped the AIPs more accurately determine the producers' actual losses.

We recommended that the two AIPs needed to review all Florida citrus indemnities for which the AIPs requested average yields from RMA and recalculate and correct those indemnities. If the AIPs cannot recalculate the correct indemnities payable to citrus producers using RMA-approved procedures, then RMA needs to follow the Standard Reinsurance Agreement and deny reinsurance for indemnities totaling up to \$44.1 million. RMA agreed with our recommendations. (Audit Report 05099-0029-At, Citrus Crop Indemnity Payments from Hurricane Wilma in Florida)

USDA Agencies Need To Improve the Data-Gathering Process Contributing to NASS' County Yield Estimates

USDA and several of its agencies rely on data generated by NASS to accurately estimate average county yields and issue payments to producers who have been negatively affected by the weather. Based on our review of NASS' methodology for estimating these yields, we concluded that NASS is providing reasonably accurate and reliable information.

During the course of the audit, however, we learned that duplicate records in FSA's crop acreage database led to NASS

overstating crop estimates in October 2008. We traced this issue to FSA not adequately overseeing this data system and validating the data it contained. NASS can improve its data collection (and county yield estimates) by supplementing its data, comparing that data with RMA's information, and by entering into formal data-sharing agreements with RMA and FSA. NASS agreed with our recommendation to use RMA's data to cross-check and supplement its process for generating county-level yield estimates. The agencies also agreed to develop a formal agreement that maximizes NASS' full, ongoing access to RMA's data and to institute the controls necessary to ensure the integrity of the data provided. (Audit Report 50601-0015-KC, NASS Establishment of Average Yields)

NRCS Needs To Improve How Michigan Reviews Conservation Easement Appraisals for the Farm and Ranch Lands Protection Program (FRPP)

Through FRPP, NRCS provides Federal funds to organizations to purchase conservation easements in order to keep selected parcels of land from being developed for non-agricultural purposes, such as housing. Based on our evaluation of NRCS' appraisal process and the agency's controls over FRPP in Michigan, OIG questioned \$7.6 million of the total \$11.5 million NRCS paid for these easements since FY 2006. The NRCS State office accepted conservation easement appraisals even though they did not meet standards or were unsupported in three of the six cases we reviewed. Additionally, we found that the State office failed to identify that 20 of the 34 conservation easements, closed since FY 2006, had outdated appraisals which were over 12 months old at the time of conservation easement closing and may not have reflected current fair market value. We recommended that NRCS review all pending FRPP conservation easement appraisals in Michigan to ensure that all have gone through the required review process and will be less than 12 months old at closing. NRCS generally agreed with our findings and agreed to implement the recommended corrective actions. (Audit Report 10099-0003-Ch, Natural Resources Conservation Service Controls over the Farm and Ranch Lands Protection Program in Michigan)

Rural Development Takes Action To Replace and Debar a Rural Rental Housing (RRH) Program Management Company That Failed to Responsibly Operate Low-Income Apartment Complexes

As part of a nationwide examination of the RRH Program, which helps to ensure that affordable housing is available in rural areas, we reviewed a management company operating two apartment complexes to determine if the company was physically maintaining its apartments and managing them according to program requirements. We found that the apartment complexes managed by this company needed immediate attention to prevent further deterioration of the buildings and to ensure the tenants' safety. We also found that the company charged about \$153,000 in unallowable costs to the operating accounts we audited for a 3-year period. We recommended that Rural Development take action to replace the current company with another, more responsible company, and also refer the current management company and its principals to suspension and debarment officials for possible action to protect all Federal programs from these non-responsible individuals. Additionally, we recommended that Rural Development officials recover approximately \$153,000 in unallowable costs. Agency officials generally agreed with our findings and recommendations. Since our nationwide audit of the RRH Program is ongoing, we plan to include this issue in a report addressing broader program concerns. (Audit Report 04601-0020-Ch, Rural Rental Housing Management Company)

Problems Found With Rural Cooperative Development Grant Program Eligibility and Grant Fund Use by Missouri Entity

At the request of the Missouri State Rural Development Office, we audited the grants awarded to a specific recipient through the Rural Cooperative Development Grant Program to determine whether the recipient met eligibility requirements and properly used funds. We found that the recipient submitted duplicate invoices for reimbursement to both USDA and a Missouri State agency and failed to disclose significant conflicts of interest. We also found problems with how the State office serviced the grants. OIG recommended several actions, including recovering approximately \$65,000 in reimbursements based on duplicate invoices, stopping award

funds to the recipient that had not yet been disbursed, and creating a new requirement for grant recipients to list their other Federal or State grant sources. Rural Development agreed with two of the six recommendations, and we continue to work towards resolving those remaining. (Audit Report 34004-0001-KC, Rural Cooperative Development Grant Program Eligibility and Grant Fund Use of Missouri Entity)

Louisiana Physician Sentenced for Defrauding FSA

An OIG investigation showed that a Louisiana doctor defrauded FSA by selling 4.5 million pounds of rice but never reporting the production. FSA later determined that the doctor's farming operation would not have been eligible to receive disaster benefits or an emergency loan totaling \$477,792 if the correct production had been reported. Additionally, OIG's investigation found that the doctor disposed of farm equipment, cotton gin equipment, and an airplane, all pledged as security for the emergency loan. None of the proceeds received from the sales of the aforementioned property were applied to FSA's loan, as required. In April 2011, in U.S. District Court, Western District of Louisiana, the doctor was sentenced to 24 months' incarceration, 36 months' probation, and ordered to pay \$344,515 in restitution.

Iowa Woman Illegally Sold Mortgaged Cattle

An Iowa woman was convicted of illegally converting 49 head of cattle, valued at \$49,779, which had been mortgaged as collateral in exchange for two FSA-guaranteed farm operating loans. In February 2011, the woman was indicted in U.S. District Court, Northern District of Iowa, on one count of conversion. In April 2011, she pled guilty and agreed to pay restitution in the amount of \$49,779. The woman was sentenced in August 2011 to 6 months' imprisonment and 3 years of supervised release.

Oklahoma Cattle Producer Made False Statements Regarding Conversion of Collateral for an FSA Guaranteed Loan

In June 2011, an Oklahoma cattle producer was sentenced in U.S. District Court, Western District of Oklahoma, to 20 days in jail and 5 years' probation and was ordered to complete 104 hours of community service for making false statements during an official criminal investigation regarding his conversion of livestock pledged as security for his FSA

guaranteed loan. In addition, the producer was ordered to pay \$149,169 in restitution. This investigation was worked jointly with the Federal Deposit Insurance Corporation-OIG and the FBI.

North Dakota Rancher Sentenced for Engaging in Multiple Fraud Schemes

In August 2011, a North Dakota rancher was sentenced in U.S. District Court, District of North Dakota, to 24 months' probation and ordered to pay \$279,618 in restitution to FSA for making false statements and accepting FSA loans for cattle that he did not own. Our investigation showed that, by exaggerating the number of cattle, the rancher was able to obtain FSA loans totaling \$390,000. The rancher also used those same false numbers to obtain an additional loan for \$191,900 from a local credit union.

New York Non-Profit Organization Chief Executive Officer (CEO) Forges FSA Employee's Signature in Loan Fraud Scheme

In 2009, an FSA employee was contacted by two financial institutions in regard to a grant agreement, which USDA had supposedly entered into with a New York City non-profit organization; however, when FSA reviewed a copy of the grant agreement, it was clear that the signature of the FSA employee on the document had been forged. OIG's investigation revealed that the CEO of the New York non-profit had signed the document himself and had attempted to use the fraudulent USDA grant agreement as collateral to obtain loans. The loans were denied when the fraud was discovered. In July 2011, the CEO was found guilty of two counts of wire fraud in U.S. District Court, Southern District of New York. His sentencing is pending. This investigation was worked jointly with the U.S. Secret Service.

California Farmer Convicted of Making False Crop Insurance Claims

An OIG investigation revealed that a California farmer filed six crop insurance benefit claims between 2001 and 2005 and received \$383,053 in crop insurance payments. To support these claims, he filed false statements with RMA and other USDA agencies regarding his ownership interest, crops planted, and total acreage planted. In February 2011, a jury in U.S. District Court, Eastern District of California, found him guilty of 16 counts of false statements. In July 2011, the

farmer was sentenced to 30 months in prison, followed by 36 months of supervised release, and ordered to pay \$221,516 in fines and restitution. Also, in June 2011, under the civil false claims statute, a judgment was entered against the farmer in the amount of \$500,000, representing damages, penalties, and costs authorized. The farmer was placed on a 2-year repayment plan; if he does not default on the scheduled payments, the civil judgment will be reduced to \$400,000.

Colorado Companies Pay \$131,000 in Civil Settlement for Crop Insurance Investigation

In order to obtain sales revenue in addition to undeserved insurance payments, two potato production companies in Colorado marketed and sold potatoes they had previously falsely reported to the Federal Crop Insurance Corporation (FCIC) as being destroyed. In 2004, the companies certified to FCIC that they had destroyed their entire potato crops—approximately 19 million pounds of potatoes, which they falsely claimed had been damaged by freezing temperatures. As a result, these two companies received approximately \$405,000 in indemnity payments to which they were not entitled. In addition, OIG found that the loss adjuster who worked these claims for the insurance company failed to follow proper policy and procedures, which allowed the false certification to be processed. In June and July 2011, the two potato production companies and the insurance company collectively agreed to pay the Government \$131,000 to resolve allegations that they submitted false statements to USDA in connection with crop losses.

More North Carolina Farmers Sentenced in Crop Insurance Fraud Investigation

In the *SARC, First Half of FY 2011*, OIG reported that a large number of farmers in North Carolina concealed their tobacco production and then subsequently filed false crop insurance claims and disaster claims based on non-existent losses. Sentencing related to this case continues. In July 2011, a farmer was sentenced to 1 day in prison, 60 months' probation, and was ordered to pay \$267,187 in restitution for his involvement in the scheme. Another farmer was sentenced in September 2011 to 1 day in prison, 36 months' probation, and was ordered to pay \$138,777 in restitution. The court also ordered that both farmers be excluded for 24 months from USDA programs.

New Mexico Farmer Sentenced for Committing Tax Fraud

In August 2011, a New Mexico farmer was sentenced in U.S. District Court, District of New Mexico, to 60 months in prison, followed by 36 months' probation, and was ordered to pay \$18.2 million in restitution for failing to file personal income tax returns since 1986. The individual in question also provided fictitious Employer Identification Numbers to FSA in order to collect Federal farm aid totaling over \$225,000. OIG first reported this farmer's conviction in the *SARC, Second Half of FY 2010*.

Farmer Used Identity Theft Scheme To Obtain Crop Insurance Benefits

Our investigation found that a Minnesota farmer who was barred from participating in FCIC's crop insurance program used aliases and stole six social security numbers—including those of his girlfriend, his brother, and his deceased father—to illegally obtain 12 crop insurance policies. In October 2009, he was charged in U.S. District Court, District of Minnesota, with four counts of making false statements. He pled guilty to one count of making false statements and was sentenced in October 2010 to 5 years' probation and ordered to pay FCIC \$48,445. He was also excluded from participating in any USDA programs for 5 years. The farmer subsequently appealed the sentence and the sentence was upheld by the U.S. Court of Appeals for the Eighth Circuit in April 2011.

SNAP Trafficking

A significant portion of OIG's investigative resources are dedicated to ensuring the integrity of SNAP by combating the practice of exchanging benefits for cash. Working closely with FNS, OIG has concluded the following SNAP-related investigations and prosecutions in the second half of FY 2011:

- **Brooklyn Store Owner's Son Sentenced for SNAP Trafficking**—From September 2007 to September 2009, the owner of a Brooklyn food store and her son exchanged SNAP benefits for cash in a series of trafficking transactions that amounted to \$1.4 million. In September 2009, in U.S. District Court for the Eastern District of New York, the store owner and her son were charged with conspiracy to commit SNAP trafficking. The owner's son fled, but was apprehended in Florida in July 2010. The son pled guilty to conspiracy to commit SNAP trafficking and, in June

2011, was sentenced to 15 months' imprisonment. He was also ordered to pay restitution totaling approximately \$1.4 million jointly and severally with his mother. His mother's sentencing was previously reported in the *SARC, First Half of FY 2011*.

- **Deported Criminal Returns to United States and Resumes EBT Fraud**—In 1996, following an OIG investigation, a Connecticut store owner was convicted of food stamp trafficking fraud and, as a result, was deported. He illegally re-entered the United States in 2000. With the assistance of an accountant, he opened several stores using other individuals' names. The false owners of these stores signed their names on FNS documents to obtain authorization to accept SNAP benefits, but the subject, his wife, and his brother actually operated these stores and used them to perpetrate a significant volume of SNAP electronic benefit transfer (EBT) fraud. OIG again investigated and all three were charged with fraud in U.S. District Court, District of Connecticut. The store owner and his brother pled guilty. The owner was sentenced in June 2011 to 57 months of incarceration, 3 years of probation, and restitution of \$1.7 million, and will again be subject to deportation. His brother was sentenced in May 2011 to 21 months of incarceration, 12 months' probation, and restitution to be determined in further court proceedings. Court actions are pending against the store owner's wife.
- **Gas Station Owners Defraud SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Program**—A Grand Rapids, Michigan, family used their gas station to defraud the SNAP and WIC programs of approximately \$200,000 over a 3-year period. Because the owners and employees exchanged WIC and SNAP benefits for cash and accepted benefits in exchange for tobacco products and cell phone minutes, they were redeeming approximately \$25,000 a month in SNAP benefits while competitors in the area were redeeming only \$2,800. During the course of the investigation, the owner admitted to using the proceeds of this fraud to purchase a BMW automobile, which was seized by OIG. Agents also seized approximately \$80,000 in cash from the gas station and the owner's residence during the investigation. Each family member was indicted on charges of SNAP and WIC fraud, conspiracy, and money laundering. In July 2011, four individuals were sentenced to incarceration periods ranging from 21 to 27 months, restitution of \$197,235, and \$30,000 in fines. Two of the subjects resided in the United States illegally and are expected to be deported.

- **Detroit Brothers Once Again Defraud SNAP**—In April 2011, a Detroit, Michigan, store owner and his brother, who were disqualified from the Food Stamp Program in 2002 after a previous trafficking investigation, were sentenced in U.S. District Court, Eastern District of Michigan, to incarceration periods ranging from 12 to 27 months, 2 years' supervised release, and \$679,232 in restitution. A store employee was also sentenced to 4 years' probation, 4 months' home confinement, and ordered to pay \$41,000 in restitution. Our investigation found that, from November 2007 to August 2009, the brothers bought SNAP benefits from recipients for approximately 50 cents on the dollar on the same site where they had previously committed trafficking fraud. Agents seized approximately \$97,000 in fraudulent profits subject to forfeiture. This investigation was conducted jointly with the Internal Revenue Service Criminal Investigations division and the Michigan State Police.
- **Cincinnati Store Exchanges SNAP Benefits for Drugs and Weapons**—A 2-year joint criminal investigation led by USDA OIG disclosed that the owner, manager, and employees of two SNAP-authorized retailers in Cincinnati exchanged SNAP benefits for firearms, cash, stolen tobacco products, narcotics, and drug paraphernalia. In April 2011, two store employees, who were brothers, were sentenced in U.S. District Court, Southern District of Ohio, to 51 months' incarceration followed by 3 years' supervised release, and were ordered to pay fines. The men's mother was sentenced in May 2011 in an Ohio county court to time served, 6 months' home confinement, 3 years' supervised release, and court costs of \$100 after agents found SNAP EBT cards in her purse while searching for evidence involving her sons' illegal SNAP trafficking. Their father was sentenced to probation in September 2011 in Hamilton County, Ohio Court of Common Pleas, after he pled guilty to SNAP fraud and receipt of stolen property. One of the store owners and a manager are scheduled to be tried criminally in Hamilton County later this year for illegal use of SNAP benefits. This investigation was conducted jointly with the U.S. Secret Service; the Bureau of Alcohol, Tobacco, Firearms and Explosives; the Ohio Department of Public Safety Investigative Unit; and the Cincinnati Police Department.
- **Chicago Store Owner Defrauds SNAP and Bribes a Public Official**—From April 2004 through September 2005, a Chicago store redeemed more than \$800,000 in SNAP benefits, despite the fact that its reported food sales fell short of \$280,000. Due to our investigation, the store's owner pled guilty in Federal court for the Northern District of Illinois, to charges including wire fraud, aiding and abetting, and bribery of a public official. In August 2010, the store owner fled the United States, resulting in the forfeiture of his \$100,000 home; he was subsequently extradited to the United States to face charges. In June 2011, the owner was sentenced to 36 months in prison and was ordered to pay \$549,614 in restitution. The judge also granted an order of forfeiture in the amount of \$549,614.
- **Illinois Convenience Store Manager Imprisoned for \$1.5 Million in SNAP Fraud**—An OIG investigation found that both the owner and the manager of a store in Washington Park, Illinois, who were brothers, were trafficking in EBT benefits between October 2004 and October 2008. During the investigation, OIG discovered that the owner of the Washington Park store also owned a store in St. Louis, Missouri, and that his brother was managing that store and trafficking in SNAP EBT benefits there as well. The manager was arrested in May 2010 and charged with SNAP fraud to which he pled guilty. In June 2011, in U.S. District Court, Southern District of Illinois, the manager was sentenced to 33 months of imprisonment and ordered to pay \$1.5 million in restitution for his role in SNAP trafficking at the Illinois store. After he completes his Federal prison sentence, he is subject to deportation to Jordan. The owner fled the country and is currently in Jordan.
- **Two California Men Sentenced for SNAP Trafficking**—In November 2008, OIG received information from an individual alleging that a parking attendant in Pasadena, California, was exchanging cash for SNAP benefits from homeless recipients in the local community. In February 2011, OIG and the Pasadena Police Department executed search warrants that uncovered multiple EBT cards in the man's possession, as well as \$2,000 in cash. On the same day, the defendant was arrested for grand theft. In March 2011, the man was charged in State court with food stamp trafficking and receiving stolen property. An individual who was involved in criminal activities with the parking lot attendant was later charged with welfare fraud, receiving stolen property, and conspiring to commit a crime. Both subjects pled guilty in June 2011. The parking lot attendant was sentenced to serve 5 years' probation, perform 180 hours of community labor, and pay restitution of \$6,200. The accomplice was sentenced to 3 years' probation and was ordered to be deported to Mexico.

California Retail Theft Ring Sentenced for Selling Stolen Infant Formula

In July 2008, OIG received a lead concerning a California business that was reportedly purchasing large quantities of stolen infant formula. Working jointly with the LAPD and the FBI, OIG learned that multiple individuals were involved in an expansive organized retail theft ring which controlled a large-scale “fencing” operation where they purchased stolen items from “boosters,” teams of thieves that steal from grocery and pharmacy stores. The investigation disclosed that the theft ring paid boosters between \$5 and \$10 for cans of infant formula that normally sell for between \$15 and \$30. They then sold the formula to a distributor for resale. During the investigation, there was indication that the formula may have been repackaged and the expiration dates changed. In addition, safety concerns centered around the storage of the formula since it was removed from normal distribution channels.

In August 2010, agents from OIG, LAPD Major Crimes, and FBI Counter Terrorism conducted search and seizure operations at homes and storage locations used to fence stolen infant formula. They seized more than \$100,000 in currency and more than 7,000 cans of infant formula. Three individuals were arrested and charged in California State Court with criminal violations, including receipt of stolen property and money laundering. In April 2011, two of the three defendants pled guilty to California penal violations. One defendant was sentenced to 2 years in State prison, ordered to pay \$20,000 in restitution, and fined \$270. The second defendant was sentenced to 16 months in State prison and fined \$270. In August 2011, a third defendant was sentenced to 16 months in State prison and ordered to pay \$26,477 in fines and restitution. Three other individuals remain at large.

Former Nutrition Specialist of a Day Care Sponsor Sentenced to Prison for Child and Adult Care Food Program (CACFP) Fraud

A joint investigation by OIG, the U.S. Department of Health and Human Services’ OIG, and the FBI determined that the former nutrition specialist of a day care sponsoring organization in Georgia submitted false claims to receive excessive CACFP reimbursements and then laundered the proceeds through local businesses. In June 2011, the former nutrition director was

sentenced in U.S. District Court, Southern District of Georgia, to 33 months in prison, followed by 36 months’ probation, and ordered to pay \$173,257 in restitution. The court also ordered the forfeiture of BMW and Audi automobiles.

Former Private School Administrator Pleads Guilty To Defrauding the Child Nutrition Program

We found that, from September 2005 to April 2006, a former administrator of a private charter school in Wisconsin submitted false meal reimbursement claims for more than 117,948 meals, totaling at least \$165,913, to the Wisconsin Department of Public Instruction. These false meal claims allowed the school to fraudulently receive more CACFP funds than it was entitled to. In January 2011, in U.S. District Court, Eastern District of Wisconsin, the former administrator of the school was charged with five counts of mail fraud and one count of money laundering. He pled guilty to one count of mail fraud and one count of money laundering in March 2011. In August 2011, the former administrator was sentenced to 18 months of incarceration and 3 years of probation. He was also ordered to pay \$160,124 in restitution to the Wisconsin Department of Public Instruction.

Food Service Director Defrauds National School Lunch Program (NSLP)

From 2002 to 2005, a Michigan school district’s food service director submitted false claims to the Michigan Department of Education for meal reimbursement under NSLP and the School Breakfast Program. Our investigation disclosed that this individual substantially misrepresented meal counts, claimed higher reimbursement rates, and submitted reimbursement claims for meals served to students who were not eligible to participate in the program. The director also embezzled funds paid to the school district for catering services. In December 2007, the Michigan Department of Education allowed the school district to forfeit \$341,208 of its future NSLP payments and immediately repay \$65,810 in order to settle excess claims that had been made. In July 2011, after a jury trial in U.S. District Court, Eastern District of Michigan, the former food service director was convicted of defrauding NSLP. He was sentenced to 12 months in a community corrections center, 3 years’ probation, and ordered to pay a special assessment of \$100. This investigation was conducted jointly with the FBI.

RECOVERY ACT REVIEWS

Rural Development provides loans to families in rural areas to help ensure that they have access to affordable housing. Because the Recovery Act provided a total of \$11.5 billion in additional loans for the Single Family Housing Program, OIG has performed substantial audit work on both direct loans and the guaranteed loans Rural Development provides as part of this program.

Rural Development Can Improve How It Determines if Borrowers Are Eligible for Direct Single Family Housing Recovery Act Loans

As part of OIG's ongoing work to review over \$1 billion in Recovery Act funds allotted to the Single Family Housing Direct Loan Program, we evaluated whether Rural Development field staff complied with the agency's internal control procedures for making loans, and whether the homes and borrowers in the program met eligibility guidelines. From a statistical sample of 100 of the 8,100 loans that had closed as of June 30, 2010, we identified 18 with questionable borrower eligibility determinations. We found that Rural Development field personnel approved borrowers who had no history of stable and dependable income, had credit histories that did not indicate the ability and willingness to repay a loan, and could not meet repayment ability guidelines. Based on our results, we estimate that 1,450 loans with a projected total value of \$173 million may have been made to similarly ineligible or high-risk borrowers. We recommended further training, improved guidance, and more detailed underwriting tools for field personnel. Rural Development generally agreed with our recommendations regarding the need for more training and improved guidance and tools and is reviewing each of the 18 loans in question. Because this review is ongoing, RHS has not agreed with our conclusions for each of the 18 loans or our estimate that 1,450 loans could have been made to ineligible or high-risk borrowers. (*Fast Report* Audit 04703-0003-KC (1) Single Family Housing Direct Loans Recovery Act Controls—Compliance Review of Borrowers' Eligibility)

Rural Development Can Improve How It Determines if Borrowers Are Eligible for Single Family Housing Recovery Act Loan Guarantees

In order to evaluate the eligibility of borrowers who obtained single family housing loan guarantees from funds authorized by

the Recovery Act, we reviewed a statistical sample of 100 loans drawn from the overall portfolio of more than 81,000 loans—worth more than \$10 billion in Recovery Act obligations. Of these 100 loans, we found that the borrowers for 33 loans were ineligible because they did not demonstrate their ability to repay the loan, they exceeded income requirements, they possessed sufficient financial resources to obtain loans without a Government guarantee, or they already owned adequate housing in their local commuting areas. Additionally, three borrowers purchased homes with swimming pools, which the Recovery Act specifically prohibits.

Based on these results, we estimated that 30,310 loans (almost 37 percent of the overall portfolio) were ineligible with a projected total value of \$4.16 billion. Included in our overall results, we projected that 11,661 loans (over 14 percent of the overall Recovery Act portfolio), with a total value of \$1.3 billion, were made to ineligible borrowers who are at greater risk of defaulting on their loans. We had initially reported these issues in a December 2010 *fast report* to agency officials for their immediate attention. In the final report, we made 29 recommendations to Rural Development. These recommendations were intended to improve the Single Family Housing Guaranteed Loan Program as a whole, as well as correct problems with loans guaranteed with Recovery Act funding. Agency officials generally supported the need for program improvement and agreed with our recommendations, but did not agree with some of the audit findings. (04703-0002-Ch, Controls over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds—Phase 2)

RUS Needs To Report More Complete Information Concerning the Timing of Recovery Act Water and Waste Disposal Projects

RUS' Water and Waste Disposal System Program provides loans and grants to help towns with 10,000 or fewer people improve their sewer, storm water, and solid waste disposal systems. Since the inception of the Recovery Act, RUS has obligated \$3.3 billion in funding for these projects. The agency considers the obligation date the "start" of a project. We found, however, that, due to preconstruction requirements, actual project construction might not begin until months, or even years, after the funds were obligated. For 14 of 22 projects we reviewed, the time between when funds were obligated

and when construction started ranged from 5 to 21 months, while the estimated start of construction for 5 of 22 projects ranged from 25 to 36 months following obligation of funds. By clarifying the time needed to initiate project construction following the obligation of funds and its impact on the timing of spending and job creation, RUS can better inform the public of the water and waste disposal process. We recommended that RUS explain on Recovery.gov the time needed to initiate actual construction for each water and waste disposal project following the obligation of funds, and this timeframe's impact on timing of project spending and jobs created. RUS responded that it is committed to providing the public with information regarding this program and will add the additional information to the appropriate websites. (*Fast Report Audit 09703-0001-At, Rural Utilities Service Needs to Improve Project Transparency for the Water and Waste Disposal System Recovery Act Projects*)

NRCS Needs To Ensure Agreements Include Required Recovery Act Terms

Congress allotted \$145 million in Recovery Act funds to NRCS to assist State and local governments with project plans for watershed protection, flood mitigation, and water quality

improvements. When we examined a sample of 27 watershed operation agreements for projects NRCS decided to fund, we found that none of the agreements included certain award term provisions required by the Recovery Act, which called for unprecedented accountability in the use of funds to promote economic recovery. The lack of clear national policy to include certain provisions led to different interpretations by States. Consequently, grant agreements and local contracts totaling over \$33.6 million may not have been properly implemented. We recommended that NRCS issue guidance concerning the award terms to include in agreements, and that NRCS amend existing agreements to include them. NRCS responded that, although it did not immediately issue a policy, it had provided guidance to the States via the NRCS Recovery Act Sharepoint site. Following our audit, NRCS took corrective action by issuing specific national policy and by directing States to amend the existing active grants and agreements that they had contractual authority to amend. (*Fast Report 10703-0004-KC (1), American Reinvestment and Recovery Act—Watershed Protection and Flood Prevention Operations Program—Grants and Locally Led Contracts Do Not Include All Required Recovery Act Award Terms*)

GOVERNMENT-WIDE ACTIVITIES—GOAL 2

Participation on Committees, Working Groups, and Task Forces

- *Operation Talon.* OIG began Operation Talon in 1997 to catch fugitives, many of them violent offenders, who are current or former SNAP recipients. Since its inception, Operation Talon has led to the arrests of thousands of fugitive felons. During the second half of FY 2011, OIG agents conducted Talon operations in 9 States and made more than 480 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest fugitives for such offenses as arson, assault, blackmail, robbery, sex offenses, weapons violations, drug charges, and offenses against family and children.
- *Bridge Card Enforcement Team.* OIG investigators work with this team to investigate criminal SNAP and WIC violations. Team members include the Michigan State Police and IRS investigators. The FBI and Michigan Department of Human Services-OIG have also helped during search warrant operations. Since 2007, our teamwork has resulted in 116 arrests and 150 search warrants served in Michigan. The U.S. Attorney's Office for the Eastern and Western Districts of Michigan and the Michigan Attorney General's Office are pursuing multiple criminal prosecutions, with cases so far resulting in 93 guilty pleas. Sentences have included lengthy incarceration periods and \$21.1 million in court-ordered fines and restitution. The U.S. Attorney's Office has initiated forfeitures totaling over \$3.2 million.
- *Suspicious Activity Reports Review Teams.* OIG agents in Alabama, Maine, Massachusetts, Iowa, Kentucky, New Hampshire, Michigan, Minnesota, Mississippi, North Carolina, North Dakota, Oregon, South Carolina, and South Dakota participate on suspicious activity review teams which are coordinated by the U.S. Department of Justice through the U.S. Attorney's Offices. These review teams systematically review all reports of suspicious activity that affect a specific geographic jurisdiction, identify individuals who may be engaged in criminal activities, and coordinate and disseminate leads to appropriate agencies for followup. These teams generally include representatives from law

enforcement and various regulatory agencies, with the U.S. Attorney's Office and IRS-Criminal Investigations typically in lead roles. OIG focuses specifically on reports of suspected criminal activities by business entities and individuals involved in USDA programs and operations such as SNAP and WIC violations, stolen infant formula, and farm-related cases.

- *Mortgage Fraud Task Forces.* OIG investigators participate in mortgage fraud task forces in California, Michigan, New Hampshire, and North Carolina, in addition to a national mortgage fraud working group that meets monthly in Washington, D.C. These task forces identify trends, share information, and coordinate investigations related to mortgage fraud. They are working to improve efforts across the Federal executive branch and, with State and local partners, investigate and prosecute significant mortgage crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. The task forces are headed by representatives from U.S. Attorney's Offices and the FBI. They include participants from Federal program agencies and regulatory agencies including the U.S. Department of Housing and Urban Development, the IRS, the Social Security Administration, local district attorney's offices, and police departments.
- *Organized Retail Theft Task Forces.* As a member of the Retail Merchants Association of North Carolina Retail Theft Initiative, OIG agents coordinate, plan, and meet regularly with various retail merchants in North Carolina to discuss a proactive investigative strategy to develop cases involving retail theft. The purpose of this working group is to coordinate investigations of convenience stores and retail outlets which may be involved in the theft and resale of retail property such as infant formula, electronics, and other retail items. As members of the Bay Area Organized Retail Crime Association, OIG agents work with San Francisco Bay Area law enforcement agencies and organized retail crime investigators from major retailers to identify and coordinate action against organized retail theft rings, as well as to identify retail items susceptible to theft by such organized groups of thieves.

- *Western Region Inspectors General Council, Northwest Inspectors General Council, Association of Inspectors General, and other western region working groups, including the North Sound Regional Intelligence Group; the South Sound Regional Intelligence Group, and the Tukwila, Washington, Working Group.* OIG investigators work with these councils and groups to develop Recovery Act training, share information, discuss ongoing and potential work of mutual interest, and strengthen working relationships. In addition, Western Region OIG investigators organize and participate in meetings to enhance coordination between Federal, State, and local law enforcement agencies in the Pacific Northwest.
- OIG agents participated in other task forces and working groups related to benefits fraud, including:
 - *Recovery Act Task Force* in the Pacific Northwest working on a joint investigation based on a Recovery Accountability and Transparency Board referral;
 - *Somali Working Group* in California;
 - *Social Services Fraud Working Task Forces* in Oregon and Washington State; and
 - *SNAP Working Group* in Washington State.
- *Technical Assistance to the National Institute of Food and Agriculture (NIFA).* OIG auditors continue to provide technical assistance to NIFA during its financial and administrative review of one of its grantees.

ONGOING REVIEWS FOR GOAL 2

- validity of new producers (RMA),
- approved insurance providers' reduction of inconsistent yields (RMA),
- 2008 Farm Bill's changes to payment limitation (FSA),
- Biomass Crop Assistance Program—Collection, Harvest, Storage, and Transportation matching payments (FSA),
- Farm Storage Facility Loan Program (FSA),
- Conservation Reserve Program's soil rental rates (FSA),
- oversight of agreements reached in program complaints (Office of the Assistant Secretary for Civil Rights),
- CACFP followup audit (FNS),

- National Organic Program (AMS),
- rural rental housing maintenance cost and inspection procedures (RHS),
- Rural Development procurement (RUS, Rural Business-Cooperative Service (RBS), RHS), and
- NLSP—food service management companies and cost reimbursable contracts (FNS).

ONGOING REVIEWS FOR GOAL 2 USING RECOVERY ACT FUNDS

- Trade Adjustment Assistance for Farmers Program (Foreign Agricultural Service (FAS), FSA, NIFA),
- controls over aquaculture grant funds (FSA),
- Recovery Act supplemental revenue assistance payments (FSA),
- Emergency Watershed Protection Program floodplain easements—non-agricultural land (NRCS),
- Emergency Watershed Protection Program floodplain easements—field confirmations (NRCS),
- Emergency Watershed Protection and Flood Prevention Operations Programs—field confirmations (NRCS),
- Recovery Act impacts on SNAP (FNS),
- State fraud detection efforts for SNAP (FNS),
- rural business enterprise grants (RBS),
- Business and Industry Guaranteed Loan Program (RBS),
- single family housing direct loans—loan file compliance reviews (RHS),
- controls over rural community facilities' direct grant and loan programs (RHS),
- controls over water and waste loans and grants expenditures and effectiveness reviews (RUS), and
- evaluation of loss claims related to funds distributed through single family housing guaranteed loans (RHS).

OIG's annual plan for future audit and investigative work under this goal may be found online at <http://www.usda.gov/oig/webdocs/2012ABPFinal.pdf>.

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, information technology (IT) security and management, research, real property management, employee integrity, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$28.5 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 gain.

In the second half of FY 2011, we devoted 33 percent of our total direct resources to Goal 3, with 99 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 71 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 11 audit reports under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 16 indictments, 16 convictions, and \$14.1 million in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 3

- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 4)
- Continuing Improvements Needed in IT Security
- Strengthen Efforts To Identify, Report, and Reduce Improper Payments
- Implementation of the Recovery Act (also in Goals 2 and 4)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

USDA Needs To Better Secure Its Wireless Handheld Devices

Like other Federal Departments, USDA increasingly relies on smart phones and other handheld wireless devices to conduct its day-to-day business. These devices are small, inexpensive, and powerful, but their portability poses new security risks for Federal agencies. We found that the devices we tested were not adequately secured, according to National Institute of Standards and Technology (NIST) standards. These problems occurred because USDA deployed these devices using a decentralized approach, but did not provide its agencies with clear guidance on how they were to configure their devices and servers. We recommended that OCIO develop NIST-compliant guides and monitor agencies' compliance. We also made a specific recommendation to ARS to centralize its acquisitions and security over its wireless handheld devices. OCIO and ARS generally concurred with the recommendations. Additionally, the Department issued policies that adequately addressed our concerns regarding the management of wireless devices and the roles and responsibilities of the personnel responsible for those devices. (Audit Report 50501-0001-IT, USDA's Management and Security over Wireless Handheld Devices)

APHIS Needs To Establish Better Controls Over Its Information Systems

APHIS implemented a database system in 2006 without ensuring that the system met Federal information systems security requirements. The database system contains private personal information, as well as sensitive information obtained from other agencies and departments. In response to our *fast report*, APHIS officials stated they had already notified the Department's Office of the Chief Information Officer (OCIO) regarding the existence of the database system and would work with OCIO to complete the required certification and accreditation process. APHIS also agreed to review all APHIS servers, using available network scanning tools, develop a complete inventory of systems, and identify any unauthorized systems. (*Fast Report* Audit 33601-0012-Ch (1), Animal and Plant Health Inspection Service Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit)

FSA Needs To Reduce Improper Payments in Programs Intended To Help Farmers Recover From Natural Disasters

In order to assist American farmers and ranchers as they recover from losses caused by natural disasters, FSA operates a number of different programs, including the Supplemental Revenue Assistance Payments Program, the Livestock Forage Disaster Program, the Emergency Conservation Program, the Livestock Indemnity Program, and the Dairy Economic Loss Assistance Program. These five programs made \$2.4 billion in payments in FY 2010. OIG reviewed 130 of those payments and found 18 errors resulted in \$61,714 in improper payments. FSA officials agreed that corrective action was needed and have taken steps to reduce these errors by using additional tools to enhance the manual program payment calculation process. (Audit Report 03024-0001-11, Fiscal Year 2010 Farm Service Agency Farm Assistance Program Payments)

USDA Needs To Improve Its Reporting of High-Dollar Overpayments

As required by Executive Order 13520, Reducing Improper Payments High Dollar Report Review, OIG reviews agencies' quarterly reports on high-dollar overpayments in high-risk programs and makes recommendations, as necessary, to help agencies recover and prevent high-dollar overpayments. According to the executive order, a high-dollar overpayment is one that exceeds 50 percent of the correct amount of the intended payment. Our review of the FY 2010 high-dollar report found that USDA submitted its high-dollar overpayment reports after the deadline, did not report all high-dollar overpayments, and was not accurately reporting its corrective actions. We also determined that USDA's current reporting format for listing overpayment amounts could be misleading. We recommended that the Department and its agencies take steps to formalize and improve their reporting processes. The Department concurred with our recommendations. (Audit Report 50024-0001-FM, Calendar Year 2010)

OCIO/National Information Technology Center (NITC) and Office of the Chief Financial Officer (OCFO)/National Finance Center (NFC) Controls Were Suitably Designed and Operating Effectively

In two separate reports, based on the criteria described in OCIO/NITC and OCFO/NFC assertions, we found the descriptions of controls fairly present the systems that OCIO/NITC and OCFO/NFC implemented. Also, the controls

related to the control objectives stated in the descriptions were suitably designed and operating effectively to provide reasonable assurance that the control objectives would be achieved. (Audit Report 88501-0001-11, Statement on Standard for Attestation Engagements No. 16, Report on Controls at the National Information Technology Center; Audit Report 11401-0002-11, Statement on Standard for Attestation Engagements No. 16, Report on Controls at the National Finance Center)

USDA Retirement, Health, and Life Insurance Withholdings Were Reasonable

As required annually by the Office of Management and Budget (OMB), we assisted the Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health, and life insurance withholdings and employee data submitted by OCFO and NFC. We found no differences that exceeded the allowable OPM thresholds. For FY 2011, however, OPM added procedures for verifying Combined Federal Campaign (CFC) deductions made by the payroll providers. For one pay period, we identified over 5,000 records in NFC's system where the CFC deductions were sent to different campaign areas than those designated by OPM. This represents approximately 5 percent of the total CFC deductions for all entities NFC services. (Audit Report 11401-0001-11, Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

Joint Government Investigation Results in \$8 Million Civil Settlement With Overnight Delivery Company for Falsifying Reasons for Delivery Delays

When a whistleblower alleged that a well-known package delivery service's drivers were abusing delivery delay codes in order to excuse their lateness in delivering packages to Government offices, USDA OIG joined with the U.S. Department of Justice and the General Services Administration OIG to investigate these claims. The investigations team found that the company had falsely coded late deliveries as being delayed by security measures. The falsification of delivery information involved packages delivered to USDA, the General Services Administration, the U.S. Department of Justice, and other Federal agencies. As a result of this joint investigation, the package delivery service agreed to pay the United States an \$8 million civil settlement to settle False Claims Act litigation filed in this case.

FS Employee Receives 60 Months in Prison for Raping a Minor

In April 2011, a FS employee in Oregon pled guilty to State charges of sexually assaulting a 16-year-old girl on FS property the previous summer. He was sentenced to 60 months of incarceration and was also required to register as a sex offender. He resigned from this FS position prior to his sentencing. This case was investigated jointly by OIG and the Harney County, Oregon, Sheriff's Office.

Former FS Accountant Sentenced for Embezzling Over \$1.4 Million

In June 2011, a former FS accountant was sentenced in U.S. District Court, Central District of California, to 4 years' incarceration, followed by 3 years' supervised release, for mail fraud, and was ordered to pay restitution of \$1.1 million. These charges resulted from a year-end review that disclosed that more than \$600,000 was missing from funds the agency collects to provide a service to private vendors in one of the national forests in California. OIG's investigation revealed that an accountant who had worked for FS had embezzled approximately \$1.4 million by redirecting funds from multiple private vendor accounts to a corporation that she and her husband owned. The fraud scheme involved cutting and pasting language from legitimate expired agreements into fraudulent agreements and refund request letters, and then directing Treasury checks to be sent to her corporation's address. During the investigation, OIG and the Secret Service seized more than \$339,000 from her bank account.

USDA Employees' Discount Drug Program at Iowa Labs Results in One Conviction, Other Disciplinary Actions

As reported in the *SARC, 2nd Half of FY 2009*, we conducted an investigation that disclosed that USDA veterinarians and employees located at APHIS laboratory facilities in Iowa ordered prescription drugs from veterinary supply companies for USDA lab employees' private use, beginning in the late 1960s. The employees involved used many of these prescription drugs to treat themselves or family members for various conditions and illnesses. Approximately 67 of the drugs were for human use and normally required a physician's prescription before they could be dispensed.

One laboratory employee facilitated the scheme by taking orders from other employees, placing consolidated orders with the supply companies, and then distributing the drugs upon receipt. In June 2011, this employee was charged and pled guilty in U.S. District Court, Southern District of Iowa, to one count of causing certain drugs to be shipped in interstate commerce. She was sentenced in August 2011 to 1-year probation and fined \$250. The employee had previously been removed from her position. Prior to this reporting period, 12 employees were suspended and 3 resigned as a result of this investigation.

NRCS Employee Pleads Guilty to Defrauding NRCS

In June 2011, in U.S. District Court, Southern District of Mississippi, an NRCS employee entered a guilty plea for submitting false claims to the very agency that employed him. Our investigation found that the employee had submitted a \$22,000 invoice in January 2008 for the construction of a pond on property he owned in Mississippi, even though he only paid the contractor \$15,000 for the pond. Based on this false invoice, NRCS authorized a cost-share payment of \$10,000. Additionally, the NRCS employee obstructed the investigation by bribing the contractor who built the pond to provide false information to investigators. In September 2011, the employee was sentenced to 24 months' probation, 6 months' home confinement, and was ordered to pay more than \$8,000 in fines and restitution. He retired from his position in June 2011.

Rural Development Housing Assistant Diverted Agency Funds for Her Own Use

After receiving an allegation that a Rural Development housing assistant in Wisconsin was diverting agency funds to pay her personal real estate taxes, OIG investigated and found that the housing assistant had embezzled \$5,162 from the Rural Development loan cost fund by directing at least two payments to be issued to pay her county tax bill. In July 2011, the woman pled guilty to felony theft in U.S. District Court, Western District of Wisconsin. She was sentenced to 90 days of house arrest, followed by 24 months' probation, and was ordered to pay \$2,433 in restitution.

FSIS Inspector Fired for Accepting Gifts from Those He Was Inspecting

In June 2011, an FSIS inspector in North Dakota was fired from his position for accepting gifts from those he was responsible for inspecting. As part of his official duties,

this employee inspected meat that was entering the United States from Canada. During our investigation, the employee admitted that he regularly accepted turkey, bacon, and ham from a crew that was subcontracted by USDA. This crew unloaded the meat and provided the inspector with “gifts” for his work.

RECOVERY ACT REVIEWS

FNS Needs To Ensure the Accuracy of Reported Recovery Act Information

The Recovery Act authorized FNS to award \$100 million to help State agencies establish, improve, and administer management information systems for WIC. FNS adhered to the Recovery Act and related OMB guidance in awarding grant funds to this program and used funds for their intended purpose; however, one of the five WIC State agencies tested did not submit proper documentation to FederalReporting.gov and two of the five State agencies did not have a process in place to ensure the accuracy of the number of jobs they reported as created. We recommended that FNS develop and implement an effective process to verify that its reports related to Recovery Act expenditures are accurate and supported by documentation. FNS concurred with our recommendations, and all corrective actions have been completed. (Audit Report 27703-0001-IT, American Recovery and Reinvestment Act Spending for Food and Nutrition Service Special Supplemental Nutrition Program for Women, Infants, and Children Management Information Systems)

ARS Needs To Improve Its Processes for Contracting With Private Companies for Maintenance

The Recovery Act provided ARS with \$176 million to perform critical maintenance of buildings and facilities that had been deferred over a number of years, including buildings at the Jean Mayer Human Nutrition Research Center for Aging, located in Boston, Massachusetts; the Southeast Poultry Research Laboratory in Athens, Georgia; and the National Agricultural Library in Beltsville, Maryland. In order to ensure that ARS met the high standards of accountability and transparency required by the Recovery Act, OIG contracted with a commercial firm to review how ARS administered the maintenance contracts it undertook with private companies.

- In the Maryland contract, we found that ARS did not have a formal, structured, and clearly communicated acquisition planning process, did not perform legal review

procedures, and did not publish its rationale for awarding a sole-source contract on FedBizOpps.gov. Accordingly, we recommended that ARS issue and implement a formalized acquisition planning process that would include the appropriate steps such as following legal review procedures and reporting contract award requirements. OIG continues to work with the agency to resolve this recommendation. (Audit Report 02703-0003-HQ, Agricultural Research Service General Procurement Oversight Audit of Beltsville’s Agricultural Research Service’s National Agricultural Library Bricks Repair Contract Awarded to Vigil Contracting, Inc.)

- In the Georgia contract, we found that, although ARS developed new Recovery Act recipient reporting procedures, it needed to improve how it reported which recipients were receiving Recovery Act funds. We also noted that ARS did not document how it planned its acquisitions, or other elements of the contract. ARS officials agreed that they needed to correct these aspects of its contracting process and have taken the appropriate corrective action. (Audit Report 02703-0004-HQ, Agricultural Research Service General Procurement Oversight Audit of Southeast Poultry Research Laboratory, Replacement of Critical Mechanical Systems Serving Buildings 1, 4, and 34 Contract Awarded to Peachtree Mechanical, Inc.)
- In the Massachusetts contract, we found that ARS’ Facilities Division delayed the publication of a contract modification on FedBizOpps.gov and did not include the modification price in the post-award notice. ARS concurred with our recommendations and has implemented corrective action. OIG also noted that ARS was assessed a late payment fee due to a prompt payment issue. Because we noted that this issue was due to the transition from one accounting system to another and subsequent invoices were paid in a timely manner, we did not make a recommendation on this issue. (Audit Report 02703-0005-HQ, Agricultural Research Service Procurement Oversight Audit of Architect-Engineer Services Contract Awarded by Agricultural Research Service to Delta Engineers and Architects, P.C.)
- Also in Massachusetts, OIG found that ARS did not document how it planned its acquisitions, did not request a legal review of its solicitation process, and did not properly publicize the rationale for awarding the contract on a sole-source, non-competitive basis. OIG also noted that ARS was assessed a late payment fee due to a prompt payment issue. Since OIG had already reported these issues to ARS, we made no additional recommendations. (Audit Report 02703-0006-HQ, Procurement Oversight Audit of Construction Contract Awarded by Agricultural Research Service to Veterans Construction, LLC)

GOVERNMENT-WIDE ACTIVITIES—GOAL 3

Participation on Committees, Working Groups, and Task Forces

- *Financial Fraud Enforcement Task Force (formerly National Procurement Fraud Task Force).* OIG is a member of this task force, formed by the U.S. Department of Justice in October 2006 as a partnership among Federal agencies charged with investigating and prosecuting Government contracting and grant illegalities. The purpose of the task force has been expanded to include a wider variety of financial crimes, from securities fraud to identity theft crimes. The task force is working to better allocate resources, improve coordination in financial fraud cases, and accelerate their investigation and prosecution. OIG investigations field offices in all OIG regions participate in procurement fraud task forces initiated by the local U.S. Attorney's Offices. As one example of procurement fraud work being done in the field, OIG and other investigative agencies in the Dallas/Fort Worth area are cooperating on procurement fraud investigations under the guidance of the Affirmative Civil Enforcement Division of the U.S. Attorney's Office, Northern District of Texas, by sharing information on activities, cases, techniques, and current trends. The Counsel to the IG participates as a member of the task force's legislation committee.
- *The FBI's Heart of America Regional Computer Forensics Laboratory.* OIG's National Computer Forensics Division currently details one examiner to the FBI's Heart of America Regional Computer Forensics Laboratory in Kansas City, Missouri. Our analyst works with the laboratory and has helped us obtain direct access to regional laboratories, training, samples of applicable policies and procedures, and, when needed, FBI assistance for OIG computer forensic work.
- *The FBI's Public Corruption Working Group.* An OIG agent is a member of this relatively new group, which is focused on combating corruption by Government officials and employees. Other member agencies include the U.S. Department of Housing and Urban Development-OIG, the Mississippi Attorney General's Office, and Internal Affairs of the Jackson, Mississippi, Police Department.
- *Financial Statement Audit Network (FSAN) Workgroup.* OIG auditors are members of the FSAN workgroup which consists of auditors from numerous Federal agencies. FSAN's main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits. In conjunction with FSAN, OIG hosts an annual financial statement audit conference.
- *Intra-Departmental Coordinating Committee on International Affairs.* OIG auditors continue to serve on this committee. Headed by FAS, part of the purpose of the committee, which includes most USDA agencies, is to coordinate international activities. Some of the committee's issues include USDA's role in implementing the President's national export initiative and the Department's global market strategy; reconstruction in Haiti, Pakistan, and Afghanistan; and international food security and assistance. Our comments on a draft of the Department's global market strategy stressed the need for performance measures and milestones.
- *Afghanistan Country Team.* As part of our committee involvement, OIG also attends the Afghanistan country team meetings, during which we learned that the Department was receiving funds from the United States Agency for International Development (USAID) under the Foreign Assistance Act to help reconstruction and development. Section 632(a) of the Act gives audit and fiduciary responsibilities to USDA-OIG, and so we continue to work with the Department and USAID to ensure accountability and oversight for grants and agreements that use these funds.
- *Interagency Suspension and Debarment Committee.* OIG continues to serve on this committee, which works to advance the use of suspension and debarment as a Federal enforcement option.
- *Acreage/Crop Reporting Streamlining Initiative.* OIG continues to participate in this project. The goal of this Department-wide initiative is "to have a common USDA framework for producer commodity reporting in support of USDA programs." The objectives are to (1) develop data standards for collection, reporting, and maintenance of USDA program data and a multi-agency governance process; (2) publish the standards to support their adoption in agriculture service providers'

systems; (3) establish a process to share and leverage data across agency systems; and (4) provide producers the option to report directly to a consolidated USDA reporting site.

ONGOING REVIEWS FOR GOAL 3

- Section 632(a) funds provided by USAID to USDA (FAS, APHIS, ARS, NIFA),
- international trade policy and procedures (FAS, FSIS, ARS, APHIS, FS, AMS),
- private voluntary organization grant fund accountability (FAS),
- Departmental management and oversight of the April 2010 oil spill—Deepwater Horizon (NRCS),
- review of NRCS’ oversight and compliance activities (NRCS),
- Department and stand-alone agencies’ financial statements for FY 2011 (OCFO),
- oversight of federally authorized research and promotion board activities, including the Beef Research and Promotion Board (AMS),
- followup on FS working capital fund audits (FS),
- FS acquisition of IT software and hardware (FS),
- International Technology Service’s selected controls review (OCIO),

- USDA’s purchase and travel charge card usage compliance (USDA),
- USDA’s security over domain name system servers (OCIO),
- OCIO’s FY 2010 funding (OCIO),
- FY 2011 Federal Information System Management Act (OCIO), and
- distribution of settlement funds for discrimination litigation (Office of the Assistant Secretary for Civil Rights).

ONGOING REVIEWS FOR GOAL 3 USING RECOVERY ACT FUNDS

- Emergency Food Assistance Program (FNS),
- controls over water and waste loans and grants (RUS),
- NSLP equipment grants (FNS),
- general procurement oversight audits (ARS), and
- broadband initiatives (RUS).

OIG’s annual plan for future audit and investigative work under this goal may be found online at <http://www.usda.gov/oig/webdocs/2012ABPFinal.pdf>.

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 grasslands. 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 second half of FY 2011, we devoted 5 percent of our total direct resources to Goal 4, with 100 percent of these resources assigned to critical/high-impact work. A total of 72 percent of our audit recommendations under Goal 4 resulted in management decision within 1 year: no closed investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports and four Recovery Act *fast reports* under Goal 4 during this reporting period. OIG's investigations under Goal 4 yielded no indictments, one conviction, and \$82,268 in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 4

- Better Forest Service Management and Community Action Needed To Improve Forest Health and Reduce Firefighting Costs
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 3)
- Implementation of the Recovery Act (also under Goals 2 and 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

FS Needs To Ensure That the Special Use Program Has Adequate Resources To Accomplish Its Mission

Entrusted with managing over 193 million acres of forests and grasslands within the National Forest System, FS is responsible for processing thousands of applications to use Federal lands for a wide variety of purposes, including oil and gas pipelines, electrical transmission facilities, setting up communication relays, bottling spring water, and outfitting and guiding backcountry and river trips. Our review of the Special Use Program found a number of limitations with how FS currently operates the program, limitations that restrict the program's effectiveness. With the exception of fees for commercial filming, FS cannot keep the fees it charges for land use authorizations even though the agency needs funds to better operate the program. In 2008, FS collected \$13.4 million for land use authorizations that it submitted to the Department of the Treasury and was able to retain only \$400,000. With respect to recreation use authorizations, FS sent \$57.1 million to Treasury and was able to retain \$10.4 million in fees for outfitting and guiding and recreation events. At its current level of funding, the Special Use Program was forced to turn away applicants due to a lack of resources.

Without the funds it needs to perform National Environmental Policy Act reviews and communication site management plans for communication relays, FS has a backlog of overdue work, including more than 3,500 expired authorizations, 106 uninspected special use land authorizations, and 967 communication sites without current communication site management plans (these plans are needed to make sure communication relays do not interfere with each other). Overall, FS must take steps to secure for the Special Use Program the resources needed to accomplish the program's mission. One of the keys to correcting these resource shortfalls is seeking authority for FS to keep the fees the program collects—those fees can then be used to provide additional resources for the program. FS officials generally agreed with our recommendations to seek additional authority to keep the fees and hire the personnel needed to fully operate the program. (Audit Report 08601-0055-SF, Forest Service Administration of Special Uses Program)

FS Needs To Improve Controls Over the Forest Legacy Program

FS' Forest Legacy Program supports States' efforts to protect environmentally important forests by assisting States in purchasing conservation easements or lands. Since the inception of the program in 1990, FS has provided over \$595 million to conserve private forests and has protected nearly 2 million acres in 43 States and territories. Although FS made efforts to improve its management and oversight of the Forest Legacy Program after a 2002 review by the U.S. House of Representatives Committee on Appropriations, OIG found that FS needs to take additional steps to improve the program by strengthening oversight over how easements are appraised, by ensuring that States monitor the easements and verify that the landowner abides by the terms of the agreements, and by standardizing conservation easement agreements. FS generally agreed with our recommendations and is taking appropriate corrective action. (Audit Report 08601-0056-SF, Forest Service Forest Legacy Program)

Texas Irrigation Companies Sentenced on Scheme To Defraud the NRCS Environmental Quality Incentives Program

The U.S. District Court, Northern District of Texas, sentenced three west Texas irrigation companies to 5 years' probation and ordered them each to pay a \$400 fine and \$50,000 in restitution, after they pled guilty to submitting inflated invoices to obtain excessive cost-share reimbursements through the NRCS Environmental Quality Incentives Program. In addition, one corporate officer agreed to enter into the Pre-trial Diversion Program administered by the U.S. Attorney's Office, Northern District of Texas; he subsequently paid a \$15,000 fine and was debarred from all NRCS programs for 60 months. OIG worked this investigation jointly with the IRS-Criminal Investigations Division.

RECOVERY ACT REVIEWS

FS Funded Recovery Act Projects Worth More Than \$280 Million in Areas Not Significantly Affected by the Recession

As part of the Recovery Act, Congress provided FS with \$1.2 billion in Recovery Act funding; generally, these funds were to be used to promote economic recovery in areas of

high unemployment. Based on our review of FS' internal controls for spending these funds, we found that FS funded 225 of 705 work projects (32 percent) in geographic areas that agency officials had classified as not significantly impacted by the recession in terms of unemployment—\$280 million of Recovery Act funding went to these areas. Additionally, in this report, we responded to 17 instances of suspicious activity involving FS contracts that were referred to OIG by the Recovery Board. While we did not find any criminal instances of fraud, waste, or abuse, we did find numerous instances where FS officials had not complied with various provisions of the Recovery Act, such as not including required clauses in contracts or not reporting aspects of a contract on the FedBizOpps.gov web site.

In response to the Recovery Board's referrals, OIG sent a letter to the Recovery Board notifying it of the issues we found related to its referrals. Additionally, we issued a roll up report summarizing the issues we presented to FS officials and the Recovery Board in 12 *fast reports*. FS officials generally agreed with the recommendations we made to ensure that Recovery Act requirements are met. (Audit Report 08703-0001-Hy, Oversight and Control of Forest Service American Recovery and Reinvestment Act Activities)

Recovery Act Wildland Fire Management Grants Were Not Used To Promote Job Growth

Of the \$1.2 billion the Recovery Act provided FS to implement projects that directly accomplish the mission of sustaining the Nation's forests and grasslands, creating jobs, and promoting U.S. economic recovery, \$200 million was slated for wildland fire management activities on State, county, and private lands. OIG reviewed 5 of the 152 non-Federal wildland fire management Recovery Act-funded projects—consisting of 7 grants, valued at \$23.9 million—to determine whether the projects were being timely completed in compliance with Recovery Act requirements. We found that three of the grant recipients were not effectively using the grant funds they received to create or sustain the most jobs possible, as intended by the Recovery Act. Although the grants funded work that met natural resource objectives, the grant recipients continued to conduct the same amount of work they were already performing before they received the Recovery Act funds. In other words, little additional economic stimulus resulted from these grants. We recommended that FS take steps to ensure

that grant recipients expend their funds quickly and in full compliance with the Recovery Act. FS officials agreed with our recommendations. (*Fast Report* Audit 08703-0005-SF (5), Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act – The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

FS May Need To Recover Up to \$28 Million in Unsupported Recovery Act Salary Expenses

Of the \$200 million the Recovery Act provided FS to implement wildland fire management activities, we reviewed 8 of the 152 projects—consisting of 17 grants valued at \$44 million—to determine whether FS and subsequent recipients of the Recovery Act funds complied with laws and regulations pertaining to Recovery Act funding. For 6 of the 17 Recovery Act grants reviewed, we found that the grant recipients did not comply with the salary allocation requirements outlined by OMB. The grant recipients did not have financial accounting processes in place to properly allocate and support the salary costs they charged to both their Recovery Act and non-Recovery-Act-funded grants and instead either used predetermined percentages or other unallowable methodologies to allocate their salary expenses to the grants. Due to FS' lack of oversight, grant recipients were reimbursed at least \$389,747 in unsupported salary costs for five of the six grants reviewed. The \$389,747 extrapolates to over \$28 million of possible unsupported salary costs charged or projected to be charged to Recovery Act grants. We recommended that FS take steps to recover these funds. FS officials agreed to conduct a review of the grant recipients and address any issues identified in accordance with OMB circulars and Federal cost accounting principles. FS expects to complete these actions by December 31, 2011. (*Fast Report* Audit 08703-0005-SF (6), Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed Were Unsupported - The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

FS Needs To Ensure that Workers at its Capital Improvement Projects Are Paid the Prevailing Rate

The Recovery Act included \$650 million for FS' Capital Improvement and Maintenance Program, of which \$246 million was approved for improving, maintaining, and

renovating facilities. Using these funds, from March through September 2009, FS approved 176 facility projects nationwide. Our review of 14 of these facility projects found that FS contractors at three of these projects violated the requirement that they pay their workers the prevailing wage. The prevailing wage is the combination of the basic hourly rate and fringe benefits required to be paid to various classes of laborers and mechanics employed on construction projects in a given area. These violations occurred because FS contracting officials did not review the contractors' payrolls. Due to this oversight, eight laborers were underpaid by nearly half, for a total of \$6,219.

We raised this issue with FS officials and they agreed that the eight laborers who were underpaid should be recompensed for their work. FS took appropriate steps to correct this problem, and also to ensure that its contracting officials would not repeat this mistake. (*Fast Report* Audit 08703-0002-SF (4), The Recovery Act – Forest Service Facility Improvement, Maintenance and Rehabilitation (4) – Davis Bacon Act Violations at the Coronado National Forest, Arizona; Clearwater National Forest, Idaho; and Northern Research Station Laboratory, Wisconsin)

FS Needs To Ensure Payments Are Based on Actual Costs

Of the \$650 million the Recovery Act provided for FS' Capital Improvement and Maintenance Program, FS allocated \$100 million for trail maintenance and decommissioning, and approved 90 trail projects for funding. Our audit of 20 statistically sampled projects included a document review of contracts and agreements between FS and partnering organizations. Our review revealed that one national forest in the Pacific Southwest Region incorrectly reimbursed a partnering agency for an additional \$64,096 in labor costs. This occurred because personnel relied on an incorrect past practice of paying an agreed-upon estimated rate. We recommended FS recover the identified overpayment, and issue notice to other regions to ensure reimbursements are based on actual costs and not on an estimated rate. When we alerted FS to this issue, FS responded by generally concurring with our recommendations. (*Fast Report* 08703-0004-SF (3), Los Padres National Forest, Costs Overpaid to California Conservation Corps—Recovery Act—Forest Service Trail Maintenance and Decommissioning)

GOVERNMENT-WIDE ACTIVITIES—GOAL 4

Participation on Committees, Working Groups, and Task Forces

- *Environmental Crimes Working Groups.* OIG agents continue to participate in working groups in the District of New Hampshire, the Eastern District of North Carolina, and the Western District of Washington, which were convened by U.S. Attorney's Offices, to improve cooperation and coordination among local, State, and Federal law enforcement agencies enforcing environmental laws, as well as to exchange information and provide prosecutorial support and training opportunities. An OIG agent also continues to participate in an environmental and natural resources law enforcement working group in Arizona, which has similar goals of improving training and coordination for investigators working on natural resources cases.
- *San Bernardino Rural Crimes Task Force.* OIG is one of several law enforcement agencies participating on a task force to combat crimes in rural areas in southeastern California. Other participating agencies include the San Bernardino County, California, Sheriff's Department, the California Department of Food and Agriculture, Fish and Game, APHIS, FSIS, and environmental crimes prosecutors from San Bernardino and Riverside Counties, California.

ONGOING REVIEWS FOR GOAL 4

- evaluating FS' processes to obtain and grant rights of way and easements (FS),
- management of oil and gas resources on National Forest System land (FS),
- nationwide review of NRCS' controls over the Farm and Ranch Lands Protection Program (NRCS), and
- review of conservation compliance of Conservation Security or Stewardship Program participants (NRCS).

ONGOING REVIEWS FOR GOAL 4 USING RECOVERY ACT FUNDS

- trail maintenance and decommissioning (FS),
- facility improvement, maintenance, and renovation (FS),
- road maintenance and decommissioning (FS),
- abandoned mine remediation (FS),
- oversight and control of FS activities (FS),
- hazardous fuels reduction and ecosystem restoration on non-Federal lands (FS), and
- wood-to-energy projects (biomass) (FS).

OIG's annual plan for future audit and investigative work under this goal may be found online at <http://www.usda.gov/oig/webdocs/2012ABPFinal.pdf>.

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 FY 2010 goals. These are:

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 individuals.
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:

- 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, and
- audits without management decision.

For investigations we show:

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

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2010 Actual	FY 2011 Target	FY 2011 2nd Half Actual	FY 2011 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact activities.	91.8%	90%	97.9%	97.2%
Audit recommendations where management decisions are achieved within 1 year.	90.2%	90%	91.8%	90.1%
Audits initiated where the findings and recommendations are presented to the auditee within established or agreed-to timeframes.	100%	85%	100%	100%
Closed investigations that resulted in a referral for action to the Department of Justice, State or local law enforcement officials, or relevant administrative authority.	84.8%	70%	95.3%	82.5%
Closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	72.8%	65%	68.4%	70.4%

RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2010 Actual	FY 2011 Target	FY 2011 2nd Half Actual	FY 2011 Full Year Actual
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	83.3%	85%	85.7%	86.7%
Respond to Recovery Board-sponsored requests and projects within established schedules or agreed-upon timeframes.	100%	85%	100%	100%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	100%	100%
Investigations staff will participate in 10 outreach/training meetings each quarter on Recovery Act work.	135%	80%	110%	95%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt.*	100%	75%	N/A	N/A
Timely and accurate monthly Recovery Act funds reports submitted to the Recovery Board.	N/A	88%	100%	100%

*No whistle blower retaliation allegations were investigated.

Recognition of OIG Employees by the Secretary and IG Community

SECRETARY'S HONOR AWARD

Personal and Professional Excellence

Stanley J. Wojtkonski

Investigations

Animal Welfare Team

Audit

GovTrip Improvement Project Team

Donald Samuel

The President's Volunteer Service Award

Janet White

Investigations

COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY (CIGIE) AWARDS

Gaston L. Gianni, Jr. Better Government Award

American Grocers Investigations Team

Investigations

Award for Individual Accomplishment

Rickey Yopp

Investigations

Awards for Excellence

Recovery Act Data Quality Audit Team

Audit

National Computer Forensics Division

Investigations

SUMMARY OF AUDIT ACTIVITIES—APRIL 2011-SEPTEMBER 2011

Reports Issued: 24	Audits Performed by OIG	20
	Evaluations Performed by OIG	0
	Audits Performed Under the Single Audit Act	0
	Audits Performed by Others	4
Management Decisions Made	Number of Reports	19
	Number of Recommendations	171
Total Dollar Impact (Millions) of Management- Decided Reports: \$4,178.4	Total Questioned/Unsupported Costs	\$4,169.8 ^{a, b}
	-Recommended for Recovery	\$1.9
	-Not Recommended for Recovery	\$4,167.9
	Funds to Be Put to Better Use	\$8.6

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

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

SUMMARY OF FAST REPORTS ISSUED—APRIL 2011-SEPTEMBER 2011

Ongoing OIG Assignments Containing Fast Reports Issued to the Agency: 8^a	<i>Fast Reports</i> Issued	9
	Number of Recommendations Made	27
Total Dollar Findings (Millions) of Fast Reports Issued: \$201.5^b	Total Questioned/Unsupported Costs	\$201.5
	-Recommended for Recovery	\$28.5
	-Not Recommended for Recovery	\$173.0
	Funds to Be Put to Better Use	\$0

^a *Fast reports* are quick turnaround reports intended to alert management to immediate issues during the course of an ongoing audit assignment.

^b Monetary findings identified in *fast reports* are included in Table 3, Summary of Audit Activities. (Final report could occur in future SARC reporting periods.)

SUMMARY OF INVESTIGATIVE ACTIVITIES—APRIL 2011-SEPTEMBER 2011

Reports Issued: 177	Cases Opened	265
	Cases Referred for Prosecution	49
Impact of Investigations	Indictments ^a	363
	Convictions	200
	Searches	181
	Arrests	831
Total Dollar Impact (Millions): \$65.8	Recoveries/Collections ^b	\$5.7
	Restitutions ^c	\$41.2
	Fines ^d	\$2.5
	Asset Forfeitures ^e	\$1.6
	Claims Established ^f	\$14.5
	Cost Avoidance ^g	\$0.2
	Administrative Penalties ^h	\$0.1
Administrative Sanctions: 131	Employees	23
	Businesses/Persons	108

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 200 convictions do not necessarily relate to the 363 indictments.

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

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

^d Fines are court-ordered penalties.

^e Asset forfeitures are judicial or administrative results.

^f Claims established are agency demands for repayment of USDA benefits.

^g Consists of loans or benefits not granted as the result of an OIG investigation.

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

FULL FY 2011 RESULTS IN KEY CATEGORIES—OCTOBER 2010-SEPTEMBER 2011

SUMMARY OF AUDIT ACTIVITIES	
Reports Issued:	
Number of Reports	45
Number of Recommendations	267
Management Decisions Made:	
Number of Reports	40
Number of Recommendations	304
Total Dollar Impact (Millions) of Management-Decided Reports	\$4,189.5
Questioned/Unsupported Costs	\$4,174.8
Funds to Be Put to Better Use	\$14.7

SUMMARY OF INVESTIGATIONS ACTIVITIES	
Reports Issued	359
Impact of Investigations	
Indictments	562
Convictions	449
Arrests	1,347
Total Dollar Impact (Millions)	\$113.6
Administrative Sanctions	265

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS
FROM APRIL 1, 2011-SEPTEMBER 30, 2011

CATEGORY	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
Reports for which no management decision had been made by April 1, 2011 ^b	10	\$247,801,096	\$1,039,135
Final reports which were issued during the reporting period	6	\$4,212,200,882	\$0
Total reports with questioned costs and loans	16	\$4,460,001,978	\$1,039,135
Of the 16 reports, those for which management decision was made during the reporting period	6	<i>Recommended for recovery</i>	\$0
		<i>Not recommended for recovery</i>	\$0
		<i>Costs not disallowed</i>	\$0
Of the 16 reports, those for which no management decision was made by the end of this reporting period	10	\$289,676,181	\$1,039,135
Total current reports for which no management decision was made within 6 months of issuance^b	8	\$245,551,740	\$1,039,135
^a Unsupported values are included in questioned values.			
^b Carried over from previous reporting periods.			

INVENTORY OF FINAL AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1, 2011-SEPTEMBER 30, 2011

CATEGORY	NUMBER	DOLLAR VALUE	
Reports for which no management decision had been made by April 1, 2011 ^a	2		\$3,942,594
Final reports which were issued during the reporting period	2		\$5,582,302
Total reports with recommendations that funds be put to better use	4		\$9,524,896
Of the 4 reports, those for which management decision was made during the reporting period	2	<i>Disallowed costs</i>	\$8,628,130
		<i>Costs not disallowed</i>	\$130,039
Of the 4 reports, those for which no management decision has been made by the end of this reporting period	2		\$766,727
Total current reports for which no management decision was made within 6 months of issuance^a	1		\$571,992
^a Carried over from previous reporting periods.			

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 145 program improvement recommendations, and management agreed to implement a total of 150 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 recommendations) include the following:

- APHIS agreed with our recommendations to develop a regulatory framework clearly defining its scope of coverage and regulatory requirements for genetically engineered animals and plants, and the USDA agencies responsible for research also agreed to strengthen their controls at their laboratories.
- Rural Development agreed to develop more detailed underwriting tools, improve guidance, and provide further

training so that its field personnel could make more accurate eligibility determinations for Single Family Housing Loans.

- AMS agreed to strengthen its oversight of Country of Origin Labeling, including improving its retailer review process, enhancing its compliance procedures, and improving how it communicates with retailers.

AUDIT AND INVESTIGATION PEER REVIEWS

- During the current semiannual reporting period, there were no audit peer reviews of OIG's audit organization. OIG received a grade of pass on our most recent peer review report issued by the Housing and Urban Development-OIG on September 30, 2009—this report contained no findings or recommendations.
- During the current semiannual reporting period, there were no peer reviews of OIG's investigation organization. Our most recent review was conducted in 2010 by the Department of Homeland Security-OIG. The report, issued November 10, 2010, contained no recommendations, and determined that OIG is in compliance with the quality standards established by CIGIE and the Attorney General.

AUDIT REPORTS

From April 1, 2011 through September 30, 2011, OIG issued 24 audit reports, including 4 performed by others. During this same period, 9 *fast reports* were issued. The following is a summary of those audit products by agency:

AUDIT AND <i>FAST REPORT</i> TOTALS	
Total funds that can be put to better use	\$5,582,302
Total questioned costs and loans ^{a,b}	\$4,413,722,453
^a Unsupported values of \$28,457,475 are included in the questioned values. ^b Includes <i>fast report</i> monetary values of \$201,521,571. (Final reports could occur in future SARC reporting periods.)	

SUMMARY OF AUDIT AND <i>FAST REPORTS</i> RELEASED FROM APRIL 1, 2011-SEPTEMBER 30, 2011				
AGENCY TYPE	AUDIT AND <i>FAST REPORTS</i> RELEASED	QUESTIONED COSTS AND LOANS^{a,c}	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
SINGLE AGENCY AUDIT	28	\$4,413,722,453	\$28,457,475	\$5,582,302
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL COMPLETED UNDER CONTRACT ^b	0			
ISSUED AUDITS COMPLETED UNDER THE SINGLE AUDIT ACT	0			
^a Unsupported values are included in the questioned values. ^b Audits performed by others. ^c Includes <i>fast report</i> monetary values of \$201,521,572 for 9 <i>fast reports</i> issued during this period. Final report could occur in future SARC reporting periods.				

AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2011-SEPTEMBER 30, 2011

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS^a	FUNDS TO BE PUT TO BETTER USE
Agricultural Marketing Service: 1	01601-0004-Hy	08/18/11	Implementation of Country of Origin Labeling	\$296,400		
Agricultural Research Service: 4	02703-0003-HQ	05/06/11	Recovery Act General Procurement Oversight Audit of ARS National Agricultural Library Veneer Repairs Contract Awarded to Vigil Contracting, Inc.			
	02703-0004-HQ	07/01/11	Recovery Act General Procurement Oversight Audit of ARS Southeast Poultry Research Laboratory Repairs Contract Awarded to Peachtree Mechanical, Inc.			
	02703-0005-HQ	09/30/11	Recovery Act General Procurement Oversight Audit of ARS Architectural and Engineering Services Contract Awarded to Delta Engineers			
	02703-0006-HQ	08/22/11	Recovery Act General Procurement Oversight Audit of ARS Facilities Repairs Contract Awarded to Veteran Construction, LLC			
Animal and Plant Health Inspection Service: 1	33601-0012-Ch	04/07/11	<i>FAST REPORT:</i> Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit			
Farm Service Agency:1	03024-0001-11	06/21/11	Farm Assistance Program Payments for FY 2010			
Food and Nutrition Service: 2	27703-0001-IT	08/22/11	Recovery Act Spending for the Special Supplemental Nutrition Program for Women, Infants, and Children Management Information System			
	27003-0001-Te	06/30/11	Controls Over Outsourcing of FNS Supplemental Nutrition Assistance Program Call Centers			

AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2011-SEPTEMBER 30, 2011

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS ^a	FUNDS TO BE PUT TO BETTER USE
Food Safety and Inspection Service: 1	24601-0008-At	09/30/11	FSIS In-Commerce Surveillance Activities			
	08601-0055-SF	06/16/11	FS Administration of Special Uses Program			\$5,387,567
Forest Service: 7	08601-0056-SF	04/20/11	FS Legacy Program			
	08703-0001-Hy	09/30/11	Oversight and Control of FS Recovery Act Activities			
	08703-0002-SF(4)	04/14/11	<i>FAST REPORT:</i> Recovery Act—FS Facility Improvement, Maintenance and Rehabilitation: Davis Bacon Act Violations at the Coronado National Forest, Arizona; Clearwater National Forest, Idaho; and Northern Research Station Laboratory, Wisconsin			
	08703-0004-SF(3)	08/12/11	<i>FAST REPORT:</i> Los Padres National Forest, Costs Overpaid to California Conservation Corps—Forest Service Trail Maintenance and Decommissioning	\$64,096		
	08703-0005-SF(5)	06/02/11	<i>FAST REPORT:</i> Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act – The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands			
	08703-0005-SF(6)	05/05/11	<i>FAST REPORT:</i> Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed Were Unsupported - The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands	\$28,457,475	\$28,457,475	

**AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2011-SEPTEMBER 30, 2011**

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS^a	FUNDS TO BE PUT TO BETTER USE
Multiagency: 5	50024-0001-FM	07/15/11	Calendar Year 2010 Executive Order 13520 Reduction of Improper Payment Review			
	50501-0001-IT	08/15/11	USDA Security Over Wireless Hand-Held Devices			
	50501-0001-12	04/15/11	<i>FAST REPORT:</i> Critical Domain Name System Servers			
	50601-0015-KC	08/01/11	National Agricultural Statistics Service Establishment of Average Yields			
	50601-0016-Te	05/31/11	Controls Over Genetically Engineered Animal and Insect Research			
Natural Resources Conservation Service: 2	10099-0003-Ch	09/14/11	Controls Over the Farm and Ranch Lands Protection Program	\$7,627,071		
	10703-0004-KC(1)	07/01/11	<i>FAST REPORT:</i> Grants and Locally Led Contracts Do Not Include All Required Recovery Act Awards Terms			
Office of the Chief Financial Officer: 2	11401-0001-11	09/23/11	Agreed-Upon Procedures: Employee Benefits, Withholdings, Contribution and Supplemental Semiannual Headcount Reporting Submitted to the Office of Personnel Management			
	11401-0002-11	09/23/11	Statement on Standards for Attestation Engagements No. 16, Report on Controls at National Finance Center			

AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES						
FROM APRIL 1, 2011-SEPTEMBER 30, 2011						
AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS^a	FUNDS TO BE PUT TO BETTER USE
Office of the Chief Information Officer: 1	88501-0001-11	09/19/11	Statement on Standards for Attestation Engagements No. 16, Report on Controls at National Information Technology Center			
Risk Management Agency: 1	05099-0029-At	09/07/11	Citrus Indemnity Payments Resulting From 2005 Florida Hurricanes	\$44,059,385		
Rural Business-Cooperative Service: 1	34004-0001-KC	08/25/11	Rural Cooperative Development Grant Program Eligibility and Grant Funds Use for a Missouri Entity	\$65,056		\$194,735
Rural Housing Service: 3	04601-0020-Ch	05/19/11	Rural Rental Housing Management Company Located in Indiana	\$152,970		
	04703-0002-Ch	09/30/11	Controls Over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase 2)	\$4,160,000,000		
	04703-0003-KC(1)	08/19/11	<i>FAST REPORT:</i> Single Family Housing Direct Loans Recovery Act Controls – Compliance Review of Borrowers' Eligibility Determinations	\$173,000,000		
Rural Utilities Service: 1	09703-0001-At(2)	08/31/11	<i>FAST REPORT:</i> RUS Needs to Improve Project Transparency for the Water and Waste Disposal System Recovery Act Projects			**
Grand Total				\$4,413,722,453	\$28,457,475	\$5,582,302

^a Unsupported values are included in questioned values.

**Errata: A dollar value was erroneously reflected in a prior version.

NOTE: Upon final report issuance, *fast report* monetary values will be reflected in the inventory of Audit Reports.

AUDITS WITHOUT MANAGEMENT DECISION

In total, OIG has 13 audits without management decision. Their details are provided in the tables below:

NEW FOR THIS REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt Decision (in dollars)
CCC	11/20/10	CCC's FY 2010 Financial Statements (06401-0025-FM)	0	0
Multi-agency	03/23/11	USDA Payments for 2005 Citrus Canker Tree Losses (50099-0046-At)	\$633,717	\$633,717
	03/31/11	Emergency Disaster Assistance for 2008 Floods: Emergency Conservation Program (50601-0016-KC)	\$620,424	\$512,161
Total New For This Reporting Period: 3				

The audits in the following table 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 SARCs. 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.

AUDIT REPORTS PREVIOUSLY REPORTED BUT NOT YET RESOLVED

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt Decision (in dollars)
FSA	02/02/09	Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-0023-KC)	\$1,866,412	\$427,278
Multi-agency	09/30/03	Implementation of the Agricultural Risk Protection Act (50099-0012-KC)	0	0
	08/16/10	Effectiveness and Enforcement of Debarment and Suspension Regulations in USDA (50601-0014-At)	0	0
	08/27/10	Pasture, Rangeland, and Forage Loss Pilot Program (50601-0018-Te)	\$1,169,645	\$1,125,656
NRCS	07/06/09	Farm and Ranch Lands Protection Program—Nationwide Selected Non-Governmental Organization (10099-0006-SF)	\$716,563	\$716,563
RBS	06/25/10	Rural Business-Cooperative Service—Intermediary Relending Program (34601-0006-At)	\$7,909,538	\$7,909,538
RMA	03/15/02	Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-0014-KC)	0	0
	09/30/08	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-0015-Te)	\$15,951,016	\$15,951,016
	03/04/09	RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-0028-At)	\$217,256,417	\$217,256,417
	09/16/09	RMA Compliance Activities (05601-0011-At)	0	0
Total Previously Reported But Not Yet Resolved: 10				

AUDITS WITHOUT MANAGEMENT DECISION— NARRATIVE FOR NEW ENTRIES

FY 2010 Commodity Credit Corporation (CCC) Financial Statements (06401-0025-FM), issued November 12, 2010

During the review of the FY 2010 CCC financial statements, the independent auditors recommended that CCC implement compensating controls for control deficiencies at USAID, which is a party to allocation transfers with CCC. CCC initially disagreed with the recommendations but is now working with USAID to formulate a corrective action plan to address the internal control weaknesses. We are working with CCC to facilitate further discussion and action for management decision.

USDA Payments for 2005 Citrus Canker Tree Losses (50099-0046-At), issued March 23, 2011

In response to citrus canker identified on commercial groves and residential properties, APHIS and RMA compensated commercial citrus growers for lost production or tree losses due to removal of infected trees and nearby trees that may have been exposed. We conducted this review to evaluate the adequacy of coordination and collaboration between APHIS and RMA with regard to citrus canker-related payments and the adequacy of the agencies' management controls to ensure

that payments were accurately calculated. We found that APHIS did not coordinate with RMA to determine the amount of indemnity payments growers may have already received before APHIS calculated its payments. We recommended that APHIS correct erroneous payments totaling around \$1.1 million. We have reached management decision on three of the four recommendations. The open recommendation involves recovery of overpayments to citrus growers.

Emergency Disaster Assistance for 2008 Floods: Emergency Conservation Program (50601-0016-KC), issued March 31, 2011

We found that FSA needs to take steps to strengthen its control structure for future implementation of the Emergency Conservation Program. During the initial onsite inspection of producers' fields, FSA employees did not always determine the type and extent of the damage the producer sustained.

We have reached management decision on six of the nine recommendations. To achieve management decision on the three remaining recommendations, the agency needs to strengthen procedures related to obtaining and evaluating cost estimates for Emergency Conservation Program applications, and the county committees need to review each cost-share agreement identified in our audit and take the appropriate administrative actions, including recovering any overpayments.

INDICTMENTS AND CONVICTIONS

From April 1, 2011 through September 30, 2011, OIG completed 157 investigations. We referred 49 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 363 indictments and 200 convictions. The period of time to obtain

court action on an indictment varies widely; therefore, the 200 convictions do not necessarily relate to the 363 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$65.8 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

INDICTMENTS AND CONVICTIONS—April 1, 2011-September 30, 2011		
Agency	Indictments	Convictions*
AMS		
APHIS	55	45
FNS	269	114
FS	5	11
FSA	19	16
FSIS	1	1
GIPSA		
NRCS	2	3
OIG		
RHS	5	3
RMA	7	7
RUS		
Totals	363	200

* 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 hotline received 1,551 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. The following tables are a summary of the hotline complaints for the second half of FY 2011.

Hotlines Complaints Summary—FY 2011, 2 nd Half	
Total No. of Complaints Received	1,551

Figure 1. Volume and Type

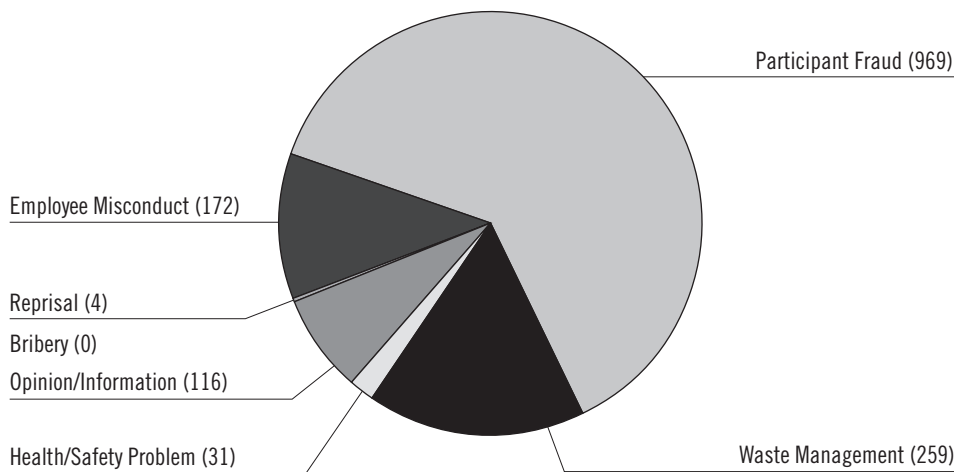
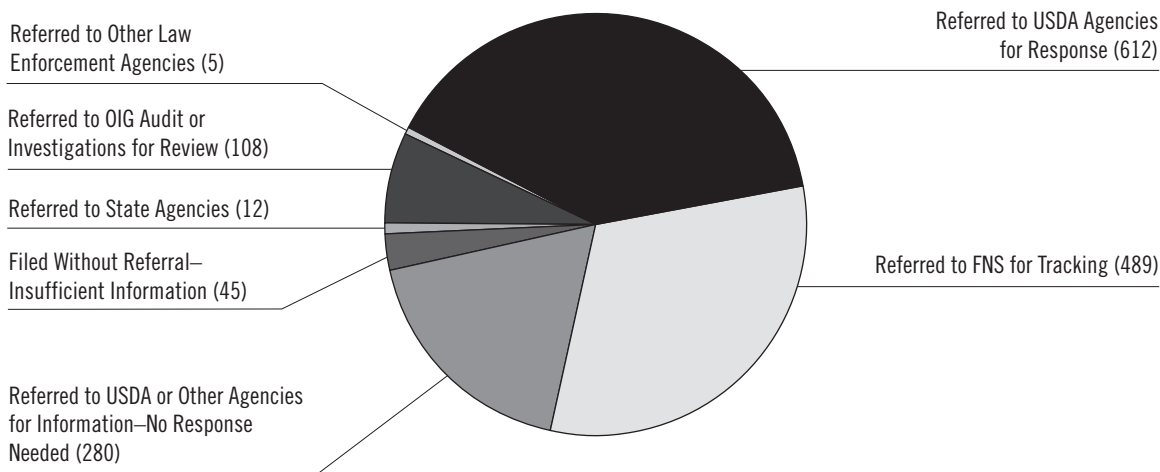


Figure 2. Disposition of Complaints Received



**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT REQUESTS
FOR THE PERIOD APRIL 1, 2011 THROUGH SEPTEMBER 30, 2011**

Categories	Type	Number
FOIA/Privacy Act Requests Received/Processed	FOIA/Privacy Act Requests Received	58
	Granted	6
	Partially Granted	10
	Not Granted	42
	Total FOIA/Privacy Act Requests Processed	58
Reasons for Denial	No Records Available	22
	Referred to Other Agencies	1
	Requests Denied in Full Exemption 5	0
	Requests Denied in Full Exemption 7(A)	9
	Requests Denied in Full Exemption 7(C)	0
	Request Withdrawn	0
	Fee-Related	0
	Not a Proper FOIA Request	1
	Not an Agency Record	0
	Duplicate Request	0
	Other	9
Requests for OIG Reports From Congress and Other Government Agencies	Received	2
	Processed	2
Appeals	Appeals Received	4
	Appeals Processed	4
	Completely Upheld	2
	Partially Reversed	1
	Completely Reversed	0
	Requests Withdrawn	0
	Other	0
	OIG Reports/Documents Released in Response to Requests	9

NOTE 1: A request may involve more than one report.

NOTE 2: During this 6-month period, 33 audit reports were posted online on the OIG website: <http://www.usda.gov/oig>.

Abbreviations

Abbreviation	Full Name
AIP	approved insurance provider
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BCAP	Biomass Crop Assistance Program
CACFP	Child and Adult Care Food Program
CCC	Commodity Credit Corporation
CEO	Chief Executive Officer
CFC	Combined Federal Campaign
CIGIE	Council of Inspectors General on Integrity and Efficiency
COOL	country of origin labeling
EBT	electronic benefits transfer
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FNS	Food and Nutrition Service
FOIA	Freedom of Information Act
FRPP	Farm and Ranch Lands Protection Program
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
FY	fiscal year
GE	genetically engineered
GIPSA	Grain Inspection, Packers and Stockyards Administration
IG	Inspector General
IRS	Internal Revenue Service

Abbreviation	Full Name
IT	information technology
LAPD	Los Angeles Police Department
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NIFA	National Institute of Food and Agriculture
NIST	Institute of Standards and Technology
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
NSLP	National School Lunch Program
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RBS	Rural Business-Cooperative Service
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RHS	Rural Housing Service
RMA	Risk Management Agency
RRH	Rural Rental Housing
RUS	Rural Utilities Service
SARC	Semiannual Report to Congress
SNAP	Supplemental Nutrition Assistance Program
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USMS	U.S. Marshals Service
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (150 TOTAL)

- APHIS agreed with our recommendations to develop a regulatory framework clearly defining its scope of coverage and regulatory requirements for genetically engineered animals and plants, and the USDA agencies responsible for research also agreed to strengthen their controls at their laboratories.
- RD agreed to develop more detailed underwriting tools, improve guidance, and provide further training so that its field personnel could make more accurate eligibility determinations for Single Family Housing Loans.
- AMS agreed to strengthen its oversight of country of origin labeling, including improving its retailer review process, enhancing its compliance procedures, and improving how it communicates with retailers.

OIG MISSION

OIG assists USDA by promoting effectiveness and integrity in hundreds of Department programs. 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

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
<https://www.usda.gov/oig/index.html>

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