



United States
Department of
Agriculture

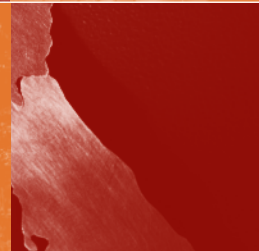
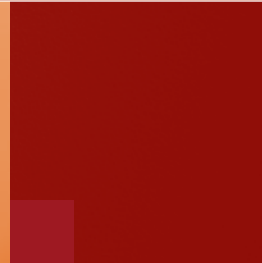
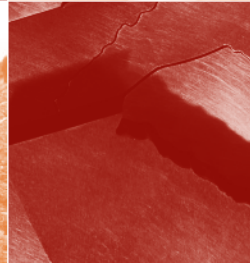
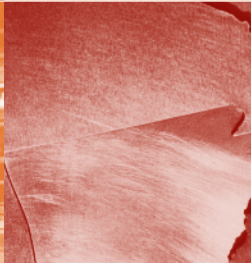
Office of
Inspector
General

No. 54

February 2006

Office of Inspector General Semiannual Report to Congress

FY 2005-Second Half



Mission of the Office of Inspector General

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

OFFICE OF INSPECTOR GENERAL STRATEGIC GOALS

We have focused nearly all of our audit and investigative direct resources on our three strategic goals:

- Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
- Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.
- Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

OIG MAJOR USDA MANAGEMENT CHALLENGES

(Signed September 2, 2005)

- Interagency Communications, Coordination, and Program Integration Need Improvement
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed
- Continuing Improvements Needed in Information Technology Security
- Reducing Improper Payments Continues To Be a Priority of Congress and the Administration
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Department-wide Efforts and Initiatives on Genetically Engineered Organisms Need To Be Strengthened

MESSAGE FROM THE INSPECTOR GENERAL

Fiscal Year (FY) 2005 was an extremely challenging time for American agriculture. Among other things, the United States Department of Agriculture (USDA) needed to deal with the ongoing challenge of protecting the American public and the American herd from the spread of Bovine Spongiform Encephalopathy (BSE, or more commonly "mad cow disease"), provide immediate assistance to the Gulf Coast in the devastating aftermath of the 2005 hurricane season, and prepare for the threatened avian influenza pandemic. USDA addressed all of this while facing other challenges, such as protecting the integrity of Department programs and continuing to manage the \$128 billion in public resources entrusted to the Department.

To help USDA and the American people meet these critical challenges, it is our responsibility in the Office of Inspector General (OIG) to provide independent, professionally vigorous audits and investigations. I am pleased to report that OIG has significant work underway in all of these areas, as well as in such ongoing critical areas as financial management, homeland security, information technology (IT) security, farm programs, and crop insurance. In the last 6 months of FY 2005, we conducted successful investigations and audit programs that led to 778 arrests, 158 convictions, \$44.9 million in recoveries and restitutions, management agreement on audits containing 239 program improvement recommendations, and \$4.4 million in financial recommendations. Our ongoing and completed work in the second half of FY 2005 includes:

Safety, Security, and Public Health

- reviewing the effectiveness of the expanded BSE Surveillance Program
- evaluating Department efforts to prevent the spread of avian influenza
- addressing USDA management challenges to further improve IT security, maintain homeland security efforts, and strengthen controls over genetically engineered organisms

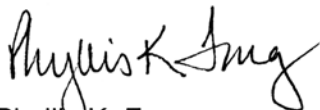
Integrity of Benefits and Entitlements Programs

- assessing controls over hurricane relief assistance
- uncovering a \$13 million crop insurance fraud scheme, which led to eight convictions, a forfeiture of \$7.3 million, and \$9.15 million in restitution
- addressing a USDA management challenge to develop stronger internal controls

Management of Public Resources

- identifying millions that could be saved in the Wetlands Reserve Program
- addressing USDA management challenges to reduce improper payments and improve interagency communication and coordination

We appreciate the openness and support we received from Department officials and Congress in working on the critical issues facing American agriculture in FY 2005. We look forward to continuing to work with Secretary Mike Johanns, Deputy Secretary Chuck Conner, officials throughout the Department, and Congress to improve USDA programs and operations in FY 2006.



Phyllis K. Fong
Inspector General

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Safety, Security, and Public Health

OIG Strategic Goal 1: Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns

OIG audits and investigations disclose weaknesses, make recommendations for improvement, and highlight strengths in USDA programs. OIG work helps the Department protect consumers and provide a measure of confidence that the Nation's commercial supply of imported and domestic meat, poultry, and egg products is safe, wholesome, and correctly labeled; protect production agriculture from pests, disease, and other threats; and protect USDA personnel and property, as well as the public, from other threats.

In the second half of FY 2005, 24.9 percent of our total audit and investigative resources were devoted to Goal 1, with 77.8 percent of these resources assigned to critical/high-impact work. A total of 68.1 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 54.5 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 7 audit reports under Goal 1 during this reporting period and a total of 11 audit reports during the full fiscal year. OIG's investigations under Goal 1 yielded 21 indictments, 30 convictions, and about \$1 million in monetary results during this reporting period and 30 indictments, 44 convictions, and about \$1.4 million in monetary results during the full fiscal year.

MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2 and 3)
- Continuing Improvements Needed in Information Technology (IT) Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Department-wide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need To Be Strengthened

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

OIG Continuing To Review Effectiveness of BSE Surveillance Program

We are continuing our work with bovine spongiform encephalopathy (BSE), widely known as "mad cow disease." With the discovery of a BSE-infected animal in December 2003, the Animal and Plant Health Inspection Service (APHIS) decided to expand its Surveillance Program to test a larger number of high-risk animals—those that exhibited a disorder of the central nervous system (CNS), such as difficulty standing, walking, etc., and cattle that died on the farm from unclear causes. Our overall objective is to evaluate whether the expanded BSE Surveillance Program is accomplishing its intended objectives—to ensure detection with 99-percent confidence that the BSE prevalence rate was 1 in 10 million and a swift response to its introduction into the United States—and has been effectively implemented and administered. Another objective is to evaluate whether the Food Safety and Inspection Service (FSIS) has effectively enforced the ban on Specified Risk Material (certain beef tissues and products, i.e., brain, skull, eyes, spinal cord) in meat products, and effectively implemented its testing program and controls to prevent CNS tissue in Advanced Meat Recovery systems (special equipment to remove meat from bones similar to hand trimming in that bones remain basically intact).

Route for Cattle Smuggler Leads to Conviction, Proceedings Pending for Another

In September 2004, OIG and APHIS began an investigation into the smuggling of cattle into the United States from Canada. In March 2005, 2 individuals were indicted in U.S. Federal Court for smuggling 169 head of cattle across the U.S. border through an Indian Reservation, and then trucking them to U.S. auction houses. OIG, APHIS, and FSIS traced the path of the smuggled cattle to ensure that they were properly slaughtered or returned to Canada. In July 2005, one of the men pled guilty to smuggling and conspiracy charges with sentencing scheduled for November 2005. Additional judicial proceedings against the other defendant in this case are continuing.

Criminal Charge Results and Disciplinary Measures Completed in Cramer Fire Tragedy

Last reporting period, one employee from the Cramer Fire, Salmon-Challis National Forest, Idaho, entered into a pretrial diversion program for his part in the deaths of two Forest Service (FS) helitack firefighters caught in a burnover on July 22, 2003, while fighting the fire. The employee was also terminated from his position with FS. FS disciplinary action against four other management officials is now complete. One employee was issued a letter of reprimand; and other employees a 3-day suspension, a 14-day suspension, and a 10-day suspension, respectively. Action against another employee was not sustained, and no disciplinary action was taken.

Strengthening Controls of Sensitive Information To Better Prevent Transfer of Sensitive Technology

Recommendations have been made to the Agricultural Research Service (ARS) to enhance management controls to prevent the improper transfer of sensitive technology. Of greatest concern, ARS has not identified which research projects are sensitive or dual use—that is, which projects involve specialized knowledge that could be exploited by questionable individuals, such as bioterrorists. Moreover, no Government-wide criteria have been established to identify dual-use research projects. The National Science Advisory Board for Biosecurity (NSABB) has been created to tackle this and other biosecurity issues, but it has established no timeframes for issuing guidance. However, until

the NSABB provides guidance in identifying dual-use research projects, ARS will use interim criteria for the seven “experiments of concern” as defined by the National Research Council of the National Academies. ARS will use the criteria to approve and monitor projects on an ongoing basis.

Also, ARS does not check the backgrounds or know the number of all non-Government scientists that collaborate on research projects involving sensitive knowledge. In addition, ARS posts sensitive information (e.g., names and locations of scientists working with select agents) on the Internet, as well as abstracts of scientific manuscripts dealing with dual-use research, some of which could be manipulated for destructive purposes. Finally, although ARS scientists routinely share sensitive information with foreign scientists, some from countries of concern, the agency had not applied for deemed export licenses issued by the U.S. Department of Commerce (DOC). ARS is now developing policy and procedures on deemed export licenses and is working directly with DOC and with other Federal agencies on a task group to address common issues on deemed export policy.

ARS generally agreed with many of our recommendations to identify, approve, and monitor dual-use research projects; in consultation with USDA's Office of the General Counsel (OGC), will develop interim criteria for sensitive research; will develop policies and procedures based on risk factors for performing appropriate suitability determinations of non-Government scientists involved in sensitive research; and will develop policies and procedures for submission of deemed export license applications to DOC before beginning sensitive research projects with foreign scientists. (Adequacy of Controls To Prevent the Improper Transfer of Sensitive Technology, Audit Report No. 02601-0001-Ch)

Weaknesses Exist in Safeguards and Security Over Dangerous Biological Agents and Toxins

APHIS has not fully implemented controls for enforcing safeguard and security measures to prevent access to dangerous biological agents and toxins, as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. APHIS incorporated its select agent program into two existing services, Plant Protection and Quarantine (PPQ) and

Veterinary Services (VS), without ensuring coordination and prompt legislative compliance between the two units.

The lack of a single responsible official and the failure to promptly allocate resources to effectively manage program operations contributed to the issues identified. APHIS did not ensure that all entities possessing, using, or transferring select agents or toxins were properly registered; did not establish a national database of select agents as required by the law; did not ensure that registrants had adequate security plans; did not ensure consistent and thorough inspections with followup procedures for deficiencies; and did not ensure that permit systems allowed transfer of select agents or toxins only to registered individuals or entities.

Following our June 8, 2004, Management Alert, APHIS reconciled initial notifications of possession received in October 2002 with registrations submitted in March 2003 and found that three entities unlawfully possessed select agents after the March 12, 2003, registration deadline. Two possessed select agents that posed a severe risk to plant health, and the other possessed a select agent that posed a severe risk to both animal and human health. APHIS witnessed the destruction of the select agents at all three entities.

We recommended that APHIS designate a single official responsible for the select agent program, who should immediately develop a national registration database. We also recommended that APHIS strengthen its registration approval oversight, establish formal procedures for performing security inspections and follow up on the results, and establish a separate and secure permit system for the select agent program. Subsequent to report issuance, we achieved management decision on 9 of the 10 recommendations. APHIS needs to provide timeframes to establish formal procedures for performing security inspections. (Evaluation of the Implementation of the Select Agent or Toxin Regulations, Phase I, Audit Report No. 33601-2-At)

Biological Laboratory and Corporate Officials Sentenced for Smuggling Viruses Into the United States

As previously reported for the second half of FY 2004, company officials at a manufacturer and international supplier of poultry vaccines were involved in the smuggling of live viruses (Exotic Newcastle Disease (END) and Avian Influenza) from Saudi Arabia into the United States. In addition to six former company officials who previously pled guilty to various charges, a former professor and department chairman at a university in Delaware has pled guilty to aiding the smuggling scheme, and a former employee of a poultry farm in Saudi Arabia has pled guilty to conspiracy to conceal smuggled items and make false statements. In July 2005, four company officials were sentenced to a total of 57 months in prison and more than \$70,000 in fines. Two company employees previously had been sentenced to probation. In August 2005, the corporation pled guilty to criminal activity associated with smuggling and was sentenced to 5 years of probation and ordered to pay a \$500,000 fine.

AMS Needs To Improve Controls for Ensuring Wholesomeness, Quality in Ground Beef for Schools

AMS did not have adequate management controls to fully ensure that ground beef was purchased from qualified suppliers and met quality standards. OIG found that AMS' management controls could not fully ensure that raw materials were free of pathogens; took no action against suppliers with recurring nonconformances, commodity complaints, and products that tested positive for prohibited pathogens; awarded contracts to suppliers with outstanding nonconformances; and did not ensure that suppliers used effective sample selection procedures.

We recommended that AMS require suppliers to keep records to ensure that prohibited materials are properly identified, segregated, controlled, and not used in the production of AMS commodities. AMS should also continuously evaluate supplier eligibility and plant performance to ensure corrective actions have been implemented and initiate enforcement actions when appropriate. In addition, AMS should review a contractor's technical proposal before acceptance to ensure that sample selection is unbiased, thereby generating random samples that accurately represent

the production universe. AMS implemented some of the proposed corrective actions for the 2004-2005 school year. (AMS Management Controls To Ensure Compliance With Purchase Specification Requirements for Ground Beef, Audit Report No. 01099-31-Hy)

Warehouse Manager Sentenced for Illegal Reboxing of Ammonia-Contaminated Chicken That Sickened 170 School Children and Faculty

In a followup from last reporting period, in July 2005 a warehouse operations manager was sentenced to serve 12 months and 1 day in prison, followed by 3 years of supervised release, and fined \$4,000. The manager had pled guilty to reboxing adulterated chicken product for school lunches in Illinois. He provided false statements to Federal investigators and attempted to manufacture false shipping records. The warehouse company, charged with violations of the Poultry Inspection Act, pled guilty in March 2005 and was sentenced in August 2005 to pay restitution of \$275,400 (primarily to the affected school district) and \$2,250 in fines. From June 2002 to August 2002, warehouse employees, under direction of the manager, unlawfully reboxed and relabeled federally inspected chicken products that had become contaminated by a November 2001 ammonia leak. The warehouse was not a licensed USDA-inspected warehouse and did not have the authority to repackage or relabel USDA-inspected product. The products, later served to school children in Illinois, were suspected of causing illnesses in at least 170 school children and faculty.

FSIS Needs To Track the Shipment of Recalled Product More Closely

On July 28, 2004, Quaker Maid Meats, Inc., recalled approximately 170,000 pounds of mislabeled ground beef patties made, in part, from 41,000 pounds of finely textured beef trim (meat scavenged from beef taken off the bone at high pressure) from Canada. This product was not eligible for importation after the detection of a Canadian cow with mad cow disease in May 2003. The beef patties had been shipped to 474 distribution centers and stores in 10 States; the recall recovered more than 93 percent of the ineligible product.

In reviewing the recall, we concluded that FSIS had strengthened its procedures regarding the oversight of meat and poultry recalls and complied with the recent revision made to recall policy. However, FSIS

compliance officers did not determine the amount of product purchased by consignees for 26 of the recall's 58 effectiveness checks. FSIS' recall policy did not provide specific direction on identifying and evaluating the amount of product purchased by consignees, thus reducing assurance that mislabeled product had been retrieved. FSIS agreed to revise its form, "Report of Recall Effectiveness," to require compliance officers to explain why any amounts of product purchased by consignees are not identified. FSIS also agreed to revise its procedures to provide specific direction on identifying and evaluating the amount of product purchased by the consignees and guidance on when it is acceptable not to identify this amount. (FSIS Oversight of the 2004 Recall by Quaker Maid Meats, Inc., Audit Report No. 24601-4-Hy)

HACCP Systems at Very Small Plants Need To Protect Consumers Better

FSIS implemented the requirements for Hazard Analysis and Critical Control Point (HACCP) systems at very small plants on time; however, the systems need improvement to ensure the wholesomeness of meat and poultry, and to achieve total compliance under HACCP. The national office had not developed written criteria on how districts should prioritize plants to receive food safety assessments, and tracked the assessments poorly. Moreover, deficiencies were not linked to FSIS In-Plant Performance System reviews to determine which inspectors had not noted many of the HACCP or other noncompliances that the food safety assessments found, and why.

We reviewed 36 HACCP plans at 15 plants and found HACCP plan deficiencies at 9 of these plants: hazard analyses did not address all food safety hazards, production process steps were omitted from process flowcharts, and changes that occurred in production processes were not always updated in the HACCP plans. In addition, six plants did not have adequate Sanitation Standard Operating Procedures (SSOP) or did not maintain proper records to show that SSOP procedures were followed. FSIS also had identified repetitive noncompliance deficiencies that were not adequately corrected at seven plants, including food particles left in machinery and equipment, dripping condensation, flaking paint over product processing areas, and improper storage of product. In one plant,

we observed live rodents twice in 2 days, though inspectors had cited this plant for rodent problems on two other occasions during the past year.

FSIS has taken some corrective steps, and we are continuing our work with it to address our series of recommendations to provide greater oversight over HACCP implementation, SSOPs, and independent reviews and supervision of plant and inspection activities. (HACCP Implementation at Very Small Plants, Audit Report No. 24601-5-At)

APHIS' Animal Care Unit Needs To Step Up Aggressive Inspection, Enforcement

APHIS' Animal Care (AC) unit is responsible for enforcing the Animal Welfare Act (AWA) through inspections of research facilities and by following up on complaints of abuse and noncompliance. Although AC inspectors are committed to enforcing the AWA and educating research facilities and others on the humane handling of regulated animals, we identified several areas of concern. Lacking clear national guidance, AC's Eastern Region is not aggressively pursuing enforcement actions against violators of the AWA, and fines assessed against violators are usually minimal. For example, AC offers a 75-percent discount on most fines; generally does not base fines on the number of animals affected; and charges large research facilities relatively insignificant fines compared to much smaller entities. Some Veterinary Medical Officers (VMO) did not verify the number of animals used in medical research or adequately review the facilities' protocols and other records, and some Institutional Animal Care and Use Committees (IACUC) at research facilities are not effectively monitoring animal care activities or reviewing protocols. We also found that AC's Licensing and Registration Information System (LARIS) does not effectively track violations and prioritize inspections, and AC did not follow the law and internal control procedures in processing and collecting penalties.

We recommended that AC incorporate guidance into its manual to ensure consistent referrals and enforcement of the AWA, and review all cases where the regions decline to take enforcement actions. We recommended that APHIS eliminate the automatic 75-percent discount for repeat violators or direct violations, calculate fines by the number of animals affected, and consider seeking legislation to increase fines up to \$10,000 for research facilities. AC needs

to require VMOs to complete more detailed reviews of protocols, and it needs to require IACUCs to more frequently review facilities with repeated violations and fully train committee members on protocol review, facility inspections, and the AWA. Finally, AC needs to implement temporary measures to address LARIS deficiencies until its new system is operational, follow APHIS policies for internal controls over cash collection, and promptly process receivables for collection. APHIS generally concurred with the findings and recommendations. (APHIS AC Program Inspection and Enforcement Activities, Audit Report No. 33002-3-SF)

Virginia Man Sentenced for Selling Animal Fighting Videos and Books

In a followup from last reporting period, in April 2005 a Virginia man was sentenced to 37 months in prison and 3 years of probation, and fined \$300. A jury had found him guilty on three counts of selling, across State lines, videotapes that depict animal cruelty. This individual received at least \$50,000 on the sale of the animal fighting merchandise. This was the first trial of an individual prosecuted under Title 18 United States Code, Section 48, enacted in December 1999. During the investigation, OIG special agents and Pennsylvania State Police officers seized a small truckload of books, videotapes, and other dogfighting paraphernalia.

8 Additional Convictions for Cockfighting Activity in California

In a followup from the second half of FY 2003, a joint investigation with the Napa County, California, Sheriff's Department, as well as sheriff's deputies and animal control officers from several other counties, has yielded an additional eight convictions for "owning, keeping, or training animals for fighting." To date, a total of 15 defendants have been convicted for illegal possession of gamecocks. One defendant was sentenced to 30 days in prison, and 14 defendants were sentenced to probation. One individual remains a fugitive. Additionally, the defendants were ordered to pay \$16,920 in restitution and fines. Our investigation led to the seizure of several thousand gamecocks. This operation was particularly significant because fighting cocks contributed greatly to the spread of Exotic Newcastle Disease in southern California and other States in the Southwest in late 2002 and early 2003.

APHIS, Michigan Need To Tighten Controls in Bovine TB-Infected Zone

We audited APHIS' National Cooperative State and Federal Bovine Tuberculosis (TB) Eradication Program in Michigan, which had the highest prevalence of bovine TB in the United States. Although bovine TB has nearly been eradicated from much of the United States, scientific analysis has directly linked the spread of bovine TB from wildlife to cattle. The Secretary of Agriculture declared an emergency in October 2000, which authorized supplemental funding and resources. The Michigan Department of Agriculture (MDA) determined that the disease was contained in the northern half of Michigan's Lower Peninsula, which it identified as "the infected zone" and where it established more stringent testing and movement requirements for herds.

Michigan generally followed State and Federal rules and regulations; however, weaknesses existed in controls over the testing, movement, and depopulation of animals in its infected zone. APHIS and MDA could

not document disposition of 113 of 645 animals from 4 of 8 sampled TB-infected herds, which were required to be depopulated or remain on the farm under quarantine. In a separate analysis of MDA's annual testing of herds in the infected zone, we found that APHIS and MDA could not account for the disposition of 105 of 287 animals in 4 herds.

APHIS policy also led MDA to release two infected herds from quarantine after preliminary lab test results, but before completing the final analysis. As a result, 22 animals were moved from an infected herd to a farm in Michigan's TB-free zone. These 22 animals were subsequently depopulated. In addition, APHIS' classification system for bovine TB State status is based solely on cattle infections, despite the continued presence of the disease in wildlife.

APHIS agreed to establish procedures to verify the disposition of all animals in infected herds, reconcile herd inventories to account for missing animals during annual testing in Michigan's infected zone, revise its policy to maintain quarantines on herds in the infected

ONGOING AND PLANNED REVIEWS FOR GOAL 1

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

- implementation of the listed agent and toxin regulations, phase II (APHIS),
- effectiveness of controls over the Bovine TB Eradication Program (APHIS),
- assessment of efforts to identify and respond to avian influenza (APHIS),
- U.S. Customs and Border Protection's (CBP) agricultural inspection activities (APHIS),
- the FSIS In-Plant Performance System (IPPS),
- FSIS State-Federal Cooperative Inspection Program,
- assessment of the equivalence of the Canadian Inspection System (FSIS),
- Pathogen Reduction Enforcement Program sampling procedures (FSIS),
- egg processing inspection (FSIS),
- interstate certificate of Veterinary Inspection System (APHIS),
- effectiveness of APHIS' Safeguarding, Intervention, & Trade Compliance's controls to identify and prevent unauthorized entry of prohibited products,
- assessment of the Farm Service Agency's new port approval and inspection process made effective July 1, 2004 (FSA),
- BSE maintenance sampling, phase IV (APHIS and FSIS),
- followup on FS security over explosives,
- FS Air Safety Program,
- controls over APHIS issuance of GEO release permits,
- controls over genetically engineered animal/insect research (USDA),
- USDA's role in the export of genetically engineered agricultural commodities,
- USDA's progress in enhancing agricultural biosecurity through diagnostic and reporting networks, and
- USDA homeland security initiatives.

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

zone undergoing testing until the lab culture results are known, and revise its classification standards to recognize and account for the existence of bovine TB in the wildlife population. (National Cooperative State/Federal Bovine TB Eradication Program, Audit Report No. 33099-5-Ch)

AMS Needs To Work With Organic Board, Strengthen Controls for the National Organic Program (NOP)

The Agricultural Marketing Service (AMS) has not established protocols for working with the National Organic Standards Board because implementation of NOP and program concerns took precedence. By law, the Board is to advise the Secretary of Agriculture on implementation of the Organic Foods Production Act of 1990. AMS did not involve the Board when it clarified program regulations (involving pesticide use, livestock health, livestock feed, and the scope of NOP) in April 2004 because, according to AMS officials, these clarifications merely stated what is enforceable under existing regulations. However, the organic foods industry and Members of the U.S. Congress saw these as revisions to the regulations, so in May 2004 the Secretary rescinded the guidance and directed AMS to work with the Board. Further, AMS has not acted on 26 recommendations from the Board for materials to be approved for or prohibited from use in organic production.

AMS also needs to improve management controls for administering NOP. In FY 2003, the eight complaints referred to NOP for decision remain unresolved, one of which involved a possible prohibited substance being added to an organic product. These complaints require AMS Compliance personnel to obtain an interpretation of NOP regulations by an NOP subject matter expert, for which AMS does not have an established procedure, thereby reducing assurance of consistent standards in organic products.

AMS agreed to implement protocols for working with the Board; direct NOP to establish procedures for receiving, reviewing, and implementing recommendations from the Board; develop and implement internal operating procedures for such things as the resolution of complaints to govern program operations; and resolve the eight cited complaints. We reached management decision on the 10 recommendations at report issuance. (NOP, Audit Report No. 01001-2-Hy)

Integrity of Benefits and Entitlements Programs

OIG Strategic Goal 2: Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. These programs support nutrition, farm production, and rural development and involved tens of billions of dollars in outlays for FY 2005.

In the second half of FY 2005, 45.6 percent of our total audit and investigative resources were devoted to Goal 2, with 91.9 percent of these resources dedicated to critical/high-impact work. A total of 50 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 67.9 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 9 audit reports under Goal 2 during the reporting period and a total of 16 audit reports during the full fiscal year. OIG investigations under Goal 2 yielded 87 indictments, 104 convictions, and about \$40.4 million in monetary results during the reporting period and 167 indictments, 193 convictions, and about \$99.3 in monetary results during the full fiscal year.

MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 2

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

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Livestock Assistance Initiatives Left Open to Waste, Misuse

Because of severe drought in the Great Plains and Southwest, the 2002 Cattle Feed Program (CFP) and the 2003 Nonfat Dry Milk Assistance initiative (2003 NDMA) distributed Commodity Credit Corporation-owned nonfat dry milk (NDM) as a protein supplement in livestock feed. In addition, the 2002 Livestock Compensation Program (LCP) provided monetary assistance to livestock producers to help offset the economic impact of qualifying natural disasters. Our review disclosed that management controls did not ensure that NDM distributed through the CFP and the 2003 NDMA was used for authorized purposes. Moreover, the management controls did not ensure that quantities of NDM ordered by approved feed dealers were reasonable based on the numbers of livestock designated to receive NDM-supplemented feed and on the feed dealers' capacity and resources to mix or process such feed. Some feed dealers stored extensive inventories of NDM outdoors for prolonged periods of time.

One Nebraska feed dealer ordered 21 truckloads of NDM for delivery to 3 Kansas livestock producers, with transportation costs of \$18,747, although producers in the State of Kansas were not eligible under CFP. In other cases, excess NDM was sold to third parties who exported it to other countries. We referred two such cases to OIG-Investigations. The U.S. Attorney's Office in Utah accepted one referral as a civil case involving improper distribution of NDM to overseas locations and possible incorporation of the NDM into human food products, which was not intended under the program.

Under LCP, the payment rate per head of livestock was calculated on analysis of economic losses due to long-term drought conditions, and payments were initially issued to livestock operations in counties designated as disaster areas due to drought. Congress subsequently expanded LCP eligibility to all counties designated as disaster areas, regardless of the nature of the disasters. In response to a Congressional inquiry, we found that, since basic eligibility under the expanded LCP hinged upon whether the livestock operation was located in a disaster county, livestock operations in counties affected by nondrought-related disasters received the same per-head compensation as operations in counties that suffered long-term drought, regardless of actual economic losses. We noted that \$159 million in LCP payments were issued to livestock producers in States and counties that did not experience long-term drought conditions.

We recommended that FSA recover the transportation costs associated with the 21 truckloads of NDM improperly ordered and develop recommendations for future NDM assistance programs based on best practices/lessons learned. As part of the implementation of the 2004 NDMA, FSA implemented significant actions to restrict the quantities and end-use of NDM made available under the program. For future LCPs, FSA agreed to seek to establish supplemental eligibility criteria, such as producers' proof of loss or an economic analysis to tie the program payment rate to economic losses caused by the disasters within the eligible areas. (FSA Livestock Feed and Compensation Programs, Audit Report No. 03099-52-KC)



A significant amount of excess nonfat dry milk was stored outdoors. OIG photo.

Indicted Ohio Murderer Converts FSA-Mortgaged Property To Pay Legal Fees

An OIG investigation determined that an Ohio man who had been indicted for one count of aggravated murder and two counts of tampering with evidence converted \$16,000 worth of FSA-mortgaged property to pay attorney's fees resulting from the unrelated murder charge. Some of the proceeds from the converted collateral were paid to the man's father and were eventually used to pay off a loan that the father had obtained to pay for the man's legal fees and bond. In December 2004, the man pled guilty and was sentenced to 20 years to life for murder, tampering with evidence, illegally possessing a firearm, and defrauding creditors in relation to the FSA loan. He received a concurrent 17-month prison sentence for the conversion of FSA collateral, and was ordered to pay restitution.

8 Persons Found Guilty in \$13 Million Federal Crop Insurance Fraud Scheme, Forfeiture of \$7.3 Million and \$9.15 Million in Restitution Ordered

Eight individuals in North Carolina were found guilty on a variety of charges involving a complex conspiracy to defraud the Federal Crop Insurance Corporation (FCIC) and several private insurance companies of more than \$13 million from 1997 to 2001. An extensive 3-year investigation by OIG, the Risk Management Agency's (RMA) Special Investigation Branch, and Internal Revenue Service (IRS) Criminal Investigation (CI) revealed that the owners of a corporation received more than \$9.28 million in crop insurance payments and were attempting to obtain an additional \$3.8 million based on an elaborate scheme of providing false documents to insurance companies reinsured by RMA. They hid production through manipulation of documentation filed with FCIC, manipulated maps of claimed cropland, and posed crop damage by throwing ice in a field to photograph it and claim hail damage. The U.S. Marshals Service seized millions of dollars of real property and vehicles for possible forfeiture. In September 2005, one producer and his wife were sentenced to 76 and 66 months of imprisonment, respectively, and ordered to forfeit \$7.3 million and pay \$9.15 million in restitution to USDA.

Potato Farmer Sentenced to Significant Prison Time and Restitution

In June 2005, a Michigan potato farmer was sentenced to 84 months in prison and ordered to pay more than \$2.2 million in restitution for mail fraud, false statements, and false claims. The producer had falsified actual production history records to increase his crop insurance indemnity payments and fraudulently received more than \$2.1 million over 4 years.

Improvements Needed in Broadband Grants and Loans

The Rural Utilities Service's (RUS) management controls over the Broadband Grant and Loan Programs need improvement. RUS has not exclusively served those rural communities most requiring Federal assistance—its definition of “rural area” is too broad to distinguish between suburban and rural communities. RUS has issued more than \$103.4 million in loans (nearly 12 percent of \$854 million in program funds) to communities near metropolitan areas, including \$45.6 million in loans to 19 planned subdivisions on the outskirts of Houston, Texas. Two other loan applications totaling \$26.4 million were pending for similar communities near Houston as well as Los Angeles, California. In addition, RUS' selection process cannot guarantee that areas without service will receive priority over areas where a borrower is merely upgrading service or entering into competition with preexisting providers.

We also found a lack of centralized administration and no specific written procedures for approving and servicing broadband grants and loans. Consequently, a total of \$236.6 million (26 percent of program funds) has been used inefficiently or not at all, or has not produced the expected return in service. Incomplete or inaccurate loan applications were approved, grants were made to a company that deviated from the planned use in the grant agreement, loans defaulted because of inadequate servicing, approved grants and loans were never drawn down and used, and canceled loans were not used on time and therefore lost. Finally, because it has not considered the grant program permanent, RUS divides the administration of grants and loans, which may lessen consistency in processing applications. For example, a \$383,284 grant issued to a community where a \$3.3 million loan had already been provided directly violated grant provisions.

We recommended that RUS clarify its definition of eligible rural area and centralize the broadband loan and grant programs administration. Also, RUS should recover \$30.4 million in defaulted loans and \$1.9 million in grants issued to the company that deviated from its grant agreement, deobligate \$762,226 in grant funds approved to the same company, and review the \$59,278,582 of funds not drawn down and deobligate them as appropriate.

RUS has cited the differentiation between the criteria for the now-defunct pilot loan and grant programs and the current 2002 Farm Bill-based Broadband Program. In response, we acknowledge that there were unique statutory requirements for each of the programs; however, the definition of “rural area” for loans was a problem during the pilot loan programs and remains a problem in the current 2002 Farm Bill program. Further, the lack of centralized administration and specific written procedures has also affected both the pilot loan and grant programs and the 2002 Farm Bill program. (Broadband Grant and Loan Programs, Audit Report No. 09601-4-Te)

Loan Origination, Foreclosure Processing Still Lacking in South Carolina

Our audit found that South Carolina's Rural Development (RD) Single-Family Housing (SFH) Section 502 loan program lacked sufficient management controls in the loan origination process to limit the number of loan delinquencies. South Carolina's loan originators did not always follow existing policies and procedures, did not always calculate annual income correctly and consistently, and improperly waived borrowers' adverse credit histories. As a result, 17 loans (11 direct and 6 guaranteed), totaling \$931,861, of the 48 that we tested had borrowers that lacked repayment ability, which led to 5 foreclosures, 3 bankruptcies, and 9 delinquent accounts.

We also found that South Carolina's RD State Office did not adhere to its regulations in servicing foreclosure accounts, which caused late processing. Further, State Office officials did not adequately monitor their foreclosure process. The resultant higher number of delinquent accounts and longer periods of delinquency caused South Carolina's overall direct loan delinquency rate, historically one of the highest in the Nation, to remain high. Our sampling averaged between 823 and 1,317 elapsed days, with no contact made with OGC or the U.S. Attorney's Office (USAO).

We recommended that controls be implemented to determine income eligibility and justify waivers of adverse credit history, that statewide internal reviews ensure loan originators properly calculate and document annual income and provide written justification for credit history waivers, and that loan specialists use required documentation to approve loans. We also recommended that the State Office update the State servicing plan annually to incorporate previously issued notices on foreclosure processing, monitor foreclosure processing in order to notify OGC and USAO officials about foreclosure delays promptly, and conduct a cost-benefit analysis and consult with appropriate officials about using private attorneys to process foreclosure cases. South Carolina State officials agreed and are implementing corrective actions. (SFH Program in South Carolina, Audit Report No. 04099-340-At)

Lender Misrepresented Crucial Information, Misused Loan Funds, Costing Government \$2.5 Million

At the request of the Rural Business-Cooperative Service (RBS), we audited a \$3 million Business and Industry (B&I) guaranteed loan to a local oil and gasoline distributor operating in Arkansas and Missouri for which RBS provided an 80-percent guarantee, or \$2.4 million. We found that the lender misrepresented to the Arkansas RD State Office (1) the collateral values of 20 company-owned stores used to distribute motor vehicle fuel, (2) that 95 percent of the properties were operational and upgraded at loan closing, and (3) that no major changes had occurred in the borrower's loan condition between the conditional commitment and loan closing. These misrepresentations directly resulted in RBS approval of the loan guarantee. Major changes were not reported to RBS: for example, 6 months before loan closing the borrower's motor fuel license was revoked in Missouri, and 2 months before loan closing the U.S. Environmental Protection Agency found 62 underground storage tank violations on 4 of the properties used as collateral. Also, the lender used \$75,000 of guaranteed loan funds for unauthorized purposes. The lender sold the loan note guarantee on the secondary market and refused to purchase it from the holder when the borrower defaulted 9 months after loan closing. RBS was then required by law to purchase the loan note guarantee for \$2,388,830 plus accrued interest of \$114,124.

We recommended that RBS contest the guaranty and recover the \$2,502,954 (includes the \$75,000 used by the lender for unauthorized purposes) and debar the lender and its subsidiaries from the B&I Guaranteed Loan Program. The Arkansas RD State Office agreed with the findings and recommendations and plans to take corrective actions. (Request Audit of B&I Guaranteed Loan in Arkansas, Audit Report No. 34099-7-Te)

54 Food Stamp Program Recipients Convicted of Fraud

In a followup from the first half of FY 2004, a joint investigation with Federal, State, and local law enforcement authorities in Tampa, Florida, has resulted in 54 additional convictions of Food Stamp Program (FSP) recipients for discounting Electronic Benefits Transfer (EBT) benefits for cash. The owner and three employees of a community grocery store had received sentences ranging from 12 to 55 months in Federal prison after pleading guilty to Federal charges of EBT fraud. From November 1998 to October 2002, the store redeemed more than \$3 million in food stamp benefits. The store owners were previously disqualified from FSP and conspired with an employee to fraudulently obtain an authorization to accept food stamp benefits. The investigation has resulted in the prosecution of 67 defendants and more than \$5.9 million in restitution, \$500,000 in money judgment orders, and \$1.2 million in cost avoidance.

Store Owner Convicted, Ordered To Repay More Than \$1.2 Million

A store owner and employee in New York City pled guilty to illegally trafficking more than \$1.2 million in EBT benefits, which were bought for cash at a discount from recipients for 2 years starting in March 2002. The owner admitted that he sent approximately \$500,000 of his profits out of the United States to his homeland, where he purchased two houses and a truck, and was arrested as he was preparing to return there. The owner, sentenced to 36 months in prison and 3 years of probation, forfeited \$1 million, and was fined \$200 and ordered to pay \$1.2 million in restitution. The employee was sentenced to time served and 3 years of probation, fined \$200, and ordered to pay \$1,804 in restitution. This case was worked jointly with the Federal Bureau of Investigation (FBI).

Store Owners Arrested for Food Stamp Trafficking in “Operation Clean Swipe”

In January and March 2005, four grocery store owners in Baton Rouge, Louisiana, pled guilty to wire fraud and income tax evasion. Sentences ranged from 4 to 12 months in prison, and 2 to 3 years of probation, with fines and restitution totaling \$214,028. The owners paid cash to conduct bogus transactions on customers' EBT cards.

Daycare Provider Sentenced to Prison, Ordered To Pay \$4.5 Million

An Indianapolis, Indiana, woman was sentenced to 50 months in prison and ordered to pay restitution of \$4.5 million, and three associates were sentenced to 2 years of probation and fined \$500 for defrauding the Child and Adult Care Feeding Program (CACFP) and U.S. Department of Health and Human Services (HHS) programs. From October 1997 to September 2002, the woman, owner of 13 daycare educational centers, and her employees inflated attendance numbers to fraudulently obtain approximately \$4.5 million from Federal programs, including about \$3.3 million from CACFP. This was a joint investigation with USDA OIG-Audit, HHS OIG, and IRS CI.

Lunch Lady Jailed for Stealing From the National School Lunch Program

A former public school district lunchroom employee in Michigan was sentenced to 6 months of imprisonment and ordered to pay approximately \$54,000 in restitution for stealing proceeds of school lunch sales. The district, which participates in the National School Lunch Program (NSLP), became suspicious of the employee because of discrepancies in monies collected on days the employee worked. The joint investigation with the Boyne City Police Department determined that the employee had stolen lunchroom proceeds for 6 years.

2 Store Owners Sentenced for Laundering More Than \$1 Million

In February 2005, the owners of two Texas Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) stores each were sentenced to 36 months in prison after pleading no contest to money laundering charges in connection with WIC fraud. From February 2003 to February 2004, the store owners

redeemed about \$1,118,203 in fraudulently obtained WIC vouchers. The investigation began when an inspection by the Texas Department of Health (TDH) revealed numerous blank WIC vouchers hidden in one of the stores. Employees of the store admitted that vouchers routinely were falsely completed and redeemed. Also, a large portion of the infant formula sold through the stores was knowingly purchased as stolen product. The store owners had pled guilty in August 2004 to harboring and employing foreign nationals who were residing in the United States illegally to manage and operate the WIC stores. This investigation was worked with the Joint Terrorism Task Force (JTTF); the Pasadena, Texas, Police Department; and TDH.

Store Employee Sentenced for WIC Embezzlement

In July 2005, a Texas woman was sentenced to serve 13 months in prison and 3 years of supervised release, and ordered to pay \$123,618 in restitution to her former employer for embezzlement. From July 2003 to August 2004, the woman, employed at a store that accepted only WIC vouchers, embezzled \$123,618 by cashing store checks and vendor checks that were made payable to the store. This investigation was worked jointly with the Odessa, Texas, Police Department.

Former Arizona Community Nutrition Worker and Accomplice Guilty of WIC Fraud

In April and May 2005, a Maricopa County, Arizona, Community Nutrition worker and her accomplice pled guilty in Arizona Superior Court to fraudulent schemes and artifices. They had fraudulently created at least 11 fictitious families for WIC and issued approximately 210 WIC checks, worth \$10,630, in their names. The county worker and accomplice used the checks to purchase powdered baby formula and other WIC-approved food items at local food stores, sold the baby formula, and split the proceeds. They were placed on probation and ordered to pay \$21,260 in restitution. The county worker was terminated from her job.

International Fugitive Captured Upon Return to United States

In September 2005, OIG and IRS CI agents, along with personnel from the U.S. Marshals Service and CBP, arrested the owner of a retail grocery store in

Detroit, Michigan, upon his return to the United States. The store owner and his uncle had fled the country in May 1996. The earlier investigation had disclosed that this individual and his uncle, who also owned several retail stores in the Cleveland, Ohio, area, were illegally trafficking in food stamp benefits and WIC vouchers. They were charged with conspiracy to convert \$24 million in food stamps, conspiracy to illegally traffic \$225,000 in WIC vouchers, conspiracy to launder \$3.3 million (domestic), conspiracy to launder \$1 million (international), conspiracy to engage in a pattern and practice to hire illegal aliens, and two counts each of filing a false individual income tax return. In February 2000, a U.S. District Court judge issued a \$71 million summary judgment against these individuals. Sentencing for the store owner has not been scheduled. The uncle remains a fugitive.

Minnesota Department of Education Improperly Used Federal Funds To Finance State Initiatives

At the request of FNS, we assessed the Minnesota Department of Education's use of Federal funds provided for Child Nutrition State Administrative Expenses (SAE). Previous audits and reviews reported that the State agency mismanaged grant funds and had substantial problems with its accounting, expenditure, and reporting of both Federal SAE and program funds. The State agency is continuing to make corrections to its accounting system but has not yet developed adequate procedures to ensure that its professional service contracts adhere to Federal guidelines. For FYs 2000 through 2003, the State agency used more than \$235,000 of \$3 million in Federal SAE funds to finance computer enhancements unrelated to FNS' Child

ONGOING AND PLANNED REVIEWS FOR GOAL 2

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

- continued monitoring of EBT implementation for the Food Stamp Program (FNS),
- EBT implementation for WIC (FNS),
- the Summer Food Service Program (FNS),
- WIC participant eligibility and vendor monitoring (FNS),
- the WIC program in Puerto Rico (FNS),
- Food Stamp Employment and Training Program (FNS),
- Child Nutrition Labeling Program (FNS),
- Delta Regional Authority,
- SFH borrower income verification procedures (Rural Housing Service (RHS)),
- Guaranteed Rural Housing Loan Program followup (RHS),
- Rural Rental Housing (RRH) construction costs (RHS),
- the Farm Programs Fraud Indicator Study,
- FSA implementation of the Tobacco Transition Payment (Tobacco Buyout) Program,
- programmatic treatment of crop base on land included in conservation easements (FSA/Natural Resources Conservation Service (NRCS)),
- FSA administration of the prohibitions on farm loans for borrowers that have received debt forgiveness,
- Direct and Countercyclical Program payment yields (FSA),
- Export Credit Guarantee Programs (FAS),
- controls over technical service providers (NRCS),
- Conservation Reserve Program (FSA),
- Conservation Security Program (NRCS),
- Environmental Quality Incentives Program (NRCS),
- effectiveness of status review process in assessing producer compliance with conservation provisions (FSA/NRCS),
- RMA indemnity payments for 2004 Florida hurricanes,
- effectiveness of RMA controls over prevented planting indemnity payments,
- controls over optional unit provisions (RMA),
- zero acreage reporting abuse (RMA),
- Florida Hurricane Disaster Program crop insurance requirements (RMA),
- crop insurance agents' sales practices (RMA),
- penalties required for inaccurate reporting of crop insurance acreage (RMA),
- implementation of \$500,000 claim decision process (RMA),
- group risk crop insurance (RMA),
- adjusted gross income limitation (NRCS), and
- assessment of controls over delivery of 2005 relief assistance for Hurricanes Katrina, Rita, and Wilma (USDA).

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

Nutrition Programs. FNS has collected the \$235,120 in unallowable and improperly allocated costs, and agreed to require the State agency to ensure that its contracting procedures comply with Federal guidelines as well as to establish appropriate contract criteria that include a proper determination and allocation between Federal and State cost objectives. (Controls Over the Minnesota Department of Education's Use of Federal Funds, Audit Report No. 27010-19-Ch).

Management of Public Resources

OIG Strategic Goal 3: Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources

OIG conducts audits and investigations that focus on, for example, improved financial management and accountability, information technology (IT) security and management, protection of public assets, employee corruption, natural resources, research, and the Government Performance and Results Act.

In second half of FY 2005, 29.5 percent of our total audit and investigative resources were devoted to Goal 3, with 97.7 percent of these resources assigned to critical/high-impact work. A total of 84.2 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 60 percent of our investigative cases had criminal, civil, or administrative action taken in response to OIG reports. OIG issued 10 audit reports under Goal 3 during the reporting period and a total of 36 audit reports during the full fiscal year. OIG investigations under Goal 3 yielded 28 indictments, 24 convictions, and about \$3.5 million in monetary results during the reporting period and 41 indictments, 38 convictions, and about \$6 million in monetary results during the full fiscal year.

MANAGEMENT CHALLENGES ADDRESSED UNDER GOAL 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1 and 2)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Reducing Improper Payments Continues To Be a Priority of Congress and the Administration

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

NRCS Could Have Saved Millions of Dollars in WRP Conservation Easement Payments

The Wetlands Reserve Program (WRP) is a voluntary program that compensates landowners to take marginal agricultural land out of production and return it to wetlands through conservation easements. The current enrollment limit is 2,275,000 acres with estimated spending of \$1.5 billion over the next 10 years.

We found significant deficiencies in the Natural Resources Conservation Service's (NRCS) WRP easement appraisal process: lack of qualified appraisal staff, inadequate policies and procedures, inadequate technical appraisal reviews, and an ineffective internal review process. Also, NRCS' compensation process was based on outdated and invalid assumptions and did not meet statutory requirements. The WRP statute specifies that easement compensation cannot exceed the fair market value (FMV) of the land before the easement less the FMV of the land after the easement (the residual value). If NRCS had complied with the WRP statute, the agency could have achieved program savings of at least \$159 million over the last 5 fiscal years in 13 States. In addition, NRCS purchased crop base acres from producers without requiring the producers to retire the acres from Federal farm programs, and the agency's controls were insufficient to ensure that NRCS promptly notifies the Farm Service

Agency (FSA) of WRP easements. Of 17 farms with WRP easements sampled in California, 7 received ineligible FSA payments totaling \$900,743.

We recommended that NRCS appoint a Chief Appraiser to oversee a qualified appraisal staff, develop an adequate technical appraisal review process, and strengthen appraisals and periodic internal reviews. NRCS also should estimate WRP easement compensation as the difference between the FMV of the land before the easement and the FMV of the land after the easement. In addition, NRCS should fully incorporate instructions on crop base disposition in the WRP manual and notify both producers and FSA that crop base acres included in WRP appraisals must be retired. NRCS State Offices should provide a periodic listing to FSA State Offices of all recorded WRP easements in their States. NRCS concurred, and agreed to take corrective action on all audit recommendations. FSA also agreed with the audit and has referred the questioned cases to the California State and County Committees for resolution. (WRP Compensation for WRP Easements, Audit Report No. 10099-3-SF)

Giant Computer Software Company Agrees To Pay \$8 Million Civil Settlement

One of the largest enterprise computer software companies agreed to pay \$8 million in a July 2005 civil settlement. It was alleged that, from 1997 through 2003, the company had submitted false claims for payment for computer training to a variety of Government agencies, including several USDA agencies, arising out of a master contract between the company and the General Services Administration (GSA). The false claims included billing and collecting before providing training, "expiring" (forfeiting to the company) millions of dollars paid in advance for training services not used within 1 year, and failing to comply with Federal Travel Regulations in billing for travel and expenses. After the investigation began, the company stopped its prebilling, expiration, and noncompliant travel and expense billing and entered into a contract amendment with GSA that recognizes these continuing obligations. This was a joint investigation with GSA OIG, the FBI, the Defense Criminal Investigative Service, the Department of the Air Force's Office of Special Investigations, the Department of the Army's Criminal Investigation Command, and the U.S. Postal Inspection Service.

5 Men Sentenced in ARS Bribery Scheme

An ARS contracting officer and four Government contractors were charged with bribery of a public official, false claims, and wire fraud. In July 2004, the ARS employee was sentenced to 24 months in prison, 3 years of supervised release, and restitution of \$52,400. By June 2005, the four contractors had received sentences ranging from 1 year of imprisonment to 6 months of home confinement. In 2001 and 2002, construction and service contracts, worth more than \$1.5 million, from the ARS Mid-South Area Office were illegally awarded to Government contractors in Mississippi and Alabama. The ARS contracting officer received \$71,900 in bribes.

Vendor Scams Government Employee Purchase Credit Card

In October 2003, the owner of a furniture design company in Maryland fraudulently charged more than \$19,000 to an APHIS employee's Government purchase credit card. Previously, the APHIS employee, on official business, had paid the furniture design company with her Government purchase credit card. The owner of the furniture design company subsequently misused the account number to charge the APHIS employee for various items of furniture that were not ordered or received. In April 2004, the owner was charged with theft, pled guilty, and was sentenced to home confinement with electronic monitoring and \$19,187 in restitution.

FSA Employee Diverts Milk Program Payments

In Michigan, a former FSA program technician was sentenced for diverting Milk Income Loss Contract Program payments earmarked for area dairy producers into a personal bank account. The embezzlement, occurring over 6 months, diverted approximately \$39,000. The former employee was sentenced to 6 months of home confinement, restitution of approximately \$39,000 to FSA, and 5 years of supervised release.

Employees Convicted for Using Their Position To Aid Drug Dealers

A series of investigations revealed that an RMA employee and an FSA employee prepared fraudulent pay stubs that were transmitted via facsimile from

their Government offices to apartment rental offices to support the rental applications of known drug dealers. The pay stubs provided the appearance of legitimate income to drug dealers in the metropolitan Washington, D.C., area. In one case, fraudulent pay stubs between April 2002 and April 2003 were used to support a loan application for a sport utility vehicle and were provided to the drug dealer's parole officer as proof of legitimate employment. Both USDA employees resigned in lieu of termination. They were criminally prosecuted in May 2004 and September 2004, respectively, and charged with wire fraud. Both employees entered guilty pleas and were sentenced to supervised probation and were fined.

NRCS Temporary Employee, 5 Co-Conspirators Charged With Identity Theft

From January 2002 to August 2003, a temporary employee for NRCS in Columbia, Missouri, stole an employee roster with personal data and provided the information to her boyfriend in Chicago, who shared the personal data with four others. All six conspired to commit fraud by stealing names, dates of birth, Social Security numbers, and personal financial information to apply for credit cards, cellular phone service, driver's licenses, utility service, and bank accounts. They obtained credit limits of up to \$25,000 and purchased a new car. In January 2004, the boyfriend was indicted and agreed to cooperate. In June 2004, the former NRCS employee and four others were indicted in Kansas City, Missouri, for conspiracy to commit identity theft. Four of the co-conspirators pled guilty and have been sentenced to probation and various restitution amounts. One remains an international fugitive.

2 NRCS Employees and Co-Conspirator Sentenced for Embezzlement

Our investigation disclosed that two NRCS employees and a co-conspirator embezzled approximately \$114,000 in agency funds. From August 2001 to October 2002, the NRCS employees forwarded Government checks and used their Government purchase cards to pay for office supplies from the co-conspirator which were never ordered or received by the agency, and divided the proceeds. Both employees pled guilty to theft of Government funds and were sentenced in June 2005 to serve 4 months and 10 months in prison, respectively, followed by supervised release of 3 years, and will be required to participate

in a program of mental health counseling. They must pay restitution of \$39,447 and \$74,934, respectively. They resigned from their USDA positions. The co-conspirator pled guilty to conspiracy to commit theft of Government funds and was sentenced to 12 months in prison, to be followed by 3 years of supervised release, and restitution of \$114,381.

Arrests Continue To Climb in Operation Talon

OIG began Operation Talon in early 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. From its inception, and through September 30, 2005, Operation Talon has resulted in 9,717 arrests of fugitive felons during joint OIG-State and local law enforcement operations.

During this reporting period, OIG agents and the Las Vegas, Nevada, Metropolitan Police Department arrested 64 fugitives in a separate phase of Operation Talon. Operation Talon arrests totaled 56 in the first weekend with 8 more in the days following, and 109 warrants were cleared. Operation Talon activities conducted in Nashville and the central Tennessee area resulted in 22 individuals being arrested in April 2005 with the U.S. Marshals Service Fugitive Task Force. Individuals arrested during Operation Talon in Nashville were fugitive felons wanted for crimes such as kidnapping and negligent homicide of a child; 1 person was wanted for 80 counts of sexual assault and offenses.

FSA Needs To Overhaul Its Compliance Review Processes

To ensure the accuracy of payments in its many farm programs, FSA requires numerous compliance reviews and spot checks, which are conducted by every FSA local county office, FSA State offices, and various FSA national office staff. Our audit disclosed that FSA has not worked to assess the effectiveness of such reviews over the years, and their design and performance have become somewhat perfunctory. We found that FSA could improve both the effectiveness and efficiency of its compliance reviews by using advanced techniques, such as statistical sampling and data mining.

For example, each FSA county office generally performs annual acreage report spot checks and Marketing Assistance Loan/Loan Deficiency Payment

(MAL/LDP) spot checks for a randomly selected minimum number or percentage of cases. If FSA instead used nationwide statistical samples, it could annually redirect more than 368,000 work hours, valued at more than \$3.7 million, to other important program activities; moreover, FSA could statistically project the spot check results to the entire populations of acreage reports and MAL/LDPs. We also found that automation of the reviews would facilitate the identification, analysis, reporting, and reduction of improper payments.

FSA should determine the most efficient and effective ways to perform its compliance reviews, perhaps combining reviews and using advanced sampling techniques, and develop an implementation schedule. We also recommended that FSA record the results of all its compliance reviews in an electronic format to facilitate national office review, analyze those results to identify common problems and causes, and share the analyses with the appropriate FSA program divisions and units. Finally, we recommended that FSA evaluate the use of a data warehousing system to contain both program data and compliance review results. FSA generally agreed with the recommendations and has organized a task force to examine its myriad compliance reviews. (FSA Compliance Activities, Audit Report No. 03601-12-Ch)

Purchase Card Program Provides Cost Benefits, but Stronger Controls Could Identify Improper Payments

The Office of Procurement and Property Management (OPPM) manages the USDA Purchase Card Program (by which USDA agencies made more than \$570 million in purchases in FY 2003) with IT support from the Office of the Chief Financial Officer (OCFO). Generally, we found that purchase card transactions were proper and the program provided a cost-beneficial process to procure goods and services. However, strengthening certain program controls could help identify potentially improper payments and fraudulent activities. We found users with unrestricted and unmonitored access to the Purchase Card Management System (PCMS) database, password settings not conforming to Federal requirements, unverified budget object classification codes, transactions posted to canceled cards, incorrect or missing cardholder data, and unverified lender rebates.

OCFO and OPPM generally concurred with our series of recommendations to correct the noted deficiencies, except OPPM did not agree that it shares responsibility with user agencies to help ensure internal controls are in place and operating effectively. The lack of effective internal controls within PCMS is evidenced by more than 1,400 cardholders not reconciling approximately 6,700 transactions, totaling more than \$3.4 million during FY 2003, within 30 days. OPPM should analyze potential systemic controls within the PCMS application to prompt compliance by agency cardholders who habitually do not reconcile and review transactions on time. We are continuing to work with OPPM to resolve this issue. (PCMS Controls Need Strengthening, Audit Report No. 11099-44-FM)

FS Needs To Improve EERA Processes To Boost Quality and Save Time, Money

The FS enters into emergency equipment rental agreements (EERA) annually to rent equipment (fire engines, generators, etc.) for emergency firefighting. In FY 2003 the FS spent \$138 million on EERAs. Overall, our audit found that the FS does not fully use the Federal Acquisition Regulations and other sound business practices to improve cost efficiency and vendor effectiveness. Most EERAs are established well in advance of the fire season, but the FS does not ensure that there is open competition between vendors. Limited trials with open competition have resulted in substantial cost savings. The number of vendors signed up with EERAs is not always consistent with agency needs, which wastes resources; in 2003, the FS signed up more than 8,000 EERAs but used only about half. In addition, the FS signs most EERAs annually, which requires an inordinate amount of FS contracting resources, and consideration should be given to extend the time vendors are available. Last, the FS does not consider the quality of vendors' service and equipment, and FS information systems cannot provide data on historical equipment usage patterns, vendor performance, or equipment quality.

Our recommendations to implement and improve acquisition processes will enable the FS to reduce administrative costs, reduce costs through competition, and acquire a better level of service from vendors and higher quality equipment. The FS agreed to sign EERAs on a competitive basis, establish the number of EERAs based on historical analysis, incorporate a best-value analysis in the selection process that includes past

performance and quality of equipment, and establish more multiyear EERAs. The FS has committed to resolving all audit recommendations by the end of FY 2006. (FS EERA, Audit Report No. 08601-40-SF)

USDA Has Made Significant Progress in Civil Rights Matters

From February 1997 to March 2000, OIG issued 5 reports with 43 recommendations to improve management and administration of program and employee civil rights complaint processing and resolution. To correct deficiencies in its program management and operations, USDA undertook a major reorganization of its Office of Civil Rights (CR). In response to our recommendations, CR developed a management plan to address its leadership and organizational culture, and to focus on customers and business processes. Our followup review determined that USDA has made significant progress in implementing actions to address program deficiencies and reduce the backlog of unresolved complaints. CR completed corrective actions in response to 22 recommendations. For 18 recommendations, corrective actions are still in process. CR needs to continue its progress in completing agreed-upon actions by assigning a responsible individual to lead and monitor the audit resolution process. OIG and CR are also working to reach agreement on the remaining three recommendations, which deal with the need for operating procedures for case file controls, audit resolution, and compensatory damages and other program relief. (Followup on the Recommendations Made to CR for Program and Employment Complaints, Audit Report No. 60016-1-Hy)

NITC General Control Structure – Unqualified Opinion

We rendered an unqualified opinion on the general controls at the Department's National Information Technology Center (NITC). Our examination was conducted to evaluate the Center's significant operations procedures to ensure they are operating effectively. The Center had taken significant corrective actions in response to our prior recommendations within the past year to strengthen its controls and ensure that customer applications and data were appropriately secured. We concluded, therefore, that the Center's controls, in all material respects, were suitably designed to provide reasonable assurance

that the controls objectives would be achieved and are operating effectively. (NITC – General Controls Review FY 2005, Audit Report No. 88501-2-FM)

Enhanced Security Controls Needed Over Critical FSA IT Resources

FSA generally had implemented sufficient controls to ensure the integrity of the critical price support loan application system, but improvements were warranted in application programming, access, and security. Passwords to the price support loan application did not adhere to Federal guidance because employees were required to divulge passwords, and password intervals were not properly set; data transmission was not always secure; risk assessment documentation was incomplete, and contingency plans lacked recovery actions expected of county offices.

We made a series of recommendations to address the adequacy of key validation controls, mitigate specific weaknesses, make logical access control guidance conform to departmental requirements, ensure that employees obtain passwords and user identifications in accordance with Departmental security guidance, ensure that all sensitive data is transmitted securely, establish that all relevant information has been considered as part of risk assessment before acceptance of the work and payment, and revise contingency plans for county offices to provide achievable recovery.

FSA concurred and has performed a preliminary review and analysis to address the weaknesses, and developed a validation control where possible. The agency is beginning to develop a Web-based eLOAN application process and plans to develop a more in-depth validation system. FSA has revised its handbook and intends to require password changes every 60 days. FSA will also reconsider revamping its contingency planning. (FSA Price Support Loan Application, Audit Report No. 03099-195-KC)

CSREES Needs To Mitigate Risks to IT Systems

The Cooperative State Research, Education, and Extension Service (CSREES) had not complied with numerous information system security program requirements for the Cooperative Research, Education, and Extension Management System (CREEMS). CSREES had not documented its risk assessment,

prepared a comprehensive contingency plan, provided annual security awareness training to all users, completed the official authorization to place or maintain a system in operational use, implemented adequate logical and physical access controls, and provided adequate legal notice regarding improper access or use of CREEMS. Using security software, we identified 21 high and 35 medium IT security vulnerabilities, and the agency began corrective action. We also found that CREEMS and the other systems in the CSREES financial management system did not use consistent calculation processes. As a result, CSREES personnel had to perform substantial, time-consuming reconciliation and data consolidation.

We recommended that CSREES immediately mitigate identified risks to its IT resources and, in particular, develop and implement policies and procedures that

comply with Government-wide and departmental IT security requirements. The agency should continue to monitor and resolve the high- and medium-risk vulnerabilities, and modify the IT components of its financial system to use the same payment allocation processes. CSREES concurred, and we reached management decision on the report's 14 recommendations. Per the CSREES response to the audit, the agency had taken corrective action on 11 of the 14 recommendations by the release date of the final audit report. (CSREES Application Controls Review of CREEMS, Audit Report No. 13501-01-Hy)

ONGOING AND PLANNED REVIEWS FOR GOAL 3

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

- management and oversight of the Packers and Stockyards Programs (Grain Inspection, Packers and Stockyards Administration),
- the Department and standalone agencies' financial statements for FYs 2004 and 2005 (OCFO),
- USDA certification and accreditation process (OCIO),
- management and security over USDA wireless connections (OCIO),
- FYs 2006 and 2007 National Finance Center IT controls (OCIO),
- NRCS application controls of program contracts system (OCIO),
- Federal Information Security Management Act – FY 2006 (OCIO),
- USDA progress to implement the Improper Payments Information Act of 2002,
- e-Gov security (OCIO),
- review of ARS contract management,
- ARS intramural research projects,
- FS large-fire suppression costs,
- FS collaborative ventures and partnerships with non-Federal entities,
- FS contract firefighting crews,
- FS implementation of the Healthy Forests Initiative,
- FS Capital Improvement Program,
- followup on recommendations made on FS' maintenance backlog,
- oversight and control of FS activities,
- FS Stewardship Contracting Program,
- FS Forest Legacy Program,
- FSA implementation of finality rule and equitable relief provisions as they relate to identifying improper payments,
- FSA controls over recovery of advance countercyclical payments that exceed the final payments,
- RMA contracting,
- RMA Compliance Office activities,
- crop insurance payments for large-entity farming operations (RMA),
- FSA and RMA yield differences, and
- RMA management controls over producer filing of late acreage reports.

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

Gauging the Impact of the OIG

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 three strategic goals:

1. Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
2. Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.
3. Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information 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 Inspector General 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
- audits without management decision

For investigations we show

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

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2004 Baseline	FY 2005 Target	FY 2005 2nd Half Actual	FY 2005 Full Year Actual
Audit/Investigative resources dedicated to critical/high-impact work	81%	90%	90%	92%
Audit recommendations resulting in management decision within 1 year	78%	85%	72%	87%
Investigative cases where criminal, civil, or administrative action is taken in response to OIG reports	61.6%	65%	66%	68%

Summary of Audit Activities – April-September 2005

Reports Issued	26
Audits Performed by OIG	25
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	1
Audits Performed by Others	0
Management Decisions Made	
Number of Reports	30
Number of Recommendations	274
Total Dollar Impact (Millions) of Management-Decided Reports	\$4.4
Questioned/Unsupported Costs	\$3.9 ^{ab}
Recommended for Recovery	\$1.8
Not Recommended for Recovery	\$2.1
Funds To Be Put to Better Use	\$0.5

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

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

Summary of Investigative Activities – April-September 2005

Reports Issued.....	143
Cases Opened	186
Cases Closed.....	170
Cases Referred for Prosecution.....	75

Impact of Investigations

Indictments	136
Convictions	158 ^a
Searches	72
Arrests	778

Total Dollar Impact (Millions)	\$44.9
Recoveries/Collections	\$14.7 ^b
Restitutions	\$24.7 ^c
Fines	\$1.0 ^d
Claims Established	\$1.5 ^e
Cost Avoidance	\$2.7 ^f
Administrative Penalties	\$0.3 ^g

Administrative Sanctions	71
Employees	17
Businesses/Persons	54

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 158 convictions do not necessarily relate to the 136 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 Claims established are agency demands for repayment of USDA benefits.

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

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

Full FY 2005 Results in Key Categories

OCTOBER 2004-SEPTEMBER 2005

Summary of Audit Activities

Reports Issued 63

Management Decisions Made

Number of Reports 70

Number of Recommendations 610

Total Dollar Impact (Millions) Of Management-Decided Reports \$20.7

Questioned/Unsupported Costs \$11.6

Funds To Be Put to Better Use \$9.1

Summary of Investigative Activities

Reports Issued 285

Impact of Investigations

Indictments 238

Convictions 275

Arrests 928

Total Dollar Impact (Millions) \$106.7

Administrative Sanctions 485

**INVENTORY OF AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2005**

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2005	5	\$5,915,755
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	4	\$472,332,163
TOTALS	9	\$478,247,918
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	1	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$482,400
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	8	\$477,765,518
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	4	\$5,433,355

**INVENTORY OF AUDIT REPORTS
WITH QUESTIONED COSTS AND LOANS
FROM APRIL 1 THROUGH SEPTEMBER 30, 2005**

	NUMBER	DOLLAR VALUES	
		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2005	24	\$114,890,863	\$78,221,319
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	6	\$36,064,092	\$0
TOTALS	30	\$150,954,955	\$78,221,319
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	10		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$1,799,434	\$786,843
NOT RECOMMENDED FOR RECOVERY		\$2,078,447	\$75,392
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$37,861,492	\$30,549,953
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	20	\$109,400,844	\$46,809,131
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	16	\$74,503,733	\$46,809,131

^aUnsupported values are included in questioned values.

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 189 program improvement recommendations, and management agreed to implement a total of 239 program improvement recommendations that were issued this period or earlier. During the full fiscal year, we issued 352 program improvement recommendations, and management agreed to implement a total of 407 program improvement recommendations. Examples of the program improvement recommendations issued this period include the following. See the main text of this report for a summary of the audits that prompted these program improvement recommendations.

- ARS generally agreed with many of our recommendations to identify, approve, and monitor dual-use research projects; in consultation with USDA's Office of the General Counsel (OGC), will develop interim criteria for sensitive research; will develop policies and procedures based on risk factors for performing appropriate suitability determinations of non-Government scientists involved in sensitive research; and will develop policies and procedures for submission of deemed export license applications to DOC before beginning sensitive research projects with foreign scientists.
- FSIS agreed to revise its form, "Report of Recall Effectiveness," to require compliance officers to explain why any amounts of product purchased by consignees are not identified. FSIS also agreed to revise its procedures to provide specific direction on identifying and evaluating the amount of product purchased by the consignees and guidance on when it is acceptable to not identify this amount.
- FSIS has taken some corrective steps, and we are continuing our work with it to address our series of recommendations to provide greater oversight over HACCP implementation, SSOPs, and independent reviews and supervision of plant and inspection activities.
- AMS agreed to implement protocols for working with the National Organic Standards Board; direct NOP to establish procedures for receiving, reviewing, and implementing recommendations from the Board; develop and implement internal operating procedures for such things as the resolution of complaints to govern program operations; and resolve the eight cited complaints.
- For future LCPs, FSA agreed to seek to establish supplemental eligibility criteria, such as producers' proof of loss or an economic analysis to tie the program payment rate to economic losses caused by the disasters within the eligible areas.
- We recommended that RUS clarify its definition of eligible rural area and centralize the broadband loan and grant programs administration.
- South Carolina State officials agreed to update the State servicing plan annually for its RD SFH Section 502 loan program to incorporate previously issued notices on foreclosure processing, monitor foreclosure processing in order to notify OGC and USAO officials about foreclosure delays promptly, and conduct a cost-benefit analysis and consult with appropriate officials about using private attorneys to process foreclosure cases.
- NRCS agreed to appoint a Chief Appraiser to oversee a qualified appraisal staff, develop an adequate technical appraisal review process, and strengthen appraisals and periodic internal reviews for WRP easements so that appraisals, which could be the basis for the purchase of the conservation easements, are performed in accordance with Federal standards.
- Prompted by general agreement with our recommendations, FSA has organized a task force to examine its myriad compliance reviews.
- CR agreed to assign a responsible individual to lead and monitor the audit resolution process.
- CSREES agreed to immediately mitigate identified risks to its IT resources and, in particular, develop and implement policies and procedures that comply with Government-wide and departmental IT security requirements.

SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2005

DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2005, THE OFFICE OF INSPECTOR GENERAL ISSUED 26 AUDIT REPORTS, INCLUDING 0 PERFORMED BY OTHERS. THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	3			
AGRICULTURAL RESEARCH SERVICE	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3			\$689,354
CHIEF INFORMATION OFFICER	1			
CIVIL RIGHTS	1			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	1			
FARM SERVICE AGENCY	3	\$18,747		\$3,741,157
FOOD AND NUTRITION SERVICE	1	\$235,120		
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREST SERVICE	1			
MULTIAGENCY	2			
NATURAL RESOURCES CONSERVATION SERVICE	1	\$62,295		\$159,838,448
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
RISK MANAGEMENT AGENCY	1			
RURAL BUSINESS-COOPERATIVE SERVICE	1	\$2,502,954		
RURAL HOUSING SERVICE	1	\$931,861		
RURAL UTILITIES SERVICE	2	\$32,313,115		\$308,063,204
TOTALS	<u>26</u>	<u>\$36,064,092</u>	<u>\$0</u>	<u>\$472,332,163</u>
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	24			
MULTIAGENCY AUDIT	2			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	26			
TOTAL COMPLETED UNDER CONTRACT ^b	0			
TOTAL SINGLE AUDIT ISSUED ^c	1			

^a Unsupported values are included in questioned values

^b Indicates audits performed by others

^c Indicates audits completed as Single Audit

Continued...

**SUMMARY OF AUDIT REPORTS RELEASED
FROM APRIL 1 THROUGH SEPTEMBER 30, 2005**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE				
010010002HY 2005/07/14	AMS' NATIONAL ORGANIC PROGRAM			
010990028AT 2005/05/02	PESTICIDE DATA AND RECORDKEEPING PROGRAMS			
010990031HY 2005/09/07	AGRICULTURAL MARKETING SERVICE'S PURCHASE SPECIFICATION REQUIREMENTS FOR GROUND BEEF			
TOTAL: AGRICULTURAL MARKETING SERVICE		3		
AGRICULTURAL RESEARCH SERVICE				
026010001CH 2005/09/30	ADEQUACY OF CONTROLS TO PREVENT THE IMPROPER TRANSFER OF SENSITIVE TECHNOLOGY			
TOTAL: AGRICULTURAL RESEARCH SERVICE		1		
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
330020003SF 2005/09/30	APHIS ANIMAL CARE PROGRAM INSPECTION AND ENFORCEMENT ACTIVITIES			\$689,354
330990005CH 2005/04/20	NATIONAL COOPERATIVE STATE/FEDERAL BOVINE TUBERCULOSIS ERADICATION PROGRAM			
336010002AT 2005/06/23	IMPLEMENTATION OF THE LISTED AGENT OR TOXIN REGULATIONS			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		3		\$689,354
CHIEF INFORMATION OFFICER				
885010002FM 2005/09/21	NITC GENERAL CONTROLS REVIEW - FISCAL YEAR 2005			
TOTAL: CHIEF INFORMATION OFFICER		1		
CIVIL RIGHTS				
600160001HY 2005/09/08	FOLLOWUP ON THE RECOMMENDATIONS MADE TO THE OFFICE OF CIVIL RIGHTS FOR PROGRAM AND EMPLOYMENT COMPLAINTS			
TOTAL: CIVIL RIGHTS		1		

**SUMMARY OF AUDIT REPORTS RELEASED
FROM APRIL 1 THROUGH SEPTEMBER 30, 2005**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE				
135010001HY 2005/07/08	APPLICATION CONTROLS REVIEW OF CREEMS			
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE		1		
FARM SERVICE AGENCY				
030990052KC 2005/09/30	SURVEY OF EMERGENCY FEED AND LIVESTOCK COMPENSATION PROGRAMS	\$18,747		
030990195KC 2005/09/30	REVIEW OF APPLICATION CONTROLS-AUTOMATED PRICE SUPPORT LOAN APPLICATION			
036010012CH 2005/09/30	FARM SERVICE AGENCY COMPLIANCE ACTIVITIES			\$3,741,157
TOTAL: FARM SERVICE AGENCY		3	\$18,747	\$3,741,157
FOOD AND NUTRITION SERVICE				
270100019CH 2005/06/22	CONTROLS OVER THE MINNESOTA DEPARTMENT OF EDUCATION'S USE OF FEDERAL FUNDS	\$235,120		
TOTAL: FOOD AND NUTRITION SERVICE		1	\$235,120	
FOOD SAFETY AND INSPECTION SERVICE				
246010004HY 2005/05/18	FSIS OVERSIGHT OF THE 2004 QUAKER MAID MEATS RECALL			
246010005AT 2005/06/24	HACCP-COMPLIANCE BY VERY SMALL PLANTS			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		2		
FOREST SERVICE				
086010040SF 2005/07/06	FOREST SERVICE EMERGENCY EQUIPMENT RENTAL AGREEMENTS			
TOTAL: FOREST SERVICE		1		
MULTIAGENCY				
500220009TE 2005/06/13	SINGLE AUDIT MANAGEMENT-NATIONAL RURAL WATER ASSOCIATION, INC.			
506010002HY 2005/09/09	REVIEW OF MANAGEMENT OVERSIGHT OF FEDERAL EMPLOYEES' COMPENSATION ACT OPERATIONS			
TOTAL: MULTIAGENCY		2		

**SUMMARY OF AUDIT REPORTS RELEASED
FROM APRIL 1 THROUGH SEPTEMBER 30, 2005**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
NATURAL RESOURCES CONSERVATION SERVICE				
100990003SF 2005/08/08	WETLANDS RESERVE PROGRAM COMPENSATION FOR WRP EASEMENTS	\$62,295		\$159,838,448
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		1	\$62,295	\$159,838,448
OFFICE OF THE CHIEF FINANCIAL OFFICER				
110990044FM 2005/09/02	POTENTIAL IMPROPER PAYMENTS/PURCHASE CARD MANAGEMENT SYSTEM			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		1		
RISK MANAGEMENT AGENCY				
056010012TE 2005/05/24	REVIEW OF PILOT PROGRAMS			
TOTAL: RISK MANAGEMENT AGENCY		1		
RURAL BUSINESS - COOPERATIVE SERVICE				
340990007TE 2005/09/29	REQUEST AUDIT OF B&I GUARANTEED LOAN IN ARKANSAS	\$2,502,954		
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		1	\$2,502,954	
RURAL HOUSING SERVICE				
040990340AT 2005/08/31	SINGLE-FAMILY HOUSING PROGRAM IN SOUTH CAROLINA	\$931,861		
TOTAL: RURAL HOUSING SERVICE		1	\$931,861	
RURAL UTILITIES SERVICE				
090990003HY 2005/06/14	WATER GRANTS TO THE CITY OF FROSTBURG, MD			
096010004TE 2005/09/30	BROADBAND GRANT AND LOAN PROGRAMS	\$32,313,115		\$308,063,204
TOTAL: RURAL UTILITIES SERVICE		2	\$32,313,115	\$308,063,204
GRAND TOTAL:		26	\$36,064,092	\$472,332,163

AUDITS WITHOUT MANAGEMENT DECISION

The Inspector General Act has a number of reporting requirements, among them tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries

follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
APHIS	03/31/05	1. Transition and Coordination of Border Inspection Activities Between USDA and DHS (33601-5-Ch)	0	0
FSIS	11/24/04	2. Application Control Review of FSIS' PBIS System (24501-1-FM)	0	0
Multiagency	03/31/05	3. Implementation of the Federal Research Misconduct Policy in USDA (50099-11-Hy)	0	0
RHS	03/23/05	4. Subsidy Payment Accuracy in Multi-Family Housing (MFH) Programs (04099-339-At)	0	0

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies

have been informed of actions that must be taken to reach management decision, but for various reasons the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
APHIS	02/20/03	5. Safeguards To Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch)	0	0
	09/30/04	6. Wildlife Services – Aerial Acquisition Procedures (33099-1-KC)	25,208	25,208
CR	03/24/99	7. Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0
	03/10/00	8. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0
FNS	05/11/01	9. NSLP – FSMCs (27601-12-KC)	3,572,137	2,815,826
	09/06/01	10. NSLP – FSMCs (27601-24-Ch)	3,537,912	236,749
	11/21/01	11. CACFP – Wildwood, Inc., Phase II (27010-6-KC)	36,895,611	36,895,611
	03/29/02	12. NSLP – Chartwell’s FSMC (27601-13-KC)	307,711	307,711
	06/25/04	13. Philadelphia NSLP Computer Attendance/Meal Claim Analysis (27010-31-Hy)	867,424	867,424

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FSIS	06/21/00	14. Implementation of HACCP System (24001-3-At)	0	0
	09/30/03	15. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969) (24601-2-KC)	0	0
	09/30/04	16. Use of Food Safety Information Systems (24601-3-Ch)	0	0
Multiagency	09/30/03	17. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	09/30/03	18. 2000 Crop Disaster Program (50099-15-KC)	20,049	19,650
	02/23/04	19. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/04/04	20. Controls Over Plant Variety and Germplasm Storage (50601-6-Te)	0	0
RBS	01/28/02	21. Lender Servicing of B&I Guaranteed Loans, Florida (34601-3-At)	1,536,060	1,536,060
	01/10/03	22. Lender Servicing of B&I Guaranteed Loans in Georgia (34601-4-At)	3,766,908	3,766,908
	08/27/03	23. RD – Lender Servicing of B&I Guaranteed Loans in Georgia (34601-5-At)	9,145,549	224,951
	09/30/03	24. RD – Liquidation of B&I Guaranteed Loans (34601-8-SF)	818,121	3,560
	09/30/03	25. Request Audit of B&I Loan in Louisiana (34099-5-Te)	5,585,136	1,382,301
	04/23/04	26. RBS Value-Added Agricultural Product Market Development Grants (VADG) (34601-3-KC)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
RHS	05/25/00	27. RRH – Nationwide Initiative in MO – Lockwood Management Co., St. Louis, MO (04801-2-KC)	4,922,879	4,807,001
	09/28/01	28. RRH Program Insurance Expenses, Phase II (04601-4-KC)	596,665	79,442
	06/26/03	29. RD – RRH Program, Tenant Income Verification, Gainesville, FL (04004-3-At)	7,781,635	3,183,305
	09/30/04	30. RRH Project Costs, Cairo, IL (04099-143-Ch)*	164,000	164,000
RMA	02/28/01	31. FY 2000 FCIC Financial Statements (05401-1-HQ)	0	0
	03/15/02	32. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	05/21/04	33. Crop Insurance APH (05099-25-At)	394,080	354,801

AUDITS WITHOUT MANAGEMENT DECISION – NARRATIVE FOR NEW ENTRIES

1. Transition and Coordination of Border Inspection Activities Between USDA and the U.S. Department of Homeland Security (DHS) (33601-5-Ch), Issued March 31, 2005

Management decisions are open for the report's three recommendations. APHIS had accomplished much in implementing the agreements entered into by the Secretaries of Agriculture and Homeland Security to effect the transfer of inspection responsibilities in March 2003. However, because key issues remained unresolved between APHIS and CBP, APHIS could not ensure that CBP agricultural inspection operations at ports-of-entry and border crossings were effective. We recommended that APHIS develop and implement a process to promptly elevate critical, unresolved issues to higher levels within the Department; and work with both CBP and FSIS to implement a system under which CBP would directly notify FSIS of all meat shipments being sent for reinspection. Agency officials concurred with the need to address these issues, but proposed to submit alternative corrective actions, and are working on a further response.

2. Application Control Review of FSIS' Performance-Based Inspection Service (PBIS) System (24501-1-FM), Issued November 24, 2004

We have reached management decision on 10 of 11 recommendations. For the remaining recommendation, FSIS needs to implement policy and establish controls to ensure that management reports and data analyses be generated from the most up-to-date data available.

3. Implementation of the Federal Research Misconduct Policy in USDA (50099-11-Hy), Issued March 31, 2005

Although USDA was required to implement Office of Science and Technology Policy research procedures by December 6, 2001, as of March 31, 2005, the Department had not assigned responsibilities to a specific USDA entity nor published implementing regulations. USDA still needs to establish an oversight process to ensure fair and prompt processing of misconduct allegations; assign responsibilities for extramural research misconduct allegations to a specific USDA entity; and develop extramural guidelines for conducting research misconduct investigations, adjudicate the results, and recapture misused funds.

4. Subsidy Payment Accuracy in MFH Programs (04099-339-At), Issued March 23, 2005

RHS had not implemented previous recommendations to improve controls over tenant income verification and had not sought legislation granting it authority to access Federal and State income benefit databases for matching. Only 31 State offices had matching agreements with their respective State departments of labor. Two of five recommendations to strengthen income verification controls remain open. We are awaiting the agency's description of policies and procedures for establishing claims and collecting overpayments, as well as plans for formalizing permanent policies and procedures regarding the recommendations.

INDICTMENTS AND CONVICTIONS

Between April 1 and September 30, 2005, OIG completed 170 investigations. We referred 75 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 136 indictments and 158 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 158 convictions do not necessarily relate to the 136 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$44.9 million.

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

Indictments and Convictions

April 1 – September 30, 2005

Agency	Indictments	Convictions*
APHIS	14	32
ARS	0	5
FAS	1	0
FNS	70	74
FS	3	3
FSA	24	26
FSIS	1	3
NRCS	5	6
OCFO	2	1
OIG**	4	0
OJO	1	0
RBS	3	0
RHS	8	3
RMA	0	5
Totals	136	158

*This category includes pretrial diversions.

**Not OIG employees, but rather results from our active participation in the FBI JTTF.

OFFICE OF INSPECTOR GENERAL HOTLINE

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

this reporting period, the OIG Hotline received 486 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs.

Figure 1 displays the volume and type of the complaints we received.

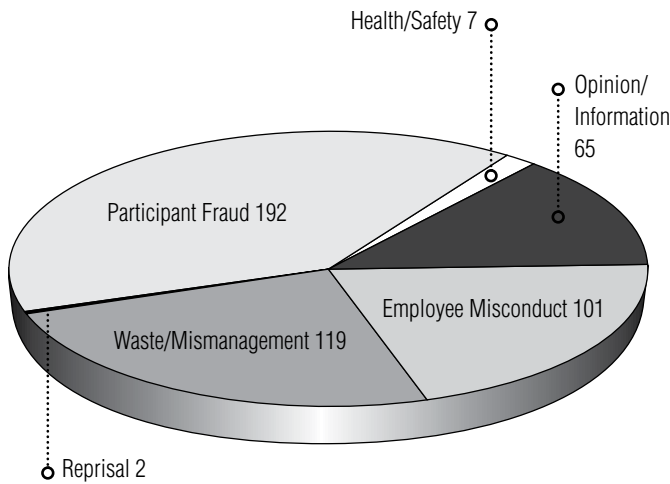
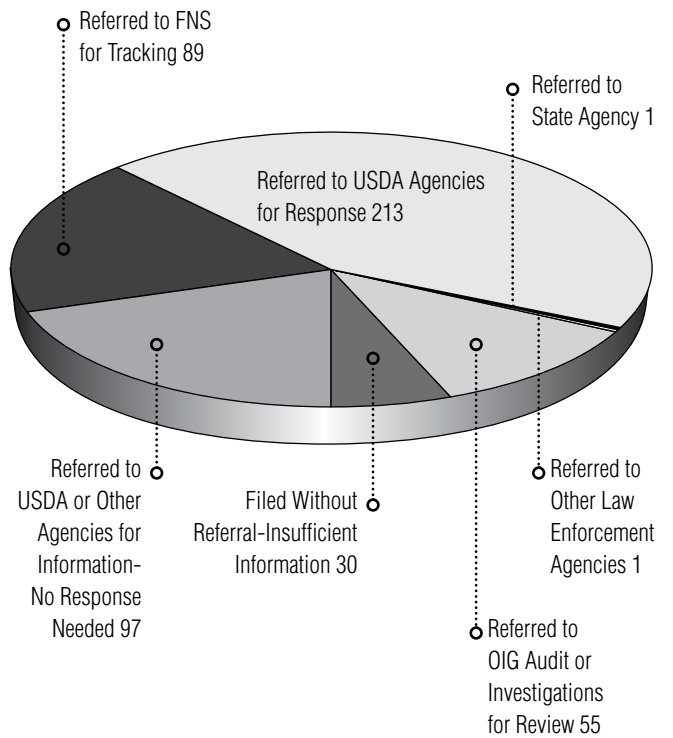


Figure 2 displays the disposition of those complaints.



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2005

Number of FOIA/PA Requests Received	92
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Number of FOIA/PA Requests Processed:	145
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Number Granted	22
Number Partially Granted	43
Number Not Granted	80

Reasons for Denial:

No Records Available	27
Referred to Other Agencies	6
Requests Denied in Full (Exemption 7A)	14
Requests Denied in Full (Exemption 7E)	1
Request Withdrawn	15
Fee-Related	2
Not a Proper FOIA Request	4
Not an Agency Record	2
Duplicate Request	2
Other	7

Requests for OIG Reports From Congress and Other Government Agencies

Received	10
Processed	11

Appeals Processed	3
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Appeals Completely Upheld	2
Appeals Partially Reversed	1
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0

Number of OIG Reports/Documents Released in Response to Requests	40
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NOTE: A request may involve more than one report.

During this 6-month period, 28 audit reports were posted to the Internet at the OIG Web site: <http://www.usda.gov/oig>

Abbreviations of Organizations

AC	Animal Care
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CBP	U.S. Customs and Border Protection
CI	Criminal Investigation
CR	Office of Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
DHS	U.S. Department of Homeland Security
DOC	U.S. Department of Commerce
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GSA	General Services Administration
HHS	U.S. Department of Health and Human Services
IRS	Internal Revenue Service
ITS	Information Technology Services
JTTF	Joint Terrorism Task Force
MDA	Michigan Department of Agriculture
NIST	National Institute of Standards and Technology
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OJO	Office of Judicial Officer
OMB	Office of Management and Budget
OPPM	Office of Procurement and Property Management
PPQ	Plant Protection and Quarantine
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
TDH	Texas Department of Health
USAO	U.S. Attorney's Office
USDA	U.S. Department of Agriculture
VS	Veterinary Services

Key OIG Accomplishments in This Reporting Period

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued	
Number of Reports	26
Number of Recommendations	189
Management Decisions Made	
Number of Reports	30
Number of Recommendations	274
Total Dollar Impact (Millions)	
Of Management-Decided Reports \$4.4	
<i>Questioned/Unsupported Costs</i>	\$3.9
<i>Funds To Be Put to Better Use</i>	\$0.5

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	143
Impact of Investigations	
Indictments	136
Convictions	158
Arrests	778
Total Dollar Impact (Millions)	\$44.9
Administrative Sanctions	71

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (239 TOTAL)

- ARS generally agreed with many of our recommendations to identify, approve, and monitor dual-use research projects.
- AMS agreed to implement protocols for working with the National Organic Standards Board; direct NOP to establish procedures for receiving, reviewing, and implementing recommendations from the Board; develop and implement internal operating procedures for such things as the resolution of complaints to govern program operations; and resolve the eight cited complaints.
- For future LCPs, FSA agreed to seek to establish supplemental eligibility criteria, such as producers' proof of loss or an economic analysis to tie the program payment rate to economic losses caused by the disasters within the eligible areas.
- South Carolina State officials agreed to update the State servicing plan annually for its RD Single-Family Housing Section 502 loan program to incorporate previously issued notices on foreclosure processing, monitor foreclosure processing in order to notify OGC and USAO officials about foreclosure delays promptly, and conduct a cost-benefit analysis and consult with appropriate officials about using private attorneys to process foreclosure cases.
- NRCS agreed to appoint a Chief Appraiser to oversee a qualified appraisal staff, develop an adequate technical appraisal review process, and strengthen appraisals and periodic internal reviews for WRP easements.
- CR agreed to assign a responsible individual to lead and monitor the audit resolution process.
- CSREES agreed to immediately mitigate identified risks to its IT resources and, in particular, develop and implement policies and procedures that comply with Government-wide and departmental IT security requirements.

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