

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL**

***STATEMENT OF ROGER C. VIADERO
INSPECTOR GENERAL***

Before the

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM**

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**TESTIMONY OF
ROGER C. VIADERO
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Thank you, Mr. Chairman and members of the committee. I am Roger Viadero, Inspector General for the U.S. Department of Agriculture (USDA). Thank you for inviting me to this hearing on Government programs at serious risk for waste, fraud, and abuse. Combating such activities is one of the primary concerns of every inspector general, and one I take very seriously.

The USDA Office of Inspector General (OIG) is authorized to audit and investigate the administration and enforcement of all USDA programs and related laws and regulation. We have identified a number of management and performance issues facing USDA, including financial management, Federal crop insurance, Rural Rental Housing, and child care programs. I know you are particularly interested today in discussing problems we have found in the area of food safety and in the Food Stamp Program.

FOOD SAFETY

Food safety is a major concern and priority for USDA OIG. In everything we do, the well-being of people is paramount. The quality and wholesomeness of the Nation's food supply, from production to the consumer, are of special concern to OIG. Investigations of any criminal activity that poses a threat to the health and safety of the public remain our highest priority. Cases involving food safety take precedence; if need be, we stop everything else.

Food safety and quality issues have received considerable attention over the past few years. USDA's Food Safety and Inspection Service (FSIS) has begun to implement Hazard Analysis and Critical Control Points (HACCP) to improve its inspection process. HACCP is a systematic approach to food safety, wholesomeness, and prevention of economic adulteration. It is intended to identify the critical points in food processing and establish controls to prevent adulteration caused by microbes, chemicals, or physical hazards.

In January 1998, FSIS implemented the first phase of HACCP in over 300 large plants that slaughter and/or process meat and poultry. These plants were required to have HACCP in place and to meet the performance standards regarding salmonella. By last month, all plants were required to have in place written standard operating procedures for sanitation, and slaughter plants were required to begin testing for generic E. coli. As of January 25, with phase two, more than 2,800 small meat and poultry facilities with between 10 and 500 employees are required to implement science-based pathogen reduction and HACCP plans.

FSIS, in addition to its concentrated in-plant inspection and oversight responsibility, maintains an active in-house compliance staff to enforce food safety requirements. This function is carried out by FSIS' District Enforcement Operations. Its objective is to prevent and detect violations of meat and poultry inspection law through systematic surveillance and education of persons and firms in the distribution chain of meat and poultry products. In late January, we completed our fieldwork of FSIS' compliance function. While we are still analyzing our work, our preliminary results indicate that District Enforcement Operations were generally being carried out in accordance with FSIS regulations. However, we will recommend that FSIS improve its controls to monitor the status of complaints and improve its coordination on investigative issues with OIG.

Recently, we took our first step to review the implementation of the HACCP systems in meat and poultry establishments. In December, auditors began to assess FSIS controls to ensure that meat and poultry plants have implemented and maintained Sanitation Standard Operating Procedures (SSOP), which represents the initial phase of FSIS' pre-HACCP implementation. The SSOP regulations require that each establishment develop and implement written sanitation standard operating procedures to prevent direct contamination or adulteration of products. We are now beginning a nationwide review of HACCP to determine if it is being implemented as prescribed.

The meat and poultry industry plays a critical role in determining the ultimate outcome for overall food safety; therefore, we plan to assess the industry's, as well as FSIS' compliance with HACCP requirements. To obtain the broadest results possible, in addition to assessing the SSOP plans and HACCP implementation, we plan to expand our testing to include the FSIS Microbiological Testing Program and the controls over the sampling and test results of meat and poultry products under the HACCP system.

OIG is the investigative arm for all of USDA; in certain cases rapid response is critical. Most notably, we have responded immediately to a number of cases involving the intentional contamination of meat products consumed by the public. In addition to meat, OIG has criminal enforcement authority over cases involving the processing and sale of adulterated poultry and egg products. In fact, OIG has the authority for criminal enforcement related to the regulation, distribution, and purchase of products for all USDA programs having to do with food. This includes programs that USDA's Agricultural Marketing Service administers to purchase food for schools.

OIG has developed the law enforcement expertise that is vital to an immediate, effective, and efficient response to critical incidents through decades of experience conducting criminal investigations of crimes against U.S. agriculture. Case histories of alleged biological

contamination of meat products, and the willful processing and sale of adulterated meat, poultry, and egg products by corporate members of the food industry exemplify this expertise. These incidents impact the health and safety of consumers, including children and elderly in day care centers, and our armed forces stationed in the United States and abroad. OIG is working to position its audit and investigative resources to provide critical incident emergency law enforcement response to these threats of criminal acts impacting the integrity of U.S. agriculture.

Emergency Response Teams of auditors and investigators are ready to respond to all emergency situations. These teams recently deployed to several cities in the United States to investigate real or threatened adulteration of meat with everything from E. coli to disinfecting compounds--possibly bleach or ammonia--to HIV-infected human blood. Some adulterated products--rancid meat, for example--were destined for children in the National School Lunch Program or soldiers on military bases, and in certain cases ended up there. We are currently monitoring the FSIS response to listeria outbreaks at several locations across the Nation.

In December, a threat of biological contamination using HIV-infected blood in a Milwaukee, Wisconsin, meat plant activated the immediate deployment of 30 OIG special agents (including 8 bilingual agents to converse with Spanish-speaking plant employees) and 4 auditors to the scene to determine the validity of the threat and to identify those responsible. Personnel from FSIS assisted in this investigation, with FSIS staff taking the lead role in ensuring that viral contaminants had not been introduced into the food chain. Our investigative efforts to resolve this bio-terrorism threat continue. Approximately 580 interviews have been conducted to date. I am pleased to be able to report that extensive testing of samples taken from the plant has not indicated the presence of human HIV-infected blood.

In another case, in late July 1997, 15 individuals in Colorado consumed ground beef products and became ill. Health officials determined that these illnesses were caused by their having consumed ground beef that

was adulterated with E. coli 0157:H7 bacteria. The individuals had purchased the beef product at different locations throughout Colorado.

Scientific testing by FSIS determined that a Nebraska meat processing plant had produced the beef product that was the cause of the E. coli outbreak. OIG immediately sent an Emergency Response Team of investigators and auditors to the Nebraska plant to investigate. By August 1997, the recall consisted of approximately 25 million pounds of potentially tainted beef, at that time the largest quantity of meat product ever recalled. OIG investigation established the critical time during which the tainted meat was processed, and recall of all the meat processed at that plant during that period began. Shortly after the recall, the plant was closed and sold. The meat plant and two company officials were criminally indicted in December, the officials for their part in misleading investigators during our attempt to determine the source of the E. coli outbreak. These misrepresentations resulted in the delay of identification of potentially contaminated meat, thus increasing the threat to consumers. Trial for the two company officials is pending.

We are currently investigating another significant case involving a meat company alleged to have intentionally, for profit motives, adulterated and misbranded beef and pork products, which have also tested positive for E. coli 0157:H7. Approximately 4.4 million pounds of this company's meat product containing ground pork or ground beef is under voluntary hold at various school districts, prisons, military institutions, and other facilities. In addition, another 1.6 million pounds of this product is being retained or detained at other facilities.

We have also investigated other cases in which the health and safety of the public were at serious risk. In Buffalo, New York, three feed company employees pled guilty to Federal charges and await sentencing for their role in selling canned meat product to the public which was unfit for human consumption. This product was being shipped from a Canadian company to the feed company to be used as animal food. In a second case in New York, an FSIS inspector pled guilty in Federal court and was sentenced to 6 months in prison for

accepting bribes from the owner of a slaughter facility to permit the slaughter of livestock, including 3-D (dead, diseased, or dying) cattle, without the benefit of inspection. In Pennsylvania, the owner of a slaughterhouse pled guilty to conspiracy, while three company employees pled guilty to violating the Federal Meat Inspection Act. These individuals were caught slaughtering 3-D cattle after the FSIS inspector had left the premises and then commingling the unwholesome product with meat that had been inspected.

In addition to adulteration of meat products, food safety concerns also encompass other types of food. In March 1997, an outbreak of the hepatitis A virus in Michigan sickened approximately 190 school children. Subsequent investigation by the Centers for Disease Control and Prevention and the Food and Drug Administration determined that the hepatitis A outbreak was associated with frozen strawberries served to school children as part of the USDA School Lunch Program. The frozen strawberries came from a San Diego-based food broker/processing company. The company, through three other brokers, supplied 1.7 million pounds of frozen strawberries through USDA contract to the School Lunch Program, for which the brokers received more than \$900,000 from USDA.

The USDA contract called for frozen strawberries "originating from crops 100-percent grown, processed, and packed in the United States." The company's president falsified a certification to USDA that all of the 1.7 million pounds of frozen strawberries were 100-percent grown and packed in the United States. In fact, OIG investigation determined that at least 99 percent of the product supplied to USDA was grown in Mexico.

The food processing company and its president/owner pled guilty to charges of submitting false claims to USDA in relation to the substitution of Mexican strawberries for U.S. domestic strawberries in the USDA School Lunch Program. The president/owner was sentenced to 10 months in prison and fined \$13,000. The company was ordered to pay \$200,000 in fines, \$150,000 in restitution to USDA, and \$1,300 in

court penalties. In addition, the company agreed to a \$1.3 million civil settlement. The former sales manager of the company was placed on probation for 5 years after he pled guilty to conspiracy.

The increasing threat to the wholesomeness of domestic and exported food requires not only vigilance but also advance preparedness, and could involve preemptive undercover operations. Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats of criminal adulteration and biological contamination of food products from outside the food industry for extortion or ideological motives can victimize and disrupt the Nation's food production and distribution systems. These threats must be resolved through a vigilant, established emergency law enforcement and health and safety response.

Recent governmental assessments of the threat of biological terrorism omitted agriculture as a potential target. American agriculture is a major part of the critical infrastructure of the United States and is highly susceptible to biological threats. This is of major national concern when you consider that American agriculture makes up nearly 15 percent of our gross domestic product and generates \$1 trillion in economic activity each year. Given these concerns, we are taking the necessary steps to address this issue through the creation of Critical Incident Response Teams which respond decisively to such threats.

We also need to be mindful of the economic impact caused by closing a major food processing plant. To our knowledge, the Milwaukee plant I mentioned earlier had violated no laws and had been successfully implementing HACCP inspection procedures. Still, its production line was successfully halted by outside forces, millions of pounds of its product were put on hold, and the facility was temporarily shut down. OIG's rapid response and deployment of considerable staff resources not only helped to protect the health and safety of consumers, but it also allowed the plant to reopen with a minimum production disruption and lost profit, as opposed to an indefinite and costly closure.

FOOD STAMP PROGRAM

Moving to our second main topic of discussion, the Food Stamp Program (FSP) has been a continuing priority for us for a number of years. This important program helps put food on the table for some 9 million households and more than 20 million individuals each day. It provides low-income households with paper coupons or electronic benefits they can use like cash at most grocery stores to ensure they have access to wholesome food.

Because of the size, importance, and vulnerability of FSP, we devote a significant portion of our audit and investigative resources to this area. We are also maintaining a keen focus on the development of Electronic Benefits Transfer (EBT) systems to deliver FSP benefits. Under EBT, a recipient uses a debit card at the grocery store rather than food stamps. When the sale is complete, the computer system automatically deducts the amount of the sale and keeps track of food stamp benefits remaining. We want to be sure EBT systems are implemented and working properly because EBT has more built-in safeguards than paper food stamps. In addition, I'll touch on household and retailer eligibility, but first, I want to discuss a major benefit resulting from Welfare Reform.

Operation Talon

"Operation Talon" is an OIG law enforcement initiative led by my office and carried out in conjunction with State and local law enforcement agencies and State social service agencies across the country. Operation Talon was made possible by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, generally known as Welfare Reform. As you know, that legislation allows law enforcement fugitive records to be matched with social service agencies' food stamp records. The information is used by law enforcement officers to locate and apprehend potentially dangerous and violent fugitive felons who may also be illegally receiving food stamps.

Operation Talon has been the most successful initiative we have yet undertaken. Thus far, Talon has resulted in the arrest of more than 3,650 fugitive felons. These criminals include 26 wanted for murder or attempted murder, 11 for rape or attempted rape, 8 for kidnapping, and over 1,200 for assault, robbery, or drug offenses. Operation Talon has also brought into custody 18 fugitive felons wanted for child molestation. Noteworthy is that 2 of those 18 have also been charged with violation of state "Megan's Law" statutes, which require sex offenders to register at their place of residence. In one case, OIG and the Hudson County, New Jersey, Sheriff's Department arrested a convicted child molester for failing to register as a sex offender. The fugitive had moved without notifying appropriate State officials, and eluded the authorities until he provided his new address to participate in the Food Stamp Program and was found through an Operation Talon match.

Operation Talon is an ongoing initiative, and we are planning future arrest operations in many parts of the country. One recent success was in Austin, Texas, where our special agents worked with Texas law enforcement officials in apprehending over 75 fugitive felons. We have additional warrants and anticipate the arrest of numerous other fugitive felons.

Food Stamp Trafficking

We continue to combat food stamp trafficking, whether it be through the traditional coupons or EBT. During the last year, for example, investigations of large-scale fraud operations in New York, Philadelphia, and Detroit have thus far identified 55 store owners and employees involved in the unlawful acquisition of some \$99 million in food stamp benefits. This has resulted in the arrest and conviction of many of these individuals, some of whom have been sentenced to prison terms and ordered to pay millions of dollars in restitution.

After an OIG investigation in Beltsville, Maryland, a prominent neonatal physician, with a \$300,000 per year income, and his wife pled guilty to welfare fraud. They had collected approximately \$150,000 in fraudulent welfare benefits from State and Federal agencies from 1993 through 1997. These benefits included food stamps, aid for dependent children, general welfare, and educational grants. The wife used two different Social Security numbers to perpetrate the fraud, one to collect monthly benefits from welfare agencies and the other for tax purposes to report the family's substantial income. Three of the couple's children assisted in the fraud by applying for, and obtaining, portions of the illegal benefits.

As noted earlier, one improvement we are delighted to see is the advent of Electronic Benefits Transfer. USDA has been at the forefront of EBT development over the years. Today, with the use of the EBT debit cards, over 50 percent of food stamp benefits are disbursed via EBT and not paper food stamps--36 States and the District of Columbia have operational EBT systems, with 29 States operating statewide. All States must be EBT-operational by the year 2002.

EBT has had an impressive impact on identifying individuals and retailers who are committing fraud in the Food Stamp Program. While trafficking of benefits has not been eliminated by EBT, we believe the number of individuals involved in street trafficking has been reduced. EBT benefits are less negotiable "on the street" and thus are less likely to be used as a "second currency." Unlike what we found with the trafficking of food stamp coupons, we have not found any significant direct exchange of EBT benefits for illegal drugs. Instead, the EBT recipients are generally exchanging their benefits with retailers or their employees for cash and nonfood items.

We can use information available under EBT to identify and prosecute those who engage in illegal transactions. While paper coupons are generally not traceable to individual recipients, the EBT system records the date, time, amount, recipient, and store involved in illegal trafficking. The Food and Nutrition Service (FNS) is also using EBT data to

disqualify violating retailers, and State authorities are using information obtained from EBT records to disqualify large numbers of recipients who have sold their benefits.

EBT is a more cost-effective delivery system than coupons. To begin with, multiple Government programs can participate. It is also less vulnerable to fraud, waste, and abuse than traditional paper delivery systems, while improving the quality of service to program recipients by empowering them. EBT provides an audit trail of all transactions and limits access of program benefits to authorized recipients by requiring a EBT card and personal identification number.

We assist EBT vendors with security matters and in developing fraud profiles to detect fraud early, thus minimizing losses. EBT enables us to readily identify suspicious activities and individuals. For one example, starting in October 1995, OIG began investigating suspicious transactions involving EBT food stamp benefits in New Jersey. The investigation focused on authorized retailers operating in Essex and Hudson Counties as part of the pilot project for EBT implementation in New Jersey.

Investigators identified 10 authorized stores as having engaged in food stamp fraud. Those stores redeemed an estimated \$9.5 million in food stamp benefits during the period of investigation, of which \$6 million is alleged to have been involved in fraudulent transactions. In addition, approximately 1,000 individual food stamp benefit recipients had engaged in suspect transactions larger than \$1,000. Sixteen individuals who owned and/or operated the 10 stores were indicted for conspiracy, food stamp fraud, and fraud in connection with electronic access devices. Seizure warrants netted \$75,000 in cash, and assets of real property were seized.

Not only has OIG been supportive of EBT from an investigative perspective, we have taken an active role in monitoring and reviewing currently operating EBT systems. By being in on the front end of the implementation of these systems, we can identify and report on

problems that need to be addressed early. This OIG review provides program managers with the assurance that their systems are operating as intended.

Security policies and control processes in the 14 States we have reviewed were adequate to ensure timely and accurate availability of FSP benefits to recipients and payments to retailers. The operational areas we have reviewed include reconciliation of FSP issuance data, help desk operations, fraud detection, EBT management reports, access to and security over the EBT system, and interstate transactions. The Food and Nutrition Service's oversight of EBT has continued to evolve, and some areas need enhanced controls. They include strengthening procedures for authorizing and reviewing continued need for access to the EBT system, as well as establishing procedures for reconciling issuance data between the State, the EBT processor, and Federal agencies.

We have continued to work with EBT processors to ensure accurate information is submitted to the processor and to Federal agencies (FNS and the Federal Reserve Bank). This has been accomplished through reconciliations of issuance and transaction data. A limited number of EBT processors support a large number of State EBT systems, whose data Federal agencies rely upon. We have led an effort to develop audit review guidelines of EBT processor operations to ensure reviews are more efficient and cost-effective.

In addition, we have performed reviews of both recipient and retailer eligibility. Audits and investigations have found many recipients and retailers ineligible to participate in the program. In our vigilance of retailer integrity, we conducted a "sweep" of over 5,000 stores in 7 different areas in 1995. During the sweep, we found 858 retailers ineligible to participate in the program, and another 450 questionable. As a result of our work, FNS removed a large number of stores from the program. We plan to review contracts FNS has with private vendors to conduct onsite retailer visits. We also plan to conduct additional sweeps of stores to determine eligibility.

During a recent investigation in Atlanta, an OIG special agent read a short newspaper article about a local resident's past felony conviction. In 1985, while living in Detroit, the individual and two other male subjects had entered the home of a 65-year-old woman in search of money and jewelry. While there, the individual and his accomplices beat, bound, and shot the woman in the back of the head. He was convicted of second degree murder and served 8-1/2 years in prison. The agent recognized this individual as participating in FSP as an authorized retailer. FNS records revealed that the individual had falsely stated on his store application that he had no criminal record. Additional information showed the individual, who is from Iraq, should have been deported when he was freed from prison. An Assistant U.S. Attorney has agreed to charge the individual for making a false statement on his retailer application, as well as the immigration violation.

We believe that participation as an FNS-authorized retailer should be regarded as a privilege and not a right. In February 1995, during my testimony to the Committee on Agriculture concerning enforcement of the Food Stamp Act, I proposed a 10-point package of legislative and regulatory changes to enhance the integrity of the Food Stamp Program. Since that time, we have seen many of our proposals come to fruition. A few of them, however, have not been enacted. These include requiring stores to either be in the retail food business for a minimum of 1 year prior to authorization or requiring them to obtain a surety bond, and charging stores a licensing fee to participate in the program. Implementation of these recommendations would have a significant positive impact and enhance the integrity of the program. We will continue to pursue the necessary legislative changes to implement them.

This concludes my statement, Mr. Chairman. I thank you again for the opportunity to address the Committee, and I would be pleased to answer any questions you or other members of the Committee might have.