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Office of
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Office of Inspector General Semiannual Report to Congress

FY 1999—Second Half

Report to the Secretary on Crop Insurance Reform

Sentenced for Food Stamp Fraud

Milk Dealers Plead Guilty to Conspiracy

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Crop Insurance Coverage for Pima Cotton, Popcorn, and Corn

Audit of CACFP Finds Serious Irregularities

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On the cover: Increasingly, our work has captured the attention of the news media. For some of our most outstanding results, we have issued news releases and participated in news conferences for the print and electronic media. On the cover are representative excerpts of headlines from releases issued during this reporting period, as well as titles from audit reports posted on our Internet site (www.usda.gov/oig), which is continually being updated. See the main text for summaries of such high-impact results we are discussing in this report.

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

October 21, 1999

The Honorable Dan Glickman
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period which ended September 30, 1999.

During this period, our audits and investigations yielded approximately $42 million in recoveries, collections, restitutions, fines, claims established, and costs avoided. Further, management agreed to put nearly $107 million to better use. We also identified approximately $72 million in questioned costs that cannot be recovered. In addition, our investigations produced 208 indictments and 332 convictions.

We are again reporting on several of our Presidential initiatives, one of them for the first time. OIG has begun a Presidential initiative to counteract smuggling of animals and plants which could endanger the Nation's food supply through the introduction of diseases and plant pests. The number of arrests during Operation Talon continues to climb, with notable results in Texas and Colorado. As an outgrowth of Operation "Kiddie Care," we are emphasizing the need for regulatory and legislative changes in the Child and Adult Care Food Program.

I extend my continuing appreciation to you, the Deputy Secretary, and the Congress for your support in furthering our mutual efforts to improve the integrity and efficiency of the Department's programs and operations.

Sincerely,

(Signed)

ROGER C. VIADERO
Inspector General

Enclosure

Contents

Executive Summary

This is the 42nd Semiannual Report of the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended. This report covers the period April 1 through September 30, 1999.

In accordance with the requirements of the Inspector General Act, this report describes matters relating to the Department's programs and operations which occurred during the reporting period. These include significant problems, abuses, and deficiencies; significant recommendations for corrective action; prior significant recommendations unimplemented; prosecutorial referrals; information or assistance refused; a list of audit reports; a summary of significant reports; tables on questioned costs and funds to be put to better use; previous audit reports unresolved; significant revised management decisions; any significant management decision disagreements; and a review of legislation and regulations.

Monetary Results

During this reporting period, we issued 55 audit and evaluation reports and reached management decisions on 56. Based on this work, management officials agreed to recover $10.9 million and to put an additional $106.8 million to better use.

We also issued 257 reports of investigation during this period. Our investigative efforts resulted in 208 indictments, 332 convictions, and approximately $31.5 million in recoveries, fines, restitutions, claims established, and cost avoidance.

Ongoing Presidential Initiatives

We are again reporting on several of our Presidential initiatives, one of them for the first time. OIG has begun a Presidential initiative to counteract smuggling of animals and plants which could endanger the Nation's food supply through the introduction of diseases and plant pests. In one case in Washington State, a Canadian citizen pled guilty to smuggling 444 pounds of prohibited Asian fruit into the United States.

The number of arrests during Operation Talon continues to climb, with notable results in Texas and Colorado. As of September 30, 1999, Operation Talon had resulted in 4,801 arrests of fugitive felons during joint OIG/State and local law enforcement operations.

As an outgrowth of Operation "Kiddie Care," we are emphasizing the need for regulatory and legislative changes in the Child and Adult Care Food Program (CACFP). In our national audit report, we made 23 recommendations to eliminate the structural program flaws, strengthen internal controls, and clarify program requirements in CACFP. We also recommended that alternative methods of delivery be studied.

Twenty sponsoring organizations receiving approximately $42.3 million annually in food and administrative funds have been terminated from CACFP. Thirty-four individuals have pled guilty or were convicted, and 29 individuals were sentenced for their illegal activities. Among those recently convicted after investigation by OIG were the president and assistant of a day care operation in Michigan. They were found guilty of fraud, embezzlement, conspiracy, and money laundering related to defrauding CACFP of an estimated $17 million between 1989 and 1993. The jury also awarded forfeiture of more than $1.1 million in cash and three properties.

Investigative Efforts

As reported last period, in a complex food stamp trafficking conspiracy involving 20 authorized stores in New York City, food stamps worth $63 million were fraudulently redeemed by 44 defendants. In an update to this case and as a result of the financial investigation, three bank officers were indicted.

Four cotton exporters participated in a conspiracy to defraud the Commodity Credit Corporation (CCC). Two cotton companies based in Texas pled guilty to various charges and were fined and ordered to pay restitution totaling $1,067,575. Two other companies based in Tennessee have entered guilty pleas to similar criminal charges, and their sentencings are pending.

A Pennsylvania dairy labeled and sold as "skim milk" more than 19 million pounds of a "reconstituted skim milk" which had been made from skim milk powder and water. The company filed false reports which resulted in a $1 million loss to the Milk Market Administrator. The three defendants, who were officers of the company, pled guilty to conspiring to misbrand milk with intent to defraud and mislead consumers, and increasing the company's profits by mislabeling the reconstituted skim milk. The officers were each sentenced in U.S. District Court to 3 years' probation, 100 hours of community service, and a total fine of

$5,250. The Government also has a pending civil suit against the company.

In Nevada, the relative of a former Farm Service Agency (FSA) County Executive Director (CED) was awaiting sentencing after having been convicted by a jury in U.S. district court of receiving stolen property. However, a Federal judge subsequently granted the defendant's motion for a judgment of acquittal. The U.S. Attorney for the District of Nevada is preparing an appeal of the judge's decision. The former CED, who committed suicide upon learning of our investigation, embezzled over $1 million from CCC between May 1992 and her death in October 1997.

In West Virginia, nine individuals, including two employees of the FSA Agricultural Credit Team, were convicted for defrauding the Government of approximately $2 million in FSA guaranteed loan funds. Eight of the nine individuals have been sentenced. All seven loan recipients were ordered to make full restitution. The two FSA employees have resigned from Government service.

Three Georgia farmers believed to be the masterminds in a disaster fraud scheme that netted them and 12 relatives and friends approximately $1.6 million in unentitled disaster payments have each pled guilty to one count of conspiracy to launder money.

Audit Efforts

We have found that reinsured companies were not properly servicing catastrophic risk protection (CAT) policies. Our review showed that the program is allowing limited-resource producers who had coverage in the past to slip away from the program and farm without crop protection. Generally, we question whether the CAT Program is a viable means of protection to farmers having catastrophic crop losses. We also found that the Risk Management Agency (RMA) did not take an active role in monitoring the transfer and servicing of CAT Program policies, a continuing concern. Without improvements in the CAT Program, producer participation will likely continue to decline, and the effectiveness of the program as protection against catastrophic losses for producers, especially small and socially disadvantaged farmers, will diminish further.

Since January 1999, OIG has attended regular meetings on the implementation of the agreements to provide food aid assistance to Russia and participated on a U.S. Government Interagency Team Trip to Russia in May 1999 as an observer. We found that, in general, the Russian Government officials and other related parties appeared to be committed to ensuring the program was carried out properly, the staff of the American Embassy was committed to providing the necessary monitoring effort over the program, and a good working relationship had been established between the Foreign Agricultural Service (FAS) and European Union staff in Moscow. We found some areas that need improvement and will provide feedback on the Russian food aid program as it continues.

In 7 States, we found that 147 of 230 statistically selected Food Stamp Program participants whose Social Security number (SSN) appeared in more than 1 State received food stamp benefits in more than 1 State simultaneously. We projected that an estimated 888 participants received excess food stamp benefits totaling about $394,000. We also projected that an estimated 273 heads of household received approximately $376,000 in improper benefits because they certified more than 1 household in more than 1 State. The Food and Nutrition Service (FNS) concurred with our recommendations and findings and is conducting a study on the feasibility of establishing a nationwide data base to prevent dual participation.

We found controls were not adequate to ensure that transportation and export (T&E) shipments were exiting the country as required or that agricultural products were not diverted to U.S. markets en route to the ports of exit. We identified 199 T&E shipments, 11 percent of the shipments entering the country between April and November 1998, that could not be accounted for. We further learned that, in certain instances when T&E shipments arrive at the ports of exit, some truck drivers frequently hand the inspectors broken seals. In such instances, there is no guarantee that some of the product was not diverted to U.S. markets.

Our review of the internal control structure at the Office of the Chief Financial Officer's National Finance Center (OCFO/NFC) in effect as of September 30, 1997, resulted in an adverse opinion. During fiscal year (FY) 1998, in response to our audit, OCFO/NFC began comprehensive, time-phased corrective actions, which we assisted with and actively monitored. Based on improvements, we issued a qualified opinion as of September 30, 1998, although some weaknesses remained.

Since 1992, we have reported on the many severe and longstanding financial management problems within the Department. To aid in correcting these problems, the Department is implementing the Foundation Financial Information System (FFIS) to replace the Central Accounting System (CAS) at OCFO/NFC. Our current review disclosed that several CAS weaknesses, and prior decisions by OCFO management to interface many of the OCFO/NFC "feeder" systems, have resulted in substantial FFIS implementation problems. OCFO has made numerous and substantive changes to correct the serious impediments to the effective implementation of FFIS. However, much work remains, and it is important that identified deficiencies be corrected in a timely manner.

Year 2000 testing is essential to provide reasonable assurance that new or modified systems process dates correctly and will not jeopardize an agency's ability to perform core business operations after the millennium change. We found that not all of the agencies were adequately documenting the system validation efforts or having Independent Verification and Validation (IV&V) reviews performed for each of the Departmental Priority Systems. The Office of the Chief Information Officer promptly reinstructed the agencies regarding the importance of appropriately documenting all phases of the testing activities and required the agencies to, at a minimum, conduct an IV&V for each of the Departmental Priority Systems. Additional actions regarding data exchange agreements at NFC are still to be provided.

Summary of Audit Activities

Reports Issued			55
Audits Performed by OIG	31		
Evaluations Performed by OIG	15		
Audits Performed Under the Single Audit Act	4		
Audits Performed by Others	5		
Management Decisions Made			
Number of Reports			56
Number of Recommendations			348
Total Dollar Impact (Millions)			$189.9
Questioned/Unsupported Costs		$83.1[ab]	
Recommended for Recovery	$10.9		
Not Recommended for Recovery	$72.2		
Funds To Be Put to Better Use		$106.8	

[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

Reports Issued		257
Cases Opened		311
Cases Closed		302
Cases Referred for Prosecution		197
Impact of Investigations		
Indictments		208
Convictions		332[a]
Searches		114
Arrests		1,170[b]
Total Dollar Impact (Millions)		$31.5
Recoveries/Collections	$5.3[c]	
Restitutions	$12.0[d]	
Fines	$4.6[e]	
Claims Established	$2.5[f]	
Cost Avoidance	$7.1[h]	
Administrative Sanctions		
Employees		38
Businesses/Persons		1,575

[a]Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 332 convictions do not necessarily relate to the 208 indictments.
[b]Includes 947 Operation Talon arrests and 223 arrests not related to Operation Talon.
[c]Includes money received by USDA or other Government agencies as a result of OIG investigations.
[d]Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[e]Fines are court-ordered penalties.
[f]Claims established are agency demands for repayment of USDA benefits.
[g]This category consists of loans or benefits not granted as the result of an OIG investigation.

Update of Presidential Initiatives

We are again reporting on several of our Presidential initiatives, one of them for the first time. OIG has begun a Presidential initiative to counteract smuggling of animals and plants which could endanger the Nation's food supply through the introduction of diseases and plant pests. The number of arrests during Operation Talon continues to climb, with notable results in Texas and Colorado. As an outgrowth of Operation "Kiddie Care," we are emphasizing the need for regulatory and legislative changes in the Child and Adult Care Food Program (CACFP).

New Presidential Initiative To Counter Animal and Plant Smuggling

OIG has begun a Presidential initiative to counteract smuggling of animals and plants. Smuggling or shipment through deceit of produce, plants, animals, and birds is an increasingly serious problem to American agriculture because of the pests and diseases inadvertently introduced. Such illegal activities can cost billions of dollars in destroyed crops, undermined agricultural markets, and lost jobs. Pests and diseases that threaten the United States through smuggling or mislabeling include insect pests (Mediterranean fruit fly, oriental fruit fly), livestock diseases (bovine spongiform encephalopathy and brucellosis), avian and plant diseases, and noxious weeds.

In one case in Washington State, a Canadian citizen pled guilty to smuggling prohibited fruit into the United States. The individual had been stopped at the Lynden, Washington, port of entry. During a search of his vehicle, 444 pounds of prohibited Asian fruit (primarily mangosteens, sugar apples, rambutan, and langsat) were discovered hidden in the cargo area of his station wagon as well as inside the walls of the cargo area. He was subsequently indicted by a Federal grand jury, and an arrest warrant was issued. A few months later, he was arrested when he attempted to enter the United States at the Sumas, Washington, border crossing. At the time of his arrest, he had three cases of prohibited longans and lychees in his car. We worked this case with assistance from the Animal and Plant Health Inspection Service and U.S. Customs inspectors.

Arrests Continue To Climb in Operation Talon

Operation Talon was designed and implemented by OIG to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. As of September 30, 1999, Operation Talon had resulted in 4,801 arrests of fugitive felons during joint OIG/State and local law enforcement operations. Figure 1 highlights overall results as of September 30, 1999.

Figure 1
Operation Talon - Total for All Phases

Offense	Total Arrests	Offense	Total Arrests
Murder	20	Kidnapping	8
Attempted Murder	13	Assault	264
Child Molestation	24	Robbery	136
Rape	11	Drugs	1,187
Attempted Rape	2	Other	3,136
Total Arrests: 4,801			

In specific results, OIG agents, along with Texas State and local law enforcement officers, arrested a total of 333 fugitives in a separate phase of Operation Talon dubbed “Waltz Across Texas.” During this phase, 12 different Texas counties were identified by OIG. The law enforcement felony fugitive files in these counties were matched with the Texas Department of Human Services’ food stamp recipient records, which resulted in the location and apprehension of these fugitives. The matching of records began in April 1999, culminating with arrests through July 1999. The Texas Department of Human Services OIG provided invaluable assistance in this operation.

Operation Talon was also successfully conducted in Denver, Colorado, and the counties located in the “Front Range” of Colorado, which resulted in the arrest of 111 fugitive felons and 120 felony warrants cleared.

Operation “Kiddie Care” Finds Unscrupulous Sponsors, Inherent Flaws in CACFP

Operation “Kiddie Care,” our Presidential Initiative to identify, remove, and prosecute unscrupulous CACFP sponsoring organizations (sponsors), continues to be successful. The focus of the Operation is now on improving program delivery and oversight. After an interim report on Operation “Kiddie Care” was issued on April 22, 1998, a formal audit report was issued in August 1999, urging needed regulatory and legislative changes to CACFP. Operation “Kiddie Care” will probably continue through at least September 2000. Meanwhile, the cases of serious deficiencies and criminal activities continue to mount.

- To date, we have identified 40 sponsors with program deficiencies so serious that they should be terminated from CACFP if they fail to correct the shortcomings. These 40 sponsors have been receiving approximately $78.6 million annually in food and administrative funds.

- There are now 38 active investigations of individuals and sponsors of CACFP.

- Twenty sponsors receiving approximately $42.3 million annually in food and administrative funds have been terminated from CACFP.

- Fifty-four individuals have been charged with crimes. Thirty-four individuals have pled guilty or were convicted, and 29 individuals were sentenced for their illegal activities.

Among those recently convicted were the president and assistant of a day care operation in Michigan, and the owners of a sponsorship in California. In the Michigan case, the operation’s president (a former Detroit school board member and an attorney) and her assistant were found guilty of fraud, embezzlement, conspiracy, and money laundering related to defrauding CACFP of an estimated $17 million between 1989 and 1993. The jury also awarded forfeiture of more than $1.1 million in cash and three properties. The operation employed inflated meal-count sheets and falsified supporting documentation. Sentencing is pending. While the investigation began prior to the start of Operation “Kiddie Care,” the results are indicative of the types and magnitude of problems in CACFP.

In the California case, the executive director and assistant executive director of the sponsoring organization were convicted by a jury in U.S. District Court of mail fraud for illegally obtaining in excess of $85,000 in CACFP funds. Our investigation disclosed that the subjects concealed their ownership of an office building in order to claim unauthorized rental expenses, claimed unauthorized maintenance costs, and inflated other administrative expenses while operating their company. Their organization sponsored nearly 1,000 day care centers in the San Diego area. Sentencing is pending.

We believe our findings demonstrate a need for dramatic changes in CACFP. In our National Report on Program Abuses in CACFP, we concluded that fundamental flaws exist in the current design of the program’s delivery system.

- The system encourages sponsors to seek new providers at the expense of integrity. The more providers a sponsor has, the more costs for reimbursement it can claim. This creates competition among sponsors for providers and discourages sponsors from enforcing the CACFP requirements.

- Sponsors are not required to maintain a reasonable ratio of monitors to providers. The fewer monitors a sponsor has, the more of its limited administrative reimbursements it can spend on executive salaries and benefits.

- Some States allow sponsors of day care centers to retain food money (up to 30 percent of reimbursements) to pay for administrative costs. There is no clear provision in the regulations specifying how administrative costs of these sponsors should be reimbursed. (By contrast, costs for administering day care homes are paid directly to sponsors and are separate from the homes' food reimbursement.) Thus, sponsors were able to retain substantial funds that in many cases directly contributed to the personal enrichment of their officers.

We also questioned the oversight that States were providing to the sponsors. We found that the California State agency did not complete all required audits of sponsors on time, and managers routinely left audits unassigned. Since FY 1994-1995, the number of uncompleted audits has steadily grown, rising to 77 percent of the total required audits in FY 1996-1997.

Completed audits, including those performed by CPA's under contract, exhibited various deficiencies in the audit process. We recommended that FNS require California to implement a system to ensure audits are completed and discrepancies resolved in a timely manner. California should also implement a quality control process to ensure that Government auditing standards are met.

In terms of general oversight, we concluded that FNS needed to better codify its CACFP requirements. State agencies and sponsors alike generally did not understand all that was required of the sponsors to administer the program, leading to some serious deficiencies and many questionable claims.

In our national audit report, we made 23 recommendations to eliminate the structural program flaws, strengthen internal controls, and clarify program requirements in CACFP. In addition to such a redesign, we also recommended that FNS study alternative methods of delivering a meal program to children and adults in day care, specifically one that addresses the problems with private, nonprofit sponsors.

Figure 2 shows the status, as of September 30, 1999, of our investigations of sponsors and providers.

Figure 2

Status of Investigations of Sponsors and Providers as of September 30, 1999

State[1]	Investigations in Progress	Audits Completed	Audits in Progress	Sponsors Terminated From the Program	Individuals Indicted or Named in a Criminal Information[2]	Individuals Who Pled Guilty or Were Convicted	Individuals Sentenced
Alabama		1					
Arizona	1	2			1	1	1
Arkansas		1					
California	8	9		5	19	13	13
Colorado	1		1				
Florida	2	1		1			
Idaho	1			1	1	1	1
Illinois		3					
Louisiana	2	2		1			
Maine		1		1			
Michigan	1			1	2	1	
Mississippi			1				
Missouri		1					
Nevada			1				
New Mexico	6	1			8	1	1
New York	3	1	1	1	1	1	1
North Carolina		1					
Ohio	2	1		1	12	10	10
Oregon		1		1			
Pennsylvania	3	1		2	1[3]	1[3]	
Tennessee	3			2	3	1	1
Texas	1						
Utah	1	2		1	4	1	
Washington	2	1		1	2	3	1
Wisconsin	1	2		1			
TOTALS	38	32[1]	4	20	54	34	29

[1]Four audit surveys were also performed in Arkansas, Illinois, and Indiana, but the findings did not warrant audit reports.
[2]An information is a formal accusation of a crime made by a prosecuting officer, as differentiated from an indictment by a grand jury.
[3]The subject died before sentencing, and the conviction was dismissed.

Farm and Foreign Agricultural Services

FARM SERVICE AGENCY (FSA)

The Omnibus Consolidated and Supplemental Emergency Appropriations Act for FY 1999 (Public Law 105-277) included $2.4 billion for the Agricultural Credit Insurance Fund Program Account, as well as a supplemental $3 billion for market loss assistance, $2.4 million for crop losses, and hundreds of millions of dollars for other help. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations with estimated expenditures of $8.4 billion.

Potential Problems Identified in Implementation of the Crop Loss Disaster Assistance Program (CLDAP)

We have continued our efforts in monitoring CLDAP and working with FSA and the Risk Management Agency (RMA) in its implementation. During this phase of our review, we discussed with officials of both agencies the following areas that needed immediate attention: (1) conversion of RMA's production count from a dollar amount to a measurable unit for certain crops; (2) establishment of FSA State office crop yields, rates, and factors; (3) improvement of outreach efforts in some States; (4) processing disputed records; (5) establishment of maximum-loss levels; and (6) FSA county office concerns about the reliability of RMA crop insurance data. In addition, in the FSA county offices where our reviews were performed, we provided FSA with updates on the workload resulting from CLDAP. As a result of these discussions, the agencies were able to make timely program modifications and reduce or preclude improper program payments.

FSA and RMA agreed with our recommendation to develop and implement procedures and regulations that require them to resolve cases where crop insurance records are materially different from production records maintained by FSA. We are now summarizing our fieldwork on the implementation and compliance phases and coordinating with FSA's compliance staff to avoid duplicative efforts.

Catfish Producers in Louisiana Submitted False Information To Obtain Disaster Assistance Under CLDAP

At the request of the Louisiana FSA State office, we reviewed claims for catfish losses at one parish office and found that four of the five producers we reviewed had submitted false or highly questionable information about 1998 crop-year losses. Consequently, program payments of $223,300 were not disbursed by FSA. We also questioned the maximum-loss level established by another parish office because it did not follow proper procedures in setting the rate and the level was not consistent with surrounding parishes. In response to the audit, that parish office changed the level to an amount we considered reasonable.

Based on our findings, projected payments were not issued, and no further action is required. Also, the county committees at these offices were reconsidering the maximum-loss levels they had previously set. The Louisiana FSA State office agreed with our findings and recommendations.

Noninsured Crop Disaster Assistance Program (NAP) Loss Verifications and Controls Over Payments Inadequate

We reviewed NAP operations in California, Oklahoma, Florida, and Georgia, sampling 98 payments totaling about $2.4 million. We found that the reported production used to determine claims for losses was submitted long after reported losses occurred and the extent of disaster loss was not, or could not be, verified by FSA because FSA did not, or could not, verify harvested production sold to vendors. Also, information used to verify harvested production for forage could not be verified.

Underreported production and misrepresentations of grazing resulted in excessive payments totaling $89,500. Further, program payments were computed manually, contributing to the high payment error rate of 32 percent, on 31 of 98 payments. The county office errors resulted in overpayments of more than $200,000 which were forgiven under the finality rule.

We recommended that FSA make field crop appraisals for fruits and vegetables when the method of marketing would prevent the verification of all production. We also recommended that the system of determining forage production be improved to allow verification of the elements used to determine the extent of the disaster loss. In addition, we recommended that FSA issue spot-check procedures which include a verification of reported marketed production and that a computerized system for computing payments be developed to prevent such a high rate of payment errors.

FSA has taken action to collect the overpayments if relief was not granted under appropriate relief provisions. Procedures revised since our audit should improve the verification of losses, and new spot-check requirements have been put in place for verification of production. FSA also agreed that a computerized payment system was needed and has taken action to implement the corrective action.

Nearly One-Quarter of the Commodity Loans Checked in One State Were Not Properly Secured

CCC is required to support the price of various commodities through loans to producers with commodities offered as collateral. We found that 16 of the 70 loans we reviewed were short on collateral or secured by collateral which was either out of condition or in danger of becoming so due to storage problems, which affected $763,000 in collateral. We found 1 county office failed to take action on 13 spot checks that disclosed over 42,000 bushels of missing collateral valued at over $143,000. The county also failed to take action against borrowers on 23 loans where the borrowers had removed loan collateral totaling $298,000 without prior authorization. The county office failed to make all required spot checks but submitted reports to the State office which showed that all spot checks had been made. Our audit also disclosed that, in cases where unauthorized removals of collateral or other program violations were committed by county office committee members, FSA had no procedures requiring referral to the State committee.

We recommended that all cases involving program violations by county office committee members be referred to the State Committee for a decision, the applicable handbook be amended to conform with regulations, loan principal and liquidated damages totaling over $520,000 from producers with collateral shortages identified in our spot checks be collected by the Minnesota State office, decisions be properly documented, and monitoring over spot checks be increased. The FSA national office agreed with our recommendations and has begun implementing corrective actions. The Minnesota State office agreed with certain recommendations but disagreed with the need to implement some controls. The committees in the counties we audited waived the additional liquidated damages which we recommended they collect from producers who violated their loan agreements; however, the committees have been instructed by the State office to review these decisions by December 31, 1999.

Livestock Assistance Program (LAP) Implemented Without Problems

Under Public Law 105-277, $200 million was appropriated for LAP to provide direct payments to eligible livestock owners who suffered grazing losses due to natural disaster conditions during calendar year 1998. Our evaluation revealed that FSA implemented LAP in Georgia, Montana, Nebraska, Oklahoma, and Texas without appreciable problems relating to county office or producer eligibility, program determinations, and/or the accuracy of payments. However, we identified two applicants in Georgia who exceeded the $2.5 million maximum gross revenue limitation and could have received LAP payments totaling about $14,500. The State office agreed that the two applicants were ineligible for LAP assistance and reminded all county offices to ensure applicants do not exceed the gross revenue limitation. There were no recommendations to the agency.

Farm Loan Program Loanmaking and Loan-Servicing Actions Violate New Provisions

FSA did not implement adequate controls to ensure loans were processed and servicing actions completed in accordance with the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. We identified 24 borrowers who had prior debt forgiveness and then received direct and guaranteed loans totaling $4.1 million after April 4, 1996, when the new statute went into effect.

We questioned the propriety of additional loans totaling $20.1 million made to 196 borrowers. However, their loan application dates were not recorded in the data base, so agency officials will have to review each loan file to determine whether the application was filed before April 4, 1996. Further, FSA had canceled $1.2 million through debt settlement for three Texas borrowers who had previously received debt forgiveness of Farm Loan Program loans.

We recommended FSA collect the $4.1 million in unauthorized assistance and determine the propriety of the $20.1 million in question. We also recommended that FSA refer the three loan-servicing cases to the Office of the General Counsel (OGC) for an opinion on the collectability of the $1.2 million in unauthorized assistance. Further, we recommended that FSA implement controls which will ensure loanmaking and loan-servicing actions are processed in compliance with current provisions. The agency agreed to recover the unauthorized loan assistance and implement computer controls to prevent further unauthorized assistance.

Producer Payments Not Always Offset Against Outstanding Debt

We tested the application of administrative offset provisions in four Texas counties to determine whether debts had been properly collected from FY 1998 FSA program payments. Ten producers (24 percent) received over $87,000 (43 percent) in payments that should have been offset. Of those, six received payments totaling over $23,000 that were not offset because of communication problems in county offices, and four received payments totaling over $64,000 that were not offset because of administrative oversight problems.

We recommended that (1) county offices be instructed to offset future FSA program payments to the 10 producers until their claims are liquidated or loan accounts become current, (2) an administrative notice be issued to require an updated administrative offset list be provided to FSA county offices on a periodic basis, (3) district directors be required to make reviews to help ensure payments due debtors are properly offset, and (4) the Texas State office be instructed to request OGC to review 1 case (in bankruptcy) to determine if future program payments may be offset. The agency agreed with our recommendations. Action has been taken to liquidate most of the claims; alternatively, the loan amounts are now current because the loans were restructured. In one case, corrective action was not taken based on advice from OGC.

Million Dollar Embezzlement From FSA County Office

In Nevada, the relative of a former FSA County Executive Director (CED) was awaiting sentencing after having been convicted by a jury in U.S. district court of receiving stolen property. However, a Federal judge subsequently granted the defendant's motion for a judgment of acquittal. The U.S. Attorney for the District of Nevada is preparing an appeal of the judge's decision. The former CED, who committed suicide upon learning of our investigation, embezzled over $1 million from CCC between May 1992 and her death in October 1997. Most of the embezzled funds were routed through a bank account which the former CED established under the guise of an official FSA account. The former CED diverted funds, supposedly provided to local producers, into the unauthorized account and subsequently transferred the monies into other bank accounts which she and/or her relative controlled. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI).

Farmer Caught Substituting Cattle

A Texas farmer was sentenced to 3 years' probation with 6 months' home confinement and ordered to pay $33,000 in restitution. The farmer initially received a $196,000 FSA guaranteed loan for the purchase of dairy cattle and operating expenses during March 1995 and defaulted on the loan during December 1995. The dairy herd, which had been purchased during March for $1,250 per head, was liquidated during October 1995 for an average of $271 per head. Investigation showed that, just prior to the liquidation, the farmer substituted "cull" (inferior quality) cows for his good ones.

Arkansas Sheriff and Banker Indicted for Loan Fraud

A current Arkansas county sheriff and a bank president were indicted in Federal court for making false statements with regard to a $121,000 FSA emergency farm operating loan made to the sheriff to pay debts owed the bank and to raise a 1996 crop. The investigation disclosed that the sheriff did not grow a crop after the FSA loan was disbursed and used about $44,000 of the loan to pay personal debts. Also, the approval of the FSA loan was based on a written statement from the bank president that the bank was going to make a loan to the sheriff, which did not occur. The sheriff pled guilty and awaits sentencing, while a trial date for the banker is pending. This investigation was worked jointly with the FBI.

Texas Farmer Pleads Guilty to Conversion of Mortgaged Property

A Texas farmer pled guilty in Federal court to a charge of unauthorized conversion of mortgaged property. He was placed on 3 years' probation and ordered to make restitution of nearly $40,000. The investigation showed that the farmer unlawfully disposed of about $149,000 in FSA-mortgaged property.

Four Companies Guilty of Violating the Upland Cotton Domestic User/Exporter Program

Four cotton exporters participated in a conspiracy to defraud CCC. Two cotton companies based in Lubbock, Texas, pled guilty to charges of making false statements and claims, mail and wire fraud, and money laundering. Both companies were fined and ordered to pay restitution totaling $1,067,575. Two cotton companies based in Memphis, Tennessee, have entered guilty pleas to similar criminal charges, and their sentencings are pending.

Three Georgia Farmers Plead Guilty to $1.6 Million Disaster Program Fraud

Three Mitchell County, Georgia, farmers believed to be the masterminds in a disaster fraud scheme that netted them and 12 relatives and friends approximately $1.6 million in unentitled disaster payments have each pled guilty to one count of conspiracy to launder money. The defendants filed fraudulent claims to receive FSA disaster payments for themselves and the others and submitted fictitious seed invoices to support the fraudulent claims.

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In West Virginia, nine individuals, including two employees of the FSA Agricultural Credit Team, were convicted for defrauding the Government of approximately $2 million in FSA guaranteed loan funds. The loans were obligated by FSA based on false information submitted by the applicants. The two employees of the Agricultural Credit Team assisted the loan applicants by forging signatures and/or manipulating figures on official FSA documents for the purpose of making the applicants qualify for loans. Eight of the nine individuals have been sentenced. All seven loan recipients were ordered to make full restitution. The two FSA employees have resigned from Government service.

Farmer Pleads Guilty to Making False Statements

A Missouri farmer pled guilty to making false statements to FSA as a result of his efforts to evade payment limitation provisions. The farmer alleged to FSA that he was actively farming when, in fact, he was not. He falsified FSA documents on his behalf and on behalf of a relative, without the relative’s knowledge, in order to illegally obtain disaster and deficiency payments. As a result, the subject and his relative received more than $112,400 in unentitled 1993 and 1994 program payments. The subject had the payments assigned to the landowner. Sentencing is pending. The investigation against other involved persons continues.

RISK MANAGEMENT AGENCY (RMA)

RMA supervises the Federal Crop Insurance Corporation (FCIC) and oversees all programs authorized under the Federal Crop Insurance Act. FCIC is a wholly owned Government corporation that offers subsidized multiple-peril and revenue crop insurance through a private delivery system by means of reinsured companies. RMA’s FY 2000 program income, less underwriting gains, is estimated at $1.6 billion in premiums (of which about $872 million is in the form of premium subsidy) and $1.8 billion in indemnities.

Reinsured Companies Were Not Properly Servicing CAT Policies

The FAIR Act authorized the Secretary to transfer CAT coverage from FSA offices to private insurance companies. Our review showed that the program is allowing limited-resource producers who had coverage in the past to slip away from the program and farm without crop protection. The participation of limited-resource farmers declined about 78 percent in just a year, between 1997 and 1998, or the same period when reinsured companies assumed sole delivery of the CAT Program. Of limited-resource producers who dropped from the program, over half of those still eligible for coverage had received inadequate servicing by the reinsured companies. Producers remaining in the program tended to be those with larger acreages who could contribute more per policy to the reinsured companies’ underwriting gains.

Generally, we question whether the CAT Program is a viable means of protection to farmers having catastrophic crop losses. Within our 8-State universe of 84,028 CAT Program policies, we estimate that only about 42,000 of the transferred policies were retained by the private reinsured companies. Despite shrinking enrollment, it cost over $2 to deliver the CAT Program for every $1 paid out to producers for crop losses ($506 million versus $250 million) from 1995 through 1998.

We also found that RMA did not take an active role in monitoring the transfer and servicing of CAT Program policies, a continuing concern. RMA has not addressed deficiencies reported since 1997, despite assurances that it would. In June 1998, we further reported in a management alert that reinsured companies were not providing any special servicing to limited-resource producers and that RMA had not provided any guidance to the companies on how to service the limited-resource producers who were flagged during the transfer process. Again, RMA did not take any action to address the servicing of the limited-resource producers.

Without improvements in the CAT Program, producer participation will likely continue to decline, and the effectiveness of the program as protection against catastrophic losses for producers, especially small and socially disadvantaged farmers, will diminish further. We recommended that RMA concentrate its efforts on improving the CAT Program policies, consider an alternative CAT Program delivery system (with limited-resource producers to be provided special servicing in the interim), and follow up as recommended to help ensure that assigned tasks, such as the transfer of the CAT policies, are accomplished properly.

RMA does not agree with OIG regarding the reasons cited for the dropoff rate of limited-resource producers. RMA stated that while instances of substandard service may have occurred, the quality of servicing CAT policies by reinsured companies was not the primary factor in the reduction of participation. Therefore, instead of requiring special servicing by the reinsured companies, RMA has asked Congress for authority to develop a program that might better meet the producers' needs, but Congress has not provided this authority. Furthermore, RMA stated that the reinsured companies had made efforts to service these individuals, and that other actions by RMA, such as conducting outreach programs and monitoring CAT servicing, addressed our recommendations.

Large Insurance Indemnities Paid on Noninsurable Potatoes

Based on a complaint, we initiated an audit of alleged abuse of crop insurance on potatoes by a producer in Gaines County, Texas. We found evidence that the seed varieties purchased from a firm in North Dakota used by the insured were not of the type adaptable to produce a crop in the Gaines County area of Texas, in violation of policy provisions. Therefore, we questioned almost $616,000 of the indemnity payment of over $771,000 on 380 of the 490 acres planted in 1998. Based on historical losses on this farm, indications of low-quality potato seed used, and a questionably high insurance payment price, the claim also raised the question of whether the insured planted the potatoes only for the insurance indemnity.

We recommended that RMA collect about $616,000 in overpayments, determine whether insurance coverage should be terminated based on the prior years' losses, and establish controls to ensure that insurance coverage for potatoes is limited to the acreage planted with a variety adapted to the area where planted. RMA has taken actions to obtain recovery of the overpayment. RMA also agreed to take action to implement the other recommendations or provide us with alternative solutions for correcting the problem.

Questionable Crop Insurance Coverage for Three Nonirrigated Crops In Texas

A hotline complaint alleged that crop-year 1998 transitional yields (T-yields), which are based on historical averages, for nonirrigated pima cotton in Reagan, Glasscock, Midland, and Upton Counties, Texas, were overstated, resulting in program abuse and financial losses to the Government. We expanded the scope of our review to include nonirrigated practices for corn in Tom Green County, Texas, and popcorn in the Rio Grande Valley in Texas.

We found that the viability of raising these crops without irrigation is questionable and that RMA had established crop insurance yields and rates significantly higher than could be expected from harvesting the crops, leading to producers without past production histories "farming the insurance program." In August 1998, we issued RMA a management alert, pointing out that we agreed with RMA regional service officials that nonirrigated insurance coverage for these crops in the three aforementioned areas of Texas should be terminated. RMA agreed to do so, starting with the 1999 crop year, which would result in about $20 million in savings in 1999 if all 1998 conditions remained the same.

We recommended that RMA use information from established sources to set reasonable T-yields, document actuarial files to show how T-yields are determined, eliminate the 10-percent cap provision for T-yields RMA incorrectly established, and formulate a feedback mechanism for the reinsured companies to provide input on the reasonableness and viability of newly created rates and yields for crops/practices not previously produced in an area. We have reached management decision on these recommendations.

Cooperative Pays $850,000 To Settle Claim

A California agricultural cooperative paid over $850,000 to the Government to settle a claim by RMA/FCIC regarding 1994 raisin crop insurance indemnity payments. The Government alleged that in 1994 the cooperative and 48 of its members and growers wrongfully represented that certain raisins could not be reconditioned due to rain damage. Based on this representation, the members/producers received indemnity insurance payments for the raisins which were, in fact, reconditioned and sold. Later in the year, the cooperative shared dividends with the members/producers based, in part, on the proceeds from the sale of the reconditioned raisins.

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS represents the interest of U.S. farmers and the food and agricultural sector abroad. Most notably, it seeks improved market access for U.S. products, carries out food aid and market-related technical assistance programs, and mobilizes expertise for agriculturally led economic growth in developing nations.

Observations on the Implementation of the Russian Food Aid Agreements

In December 1998, the United States and the Russian Federation signed agreements for USDA to provide food aid assistance to Russia, totaling several million metric tons of commodities. Since January 1999, OIG has attended regular meetings led by FAS on the implementation of the agreements and participated on a U.S. Government Interagency Team Trip to Russia in May 1999 as an observer. The itinerary, established by FAS, limited the scope of our activities. Nonetheless, we found that, in general, the Russian Government officials and other related parties appeared to be committed to ensuring the program was carried out properly, the staff of the American Embassy was committed to providing the necessary monitoring effort over the program, and a good working relationship had been established between FAS and European Union (EU) staff in Moscow.

Our trip report stated that the Moscow Bilateral Working Group needed to better document the information it used to make decisions as well as to follow up, and better define, coordinate, and document assistance in monitoring the food aid effort received from other Russian Ministries and EU Moscow representatives. In addition, FAS needed to ensure that changes to food distribution plans were controlled; verify its tracking reports contain clear, complete, and accurate information; determine the specific level of shipment monitoring acceptable; and confirm local Russian media representatives were aware that food distribution information was available on the Internet. We will provide feedback to FAS on the Russian food aid program as it continues.

Food, Nutrition, and Consumer Services

FOOD AND NUTRITION SERVICE (FNS)

FNS administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); and the Food Donation Programs. These programs are designed to provide people in need with a more nutritious diet, improve the eating habits of the Nation's children, and stabilize farm prices through the purchase and distribution of surplus food. FNS' funding for FY 1999 is $35 billion. Three FNS programs receive the bulk of this funding: FSP ($21 billion), CNP ($9 billion), and WIC ($4 billion).

FOOD STAMP PROGRAM

Monitoring of Electronic Benefits Transfer (EBT) System Continues

Currently, 40 States and the District of Columbia use EBT systems to deliver food stamp benefits. Thirty-four of the systems have been implemented statewide, including the District of Columbia. About 67 percent of all FSP benefits are being issued via EBT. During this semiannual period, we completed EBT system audit work in Oregon, Colorado, Missouri, and Minnesota. The EBT systems were successfully implemented in all four States; however, controls needed to be strengthened in some areas.

- *Oregon* - The State agency had not performed reconciliations to ensure that food stamp authorizations matched the food stamp settlement data with the Account Management Agent data at the Federal Reserve, resulting in a difference of $2.3 million. We also noted an inadequate separation of duties for persons authorized to approve food stamp benefits and those authorized to issue EBT cards. We recommended that the $2.3 million difference be reconciled and that procedures ensure separation of duties.

- *Colorado* - A State issuance system error caused an estimated $730,000 in food stamp benefits to be issued to about 10,000 ineligible individuals. Controls were not in place to correct the erroneous benefit file that had been transmitted to the contractor. Also, the State agency was not timely in expunging food stamp benefits that had not been accessed within the allotted timeframes. The State agency had developed neither an EBT security manual nor an administrative procedure manual, and the State agency needed to strengthen controls over access to the EBT system. We recommended that FNS require the State agency to (1) continue working to establish procedures which would allow the State agency to delete or correct a benefit file if it contained incorrect data and was transmitted to the EBT processor, (2) establish and implement written procedures to monitor logon ID's and cancel them as appropriate, and (3) take necessary action to ensure that food stamp benefits which have not been accessed by households within the time guidelines are expunged.

- *Missouri* - FNS and the State agency needed to improve controls over access to the EBT system, specifically for persons no longer employed. Also, State agency claim recoupment records were not internally reconciled to ensure accurate data was reported to FNS. We recommended use of written procedures to monitor logon ID's and user access permission and cancel them when appropriate.

- *Minnesota* - The State agency needed to improve controls over access to the EBT system; it had not reviewed the system to identify, and remove from the system, users who no longer needed access. In addition, the contractor had not provided several system reports required by the contract and necessary for the State agency to adequately monitor the system. We recommended that the State agency implement procedures to periodically reconcile users on the EBT system and to require the contractor to provide all system reports which are required by the contract.

FNS' Computer-Based System Needs To Better Identify Food Stamp Fraud By Retailers Using EBT

With the implementation of EBT, FNS established a computerized system called the Anti-Fraud Locator Using EBT Transactions (ALERT) to monitor retailers' EBT transactions and identify potentially fraudulent transactions. We determined that FNS needs to consider new approaches to combat retailer fraud, with greater emphasis on advanced computer technology as opposed to the labor-intensive analyses required for the ALERT system. We identified certain deficiencies which limited the system's effectiveness. Redemption transaction data were not available on ALERT for 30 or more days after redemptions occurred, delaying any possible enforcement action. Also, the system omitted certain low-volume retailers from its scans because they were inaccurately classified as supermarkets, which are believed to have a low incidence of fraud. Finally, FNS had not issued procedures or guidelines on how the ALERT system should be used, even though the system itself is now available nationwide.

We recommended that FNS study how best to implement advanced computer technology to both simplify its monitoring of EBT retailers and to quicken its ability to detect and remove retailers committing fraud or other program violations. We also recommended that FNS consult with ALERT users for possible improvements to the system and that FNS issue written procedures and guidelines to assist the users in obtaining the maximum benefit from the system. Finally, we made recommendations to correct specific technical problems noted with the ALERT system. FNS agreed with the findings, is taking action to correct the problems noted, and has agreed to conduct studies to identify possibilities for using advanced computer technology in combating food stamp fraud.

Participants Received FSP Benefits in More Than One State at the Same Time

In Nebraska, Kansas, Iowa, Missouri, Indiana, Illinois, and Wisconsin, we found that 147 of 230 statistically selected FSP participants whose Social Security number (SSN) appeared in more than 1 State received food stamp benefits in more than 1 State simultaneously, resulting in overissuances of $43,000. Projected to the audit universe, an estimated 888 participants received excess food stamp benefits totaling about $394,000. Benefits totaling an additional $56,000 were paid to members of households where the head of household had certified more than one household in more than one State. Projected to the audit universe, an estimated 273 heads of household received approximately $376,000 in improper benefits because they certified more than 1 household in more than 1 State. We recommended that FNS establish claims to recover the identified overpayments, review the remaining participants in the universe to determine if they are dual-participating in FSP, and establish a nationwide data base to prevent dual participation. FNS concurred with our recommendations and findings and is conducting a study on the feasibility of establishing a nationwide data base.

Georgia Was Deficient in Management of the Food Stamp Employment and Training Program

The Welfare Reform Act limited the participation of able-bodied adults without dependents (ABAWD) in FSP to no more than 3 out of every 36 months. Each State is required to implement an employment and training (E&T) program to ensure that ABAWD’s are involved in activities that will eventually lead to paid employment and decreased dependency on assistance programs. To assist States with their E&T efforts, FNS provides 100-percent Federal grants, of which at least 80 percent must be spent to serve ABAWD’s. States are reimbursed at fixed rates for providing E&T services to ABAWD’s except for nine States, including Georgia, which are allowed to spend the E&T grant funds without consideration of fixed rates.

We found that errors in Georgia’s methodology for allocating costs among benefiting programs led to overcharges to the E&T program of about $3.7 million for FY 1998, and the State drew down about $922,000 in excess of the 20 percent for non-ABAWD related expenses.

During the audit, we advised FNS of the improper FY 1998 charges. FNS and the State made fiscal adjustments to the E&T accounts, totaling about $4.6 million. The adjustments resulted in a net recovery of $2.7 million in overclaimed FNS funds. Because the cost allocation deficiencies were ongoing in FY 1999, FNS will have to validate the 1999 costs and recover any overclaimed amounts. The State also did not limit ABAWD participation in FSP to 3 out of 36 months. A monthly average of approximately 466 ABAWD’s improperly participated in FSP for more than 3 months and received ineligible food stamp benefits estimated at $400,000 for FY 1998.

We concluded that Georgia was not a viable candidate for FNS’ study of alternatives to the nationally prescribed fixed reimbursement rates, because the State had not managed its E&T program efficiently and economically. As a result of our recommendation, FNS revoked Georgia’s authorization to use alternative reimbursement procedures to claim E&T costs and started paying the State the fixed reimbursement rates, which will ensure economy and efficiency of the program and save about $1 million for FY 1999.

We recommended that FNS recover the overclaimed costs and overissued food stamp benefits. We also made a series of recommendations to improve the State's fiscal and administrative controls. FNS agreed with the recommendations and initiated corrective actions.

Individuals Plead Guilty to Food Stamp and EBT Fraud in Maryland

Following his conviction for trafficking in food stamp benefits, the owner of a liquor store in Baltimore, Maryland, surrendered his EBT terminal to an OIG agent at his sentencing and was disqualified by FNS from participating in FSP. However, the store owner and his wife continued to traffic by telephoning to three authorized store owners/employees additional EBT card numbers, personal identification numbers (PIN), and the amounts of the illegal transactions. Illegal transactions with more than 2,900 food stamp recipients who visited the unauthorized liquor store totaled over $544,000. The owners and an employee of the three authorized stores, along with the liquor store owner and his wife, have pled guilty.

Store Owner Flees after Jury Conviction

The owner of a small retail grocery store in Baltimore, Maryland, was found guilty of illegally trafficking approximately $700,000 in food stamp benefits between 1996 and 1998. The owner subsequently slipped out of his alarm bracelet while being monitored by pretrial services personnel and failed to appear in court for sentencing. His lawyer informed the court that he did not know the whereabouts of his client. We believe he has fled to Morocco and is inclined, given the pending court action, not to return to the United States. The owner was sentenced "in absentia" to 4 years' incarceration, 2 years of supervised release, and $700,000 in restitution. A second subject in this case has also been charged and is a fugitive.

$63 Million in New York City Food Stamp Fraud

As reported last period, in a complex food stamp trafficking conspiracy involving 20 authorized stores in New York City, food stamps worth $63 million were fraudulently redeemed by 44 defendants. In an update to this case and as a result of the financial investigation, three bank officers were indicted by the U.S. Attorney's Office for the Southern District of New York for bank fraud and stealing public funds. Indictments of additional bank officials are anticipated.

Seven Involved in Food Stamp Fraud Convicted in Ohio

A joint undercover investigation in Ohio revealed seven individuals were involved in a conspiracy to traffic food stamps. They exchanged the stamps for cash, stolen automobiles, and automobiles purchased for the subjects, which were later falsely reported as stolen to local law enforcement and the insurance companies. Food stamps, $95,400 worth of automobiles, numerous automobile parts, several illegal weapons, and cocaine were seized from the individuals. The seven were convicted on various charges and sentenced to terms ranging from probation to 5 years in State prison. Forfeiture of all cash, weapons, and automobiles was ordered by the court. One of the seized vehicles is being used by USDA. This case was worked jointly with the Ohio Organized Crime Commission, the FBI, the Montgomery County Sheriff's office, and the Moraine Police Department.

International Fugitive Apprehended

A Warren, Ohio, retailer, after being charged in December 1996 with conspiracy to launder $2.2 million over 4 years, fled the country to avoid prosecution. Investigation by OIG and Internal Revenue Service (IRS) agents discovered the retailer had reentered the country in February 1999. He was discovered to be in Little Rock, Arkansas, attempting to buy new food stores, where OIG agents arrested him. He pled guilty and was sentenced to 5 years' imprisonment. This case was worked jointly with the IRS Criminal Investigation Division.

Store Owner Convicted of Fraudulently Redeeming $600,000 in USDA Food Stamps

The owner of a food store pled guilty to redeeming approximately $600,000 in food stamps over 9 months. The owner used 3 different aliases to open 15 bank accounts around Chicago. The owner deposited the illegally obtained food stamps he had received from other merchants and food store owners in exchange for cash. Record analysis showed that, over 4 months, the owner deposited more than $223,000 in food stamps for another store operator who was not authorized to accept food stamps. The owner was sentenced to serve 10 months in prison, followed by 3 years' supervised release, and ordered to pay restitution of $525,600.

Store Manager Convicted of Conspiring To Fraudulently Redeem $1.2 Million in Food Stamps

The owner of a food store and his brother were indicted for conspiring to fraudulently redeem more than $1.2 million in food stamps over 10 months. The brothers opened eight bank accounts around Chicago and deposited the illegally obtained food stamps that were received from other merchants and food store owners in exchange for cash. A record analysis revealed that approximately $295,000 of the over $1.2 million redeemed through the store resulted from legitimate sales. The owner, who fled the country prior to sentencing on bank fraud charges, is a fugitive. His brother was convicted and sentenced to serve 37 months in prison, followed by 3 years' supervised release, and ordered to pay restitution of $1 million.

Store Owner and 17 Others Convicted in Massive Food Stamp and Narcotics Trafficking Operation

The investigation of a major Detroit, Michigan, narcotics and food stamp trafficker and his lieutenants resulted in the arrest and conviction of 18 members of the organization. The head of the organization had trafficked narcotics for over 20 years in the area and was seemingly "untouchable" until he mentioned that he was interested in buying food stamps. He insulated himself from drug trafficking by never conducting any deals himself; he would deal only through his lieutenants. During the course of the investigation, he bought $23,000 in food stamps directly from an undercover officer. After the food stamp deals, he agreed to the sale of narcotics to the officer, after which he was arrested. He was released on bond and shortly after was murdered, gangland style, along with his girlfriend. The rest of his organization had been arrested at the same time in a city-wide drug sweep. Their convictions for drug and/or food stamp trafficking led to sentences which ranged from a maximum of life in prison without parole to a minimum of 5 months in prison. The store owner involved pled guilty to food stamp and drug trafficking but failed to appear for sentencing and is a fugitive. The neutralization of this major drug trafficking enterprise has significantly stemmed the flow of narcotics in the Detroit area. This investigation was conducted jointly with the Organized Crime Drug Enforcement Task Force, composed of OIG, the Drug Enforcement Administration, the IRS, and the Detroit Police Department.

Street Gang Members Convicted in Welfare Office Burglaries

Our investigation resulted in the arrests and convictions of 14 individuals for their involvement in the theft of $728,000 in food stamps from 4 county welfare offices in Indiana. Sentences ranged from 1 year of probation to 20 years in prison, with $1.1 million in restitution. The investigation showed street gang members stole the food stamps from county welfare offices and traded about $500,000 worth of food stamps to other gang members for cocaine, marijuana, firearms, and cash. The remaining food stamps were traded to two individuals for cash, marijuana, firearms, and explosives. This investigation was worked jointly with the Indianapolis Safe Streets Gang Task Force (which includes the FBI; the Bureau of Alcohol, Tobacco, and Firearms; and the Indianapolis Police Department); the IRS Criminal Investigation Division; the Indiana State Police; the Kentucky State Police; the Marion County Sheriff's office; and USDA's Forest Service.

Miami Store Owner Ordered To Pay Multimillion Dollar Penalties for Fraud

In Miami, Florida, the owner of a small retail grocery store redeemed approximately $5.8 million in food stamps over 4 years. Evidence was developed during the investigation that the store owner was redeeming food stamps for several other grocery stores in South Florida which were not authorized to participate in FSP. During 1997, the owner's total food stamp redemptions exceeded the store's food sales by $752,600. In April 1999, a U.S. District Court judge issued a $2.2 million summary civil judgment against the owner for violations of FSP. In addition, FNS assessed a $10,000 civil money penalty against the store owner and revoked his authorization to accept food stamps.

Hawaii Food Stamp Trafficking Ring Prosecuted

In Hawaii, five individuals involved in an organized food stamp trafficking operation in Honolulu have pled guilty to food stamp trafficking, conspiracy, money laundering, and tax evasion. An additional 15 individuals and 4 corporations are awaiting trial. Our investigation disclosed that the corporations' officers financed large-scale purchases of food stamps by "runners" who, in turn, resold the food stamps to various other retailers as well as those financing the operation. The defendants pleading guilty admitted to having trafficked and laundered in excess of $200,000 in food stamp coupons.

This investigation was conducted jointly with the FBI, the Honolulu Police Department, and the U.S. Immigration and Naturalization Service, with additional assistance provided by the U.S. Postal Inspection Service and the U.S. Customs Service (Customs).

Six Sentenced in $2 Million EBT Food Stamp Benefits Fraud

Six family members were sentenced in Houston, Texas, for food stamp fraud, money laundering, conspiracy, and criminal forfeiture. A 2-year investigation disclosed that the subjects illegally accepted and redeemed in excess of $2 million in food stamp benefits via EBT. The scheme involved the sale of benefits for cash by recipients at two unauthorized storefront locations. The employees of the storefront locations would call two authorized stores and read the numbers imprinted on the recipient's EBT card, the corresponding PIN, and the transaction amount to employees at the authorized stores. The employees at the authorized stores would then manually enter the information into the point-of-sale device, which gave the appearance that the recipient had actually purchased groceries at the authorized retailer. This investigation was worked jointly with the Texas Department of Human Services OIG, the IRS, and the U.S. Secret Service. The sentences of the six subjects ranged from 27 months' imprisonment to 97 months' imprisonment. In addition, $2 million was ordered in restitution, individually and severally.

Jail Time Handed Down for Trafficking in EBT Benefits for Drugs

Two subjects were sentenced in Beaumont, Texas, for trafficking in EBT food stamp benefits in exchange for "crack" cocaine. One subject was sentenced to 46 months in jail, and the other subject was sentenced to 18 months in jail. These investigations were worked jointly by OIG and the Cleveland, Texas, Police Department.

CHILD NUTRITION PROGRAMS

Inadequate Storage Jeopardizes USDA-Donated Commodities

In addition to cash reimbursements for meals served under the National School Lunch and Breakfast Programs (NSLP and SBP), schools are entitled to receive USDA-donated commodities such as meats, fruits, vegetables, grains, and dairy products. State agencies are responsible for storing the commodities under conditions prescribed by FNS until they are distributed to the schools. For each commodity, FNS has established a "Best If Used By" (BIUB) date; commodities retained in storage significantly past this date may be of reduced quality and nutritional value. We evaluated applicable procedures and practices in Illinois, Wisconsin, and California.

- Of the 241 various commodities we reviewed, all or portions of 46 commodities which were valued at over $560,000 had been stored in State agency warehouses beyond their established BIUB dates. Warehouses did not ensure that the oldest commodities were shipped first, and State agencies did not always limit their commodity orders to quantities that could be used within a reasonable period of time. Furthermore, State agency and FNS regional officials did not always use the BIUB dates as a guideline for distributing commodities.

- Although frozen commodities are required to be stored at zero degrees Fahrenheit or below, some commodities at the warehouse which handles frozen commodities for 75 percent of the schools in Illinois were being stored at or above 20 degrees Fahrenheit. Some freezers at that warehouse were not designed to freeze foods at any temperature below zero degrees even under optimum conditions. We noted similar, though less serious conditions, at other warehouses in both Wisconsin and California. The California warehouses were not always taking daily temperature readings in the freezers to ensure proper storage conditions.

We recommended that FNS review and update its existing BIUB dates and require that States use them as a basis for distributing commodities. We also recommended that FNS require States to order commodities in quantities that can be used within the periods established by the BIUB dates and that warehouses use the first-in-first-out method when distributing commodities. Finally, we recommended FNS require State agencies and warehouses to improve their existing controls to ensure commodities are stored at the proper temperatures.

FNS agreed with our findings and is undertaking a major overhaul of its procedures for commodity distribution. This will include revised BIUB dates and requirements for increased monitoring by State agencies.

Puerto Rico Department of Education's School Lunch Financial Management System Continues To Be Inadequate

Our current audit disclosed that the Puerto Rico Department of Education still has not developed a sound financial management system to ensure accurate financial accountability and reporting, as recommended in 1992. State agency and school food authority functions had been separated; State agency expenditures and State administrative expense matching requirements were accounted for in separate cost centers. However, FNS meal reimbursement and Department of Education appropriated funds used to pay for school food authority functions continued to be accounted for as State agency revenue and expenditures. We concluded that the financial status of the programs was materially misstated, limiting the ability of FNS and Department of Education officials to make sound fiscal decisions or effectively manage program expenditures.

The Department of Education was appropriated $10 million less than needed to pay all liabilities incurred during school year 1997, overstated its expenditures toward the State revenue matching requirement in school year 1997 by over $61 million, and did not meet its 1997 State revenue matching requirement (funding of $11.5 million is subject to repayment to FNS). Further, in FY 1997 it understated the amount of NSLP and SBP unliquidated obligations by $23 million and overstated its total outlays by $942,000. In addition, its computerized accounting system incorrectly classified 1997 NSLP and SBP expenditures of $30 million, did not record and report unliquidated obligations of up to $23 million, and did not consistently account for all costs, because appropriated funds were accounted for on a school year basis while FNS reimbursement is accounted for on a fiscal year basis.

We recommended that FNS require the Puerto Rico Department of Education to budget, appropriate funds, and account for its direct liability for feeding all children free of charge, separate and distinct from all other NSLP and SBP costs. FNS needs to determine whether the failure to meet the matching requirement should result in recall of funding, totaling $11.5 million, and recover the funds if deemed appropriate. FNS should also require the Department of Education to develop and implement written instructions for preparing financial status reports and revise its computerized accounting system to accurately record and report all NSLP and SBP costs and unliquidated obligations by school year and fiscal year. FNS is in agreement with the recommendations and is awaiting the Department of Education's response before issuing a letter of determination on the audit results.

Error Rate in NSLP Eligibility Leaves Program Vulnerable to Abuse

In 1997, we reported that many school food authorities (SFA) participating in NSLP in Illinois were not increasing their sample sizes when they found high percentages of households reporting incorrect incomes or failing to respond to verification requests. Regulations allow, but do not require, SFA's to expand their sampling when they find high error rates. We projected that SFA's in Illinois were improperly authorized to receive free or reduced-price meals which cost USDA $31.2 million per year. This is 18.9 percent of the amount received by Illinois in 1995 as reimbursement for NSLP.

We recommended that FNS establish a threshold for the maximum percentage of errors allowable during the verification process and require additional sampling when that percentage was exceeded. FNS responded that it did not want to require additional verifications based on our audit results in only one State. Subsequently, at our request, FNS contacted State agencies and obtained error-rate information for major cities to assist in making a decision on our recommendations. The information gathered by FNS reinforced our findings in Illinois. The average error rate based on the data gathered was 26 percent—exceeding the error rate reported in our Illinois audit. FNS believes that any regulatory change must be supported by testing alternative approaches. Therefore, FNS has requested $2 million in each of its FY 2000 and 2001 budgets so that it can test several alternatives to current requirements while still minimizing additional administrative burdens it would have to place on program cooperators.   We have accepted FNS' management decision and proposed evaluation plan. However, because of the high error rates identified, we consider this program to be highly vulnerable to abuse, and we will continue to monitor it closely until additional verification procedures have been implemented.

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

Custodian Pleads Guilty to Theft of WIC Vouchers

A custodian at a WIC clinic in Dallas, Texas, through lax security measures, was able to steal 359 WIC food vouchers valued at $19,830. The stolen WIC vouchers were redeemed for baby formula and then sold at a discount to neighborhood grocery stores. The custodian was sentenced to 18 months in prison, followed by 3 years' supervised release. Restitution of $1,700 was also ordered.

Department of Health Employee Pleads Guilty to Theft

In Georgia, a Department of Heath clerk responsible for administering WIC pled guilty to creating $49,945 in fraudulent WIC vouchers and converting them to her own use. This investigation was conducted jointly with the Georgia Department of Human Resources, Office of Fraud and Abuse. The investigation disclosed that 77 fictitious infants, including 21 sets of twins, were created by the clerk in a scheme to defraud WIC from October 1994 to August 1996. The clerk issued 1,073 fraudulent WIC vouchers and redeemed them for infant formula, which she resold to small retail grocery stores in the Atlanta area. While the investigation was in progress, the clerk resigned from her position. As a result of entering a guilty plea, she was sentenced to 1 year of incarceration, followed by 3 years of supervised release, and ordered to pay $47,945 in restitution.

Food Safety

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

FSIS administers a comprehensive system of inspection laws to ensure that meat, poultry, and egg products moving in interstate and foreign commerce for use as human food are safe, wholesome, and accurately labeled. FSIS' appropriation for FY 1999 totaled approximately $617 million.

FSIS Oversight of State-Operated Meat and Poultry Inspection Programs Needs Further Improvements

Under the State-Federal Cooperative Inspection Program, individual States are authorized to inspect meat and poultry products sold solely within their boundaries, provided that their food safety requirements are at least equal to those of the Federal Government. FSIS retains an oversight role and provides assistance. Our current audit work was performed at FSIS headquarters, the State meat-inspection offices for several States, and at 18 of the 613 State-inspected plants.

Although FSIS has taken significant steps to correct the problems identified in a previous review, additional improvements are still needed. FSIS needs to ensure that acceptable ratings are not given to State programs with identified sanitary deficiencies or to States that do not take adequate corrective actions to address serious sanitation problems. FSIS further needs to strengthen its comprehensive review program and develop recommendations to place greater emphasis on identifying and correcting the cause of problems found at State-inspected establishments.

We recommended that FSIS (1) assign unacceptable ratings to State programs with documented serious and widespread sanitation deficiencies at plants, (2) use its comprehensive review results to identify and provide alternatives to correct problems noted in the States' food safety inspection programs, and (3) require the States to provide annual reports that assess the effectiveness of the State inspection programs in meeting the food safety standards required by their State Performance Plans. FSIS concurred with our conclusions and recommendations and agreed to implement corrective actions.

Arkansas Meat Processing Plant Investigated for Contamination With Listeria Monocytogenes Bacteria

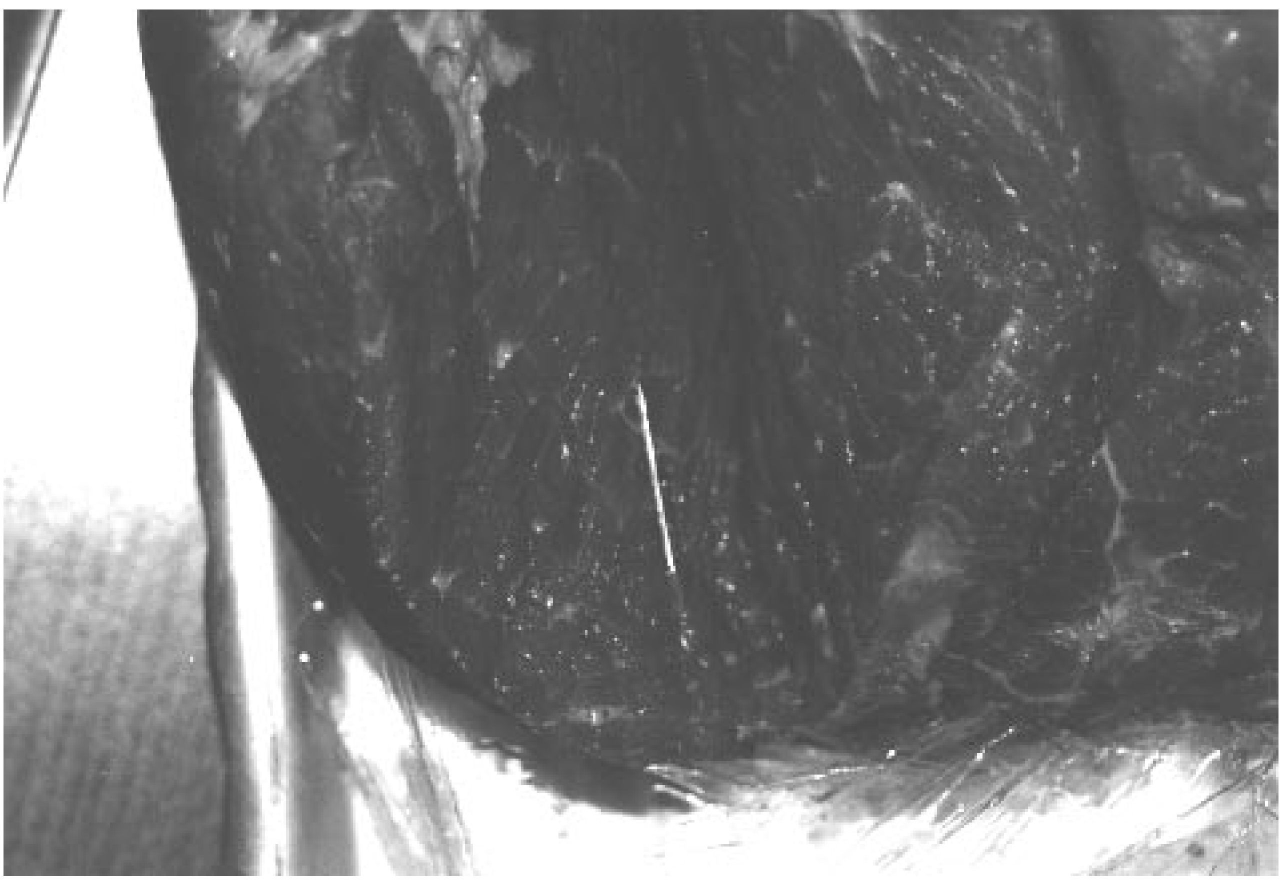
As a result of a joint investigation with FSIS Compliance and OIG, a total of about 30 million pounds of potentially tainted hot dogs and sandwich meat was deemed unfit for human consumption and ordered to be destroyed. In December 1998, plant operations at an Arkansas meat processing plant were suspended by FSIS for sanitation problems dealing with listeria monocytogenes (LM) bacteria. The plant produced about 600,000 pounds of product per week, which consisted of frankfurters (hot dogs) and cold cuts. The plant did business with large food stores and the military. On January 22, 1999, the plant voluntarily recalled all its product produced from July 1998 to December 1998, about 30 million pounds of potentially tainted hot dogs and sandwich meats. Subsequently, the recalled product was deemed unfit for human consumption and was destroyed. The criminal investigation by OIG is continuing.

The Misbranding of Meat Results in Significant Fines and Restitution

In an update to a Philadelphia, Pennsylvania, case previously reported, two owners of a large meat company were sentenced for skimming $2.7 million from the company cash register and concealing this income in their tax returns, as well as misbranding cheaper cuts of beef and pork. The two owners were ordered to pay a total of $1.5 million in restitution and fined $724,000. In addition, one owner was sentenced to serve 60 days' imprisonment, the other 1 year of home confinement, and each 5 years' probation. This investigation was worked jointly with the FBI, IRS, and Defense Criminal Investigative Service.

One Person Indicted After Needles Found in Food

An OIG investigation of sewing needles found in ground beef, fruit, and bakery items (see photo) in an Iowa grocery store led to the indictment of one individual on a Federal criminal charge of tampering with food product. Eighteen OIG criminal investigators, in cooperation with the local police department, worked round-the-clock for up to 4 weeks in an effort to identify the individual responsible for this serious threat to the health and safety of the area population. Due to the immediate response of our investigators, no injuries resulted from these criminal acts. A trial date has yet to be set.



One of the sewing needles was found in this piece of meat. Sioux City (Iowa) Police Department photo.

Marketing and Regulatory Programs

AGRICULTURAL MARKETING SERVICE (AMS)

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1999 is approximately $243 million.

Officers of Pennsylvania Milk Dealer Plead Guilty to Defrauding the Public

A Pennsylvania dairy labeled and sold as "skim milk" more than 19 million pounds of a "reconstituted skim milk" which had been made from skim milk powder and water. From January 1993 through December 1997, the company filed 60 false monthly reports with the Milk Market Administrator (MMA), AMS, which resulted in a $1 million loss to the MMA. The three defendants, who were officers of the company, pled guilty to conspiring to misbrand milk with intent to defraud and mislead consumers, and increasing the company's profits by mislabeling the reconstituted skim milk. It was sold to Federal institutions, local school districts participating in NSLP, and the general public. The company also routinely underfilled milk containers, mixed old milk with new milk and gave it a new freshness date, and placed false freshness dates on milk during production. The officers were each sentenced in U.S. District Court to 3 years' probation, 100 hours of community service, and a total fine of $5,250. The Government also has a pending civil suit against the company. This was a joint investigation with the MMA, AMS Compliance staff, and the Office of Criminal Investigation for the U.S. Food and Drug Administration (FDA). Sentencing is pending.

Fruit Juice Producer Agrees to $500,000 Settlement

A Buffalo, New York, fruit juice producer agreed to a $500,000 settlement with USDA. The agreement was reached to avoid litigation under the False Claims Act. Between 1994 and 1997, the company entered into contracts with AMS to provide canned fruit juice for distribution to needy families and other related programs. The contracts contained a domestic content clause, which required the juice to be 100-percent grown, produced, and packaged in the United States or Puerto Rico. The company produced juice which contained foreign grape juice concentrate and falsely certified that the product met the domestic content requirements. The company agreed to pay $400,000, with the $100,000 balance forgiven upon satisfactory completion of a compliance program. This investigation was worked jointly with AMS.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Through inspections, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for FY 1999 are estimated to total over $590 million.

Controls Over Transportation and Export Shipments Need To Be Strengthened

The North American Free Trade Agreement (NAFTA) allows transportation and export (T&E) shipments of agricultural products to pass through the United States en route to other countries. In some instances, certain of these commodities would not otherwise be allowed into the country because they would not pass USDA inspection requirements. To minimize this threat, T&E shipments are sealed by APHIS inspectors prior to entering the country. Shipments are required to leave the country at a specified port of exit within a given timeframe. At the exit port, the seals are inspected to ensure that the shipments are intact and no products have been offloaded. T&E shipments are bonded and tracked by Customs, and this bond is to be forfeited if the shipment does not exit the country as required. APHIS' Plant Protection and Quarantine is responsible for implementing controls at the 33 border crossings, along with 26 seaports and international airports.

We found that APHIS did not have adequate controls to ensure that T&E shipments were exiting the country as required or that agricultural products were not diverted to U.S. markets en route to the ports of exit. We identified 199 T&E shipments, 11 percent of the shipments entering the country between April and November 1998, that could not be accounted for. Although APHIS indicated that it was aware of the missing shipments, no action was taken to resolve their status since APHIS relied on Customs to follow up on missing shipments. We further learned that, in certain instances when T&E shipments arrive at the ports of exit, some truck drivers frequently hand the inspectors the broken seals. In such instances, there is no guarantee that some of the product was not diverted to U.S. markets.

Review of APHIS' enforcement policies and procedures revealed APHIS' instructions do not stipulate that monetary penalties be assessed against brokers whose T&E shipments do not exit the country as required or who have tampered with APHIS seals. No fines were assessed against any of the brokers responsible for the 199 aforementioned shipments. The only monetary penalty to the brokers is the forfeiture of the Customs bond, and, according to Customs officials, the amounts forfeited are frequently reduced after initial assessment.

We recommended that APHIS (1) strengthen its controls to track T&E shipments and to document instances where official seals are tampered with so that appropriate investigative and enforcement actions can be taken, (2) coordinate more closely with Customs in monitoring T&E shipments, and (3) assess fines against program violators and seek authority to levy fines in excess of the current $1,000 limit. APHIS agreed with our recommendations and is implementing corrective actions.

Dog Kennel Owner Pleads Guilty to Threatening a Federal Official

In North Dakota, a dog kennel owner pled guilty to a felony count of threatening to assault an APHIS Animal Care inspector in an attempt to prevent the inspector from performing the required inspections at the kennel. During the interview with OIG, the subject admitted that he had threatened to kill the inspector, and then proceeded to make another threat. Sentencing is pending.

Natural Resources and Environment

FOREST SERVICE (FS)

FS has the responsibility for providing leadership in the protection, management, and use of the Nation's grassland and aquatic ecosystems on public and private lands. The National Forest System covers 191.8 million acres of forest, grass, and shrub lands. FS also cooperates with State and local government and private landowners in the management of forest resources and provides leadership in forest and rangeland research. The FY 1999 budget for FS is projected at $3.4 billion, while receipts generated through timber sales and other activities are estimated at about $850 million.

Unresolved Issues Could Expose FS to Significant Liabilities in Pending $50 Million Land Exchange

We reviewed the land exchange of the Thunderbird Lodge estate at Lake Tahoe, which includes about 140 acres of lakefront property, a stone mansion, and assorted buildings, appraised at about $50 million. Because FS' mission to preserve wilderness areas does not include maintaining improvements in those areas, FS required that a reservation be added to the deed which would sever the building improvements from the land before completion of the exchange. In the case of the aging structure on the Thunderbird estate (see photo), the cost of maintenance is conservatively estimated at $300,000 per year. To alleviate FS' concerns regarding maintenance, the private firm exchanging the land to FS arranged for the University of Nevada, Reno (UNR), to purchase the improvements for use as a research facility.

The cost of maintenance for the aging structure on the Thunderbird Lodge estate is conservatively estimated at $300,000 per year. OIG photo.

We reviewed the reservation that was added to the deed and found that it did not sufficiently clear FS of liability regarding maintenance of the improvements. The reservation provided that if its terms were not complied with, the improvements would revert to FS ownership. The reservation did provide that the reservation holder would bear the cost of removing the improvements, but we subsequently found that their removal might not be possible due to the historical status conferred on them by the Nevada State Historical Preservation Office.

During our review, UNR abandoned plans to buy the existing improvements and build a research facility adjacent to them. We were notified that a nonprofit group, the Thunderbird Preservation Society, would buy the improvements. The Society was recently formed with the financial assistance of the private firm exchanging the land with FS.

FS could be exposed to a total liability of up to $3 million if it proceeds with the land exchange without resolving who is responsible for maintaining the improvements. We recommended that, before accepting title to the Thunderbird Lodge estate, the private firm provide sufficient endowment funds (approximately $6 million) to FS for maintaining the historical structures for 40 years (the term of the current reservation) or restore the land to its original natural state. Our evaluation also questioned the feasibility of the proposed use by UNR of the Thunderbird site because of problems associated with building expansion proposed by UNR, required water rights, and additional sewer facilities needed.

FS stated that our report was instrumental in assisting its regional staff in their coordination with the proponent, OGC, and the Bureau of Land Management. As a result, additional terms and conditions were added to the deed reservation. FS has concurred with all recommendations except for the establishment of an endowment fund. Instead, FS, with OGC's concurrence, has required that the proponent furnish a 10-year performance bond in the amount of $2.3 million to cover the maintenance and the eventual removal of the improvements should the private party default on the current agreement relating to the Thunderbird Lodge improvements. We agreed with all the management actions proposed by FS to resolve our recommendations.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

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

Waste Management Systems in Ohio

In response to a request from a Congressman based on concerns raised by a constituent, we reviewed selected animal waste management systems in Ohio. Assisted by two independent experts, we reviewed six projects and found that NRCS had designed and promoted environmentally safe animal waste management systems (AWMS), following generally accepted engineering standards. We also found that the former NRCS Ohio State Conservationist had inappropriately approved a payment of $28,000 to two farmers in June 1996, after they and their representatives complained that their NRCS-designed AWMS did not function properly. NRCS decided to settle the farmers' claim rather than spend funds to contest a possible court case. While NRCS was authorized to fix the nonfunctioning system if the flaw was found to be a result of NRCS' design, NRCS was not authorized to expend funds to settle a court case. We did not recommend that the farmers repay the $28,000 because NRCS made the offer and there was no wrongdoing on the part of the farmers.

Fraudulent Contract Appeal Results in a Conviction

In Harrisburg, Pennsylvania, the superintendent of a major construction company pled guilty to criminal charges regarding the submission of false documents to USDA and the Board of Contract Appeals. A contractor entered into an agreement with NRCS for the construction of the Lost River Watershed flood control project in West Virginia. During the construction in 1994 and 1996, the contractor incurred additional expenses of over $5.9 million in order to repair an emergency spillway. The contractor claimed NRCS officials were aware of the emergency repairs and had approved these additional expenses. NRCS denied the contractor's request, which resulted in an appeal to the USDA Board of Contract Appeals. One of the contractor's supporting documents in the appeal was the superintendent's diary, indicating dates, conversations with NRCS officials, and approvals for additional expenses. However, forensic examination of the diary revealed that some entries were actually made from 10 to 16 months after the date of the entry.

The superintendent was sentenced to 1 year of probation, ordered to pay restitution of $18,000 to cover the cost of prosecution, and fined $6,000. The contractor entered into an agreement with NRCS to dismiss the $5.9 million claim.

Rural Development

Rural Development programs are designed to meet the diverse needs of rural communities with a variety of loan, loan guarantee, and grant programs, plus technical assistance, cooperative development, and rural housing assistance. Rural Development loan programs have an outstanding portfolio of direct and guaranteed loans totaling $79 billion.

RURAL HOUSING SERVICE (RHS)

RHS is responsible for making available decent, safe, sanitary, and affordable housing and community facilities by making loans and grants for rural single-family housing and apartment complexes, fire stations, libraries, hospitals, and clinics. For FY 1998, program funding for RHS loans and grants totaled $5 billion. As of September 30, 1998, RHS had an outstanding direct loan portfolio totaling $29.6 billion. An additional 110,000 borrowers had obtained guaranteed single-family housing and community facilities loans totaling $7.2 billion.

Reserve Accounts Underfunded and Improper Costs Charged to Projects

A management company allowed the reserve accounts for 12 apartment complexes to accumulate a net underfunding of over $109,000 as of December 31, 1997. The underfunding occurred in part because operational expenses for calendar years 1996 and 1997 of almost $37,000 were paid by two projects that should have been covered by the management fees. In addition, the identity-of-interest maintenance company overcharged two projects over $42,000 for unsupported maintenance expenses in 1996 and 1997. The maintenance company was unable to provide evidence showing that services were performed and/or that parts and supplies were purchased and used on those projects.

We recommended that RHS develop and initiate a workout plan with the management company to restore the reserve accounts to the required balances for the underfunded projects. We also recommended that RHS require the management company to reimburse the projects just over $79,000 for unallowable and unsupported costs. Further, we recommended that RHS review the 1997 maintenance expenses of three additional projects to identify and recover any improper/unsupported charges by the maintenance company. The agency has concurred with the recommendations.

Management Company Misused Reserve and Tenant Security Deposit Funds

Prompted by concerns about how a general partner and a management company were managing and maintaining 11 properties, the Rural Development Texas State Director asked OIG to audit the properties. We found the management company misused almost $74,000 in reserve funds and almost $21,000 in security deposits. Instead of depositing the funds in restrictive reserve and security deposit accounts for the properties, the management company deposited the funds into the unrestricted operating accounts of the properties. In addition, we determined the bank released the $74,000 from nine properties' supervised bank reserve accounts to the general partner without obtaining RHS authorization.

We recommended that RHS consult with OGC and determine the appropriate collection effort to recover the $74,000 from the management company and the bank for unauthorized release and misuse of reserve funds. In addition, RHS was to require the management company to reimburse $21,000 for the misuse of security deposit funds. Rural Development has issued demand letters to the management company and the bank requesting reimbursement of misused reserve and security deposit funds.

Irregularities Attributed to Management Company Employees

Officials of a property management company reported to Rural Development in March 1998 that over $79,000 in program funds had been improperly removed from the project accounts of 38 Louisiana and 9 Texas Rural Rental Housing (RRH) projects. Shortly after our fieldwork began in April 1998, the company reported further irregularities attributed to two former employees. A company executive caused an affiliate to receive almost $64,000 from 27 Louisiana and 8 Texas RRH projects from payments based upon inadequately supported invoices. Another employee had allegedly stolen checks payable to 39 Louisiana and 17 Texas RRH projects and former tenants within those projects, totaling over $10,000.

We further identified 41 RRH projects in Louisiana and 9 in Texas that in January 1997 had inappropriately paid another approximately $24,000 for unsupported charges to the affiliate discussed above. The management company and the affiliate reimbursed the RRH projects for the unsupported charges and alleged thefts.

In addition, the management company could not adequately support more than $850,000 it had caused the RRH projects to pay for goods and services it provided during calendar years 1996 and 1997. Also, the management company's executives did not disclose all affiliates to Rural Development officials or maintain adequate fire and casualty insurance for the RRH projects. Of the 68 Louisiana projects, 52 were underinsured more than $11 million in 1997. The management company did not issue IRS forms 1099 for 1996 and 1997 payments as required, unnecessarily exposing the RRH projects to fines and penalties.

All the incidences of improper payments and alleged theft have been referred to an assistant U.S. attorney for prosecution and are under investigation. The State office officials generally concurred with the findings and will coordinate with OIG before taking any administrative actions.

RRH Project Owner Pleads Guilty to Fraud

A South Dakota man was sentenced to 10 months' incarceration and ordered to pay $55,300 in restitution for defrauding the RRH program. The man, who owned five RRH projects, converted approximately $70,000 from RRH accounts, which he then used to purchase precious metals. The borrower maintained that he distrusted the Federal Government and believed that if he placed the funds into a supervised bank account, the Federal Government would seize the funds to pay off the national debt.

RURAL UTILITIES SERVICE (RUS)

RUS seeks to improve the quality of life in rural America through a variety of loan, loan guarantee, and grant programs for electric energy, telecommunications (including distance learning and telemedicine), and water and waste projects. As of September 30, 1999, electric borrowers have received over $58.2 billion in direct loans and guaranteed loans; telecommunications borrowers have received over $13.1 billion in indirect loans and guaranteed loans; and water and waste borrowers have received a total of $22.7 billion in indirect loans, guaranteed loans, and grants.

Improved Controls Needed Over Water and Waste Grants in Alaska

The Water and Waste Disposal Systems Grant Program for Rural Alaskan Villages provides rural Alaskan communities grants to remedy dire sanitation conditions. We found that (1) the Rural Development State office already destroyed the project files for several projects even though the projects had not been completed and a final report issued, (2) grantees were not using RUS grant funds within a reasonable time, and (3) grantees were not returning to RUS either the interest they earned on their RUS grant funds or the excess grant funds remaining at the completion of their projects.

We recommended that all disbursements of grant funds requested by the grantee cover no more than 90 days, non-Rural Development agencies involved with projects submit interim reports accounting for grant funds, and all records pertaining to grant awards be kept for a minimum of 3 years after issuance of the final report. RUS officials agreed to implement most of our audit recommendations.

Guilty Pleas in Water Authority Embezzlement Case

Two former employees of a municipal water district in Pennsylvania pled guilty in Federal court to embezzling $20,520 in funds in 1996 and 1997. The two employees regularly overbilled commercial water uses, while skimming off cash payments received at the office from residential customers. The water fees and cash payments were in part collateral for a revenue bond underwritten by USDA which allowed the district to finance a dam and water treatment plant for the municipality.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

RBS programs are designed to enhance the quality of life for all rural residents by assisting cooperatives and businesses through partnership with rural communities. RBS does this by promoting a stable business environment in rural America through financial assistance, sound business planning, technical assistance, research, education, and information. The multiagency empowerment zone program under Rural Development's direction attempts to revitalize and rebuild poor communities in the rural heartland.

More Direction Needed in Rio Grande Valley Empowerment Zone

The Rio Grande Valley Empowerment Zone (RGVEZ) in Texas received $40 million in flexible social service block grant funds from the Department of Health and Human Services. Because of a complaint regarding RGVEZ's business affairs, we reviewed the zone's operations. We determined that most of the allegations were unfounded, but that the zone's management had made loans to two organizations not physically located in the appropriate subzones though geographically close and serving the zone's residents. Further, environmental assessments had not been performed for two of the four projects which needed assessments. Also, USDA needs to provide RGVEZ specific guidance on how to comply with National Environmental Policy Act procedures. The zone officials and the Texas State Rural Development Agency concurred with the findings. Rural Development's National Office of Community Development has requested guidance from OGC regarding USDA oversight responsibility for the empowerment zones' implementation of the National Environmental Policy Act.

Financial, Administrative, and Information Technology

FINANCIAL MANAGEMENT

Internal Control Review Results in a Qualified Opinion

Our review of the internal control structure at the Office of the Chief Financial Officer's National Finance Center (OCFO/NFC) in effect as of September 30, 1997, resulted in an adverse opinion because of weaknesses in such critical areas as Office of Management and Budget (OMB) Circular No. A-130 certifications, access and security over OCFO/NFC systems, system documentation, and accounting reconciliations and adjustments. During FY 1998, in response to our audit, OCFO/NFC began comprehensive, time-phased corrective actions, which we assisted with and actively monitored. Based on improvements, we issued a qualified opinion as of September 30, 1998.

Our review disclosed that material weaknesses remained in the areas of accounting adjustments and reconciliations, systems documentation, and conformance with the U.S. Standard General Ledger. In addition, the U.S. General Accounting Office (GAO) noted that serious access control weaknesses affected OCFO/NFC's ability to prevent and/or detect unauthorized changes to payroll and other payment data or computer software, to control electronic access to Thrift Savings Program account information, and to restrict physical access to sensitive computing areas.

We received general concurrence with our recommendations that OCFO/NFC improve the controls related to (1) documentation associated with OMB Circular No. A-130 reviews; (2) third-party reviews of payments made through the Miscellaneous Payment System; (3) accounting for Online Payments and Collections; (4) reconciliations of personal property, suspense, Fund Balance with Treasury, and accounts receivable balances; (5) the manual adjustment process; (6) the production deviation process; (7) accounting for allowance for losses on accounts receivables; and (8) systems documentation.

Effective Implementation of FFIS Will Reduce USDA's Many Financial Management Problems

Since 1992, we have reported on the many severe and longstanding financial management problems within the Department. These problems have significantly impacted the ability of Department officials to prepare accurate financial statements and cost data necessary to manage departmental programs. To aid in correcting these problems, the Department is implementing the Foundation Financial Information System (FFIS) to replace the Central Accounting System (CAS) at OCFO/NFC.

The OCFO appropriated fund and Forest Service Regions 6, 10, and Pacific Northwest Experiment Station began using FFIS on October 1, 1997, and RMA began on October 1, 1998. The remaining offices of FS and FSIS are scheduled to begin using FFIS on October 1, 1999, and the remaining USDA agencies are scheduled to begin in FY 2004.

Our current review disclosed that several CAS weaknesses, and prior decisions by OCFO management to interface many of the OCFO/NFC "feeder" systems, have resulted in substantial FFIS implementation problems. For example, the FFIS "feeder" system accounting posting models are not sufficiently documented to enable an effective and efficient evaluation and have been found, in some cases, to be in error. There is a critical need to consolidate and reengineer the functions of the OCFO/NFC "feeder" systems. These systems are old and labor intensive, frequently provide bad data, and are expensive to operate.

In addition, we found other FFIS problems, including weaknesses in FFIS trial balance reporting from FFIS and internal controls over FFIS manual adjustments and reconciliations.

OCFO has made numerous and substantive changes to correct the serious impediments to the effective implementation of FFIS. For example, an entire new project team, with recognized expertise in project implementation, has been brought in. However, much work remains, and it is important that identified deficiencies be corrected in a timely manner.

We recommended that OCFO, in consultation with the Assistant Secretary for Administration and departmental users, analyze the need for each "feeder" system and, based on the analysis, develop long-range plans to consolidate, integrate, and/or reengineer the "feeder" systems. In addition, we recommended that OCFO take corrective actions on the weaknesses we identified and develop a project management process that will ensure all identified problems are corrected in a timely manner. OCFO generally concurred with our review results.

Controls Needed Over Servicing and Accountability of Sold Rural Housing Loans

In 1987, Rural Development (then the Farmers Home Administration) received $1.75 billion from the sale of approximately 141,000 single family housing loans, as well as a subordinate interest in a Trust. Our review disclosed that control policies and procedures need to be developed by Rural Development in order to provide reasonable assurance that (1) it is receiving the funds it is entitled to from the Trust, (2) the Government funds advanced to the Trust were properly used, and (3) the balance of $14 million retained by the Trust is necessary for continued Trust operations.

Further, although Rural Development agreed previously to review the Trust operations on at least a 3-year cycle, it has not performed any reviews since 1993. This reduces Rural Development's assurance that the loans sold are being serviced in accordance with the policies and terms of the Trust agreement.

We recommended that Rural Development (1) establish internal control policies and procedures relating to oversight of Trust fund operations, and (2) perform a review of funds advanced to and received by the Trust to assure that funds used by the Trust were proper and that the Government funds retained by the Trust are still appropriate.

Federal Financial Management Improvement Act (FFMIA) of 1996

Not all major components of USDA currently comply with FFMIA requirements. As required by law, a departmentwide remediation plan has been developed which includes the various actions needed to achieve compliance and the planned completion dates. In addition to the overall plan, the Department has detailed plans for CCC, Rural Development, and FFIS. Individual remediation plans have also been requested from FS and NFC, but these plans have not been finalized.

FFMIA requires that we report semiannually on the Department's adherence to intermediate dates established in its remediation plan. In our last semiannual report, we stated that the Department was in compliance with its overall plan and that the plan was long-term in nature, with many completion dates in the 2001 and 2002 timeframes. Recent updates to the plan have now extended completion dates into the 2003 timeframe.

The extension is primarily due to revised implementation schedules for remedial actions planned by Rural Development to correct system nonconformances. For several nonconformances, the mission area reported that delays in implementing the New Guaranteed Loan System have extended the completion dates from September 2001 to September 2003. Other interim dates in Rural Development's plan have been revised for reasons such as higher priority automation initiatives (Y2K) and redesign of the Community, Utilities, and Business System and the Program Loan Accounting System.

Financial Consulting Continues To Assist Forest Service

During our initial FY 1999 consulting visits to 17 FS regional, forest, and station offices, we continued to find data quality deficiencies in (1) the capitalized costs of real and personal property and (2) accounts payable and undelivered orders. FS continues to make progress with its physical inventories of real and personal property. The noted exceptions are identical to those reported to FS in prior years' consulting reports. In addition, our initial review of trial balances from the new FFIS accounting system data warehouse identified numerous abnormal account balances and out-of-balance conditions. These conditions, if not corrected, would preclude improvement in FS' financial statements and audit opinion.

- *Real and Personal Property* - We continued to find high rates of misstated and unsupported capitalized costs and in-service dates for real and personal property. We also advised FS of our concerns that many field units will not be able to complete physical inventories of real properties (roads, bridges, trails) and adequately verify capitalized costs and in-service dates with prescribed supporting documentation by September 30, 1999.

- *Accounts Payable and Undelivered Orders* - These accounts, as of September 30, 1998, continued to have high error rates.

- *FFIS Trial Balances* - We reviewed FS trial balance reports generated from the FFIS data warehouse for the period ending February 1999. Our initial reviews found widespread noncompliance with the Standard General Ledger requirements. These noncompliance conditions indicate problems with data quality and/or FFIS processing and must be researched to determine their cause. Without correction, these deficiencies could preclude FS from preparing financial statements which present fairly its financial condition and results of operations.

We advised FS to provide additional guidance to field units on real property accounting requirements and issue supplemental or revised pages to its desk guide where needed. We also advised FS to research the cause of abnormal and out-of-balance conditions in FFIS accounts and are assisting FS with this work.

INFORMATION TECHNOLOGY

Agency Validation Efforts Need Improvement

Year 2000 testing is essential to provide reasonable assurance that new or modified systems process dates correctly and will not jeopardize an agency's ability to perform core business operations after the millennium change. Until thorough system validation has been performed, there is no certainty that changes are complete or correct.

We found that not all of the agencies were adequately documenting the system validation efforts or having Independent Verification and Validation (IV&V) reviews performed for each of the Departmental Priority Systems. We did find that most of the agencies had taken appropriate actions to resolve the previously reported weaknesses in identifying, monitoring, and testing data exchanges with the data exchange partners. One notable exception was at NFC, where we concluded that additional efforts were needed to obtain formal data exchange agreements and carry out end-to-end testing with the Center's data exchange partners. We recommended OCIO immediately instruct the agencies that all testing activities must be appropriately documented; clarify to each agency the requirement that, at a minimum, agencies are to conduct an IV&V for each of their Departmental Priority Systems; and direct NFC to obtain formal data exchange agreements with its data exchange partners.

OCIO promptly reinstructed the agencies regarding the importance of appropriately documenting all phases of the testing activities and required the agencies to, at a minimum, conduct an IV&V for each of the Departmental Priority Systems. Additional actions regarding data exchange agreements at NFC are still to be provided.

ADMINISTRATIVE OPERATIONS

More Needed To Assist Former Employees on Workers' Compensation in Returning to Work

The Federal Employees' Compensation Act provides workers' compensation benefits for Federal civilian employees who sustain injuries or diseases while on the job. In a 1992 audit, we reported that USDA and its agencies were not monitoring long-term claimants or providing them job placement assistance once they had recovered from their injuries. In our current evaluation, we found the agencies had not arranged for periodic reviews of all long-term claimant files, as had been indicated would occur in the response to our 1992 audit report.

Not until July 1998 had an agency performed extensive reviews of its long-term claimant files. Our followup review showed that a projected 168 of the work-capable claimants from the prior audit continued to receive workers' compensation benefits, estimated at $19.2 million from 1992 through 1998, and will receive an estimated $51.2 million over their remaining life expectancies if measures are not taken to return them to work.

We recommended that agencies review the cases of all long-term claimants and provide job placement assistance to those with work capabilities. We made a series of recommendations to improve controls over the program. The agency generally agreed with our recommendations.

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) OF 1993

Results of Reviews

In response to a Congressional request, we initiated an ongoing examination of agencies' activities pursuant to GPRA. The results of review for this period follow.

Food and Nutrition Service

We examined a segment of FNS' Strategic Goal dealing with the Child and Adult Care Food Program (CACFP). Specifically, we reviewed Goal 4.2.1., "Better targeted and higher quality program reviews of sponsors and providers by State agencies" and the associated Indicator "Number of reviews conducted."

We have provided extensive audit coverage of CACFP for the past several years. A substantial entry on our work in CACFP can be found in our section on Presidential initiatives. Our reviews have disclosed significant, widespread problems which have greatly undermined the integrity of the program. Our audits found that a primary cause for this extensive fraud and abuse was minimal State oversight of sponsor activities. Accordingly, we determined that the GPRA Goal reviewed is valid. The performance measure, however, is vague and does not include any quantitative measurement data (the FY 1999 and FY 2000 indicators were cited only as "to be determined").

Due to the absence of quantitative data, we could not verify the data sources. Further, the GPRA Plan notes that in order to achieve the Performance Goal, FNS must (1) develop and issue program integrity regulations and guidance materials to States, (2) increase its oversight of State agency program management, and (3) conduct a study to obtain data on current State and sponsor performance.

According to agency officials, program integrity regulations have been developed but are awaiting review by OGC. The proposed regulations are expected to be issued in draft by the 1st quarter of FY 2000, and in final form by September 2000. FNS has developed guidance materials; for example, information highlighting the most vulnerable program areas has been forwarded to State agencies for their use. In addition, a training program for State reviewers and USDA personnel involved in CACFP has been established.

Forest Service

We examined a segment of the FS' Strategic Goal to "ensure organizational effectiveness." Specifically, we reviewed Management Initiative 3.4., "A sound financial system which supports resource decisions with timely, accurate information and financial expertise."

We have performed annual financial statement audits of FS since 1990. For the past 3 years we have issued a disclaimer of opinion because the agency has been unable to prepare statements which can be audited, as thoroughly discussed in previous semiannual reports and congressional hearings. Accordingly, we conclude the initiative developed to rectify this weakness to be valid. The primary performance measures put forth by FS to fulfill this initiative are (1) FFIS implemented, (2) Real Property Inventory completed, (3) Timber Sale Accounting system implemented, and (4) financial management reports developed.

The indicators associated with these measures lack quantitative data; instead, they are prescribed on an attribute (yes/no) basis. FFIS represents a critical corrective action to achieve the initiative; the Plan calls for three pilot units to be on FFIS by FY 1999, and this was accomplished. The Plan states the Real Property Inventory was to be completed in FY 1999; the agency asserted in August 1999 that this target had been met. We have not yet verified completion of this essential measure but will do so in our performance of the FY 1999 financial audit. The Timber Sale Accounting system measure is misstated in that the system was implemented several years ago; our discussions with agency officials disclosed that the measure actually dealt with the system being made Y2K compliant, an action only tangentially related to the Goal. Lastly, the development of the financial management reports, again according to agency officials (the Plan is nondescriptive in this regard) pertains to FFIS reports. Although reports have been generated by the new system, the measure does not appear to be discrete from the first one delineated.

Risk Management Agency

We examined a segment of RMA's Strategic Plan Objective to "Improve program integrity and protect taxpayers' funds." Specifically, we reviewed Goal 4, "Reduce program vulnerabilities."

We have performed numerous audits in recent years that have evaluated RMA's policies and procedures, program delivery systems, and compliance and oversight activities. Our reviews have disclosed inherent program vulnerabilities to dollar losses and inefficiencies. As a result, we concluded that the GPRA Goal is valid. The key indicators supporting this Goal are (1) crop insurance loss ratio and (2) total error rate, including the rate of erroneous payments, rate of program vulnerability, and rate of program delivery errors.

The crop insurance loss ratio, which measures actuarial soundness, and the associated quantitative targets appear to be reasonable. The source of the data reported is the agency's claims data base, which we have not verified, but plan to do so in upcoming audits. The "error rate" indicator is valid in terms of a measure to reduce vulnerabilities. We question the data reported, however, in that for every year depicted in the plan (1997 through 2000) the error rate shown is 4.83 percent. In our estimation, targeted rates need to be developed which would show program improvement (i.e., a reduction in the rate). Further, the rate itself may need to be reassessed; our analysis disclosed that the methodology used to establish the rate excluded actual production history data, which could significantly skew results. Further, GAO questioned the adequacy of the sample size taken by RMA in compiling the data; too limited a sample can inflate variability and hence reduce accuracy.

Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct. During the past 6 months, such investigations resulted in 12 convictions of current or former USDA employees and 38 personnel actions. Some recent investigations follow.

FSA Employee Pleads Guilty to Theft of $99,000 in Government Property

In Alexandria, Virginia, an FSA employee pled guilty to embezzling over $99,000 in travel advance funds and was sentenced to 5 months' incarceration, 3 years' supervised release, and restitution of $99,085. From February 1997 to June 1998, the employee submitted 24 false travel authorization/advances for payment, all using names of relatives or associates. The employee was removed from FSA.

FSA Employee Who Embezzled $276,000 Is Sentenced

As previously reported, a Kansas FSA county office program assistant pled guilty to charges that she had issued CCC checks to herself, disguised as administrative payments, to embezzle more than $276,000. She has since been sentenced to serve 18 months in prison, followed by 3 years of supervised release, and was ordered to pay restitution of $276,680.

NRCS Employee Convicted of Conflict of Interest and Conversion of Property

An NRCS District Conservationist was convicted in North Carolina on charges of conflict of interest and the conversion of property of landowners to his own use. In a criminal conflict of interest, he sold filter fabric material to landowners for conservation plans that he designed or supervised while performing his NRCS duties and concealed doing so by putting the sales in the business name of his wife's beauty salon. As part of his official duties, he also designed and supervised conservation plans for fencing on farms but recommended a business partner to do the fencing work and then assisted the partner in putting in the fencing and shared in the profits. In addition, he designed, supervised, and approved conservation plans for a partnership with his wife and concealed his interest from USDA. Further, he wrongfully benefited from the sale of logs that were removed from flood cleanup projects he supervised for NRCS. After his conviction, the employee resigned from NRCS and is awaiting sentencing.

NRCS Employee Convicted of Theft

A search warrant at the home of an NRCS computer specialist in Illinois revealed that the employee had stolen U.S. Air Force computer components and a USDA computer not assigned to him. The employee was convicted and sentenced to 12 months' probation for theft. The individual was previously a civilian employee with the Air Force. This investigation was worked jointly with the U.S. Air Force, Office of Special Investigations.

Statistical Data

AUDITS WITHOUT MANAGEMENT DECISION

The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings which must be completed before the agency can act to complete management decisions.

New Since Last Reporting Period

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
AARCC	01/27/99	1. FY 1997 AARCC Financial Statements (37401-2-FM)	0	0
ARS	02/08/99	2. JA Jones Management Services CY's 1994 and 1995 Incurred Cost (02017-4-At)	160,233	160,233
FAS	03/30/99	3. PVO Grant Fund Accountability (50801-6-At)	18,629,558	18,629,558
FNS	12/07/98	4. CACFP - Family Day Care Services, Inc. - West Palm Beach, FL (27601-7-At)*	338,100	338,100
FS	01/05/99	5. Timber Sale Environmental Analysis Requirements (08801-10-At)	0	0
	02/23/99	6. FY 1998 FS Financial Statements (08401-8-At)	0	0
FSA	03/30/99	7. Payment Limitation - Mitchell County, GA (03006-20-At)*	881,924	881,924
Multiagency	02/01/99	8. FY 1998 Rural Development Financial Statements (50401-28-FM)	0	0
NRCS	03/22/99	9. Controls Over the Award and Administration of Cooperative Agreements (10015-1-Hy)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
OCFO	03/25/98	10. Verification of Data Input Into NFC Payroll/Personnel System (50099-11-FM)	27,259	27,259
	02/22/99	11. FY 1998 USDA Consolidated Financial Statements (50401-30-FM)	0	0
RHS	11/09/98	12. RRH - Nationwide Initiative in NE - Seldin Company, Omaha, NE (04801-4-KC)*	41,509	41,509
	01/08/99	13. RRH Program - Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	01/15/99	14. RRH - Initiative in North Carolina (04801-4-At)	183,957	183,957
	01/25/99	15. RRH Program Operations at College View Apts., Belton TX (04099-8-Te)	5,670	4,431
	02/13/99	16. RRH - Initiative in North Carolina (04801-7-At)	109,653	109,653
	03/12/99	17. RRH - Nationwide Initiative - Pennsylvania (04801-3-Hy)	82,324	81,646
	03/25/99	18. Guaranteed Rural Housing Loan Program (04601-2-At)	139,220,122	215,030
	03/31/99	19. RRH - Nationwide Initiative in NE - Bosley Management, Inc., Sheridan, WY (04801-3-KC)	233,958	233,958
RMA	12/16/98	20. Nursery Crop Insurance Program (05099-2-At)	3,963,468	3,963,468
	03/10/99	21. FY 1998 FCIC Financial Statements Report on Management Issues (05401-6-FM)	0	0
	03/15/99	22. Prevented Planting of 1996 Insured Crops (05601-5-Te)	158,430	158,430

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)

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)
AARCC	09/30/96	23. AARC Cooperative Agreement With Agro-Fibers, Inc. (34099-1-At)*	0	0
AMS	09/24/98	24. National Fluid Milk Processor Promotion Program (01001-3-Ch)*	0	0
CSREES	03/27/97	25. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)*	5,633	0
	03/31/98	26. National Research Initiative Competitive Grants Program (13601-1-At)	32,757,862	32,757,862
	09/30/98	27. Use of CSREES Grant Funds by Prairie View A&M University (13011-2-Te)	1,424,983	1,239,314
FNS	03/21/97	28. Establishment and Collection of Food Stamp Claims (27002-2-Te)	1,908,988	1,908,988
	07/08/97	29. Reinvestment of Quality Control Penalties (27099-4-At)	50,150,541	25,157,504
	09/22/97	30. Child and Adult Care Food Program - Sponsor Abuses (27601-7-KC)*	56,296	56,296
	09/30/97	31. Food Stamp Program - Reporting Accuracy of Claims Activity (27601-12-Ch)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FS	07/18/96	32. FY 1995 FS Financial Statements (08401-4-At)*	1,150,183,750	1,150,183,750
	09/30/96	33. Real and Personal Property Issues (08801-3-At)*	0	0
	03/31/97	34. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)*	468,547	468,547
	07/13/98	35. FY 1997 FS Financial Statements (08401-7-At)*	0	0
	08/05/98	36. Humboldt/Toiyabe National Forest Land Adjustment Program (08003-2-SF)*	0	0
	08/19/98	37. Review of FS' Retroactive Redistribution (08801-4-Hq)*	0	0
	08/26/98	38. Improvements on the Zephyr Cove Land Exchange (08003-4-SF)	0	0
	09/24/98	39. FS Assistance Agreements With Nonprofit Organizations (08801-2-Te)	7,098,026	3,086,023
FSA	09/30/93	40. Disaster Payments Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	03/31/95	41. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (03600-26-SF)	484,972	364,552
	09/07/95	42. A&B Professional Consulting, Inc. (03004-1-At)	628,976	628,976
	09/07/95	43. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI (03099-8-KC)	165,069	165,069

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/18/95	44. Management of the Dade County, FL, FSA Office (03006-1-At)	75,175,410	909,437
	09/28/95	45. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	46. 1993 Crop Disaster Payments, Brooks/ Jim Hogg Cos., Texas (03006-1-Te)*	2,469,829	2,418,167
	05/02/96	47. Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	09/18/96	48. Emergency Feed Program in Texas (03601-7-Te)*	626,182	115,425
	09/30/96	49. 1994 Disaster Assis- tance Program - Maine (03601-1-Hy)*	2,666,383	2,601,692
	03/31/98	50. Reorganization of Payment Limitation in Hidalgo County, TX (03601-23-Te)	542,807	542,807
	04/30/98	51. Reeves County Office Operations - Texas (03801-36-Te)	1,365,640	421,152
	06/11/98	52. Noninsured Assistance Program Payments for 1996 Crop Year Losses (03601-24-Te)	110,679	76,160
	09/30/98	53. Wool and Mohair Payment Limitation in Val Verde County, TX (03099-20-Te)*	2,432,112	2,432,112
Multiagency	09/30/98	54. CSREES - Managing Facilities Construction Grants (50601-5-At)	3,824,211	3,281,534

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
OCFO	07/16/98	55. FY 1997 USDA Financial Statements (50401-24-FM)*	0	0
RHS	08/10/98	56. Self-Help Housing Program - Grizzly Hollow Project, Galt, CA (04801-2-SF)*	0	0
RMA	09/30/97	57. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	444,910
	03/03/98	58. Transfer of CAT Policies to Reinsured Companies (05099-1-KC)	0	0
	04/10/98	59. Crop Insurance Claims (05601-1-KC)	126,787	78,996
	07/14/98	60. Quality Control for Crop Insurance Determinations (05099-2-KC)	0	0

Audits Without Management Decision - Narrative for New Entries

1. FY 1997 AARCC Financial Statements, Issued January 27, 1999

All of the report's 32 recommendations remain without management decisions. AARCC's response did not address full and timely corrective actions. We have advised AARCC of the specific information needed on each recommendation.

2. JA Jones Management Services, CY's 1994 and 1995 Incurred Cost, Issued February 8, 1999

The Defense Contract Audit Agency reported that the contractor overclaimed $160,223 due to excessive overhead cost allocations. OIG and the Agricultural Research Service (ARS) provided the contractor opportunities to justify its claim, but the contractor could not support the overclaim amounts. ARS agrees with the audit findings but is negotiating with the contractor.

3. PVO Grant Fund Accountability, Issued March 30, 1999

We questioned the use of CCC commodities and administrative funds totaling $18.3 million to one private voluntary organization (PVO) and $264,439 of administrative funds paid to three other PVO's. We also found that FAS needed to strengthen operating controls over the Food for Progress Program. We are currently assessing FAS' most recent response to determine if management decision is now achieved for all recommendations.

4. CACFP - Family Day Care Services, Inc. - West Palm Beach, FL, Issued December 7, 1998

The audit questioned program payments and administrative costs paid to the sponsor because of inflated meal counts and unaccounted for disbursements. As a result of the audit, the sponsor was terminated from the program. Because the sponsor's activities are under criminal investigation, any corrective actions must be coordinated with the investigation.

5. Timber Sale Environmental Analysis Requirements, Issued January 5, 1999

One recommendation remains unresolved. We recommended that FS report the environmental analysis and implementation monitoring process as a material weakness in the Department's Federal Manager's Financial Integrity Act (FMFIA) report. FS responded that the appropriate time to assess whether its environmental analysis and implementation monitoring would be reported is following completion of specific reviews it plans of the environmental analysis process. We concurred with FS' alternative action; however, to reach management decision, we need to review FS' plans and agree that its analysis will provide sufficient information to make a decision whether to include or exclude this issue in its FMFIA report.

6. FY 1998 FS Financial Statements, Issued February 23, 1999

FS and OIG personnel have been working to improve FS accounting systems and processes and to adopt new accounting standards issued by OMB. One primary objective is to enable FS to prepare timely and accurate financial statements and ultimately receive unqualified audit opinions on those statements. FS has begun to implement a new real property accounting system and will begin converting field offices to the new departmental general ledger system. Implementation timeframes for (a) the new general ledger, (b) improvements in FS accounting subsystems, and (c) new accounting standards will extend into FY 2000. FS is continuing to work toward improving its financial statements. However, much work remains including the need to (1) ensure that sufficient, full-time staff is assigned to compile and complete the financial statements timely and accurately and (2) ensure that regions and units adhere to agencywide accounting policies and procedures. We continue to work closely with FS to ensure that longstanding deficiencies in its accounting systems and controls are eliminated.

7. Payment Limitation - Mitchell County, GA, Issued March 30, 1999

The audit identified 12 producers who received questionable 1996 and 1997 Agricultural Market Transition Act payments totaling $881,924 partly by using schemes or devices to evade maximum payment limitation provisions. The matter was referred to OIG Investigations in May 1999, and further action is pending the completion of the investigation.

8. FY 1998 Rural Development Financial Statements, Issued February 1, 1999

The open recommendation relates to compliance with the Debt Collection Improvement Act and addresses reporting debt to Treasury for offset, as well as developing a methodology to maximize the usage of tools for barring ineligible borrowers from receiving Federal loans. Rural Development cites a legal opinion that current regulations do not provide authority to report debt related to defaulted guaranteed loans and repurchased guaranteed loans. We do not believe the legal opinion prohibits revising the regulations. Also, Rural Development's response did not adequately address developing a methodology to prevent loans to ineligible borrowers.

9. Controls Over the Award and Administration of Cooperative Agreements, Issued March 22, 1999

There was no documentation to determine the selection process used to award cooperative agreements. In addition, NRCS has not competitively awarded cooperative grants exceeding $75,000 as required by law. We recommended that NRCS develop procedures for awarding cooperative agreements that would ensure the best use of Government funds in accomplishing program objectives, documenting the selection process, and when applicable, providing a justification that a non-competitive award is in the best interest of the Government. We also recommended NRCS develop procedures to ensure that cooperative agreements exceeding $75,000 are competitively awarded.

NRCS has developed a handbook; however, its response did not provide specific citations allowing us to assess whether the handbook might be responsive to our recommendations. NRCS also indicated that it could not require mandatory use for all employees. In addition, NRCS believed that the 1999 Agricultural Appropriations Act exempted it from the Federal Grants and Cooperative Agreements Act of 1977. We do not agree with this assessment and have informed NRCS an OGC legal opinion will be needed for clarification. We also advised them of what is needed to reach management decision on the other recommendations.

10. Verification of Data Input Into NFC Payroll/ Personnel System, Issued March 25, 1998

Of the 21 recommendations, 7 have not reached management decision. The agency has been advised of the information needed, which includes implementation dates for three of the recommendations and more specific information on the actions planned or taken for the remaining recommendations.

11. FY 1998 USDA Consolidated Financial Statements, Issued February 22, 1999

Seven recommendations remain without management decision. We reported that the Department's ability to provide accurate and reliable information on its financial operations is impacted by many serious financial management system problems. The Department's existing financial information system comprises six administrative and program accounting systems operated by various USDA agencies. This system does not always process and report departmentwide financial information accurately. The system was not integrated with its subsystems and did not substantially comply with the three requirements of the Federal Financial Management Improvement Act. We also reported weaknesses in the processes and procedures used by the Department's lending agencies to estimate and reestimate loan subsidy costs since 1992.

12. RRH - Nationwide Initiative in NE - Seldin Company, Omaha, NE, Issued November 9, 1998

The results of the audit were referred for investigation. RHS and the Rural Development State office have been instructed to take no further action pending completion of the investigation.

13. RRH Program - Dujardin Property Management, Inc., Everett, WA, Issued January 8, 1999

The results of the audit were referred for investigation. RHS and the Rural Development State office have been instructed to take no further action pending completion of the investigation.

14. RRH - Initiative in North Carolina, Issued January 15, 1999

The results of the audit were referred to an assistant U.S. attorney (AUSA) for investigation. The AUSA has decided not to pursue civil action. We are working with Rural Development to ensure the management company refunds $183,957 to nine projects for excessive operating and maintenance costs.

15. RRH Program Operations at College View Apts., Belton, TX, Issued January 25, 1999

We can reach management decision on this audit when we receive acknowledgment of payment or that an accounts receivable has been established for recovery of the excessive interest and rental assistance received by the property on behalf of ineligible college student tenants living in subsidized units.

16. RRH - Initiative in North Carolina, Issued February 13, 1999

At the time the report was issued, we requested that RHS delay administrative action since the management company had been referred for possible civil action. On June 9, we advised RHS that an AUSA had decided not to pursue civil action. Thus, RHS was free to take appropriate administrative action. As a result of a complex fee-splitting arrangement, the borrowers were paid $9,000 of the projects' funds with an additional $97,501 at risk of being paid. We need documentation that the borrowers have been advised, in writing, to refund to the projects $9,000 plus any subsequent payments.

Projects were improperly charged $3,955 for borrowers' administrative expenses. Also, the management agent collected $3,152 in unallowable costs charged to the projects. To reach management decision, we need to be provided the dates by which the management company will be required to review the annual reports, provide corrected reports, and refund any excess management and unallowable costs charged to the projects.

17. RRH - Nationwide Initiative - Pennsylvania, Issued March 12, 1999

The management agent improperly charged unallowable and duplicate operating costs to eight projects. The Pennsylvania State Rural Development Office issued a letter requiring reimbursement of the reserve accounts. The management agent met with State office officials and provided additional information. We continue to work with RHS to determine the proper amount to be reimbursed.

18. Guaranteed Rural Housing Loan Program, Issued March 25, 1999

On August 23, 1999, RHS provided additional information to support management decision for the nine open recommendations. We are reviewing this new information.

19. RRH - Nationwide Initiative in NE - Bosley Management, Inc., Sheridan, WY, Issued March 31, 1999

The results of the audit were referred for investigation. RHS and the Rural Development State office have been instructed to take no further action pending completion of the investigation.

20. Nursery Crop Insurance Program, Issued December 16, 1998

The audit disclosed that the Nursery Crop Insurance Program had been poorly managed by the reinsured companies and abused by sales agents, loss adjusters, and producers. The report included 16 recommendations addressing the problems disclosed, with questionable costs totaling $4 million. Management decisions have not been reached on seven of the recommendations, for which we have requested additional information.

21. FY 1998 FCIC Financial Statements Report on Management Issues, Issued March 10, 1999

The remaining recommendation requires the agency to continue working with OGC to implement the recommended corrective actions for transferring Catastrophic Risk Protection policies to private reinsured companies. In order to achieve management decision, the agency needs to provide a timeframe for completing actions and has been unable to establish it. We continue to work with the agency.

22. Prevented Planting of 1996 Insured Crops, Issued March 15, 1999

We reported that controls were not in place to prevent abuse, as insureds were not required to report losses until after substitute crops were planted. Therefore, there was not sufficient time for insured companies to inspect acreages to determine whether disaster conditions actually caused prevented planting. We questioned claims totaling $134,612 on 30 policies that included acreage (1) left flooded for crawfish production, (2) involved in double cropping, (3) not planted due to management decision, (4) that exceeded the FSA base acreage, and (5) not suitable for agricultural production. Our review also disclosed questioned payments of $23,818 on three policies with acreage under water, idle, or otherwise not suitable for agricultural production.

We further found cases where loss adjusters adjusted claims when they had conflicts of interest with the insureds. We recommended that action be taken to have reinsured companies improve the loss adjustment and internal control reviews of prevented planted claims. Also, we recommended that RMA establish controls to prevent adjusters from adjusting claims when they have conflicts of interest with the insureds. We further recommended collection of the $158,430 in questioned claims. RMA has initiated actions to obtain management decisions on the audit recommendations.

We reached management decision on two of the report's six recommendations on March 15. However, RMA has not replied to any of the remaining open audit recommendations. We are waiting for additional information and documents from RMA.

Indictments and Convictions

Between April 1 and September 30, 1999, OIG completed 257 investigations. We referred 197 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 208 indictments and 332 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 332 convictions do not necessarily relate to the 208 indictments. Fines, recoveries/ collections, restitutions, claims established, and cost avoidance resulting from our investigations totaled about $31.5 million.

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

Indictments and Convictions
April 1 - September 30, 1999

Agency	Indictments	Convictions*
AMS	4	30
APHIS	3	8
ARS	1	1
FSA	17	26
FNS	171	251
FS	1	0
NRCS	2	5
OIG	1	0
RBS	2	3
RHS	4	3
RMA	2	3
SEC	0	1
Other**	0	1
Totals	208	332

* This category includes pretrial diversions.
**This category includes cases involving non-USDA/affiliated agencies (one conviction).

The 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 764 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 3 displays the volume and type of the complaints we received, and figure 4 displays the disposition of those complaints.

Figure 3

Hotline Complaints
April 1 to September 30, 1999
(Total = 764)

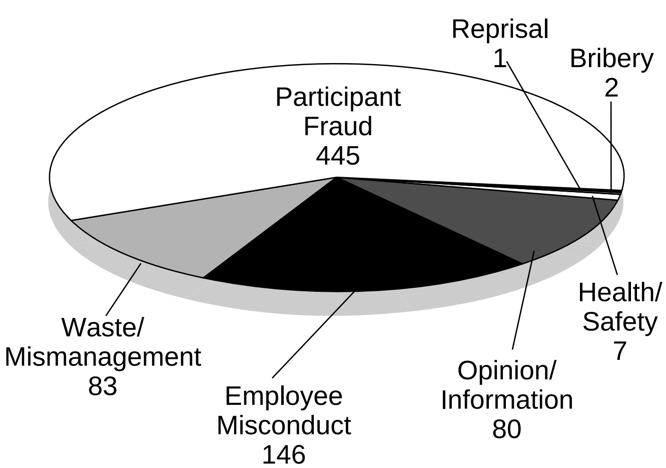
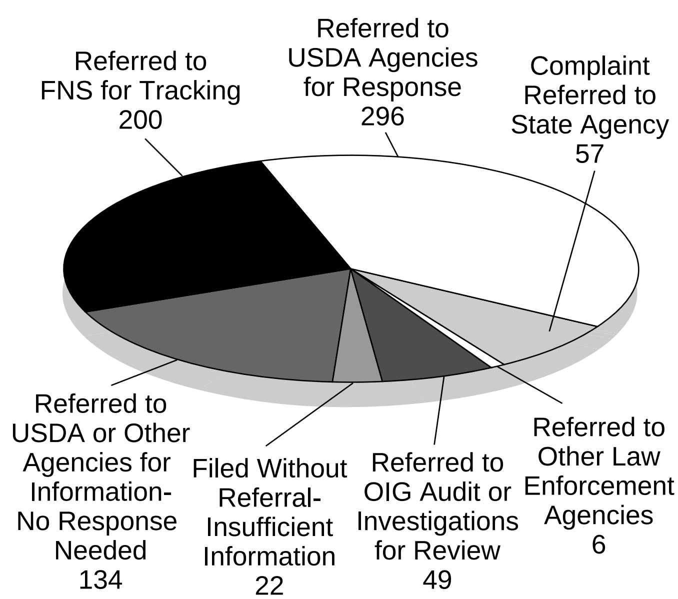


Figure 4

Disposition of Complaints
April 1 to September 30, 1999



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period April 1 to September 30, 1999

Number of FOIA/PA Requests Received		315
Number of FOIA/PA Requests Processed:		319
Number of Requests Granted in Full	169	
Number of Requests Granted in Part	84	
Number of Requests Not Granted	69	
Reasons for Denial:		
No Records Available	28	
Requests Denied in Full	24	
Referrals	18	

Requests for OIG Reports From Congress and Other Government Agencies		
Received	111	
Processed	105	

Appeals Processed		10
Appeals Granted	0	
Appeals Denied in Full	10	
Appeals Denied in Part	0	

Number of OIG Reports Released in Response to Requests		346

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED
WITH QUESTIONED COSTS AND LOANS

		DOLLAR VALUES	
	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED* COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1999	68	$272,805,220	$48,003,010
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	22	$69,975,055	$26,686,847
TOTALS	90	$342,780,275	$74,689,857
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	32		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$10,911,924	$1,173,639
NOT RECOMMENDED FOR RECOVERY		$72,215,285	$39,832
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$12,922,516	$2,626,463
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	58	$246,746,433	$70,854,550
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	41	$197,225,182	$44,350,333

*Unsupported values are included in questioned values.

Appendix II

INVENTORY OF AUDIT REPORTS ISSUED
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1999	21	$238,276,781
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	12	$131,551,974
TOTALS	33	$369,828,755
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	11	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$106,764,899
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$9,750,947
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	22	$253,312,909
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	15	$205,127,794

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED
BETWEEN APRIL 1 AND SEPTEMBER 30, 1999

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 1999, THE OFFICE OF INSPECTOR GENERAL ISSUED 55 AUDIT REPORTS, INCLUDING 5 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	REPORTS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1	$20,504	$18,356	
FARM SERVICE AGENCY	8	$26,041,615	$20,248,829	$87,422
RURAL HOUSING SERVICE	6	$1,814,109		$12,006,101
RISK MANAGEMENT AGENCY	3	$615,771		$20,000,000
FOREST SERVICE	2	$203,118	$203,118	$12,000,000
RURAL UTILITIES SERVICE	1	$2,528,212	$2,518,083	
NATURAL RESOURCES CONSERVATION SERVICE	2			$103,421
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
FOOD SAFETY AND INSPECTION SERVICE	1			
FOOD AND NUTRITION SERVICE	17	$19,544,412	$3,697,343	$35,961,765
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
RURAL BUSINESS-COOPERATIVE SERVICE	1			
MULTIAGENCY	11	$19,207,314	$1,118	$51,393,265
TOTALS	55	$69,975,055	$26,686,847	$131,551,974

TOTAL COMPLETED:	
SINGLE AGENCY AUDIT	33
MULTIAGENCY AUDIT	7
SINGLE AGENCY EVALUATION	11
MULTIAGENCY EVALUATION	4
TOTAL RELEASED NATIONWIDE	55
TOTAL COMPLETED UNDER CONTRACT[b]	5
TOTAL SINGLE AUDIT ISSUED[c]	4

[a]Unsupported values are included in questioned values.
[b]Indicates audits performed by others.
[c]Indicates audits completed as Single Audit.

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1999

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE					
02-017-0002-SF 1999/06/25	CLOSEOUT AUDIT-GLOBAL ASSOCIATES, OAKLAND, CA		$20,504	$18,356	
TOTAL: AGRICULTURAL RESEARCH SERVICE		1	$20,504	$18,356	
FARM SERVICE AGENCY					
03-006-0013-CH 1999/08/10	EVALUATION OF SECURITY AND REPAYMENT OF COMMODITY LOANS		$521,606		
03-099-0031-KC 1999/04/23	PRICE SUPPORT LOANS IN NEBRASKA		$178,911	$164,274	
03-099-0034-KC 1999/05/25	LOAN DEFICIENCY PAYMENTS				
03-601-0016-KC 1999/07/27	SMALL HOG OPERATION PAYMENT				
03-601-0028-TE 1999/05/17	1996 FAIR ACT PROVISIONS AFFECTING FARM LOAN PROGRAMS DIRECT LOAN SERVICING		$25,341,098	$20,084,555	
03-601-0029-TE 1999/05/04	ADMINISTRATIVE OFFSET				$87,422
03-601-0032-TE 1999/05/21	CROP YEAR 1996 NONINSURED CROP DISASTER ASSISTANCE PAYMENTS - NATIONWIDE				
03-801-0037-TE 1999/07/23	LIVESTOCK ASSISTANCE PROGRAM				
TOTAL: FARM SERVICE AGENCY		8	$26,041,615	$20,248,829	$87,422
RURAL HOUSING SERVICE					
04-099-0007-TE 1999/06/03	MFH PROGRAM - MEDLOCK SOUTHWEST MANAGEMENT CORPORATION		$94,823		
04-801-0001-FM 1999/09/23	SERVICING AND ACCOUNTABILITY OF SOLD RURAL HOUSING LOANS				
04-801-0004-HY 1999/05/20	RRH - NATIONWIDE INITIATIVE - NEW YORK		$259,079		
04-801-0006-SF 1999/04/20	RRH PROGRAM - RON TABER (OWNER/MANAGER), OLYMPIA, WA		$346,685		
04-801-0011-TE 1999/09/23	RRH INITIATIVE - CALHOUN PROPERTY MGMT. (LA)		$1,034,459		$11,896,622
04-801-0012-TE 1999/05/26	RRH INITIATIVE - HY-CITE MANAGEMENT (TX)		$79,063		$109,479
TOTAL: RURAL HOUSING SERVICE		6	$1,814,109		$12,006,101
RISK MANAGEMENT AGENCY					
05-001-0002-TE 1999/04/16	CROP INSURANCE FOR PIMA COTTON, POPCORN, AND CORN FOR CROP YEARS 1997 AND 1998 IN TEXAS				$20,000,000
05-099-0002-TE 1999/08/05	CROP YEAR 1998 POTATO CROP INSURANCE CLAIMS IN GAINES COUNTY, TX		$615,771		
05-099-0006-KC 1999/09/30	SERVICING OF CAT POLICIES				
TOTAL: RISK MANAGEMENT AGENCY		3	$615,771		$20,000,000
FOREST SERVICE					
08-017-0005-KC 1999/09/29	MANAGEMENT ASSISTANCE CORP OF AMERICA - CONTRACT CLOSEOUT		$203,118	$203,118	

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
08-801-0005-SF 1999/04/30	THUNDERBIRD LODGE LAND EXCHANGE				$12,000,000
TOTAL: FOREST SERVICE		2	$203,118	$203,118	$12,000,000
RURAL UTILITIES SERVICE					
09-005-0002-SF 1999/07/02	WATER AND WASTE DISPOSAL SYSTEMS GRANTS IN ALASKA		$2,528,212	$2,518,083	
TOTAL: RURAL UTILITIES SERVICE		1	$2,528,212	$2,518,083	
NATURAL RESOURCES CONSERVATION SERVICE					
10-006-0001-CH 1999/08/31	REVIEW OF SELECTED WASTE MANAGEMENT SYSTEMS IN OHIO				
10-017-0003-KC 1999/08/16	ZAK DIRT, INC. - CONTRACT AUDIT FT. COLLINS, CO				$103,421
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		2			$103,421
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-401-0004-FM 1999/09/29	FY 1998 NATIONAL FINANCE CENTER REVIEW OF INTERNAL CONTROL STRUCTURE				
TOTAL: OFFICE THE CHIEF FINANCIAL OFFICER		1			
FOOD SAFETY AND INSPECTION SERVICE					
24-099-0001-CH 1999/05/17	FEDERAL/STATE MEAT AND POULTRY INSPECTION AGREEMENTS				
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		1			
FOOD AND NUTRITION SERVICE					
27-010-0016-SF 1999/08/19	CACFP - B.R.I.D.G.E.S., POMONA, CA		$2,828		
27-010-0017-SF 1999/07/08	CACFP - A FINE DAY CARE, THOUSAND OAKS, CA.		$85,464		$58,501
27-010-0019-HY 1999/09/21	NATIONAL SCHOOL LUNCH PROGRAM IN PUERTO RICO		$11,535,456		
27-017-0016-HY 1999/06/28	AMERICAN BANK NOTE COMPANY				
27-099-0012-SF 1999/09/27	NUTRITION ASSISTANCE PROGRAM IN AMERICAN SAMOA - PAYMENTS TO VENDORS		$16,612	$16,612	
27-099-0017-CH 1999/07/30	CACFP - DISCOVERY CHILD CARE, INC., LA CROSSE, WI		$969,579		
27-099-0018-CH 1999/09/28	MONITORING OF THE ELECTRONIC BENEFITS TRANSFER SYSTEM IN MINNESOTA				
27-601-0007-SF 1999/08/23	CHILD AND ADULT CARE FOOD PROGRAM - NATIONAL REPORT				$34,551,576
27-601-0008-AT 1999/09/15	REGIONAL FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM		$6,834,587	$3,680,731	$1,057,549
27-601-0009-KC 1999/07/29	FOOD STAMP PROGRAM - CROSS STATE MATCH		$99,886		$294,139
27-601-0009-SF 1999/08/05	CACFP - QUALITY OF AUDIT WORK - CALIFORNIA DEPARTMENT OF EDUCATION				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1999

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-601-0014-CH 1999/05/26	STORAGE AND CONTROLS OVER USDA-DONATED COMMODITIES - CALIFORNIA				
27-601-0016-CH 1999/07/12	ADEQUACY OF RETAILER MONITORING EFFORTS				
27-601-0019-CH 1999/09/30	CONTROLS OVER USDA-DONATED COMMODITIES NSLP AND SBP				
27-801-0003-KC 1999/07/26	MONITORING EBT SYSTEM DEVELOPMENT IN MISSOURI				
27-801-0003-SF 1999/09/27	STATE OF OREGON - EBT SYSTEM DEVELOPMENT REVIEW				
27-801-0004-KC 1999/09/30	MONITORING COLORADO EBT SYSTEM DEVELOPMENT				
TOTAL: FOOD AND NUTRITION SERVICE		17	$19,544,412	$3,697,343	$35,961,765
ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-099-0003-CH 1999/08/31	PLANT PROTECTION AND QUARANTINE BORDER AND PORT INSPECTIONS				
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1			
RURAL BUSINESS-COOPERATIVE SERVICE					
34-801-0003-TE 1999/09/22	RIO GRANDE VALLEY EMPOWERMENT ZONE				
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		1			
MULTIAGENCY					
50-018-0013-SF 1999/06/03	A-133 AUDIT OF THE CITY OF SAN JOSE FYE JUNE 30, 1998				
50-020-0069-HY 1999/08/30	GOVERNOR'S OFFICE FOR ELDERLY AFFAIRS, A-128, SFYE SEPTEMBER 30, 1996		$449		
50-020-0070-HY 1999/08/26	COMMONWEALTH OF PUERTO RICO - DEPT. OF FAMILY A-128, JUNE 30, 1994 AND JUNE 30, 1995		$1,118	$1,118	
50-021-0001-SF 1999/09/27	A-133 STATE OF HAWAII - DEPARTMENT OF AGRICULTURE, FYE JUNE 30, 1998				
50-099-0006-KC 1999/05/25	WETLANDS RESERVE PROGRAM SPECIAL WETLAND AND ENVIRONMENTAL EASEMENT ENHANCEMENT ACTIVITIES				
50-099-0009-AT 1999/08/10	CONTROL OF WORKER'S COMPENSATION COSTS		$19,205,747		$51,169,958
50-099-0021-FM 1999/09/30	REVIEW OF YEAR 2000 PROJECT - PHASE III				
50-801-0001-HQ 1999/07/09	REVIEW OF THE DEPARTMENT'S FINAL ACTION PROCESS				
50-801-0002-TE 1999/07/26	FOOD CONSUMER PROGRAMS - RESEARCH, DEMONSTRATION, AND EVALUATION PROJECTS				
50-801-0007-FM 1999/09/29	EFFECTIVE IMPLEMENTATION OF FFIS WILL REDUCE USDA'S MANY FINANCIAL MANAGEMENT SYSTEM PROBLEMS				
50-801-0009-TE 1999/08/02	CROP LOSS DISASTER ASSISTANCE PROGRAM IN LOUISIANA - PHASE II				$223,307
TOTAL: MULTIAGENCY		11	$19,207,314	$1,118	$51,393,265
TOTAL: RELEASE - NATIONWIDE		55	$69,975,055	$26,686,847	$131,551,974

Abbreviations of Organizations

AARCC	Alternative Agricultural Research and Commercialization Corporation
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CSREES	Cooperative State Research, Education, and Extension Service
EU	European Union
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	U.S. Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GAO	U.S. General Accounting Office
IRS	Internal Revenue Service
NFC	National Finance Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
RBS	Rural Business-Cooperative Service
RGVEZ	Rio Grande Valley Empowerment Zone
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
UNR	University of Nevada, Reno
USDA	U.S. Department of Agriculture