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FY 1998—Second Half

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

October 27, 1998

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, 1998.

During this period, our audits and investigations yielded approximately $54.9 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional $5.3 billion to better use. We also identified $36.5 million in questioned costs that cannot be recovered. Our investigations produced 488 indictments and 333 convictions.

We are continuing to report outstanding results in our three Presidential initiatives. More than 3,200 fugitive felons who were illegally receiving food stamps have been arrested through Operation Talon, as of September 30, 1998. Operation "Kiddie Care" has resulted in over 50 Child and Adult Care Food Program sponsors being audited or investigated in nearly half the States of the Nation. Our joint effort with the Rural Housing Service to identify and prosecute those who defrauded Rural Rental Housing projects is progressing, and we anticipate issuing a report by spring.

Once again, I extend my appreciation to you and the Deputy Secretary. I also wish to thank all the members of the House of Representatives and the Senate who have lent their support. In addition, I extend my warmest regards to the many State and local officials and law enforcement personnel who contributed to our successes.

Sincerely,

ROGER C. VIADERO
Inspector General

Enclosure

Contents

Executive Summary

This is the 40th Semiannual Report issued by 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, 1998.

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; 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 management decision disagreements; and a review of legislation and regulations.

Monetary Results

During this reporting period, we issued 108 audit and evaluation reports and reached management decisions on 82. Based on this work, management officials agreed to recover $12.1 million and to put an additional $5.3 billion to better use.

We also issued 421 reports of investigation during this period. Our investigative efforts resulted in 488 indictments, 333 convictions, and approximately $42.8 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Ongoing Initiatives

Operation Talon continues to show success in apprehending fugitives from justice, many of them violent offenders; Operation "Kiddie Care" has detected fraud committed by additional Child and Adult Care Food Program (CACFP) sponsors around the country; and a joint effort with the Rural Housing Service (RHS) to identify those who defrauded Rural Rental Housing (RRH) projects is progressing.

Operation Talon has been expanded to include a total of 34 metropolitan areas in 23 States, and an additional 760 fugitives have been arrested, bringing the total to 3,206 arrests as of September 30, 1998. As of September 11, 1998, 53 sponsors in 23 States were being audited or investigated as a result of Operation "Kiddie Care." One ongoing investigation in Ohio has so far identified at least 9 persons who conspired to set up more than 40 false providers, resulting in the submission of false claims for reimbursements totaling approximately $1.1 million. We anticipate issuing a report on the joint initiative concerning RRH by the spring of 1999.

Investigative Efforts

In Idaho, a honey producer is awaiting sentencing after he pled guilty to submitting false statements to the Farm Service Agency (FSA) in order to obtain over $6 million in loans and subsidy payments as part of a loan-kiting scheme whereby he increased his purported honey production each year in order to obtain sufficient funds from FSA to repay previous debts. By the time his scheme was discovered, he owed FSA over $3 million and had no funds or honey with which to repay FSA.

We cracked multimillion-dollar food stamp trafficking cases in several States during this reporting period. Twenty-four individuals have been arrested in the southern district of New York on an estimated $60 million food stamp fraud and money laundering conspiracy. During a 2-year investigation in Philadelphia, Pennsylvania, an elaborate scheme was uncovered involving $15 million of food stamp trafficking and money laundering. Also in Philadelphia, the owner of four retail stores pled guilty to fraudulently purchasing approximately $5.4 million in food stamps and laundering $4.8 million in funds. In Georgia, a grocer was ordered to pay over $3.9 million in restitution after he pled guilty to charges of money laundering and redemption of illegally received food stamps. He was also sentenced to serve 5 years in prison. As partial payment of his restitution, he agreed to forfeit his 8,000-square-foot home, five other parcels of real estate, and two vehicles.

We previously reported that a San Diego-based food processing company and its president/owner pled guilty to charges of submitting false claims to USDA in relation to the substitution of Mexican strawberries for U.S. domestic strawberries in the USDA National School Lunch Program. The president/owner has since been sentenced to 10 months in prison and has been fined $13,000. The company has been ordered to pay $200,000 in fines; $150,000 in restitution to USDA; and $1,300 in court penalties. In addition, the company has agreed to a $1.3 million civil settlement.

In Oregon, six individuals are awaiting sentencing after they pled guilty to charges of theft for their part in a conspiracy to fraudulently acquire and sell dogs to medical research facilities. Our investigation disclosed that a USDA-licensed dog dealer and her associates either stole dogs or obtained them under false pretenses. Over a 15-month period, they illegally obtained over 100 dogs in this manner.

After we received confidential information from a private sector contractor, our 18-month investigation developed evidence showing that two Natural Resources Conservation Service (NRCS) employees who were responsible for managing Emergency Watershed Protection Program (EWPP) contracts accepted cash bribes from a contractor in exchange for special considerations in obtaining EWPP contracts. A third employee arranged for a contractor doing business with NRCS to perform construction work on personally owned land, the cost for which was then improperly billed to USDA. The three employees entered guilty pleas. One employee was fined and placed on probation, and resigned from NRCS. The other two employees are currently on indefinite suspension; they stated in their plea bargains that they would resign from their positions and are awaiting sentencing.

Audit Efforts

This reporting period we found that, of 80 emergency loans reviewed in 6 key States, 33 borrowers received both catastrophic risk protection (CAT) or Noninsured Crop Disaster Assistance Program (NAP) payments and emergency loan assistance for the same crop losses because program personnel were unaware that such duplicate payments were prohibited. We also found problems with false certifications, misinformation, and errors computing loan amounts.

In January 1997, FSA implemented two programs to provide assistance to endangered livestock caught in the blizzards and cold weather in the upper Great Plains. Because the two programs ran concurrently with different cost-share rates, some producers improperly received assistance for supplemental feed purchases under the wrong program, which allowed the producers to receive 100 percent of the feed cost compared to the 30-percent cost-share. We also found that producers in 23 contiguous counties in four States (Iowa, Montana, Nebraska, and Wyoming) adjoining the declared disaster areas in North Dakota and South Dakota received over $2.5 million in unauthorized program benefits.

We found that reinsurance companies' quality control systems were lacking. We attributed this to inadequate standard reinsurance agreements, in part, because the agreements did not contain provisions to ensure that the systems were properly established. As a result, program officials cannot rely on reinsured companies' quality control review systems to assure effective implementation and administration of crop insurance programs.

The Agricultural Marketing Service (AMS) and the National Fluid Milk Processor Promotion Board need to improve their oversight and controls over Fluid Milk Promotion Program activities to ensure that assessments on fluid milk products are used in accordance with the Fluid Milk Promotion Act. Our review identified problems with the board's management structure, contracts that were awarded without competition to procure services, payments that exceeded contract limits, a lack of enforcement of contract terms, and instances where the board had not taken title to or possession of assets procured with program funds. AMS did not agree to suspend the board's activities as we had recommended. However, it agreed to institute improvements and is working with the Fluid Milk Board to strengthen management controls.

Our audit identified a serious breakdown of controls in all phases of the Humboldt-Toiyabe National Forest land adjustment program in Nevada. Forest Service (FS) management allowed private parties to exert undue influence over the direction and outcome of almost all large-value land exchanges at the forest. We questioned accomplished and proposed land exchange transactions for 7,029 acres of Federal and non-Federal lands, valued at $27.9 million. In response to our audit, both the FS Chief and the Under Secretary for Natural Resources and Environment have taken immediate actions to implement needed controls in this area.

Also in Nevada, FS is in jeopardy of losing management control over lands recently acquired for $38 million. We identified a serious problem relating to the treatment of building improvements in a land exchange transaction involving a 46-acre parcel on Lake Tahoe known as Zephyr Cove. To preclude further deterioration of FS' control of the Zephyr Cove lands, it is imperative that FS immediately take aggressive action to assert its ownership of the property.

In another audit, we found that FS did not effectively manage grant agreements totaling about $11.9 million ($7.8 million in Federal grant funds plus about $4.1 million in required matching funds) to the eight nonprofit organizations (NPO's) that we reviewed. The agency agreed with the findings and recommendations and initiated corrective action.

Our current review of the operations of USDA's Office of Civil Rights (CR) disclosed that the backlog of complaints of civil rights violations, although reduced, still stands at 616 cases as of September 11, 1998. CR has not attained the efficiency it needs to systematically reduce the case load, few of the deficiencies previously noted have been corrected, and the office is still in disarray. We concluded that the Secretary needs to transfer resolution of the backlog to a complaints resolution task force and that the Secretary should create an Assistant Secretary of Civil Rights with subcabinet-level status.

We disclaimed an opinion on the FY 1997 financial statements of the Department (consolidated) and FS. The Food and Nutrition Service (FNS) and the Rural Development mission area received qualified opinions, while the Commodity Credit Corporation (CCC) and the Rural Telephone Bank (RTB) received unqualified opinions for their FY 1997 financial statements. Our disclaimer of opinion on the Department's financial statements was due largely to the numerous material internal control weaknesses at the Office of the Chief Financial Officer (OCFO)/National Finance Center (NFC) which we have previously reported. We were unable to express an opinion on FS financial statements for FY 1997 because of the absence of an integrated general ledger and supporting subsidiary records, along with significant financial systems weaknesses.

We reported that the Department is progressing with the "Year 2000" conversion project. However, the Office of the Chief Information Officer's (OCIO) reported number of compliant systems overstated the Department's actual progress. OCIO officials agreed with our findings and have implemented corrective actions, and our review work is continuing.

Reports on the Internet

A number of the entries in this report can be found in their entirety on our website on the World Wide Web at ***www.usda.gov/oig***. These entries include those addressing Operation "Kiddie Care" (Interim Report) (page 16 in this report), school meal programs in the District of Columbia (page 19), the Fluid Milk Promotion Program (page 20), the Humboldt-Toiyabe National Forest land adjustment (page 23), the Zephyr Cove land exchange transaction (page 24), FS grants to NPO's (page 25), the CR report (page 30), and the FY 1997 financial statements for USDA (page 32), FS (page 33), and FNS (page 33).

Summary of Audit Activities

Reports Issued			108
Audits Performed by OIG	59		
Evaluations Performed by OIG	18		
Audits Performed Under the Single Audit Act	24		
Audits Performed by Others	7		
Management Decisions Made			
Number of Reports			82
Number of Recommendations			511
Total Dollar Impact (Millions)			$5,392.0
Questioned/Unsupported Costs		$48.6[ab]	
Recommended for Recovery	$12.1		
Not Recommended for Recovery	$36.5		
Funds To Be Put to Better Use		$5,343.4	

[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		421
Cases Opened		388
Cases Closed		454
Cases Referred for Prosecution		308
Impact of Investigations		
Indictments		488
Convictions		333[a]
Searches		134
Arrests		1,012[b]
Total Dollar Impact (Millions)		$42.8
Recoveries/Collections	3.4[c]	
Restitutions	20.8[d]	
Fines	12.5[e]	
Claims Established	1.1[f]	
Administrative Penalties	0.2[g]	
Cost Avoidance	4.8[h]	
Administrative Sanctions		
Employees		36
Businesses/Persons		1,628

[a]Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 333 convictions do not necessarily relate to the 488 indictments.
[b]Includes 760 Operation Talon arrests and 252 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 includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.
[h]This category consists of loans or benefits not granted as the result of an OIG investigation.

Update of Ongoing Initiatives

Last reporting period, we began three major operations that were endorsed as Presidential Initiatives. Operation Talon continues to show success in apprehending fugitives from justice, many of them violent offenders; Operation “Kiddie Care” has detected fraud committed by additional Child and Adult Care Food Program (CACFP) sponsors around the country; and a joint effort with the Rural Housing Service (RHS) to identify those who defrauded Rural Rental Housing (RRH) projects is progressing.

Operation Talon Shows Continued Success Apprehending Fugitives From Justice

In our last Semiannual Report to Congress, we reported the progress of Operation Talon, a nationwide initiative designed to locate and apprehend fugitives who are current or former food stamp recipients. At that time, Operation Talon had resulted in the arrest of 2,446 fugitive felons. Since then, Operation Talon has been expanded to include a total of 34 metropolitan areas in 23 States, and an additional 760 fugitives have been arrested, bringing the total to 3,206 arrests as of September 30, 1998.

We also previously reported on a White House press conference in which Vice President Gore announced the results of Operation Talon to the Nation. Following this announcement, we sent a copy of our Operation Talon report to the Governors of all 50 States, and U.S. Trust Territories, advising them of the success of the operation and urging them to consider similar actions in their States. As a result, we have received responses from several Governors throughout the country extolling the operation and advising us of their interest in similar activities in their States.

Recent arrest operations in the Commonwealth of Virginia, resulting in 140 fugitives being arrested, culminated in a press conference in Richmond during which the Superintendent of the State Police complimented this joint operation. Again, Operation Talon allowed the sharing of information between State agencies and law enforcement, and the cooperative effort between Federal, State, and local law enforcement agencies.

OIG is currently working closely with law enforcement agencies on Operation Talon in several other States. Computer matches and arrests are ongoing in select locations, while large-scale arrest operations are scheduled for other metropolitan areas. Figure 1 shows the crimes committed by felons apprehended in Operation Talon, as of September 30, 1998.

Figure 1
Crimes Committed by Felons Apprehended in Operation Talon

Offense	Total Arrests	Offense	Total Arrests
Murder	13	Kidnapping	8
Attempted Murder	9	Assault	147
Child Molestation	14	Robbery	103
Rape	9	Drugs	823
Attempted Rape	2	Other	2,078

Presidential Initiative in CACFP Continues With Operation "Kiddie Care"

In the last Semiannual Report to Congress, we reported on the status of Operation "Kiddie Care," our national Presidential Initiative to identify, audit, investigate, remove from CACFP if necessary, and prosecute sponsoring organizations (sponsors) abusing this important USDA feeding program. As of September 11, 1998, 53 sponsors in 23 States were being audited or investigated. See page 16 for a complete summary of our most recent results.

RRH Projects Continue To Be High-Risk Operations

OIG audits and investigations performed over the past several years have repeatedly identified fraud by program borrowers and management agents. To combat this abuse, OIG and RHS undertook a joint effort in March 1998 to identify those who defrauded projects and, whenever possible, to prosecute them criminally. We anticipate issuing a report on this Presidential Initiative by the spring of 1999.

Farm and Foreign Agricultural Services

FARM SERVICE AGENCY (FSA)

For fiscal year (FY) 1998, FSA estimates expenditures of approximately $1 billion in salaries and expenses and has budget authority of $102.4 million for the Agricultural Credit Insurance Fund Program Account and $2 million for State mediation grants. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations, with estimated FY 1998 outlays of $8.6 billion, and CCC made $5.3 billion in commodity loans during FY 1997. As of September 30, 1997, approximately 112,000 borrowers owed FSA $11.8 billion for farm program loans, and FSA had guaranteed more than $6.5 billion in farm program loans made by private lenders to more than 40,000 borrowers.

Family Partnership Violated Payment Limitation and Eligibility Provisions

Our review disclosed that a family partnership (consisting of a father, mother, and their two adult sons) did not carry out its 1991 through 1993 farming operations as reported to FSA. As a result, the members of the partnership would not be considered separate persons for 1991, 1992, and 1993 and would not be considered to be actively engaged in farming for 1992 and 1993. We recommended that FSA determine whether, as indicated, the family group adopted a scheme or device to evade wool and mohair payment limitations and, if so, recover overpayments of $2.4 million.

Review of Noninsured Crop Disaster Assistance Program (NAP) Shows Overpayments

We reviewed 1996 crop-year program payments in California, Florida, Georgia, and Oklahoma, where $26.9 million (out of $45.9 million nationwide) in benefits was paid as of July 31, 1997. We found hidden or inaccurate reporting of production and the use of incorrect yields to compute payments for 23 of the 98 cases (23 percent, valued at $2.4 million) reviewed. We also found that the process for determining the actual amount of loss could allow producers to obtain unwarranted program benefits because reported information (based on estimates and adjustments) used to determine the loss could not be verified. This was a major problem in Oklahoma, particularly for seeded wheat forage. For other crops included in our review (strawberries, cherries, and onions), the actual production was based on information reported by the producer. However, many fruits and vegetables, including strawberries, often involve roadside sales, which are not verifiable and, thus, cannot be used to quantify actual production.

We recommended that $411,000 in overpayments be collected in the four States. FSA has taken action to collect the overpayments if relief was not granted under appropriate relief provisions.

FSA Paid Duplicate Benefits for Crop Losses

Of 80 emergency loans reviewed in 6 key States, 33 borrowers received both catastrophic risk protection (CAT) or Noninsured Crop Disaster Assistance Program (NAP) payments and emergency loan assistance for the same crop losses. This occurred because FSA Farm Loan Program State and county personnel were unaware that NAP and CAT laws and regulations prohibited producers who elected to receive NAP or CAT benefits from obtaining other USDA benefits for the same losses. As a result, the borrowers received CAT and NAP payments totaling $803,000 and emergency loan assistance totaling $3.7 million for the same losses.

FSA’s internal controls did not prevent or detect false certifications and/or misinformation provided by emergency loan borrowers and errors made by FSA personnel computing maximum emergency loan amounts. As a result, excess loan funds totaling over $1 million were disbursed for numerous emergency loans, and some borrowers may have been eligible to receive additional loan funds totaling over $155,000.

For 38 of the 67 loans fully reviewed (13 had a limited review), borrowers falsely certified or misreported yields, acreages, and/or insurance compensation to FSA or could not document reported data. As a result of the false or inaccurate information, we identified overloaned amounts totaling $871,000 and underloaned amounts totaling almost $116,000. We referred loans involving false certifications in Oklahoma to the U.S. attorney, who has initiated civil lawsuits against seven borrowers and the individual who packaged the loans for five of the borrowers.

Also, FSA personnel made errors computing maximum loan amounts for 32 of the 80 loans reviewed. At least 14 loans were overstated by $245,000, and at least 8 were understated by almost $40,000.

We recommended that the FSA national office instruct each State to review all emergency loans made since the inception of NAP and CAT to determine if unauthorized multiple benefits were issued and require the borrowers to refund the questioned amounts. Further, FSA should amend agency procedures to clarify that the law prohibits borrowers from receiving duplicate emergency benefits on the same crop losses, specifically NAP or CAT payments and emergency loan assistance. We also made several recommendations to strengthen program controls. In the reports to State offices, we recommended that the identified overloaned amounts be recovered and that borrowers be afforded the opportunity to apply for the underloaned amounts.

County Office Operations Mismanaged

FSA identified, and OIG corroborated, widespread errors and irregularities in virtually every FSA program administered by Reeves County, Texas. For example, farm reconstitutions were performed unnecessarily and improperly; credits and certifications were given improperly; crop yields were established and increased improperly; and numerous problems with contracts and documents were identified.

Also, one county committee member had no farming or ranching interests in Reeves County, and another member was part of a partnership that was improperly paid over $50,000 because the partnership did not meet cash-rent tenant rules. In addition, a producer who was delinquent over $400,000 on his FSA farm loans was allowed to transfer his farming interests to his daughter and son to avoid administrative offset of program payments totaling over $350,000.

We attributed these irregularities to the willingness of county office staff, including the County Executive Director and county committee, to accommodate producer requests and to disregard FSA rules and procedures in order to maximize Government benefits to county producers. Also, a lack of State office followup on prior county office reviews contributed to the problems in Reeves County since issues identified in past reviews were not adequately or timely corrected.

We recommended that FSA take immediate action to assure that FSA programs in Reeves County are administered in accordance with regulations and operating procedures and complete a corrective action plan to remedy the identified errors.

Emergency Assistance to Producers in the Upper Great Plains

In January 1997, FSA implemented two programs to provide assistance to endangered livestock caught in the blizzards and cold weather in the upper Great Plains. The Emergency Feed Grain Donation Program (EFGDP) provided 100-percent cost-share assistance to livestock producers for snow removal and/or feed if their livestock was in immediate danger of perishing and they did not have access to their normal feed supplies. The Foundation Livestock Relief Program (FLRP) provided 30-percent cost-share assistance for producers in these areas who needed feed to enhance the diet of foundation livestock (breeding stock) weakened by the severe winter weather.

Severe weather took its toll on livestock in South Dakota during the winter of 1996-1997. Photo courtesy of FSA.

Because the two programs ran concurrently with different cost-share rates, some producers improperly received assistance for supplemental feed purchases under EFGDP instead of FLRP. This allowed the producers to receive 100 percent of the feed cost compared to the 30-percent cost-share. In addition, we found that producers were paid EFGDP benefits for excessive snow removal costs during the additional 15-day extension period and for snow removal when they had access to normal feed supplies.

We also found that producers in contiguous counties in four States (Iowa, Montana, Nebraska, and Wyoming) adjoining the declared disaster areas in North Dakota and South Dakota were improperly authorized to receive FLRP payments. FSA provided producers in

23 counties with over $2.5 million in unauthorized program benefits.

We recommended FSA strengthen its oversight role in certain areas and require the county offices to act on the cases where excessive EFGDP and FLRP payments were issued. In addition, we recommended that FSA implement controls to help ensure that disaster assistance is limited to areas identified in future Presidential disaster declarations.

FSA believed existing controls have generally proved to be adequate. However, due to the complexity and resulting difficulty of administering emergency and disaster programs, procedures to improve program oversight—including the performance of application, approval, and payment reviews—have been incorporated into other similar programs. FSA agreed to issue instructions to initiate recovery of overpayments, subject to the finality rule. FSA believes it acted properly by suspending further authorizations of contiguous counties when it became aware of the problem.

Father, Son, and Nephew Plead Guilty to Converting Mortgaged Grain To Develop Truck Stop

In North Dakota, a father, son, and nephew pled guilty to converting $279,800 worth of mortgaged grain. The three men used the proceeds to develop an interstate truck stop which they operated near the Canadian border. Each was sentenced to 5 years' probation, and they were ordered to pay restitution totaling nearly $218,400.

Farmer Sentenced for Collateral Conversion

A Texas farmer who failed to pay FSA with proceeds he received from his crop insurance was sentenced in Federal court to serve 5 months in prison, followed by 5 months of community confinement, and to pay over $80,000 in restitution to FSA. FSA financed his farming operation, but the farmer used the insurance proceeds to pay his losses from speculating in the commodity futures market.

Prominent Farmer Agrees to $300,000 Civil Settlement

A prominent California agricultural producer—who was also a businessman, community leader, and Washington, D.C., "insider"—agreed to a civil settlement of $300,000 after an OIG investigation. Investigators uncovered a triple-escrow scheme used by the producer in 1992 to divert $56,000 of profit from the sale of property mortgaged to the former Farmers Home Administration (FmHA) to one of his business entities. The producer, who was on national committees pertaining to the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, defaulted on $7.1 million in FmHA emergency loans made to his farming operation in 1978. From 1979 through 1993, the producer systematically disposed of 2,865 acres of farm land, deeded to FmHA as collateral for the emergency loans, through numerous questionable real estate transactions.

Honey Producer Guilty of Loan-Kiting Scheme

In Idaho, a honey producer is awaiting sentencing after he pled guilty to submitting false statements to FSA in order to obtain over $6 million in loans and subsidy payments. The producer concocted a "kiting" scheme whereby he increased his purported honey production each year in order to obtain sufficient funds from FSA to repay previous debts. The producer created fictitious checks from a nonexistent honey company in order to convince FSA that he was actually selling honey each year, when, in fact, he produced almost no honey. By the time his scheme was discovered, he owed FSA over $3 million and had no funds or honey with which to repay FSA. The producer's wife entered a pretrial diversion program as a result of her participation in the scheme.

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 crop insurance through a private delivery system by means of reinsured companies. These are private insurance companies that perform the insurance marketing, distribution, servicing, training, quality control, and loss adjustment functions in return for a percentage reimbursement of the premiums. RMA's programs are estimated at $1.8 billion in premiums (about $950 million of which is in the form of premium subsidy), $2.1 billion in indemnities, $275 million in delivery expenses, and $64 million in administrative and operating expenses for FY 1999.

Reinsurance Companies' Quality Control Systems Lacking

RMA delivers multiple-peril crop insurance programs through standard reinsurance agreements with private insurance companies. Under the agreements, the companies are required to develop quality control plans that are consistent with the agency's policies and procedures and that help safeguard against waste, loss, unauthorized use, and misappropriation.

We reviewed the quality control processes at 2 of 19 reinsured companies operating with 1995 agreements. We found that the companies' quality control systems generally complied with the agreements but did not effectively improve program delivery, ensure program integrity, or measure and report on program performance. We identified three overall management control weaknesses: Insufficient data collection, maintenance, and reporting requirements; ineffective oversight of quality control operations by RMA; and ineffective controls over potential conflicts of interest.

We attributed these conditions to inadequate standard reinsurance agreements, in part, because the agreements did not contain provisions to ensure that the systems were properly established. As a result, program officials cannot rely on reinsured companies' quality control review systems to assure effective implementation and administration of crop insurance programs.

We recommended the agency consult with crop insurance organizations and experts and use appropriate professional and ethical standards to develop a strategy for evaluating the effectiveness of quality control and related reporting functions. We also recommended the agency require the companies to calculate annual error rates, retain records necessary to evaluate quality control processes, adopt procedural requirements without modification, and establish more effective controls to prevent and detect potential conflicts of interest. These controls particularly need to deal with conflicting sales and claims adjustment operations and dual supervisory responsibilities over sales, claims adjustments, and quality control activities. We believe our findings represent material control weaknesses which adversely affect the integrity of crop insurance programs.

The agency concurred with our recommendations to improve the reinsured companies' quality control processes. However, the agency did not agree with our findings and recommendations regarding the adequacy of management controls for preventing and detecting potential conflicts of interest.

Nonirrigated Crop Insurance Yields Set Too High and Practices Not Viable

This audit was prompted by a hotline complaint alleging that crop-year 1998 extra long staple (ELS) cotton transitional-yields (t-yields) for crop insurance purposes were set unusually high by RMA officials for the Texas counties of Glasscock, Midland, Reagan, and Upton. We found that the t-yields (estimated yields based on historical averages) for nonirrigated ELS cotton were set exceptionally high for these counties, which could result in a potential excess loss of about $12 million. A similar situation occurred with nonirrigated popcorn in the Rio Grande Valley of Texas where high t-yields resulted in indemnities totaling about $5.5 million for 1997. Also, nonirrigated dent corn t-yields for 1998 were set significantly high and could result in losses of between $2.2 million and $2.8 million in Tom Green County, Texas.

We concluded such nonirrigated practices were not viable in the cited counties. Officials in the counties stated that these were not locally accepted practices, because more water is required than the counties receive in rainfall. Also, the growing season in the four Texas counties is too short for ELS cotton to properly mature.

We recommended that RMA discontinue coverage for nonirrigated practices for ELS cotton in the four counties named in the original complaint, popcorn in the Rio Grande Valley of Texas, and dent corn in Tom Green County, Texas, effective for crop-year 1999. RMA agreed to discontinue such coverage effective with crop-year 1999.

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS represents the interests of U.S. farmers and the food and agricultural sector abroad. It also collects, analyzes, and disseminates information about global supply and demand, trade trends, and emerging market opportunities. FAS seeks improved market access for

U.S. products and implements programs designed to build new markets and to maintain the competitive position of U.S. products in the global marketplace. FAS also carries out food aid and market-related technical assistance programs and helps increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth.

Foreign Agriculture Posts Need To Increase Monitoring of Compliance With Trade Agreements

Between January 1993 and January 1996, the U.S. Government concluded more than 180 trade agreements with other nations, many with agricultural provisions. In 1996, congressional leaders expressed concerns about the monitoring of these accords to ensure our trading partners abide by the terms and provisions of the agreements. Our evaluation disclosed several weaknesses.

- Greater awareness and monitoring of trade agreements were needed by many FAS foreign posts. Nineteen of the forty-eight posts responding to our questionnaire, whose host countries are members of the World Trade Organization, reported they did not monitor their host countries' compliance with trade agreements.

- Twenty-six agricultural trade agreements and trade agreements with agricultural provisions concluded since 1987 were not reported to the U.S. Department of State and to Congress as required by law. This responsibility rested with the agency entering into the agreement, generally the Office of the U.S. Trade Representative. FAS lacked procedures to ensure that responsible agencies sent copies of the agreements in question to the U.S. Department of State.

- FAS lacked a central archive of agricultural trade agreements in force between the United States and foreign trading partners. This inhibits FAS' ability to provide final copies of trade agreements, side agreements, and negotiating histories to Departmental officials and U.S. companies interested in foreign market opportunities.

We made recommendations regarding monitoring compliance with trade agreement provisions, reporting new agreements to the U.S. Department of State and the Congress, and establishing a central archive of agricultural trade agreements. FAS is seeking an advisory opinion from the Office of the General Counsel concerning its legal obligations under the Case-Zablocki Act to notify the U.S. Department of State concerning the agricultural treaties.

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 1998 is approximately $35 billion. Three FNS programs receive the bulk of this funding: FSP ($22 billion), CNP ($9 billion), and WIC ($4 billion).

FOOD STAMP PROGRAM (FSP)

Monitoring of the Electronic Benefits Transfer (EBT) System Continues

Currently, 35 States and the District of Columbia use EBT systems to deliver FSP benefits. Twenty-two of the systems have been implemented statewide, and an additional 10 States, plus the District of Columbia, are in the process of expanding statewide. FNS estimates that over 50 percent of all FSP benefits will be issued via EBT by the end of 1998.

This period, we began EBT system audits in five States and have completed work in two—Alabama and Oklahoma. We have also begun work involving the reconciliation process at one of the large EBT processors and will report on the results of that review in the next reporting period.

We continue to chair a President's Council on Integrity and Efficiency working group composed of Federal, State, and public accounting representatives who are developing standard procedures for audits of EBT service provider operations. The working group developed draft audit guidelines that were disseminated to interested parties in June 1998 for comment. We envision that public accounting firms will use the guide to complete an annual audit of EBT service providers. We anticipate the guide will be available for use in 1999.

Alabama

Due to the rapid deployment of the EBT system in Alabama, the State was forced to focus its efforts on implementation problems rather than on the development of management controls to oversee long-term operations of the system. We identified the following areas where additional controls are needed.

- The State did not reconcile the $385 million annual food stamp benefit authorizations its system contractor posted in the central computer files against the State's Master Issuance Authorization File to ensure the propriety of all transactions.
- The FNS field office did not timely research and correct weekly exception reports listing $612,000 of invalid and unauthorized transactions processed by 52 retailers between April and December 1997.
- The recipient benefit accounts were vulnerable to unauthorized transactions at one chain retailer with 124 stores statewide because account numbers were included on receipts.
- The controls over EBT transactions at group homes and treatment centers were inadequate to prevent unauthorized uses of FSP benefits.

We made recommendations to improve fiscal and operational controls over the system and its operations. FNS generally concurred with our recommendations with the exception of actions pertaining to unauthorized retailer transactions.

Oklahoma

Overall, the Oklahoma EBT system had sufficient controls and procedures to ensure timely availability of FSP benefits to program participants, but documentation for the EBT operating procedures needed strengthening. Reconciliation procedures and controls over returned EBT cards and dormant accounts needed to be properly documented. In addition, Privacy Act data was subject to compromise, EBT system access controls needed strengthening, and there was no provision for an independent audit of the system.

We recommended that FNS direct the Oklahoma State agency to prepare written operating procedures in regard to the reconciliation process, accounting for returned EBT cards, and the handling of dormant accounts. We also recommended that Oklahoma require the EBT contractor to implement procedures to brief/debrief employees on their responsibility to maintain the privacy and confidentiality of sensitive USDA data. In addition, we recommended that Oklahoma institute further system security measures and ensure that an independent review of the EBT system is conducted.

FNS agreed with the audit recommendations and initiated corrective action.

Over $2.7 Million Questioned in Ohio Food Stamp Employment and Training (E&T) Program

The E&T program provides funds to train food stamp recipients to find work. FNS approves each State's E&T plan and reimburses the State for the costs of administering the program. FNS provides a 100-percent grant for the program and a 50-percent copayment for any program-related costs in excess of the grant amount.

Our review at the Ohio Department of Human Services found that county-level officials did not obtain local matching funds, bringing into question $2.5 million paid to Ohio in FY's 1995 and 1996. Lack of controls allowed the State's computer system to count food stamp work registrants each time they enrolled, thereby increasing the State's work registrant count and calling into question over $400,000 paid to Ohio for the 1997 grant year. In addition, the State agency lacked controls over the reporting of its E&T pass-through and administrative costs, and it was unable to support over $750,000 in county administrative costs for FY's 1995 and 1996. However, due to accounting errors and lack of coordination between State fiscal officials, we found the State agency submitted inaccurate and unsupported claims that resulted in a net underclaim of $188,000.

This audit has led to an ongoing OIG investigation regarding suspicious behavior by county officials and subcontractors in Akron, Ohio. Investigations by other Federal agencies have uncovered illegal activities in similar cases.

We recommended that FNS recover the questioned costs from the State and require the State agency to discontinue the pass-through system unless it can ensure proper oversight, issue a State directive requiring that costs claimed for reimbursement be based on actual costs incurred in operating the E&T program, and implement additional State-level accounting procedures to ensure that all claims for reimbursement are accurate and adequately supported. FNS has agreed to implement all the recommendations and to bill the State for the overpayments. In January 1998, FNS instructed Ohio to terminate the pass-through system that had allowed it to obtain $2.5 million in unmatched Federal funds.

Multimillion-Dollar Food Stamp Trafficking Cases Cracked in Several States

- Twenty-four individuals have been arrested in the southern district of New York on an estimated $60 million food stamp fraud and money laundering conspiracy. This investigation was conducted by OIG in cooperation with the Federal Bureau of Investigation (FBI) over the past 2 years. Information obtained from undercover operations, physical surveillance, and extensive documentary evidence revealed that tens of millions of dollars worth of food stamps were fraudulently redeemed by those involved in the conspiracy who owned or operated numerous grocery stores in Manhattan, Brooklyn, and the Bronx. This investigation is continuing with additional arrests and indictments anticipated in both the southern and eastern districts of New York.

- During a 2-year investigation in Philadelphia, Pennsylvania, an elaborate scheme was uncovered involving $15 million of food stamp trafficking and money laundering. Our investigation determined that two owners of a wholesale warehouse hired individuals to open grocery stores which were authorized to participate in FSP. The bogus grocery stores carried very little inventory, and some did not even have cash registers. The stores remained in business for approximately 11 months, and then closed to avoid detection. Over the past 5 years, six bogus grocery stores were opened for the purpose of illegally redeeming trafficked food stamps. Our investigation also focused on 14 takeout restaurants in Philadelphia which sold their food stamps to the bogus grocery stores.

As a result of the investigation, the two owners of the wholesale warehouse and three of the bogus grocery store owners were indicted on Federal charges. An arrest warrant was issued for another owner of a bogus grocery store, and an additional owner, who was a fugitive, turned himself in to Federal authorities and was indicted. Assets of approximately $183,900 were seized through asset forfeiture. In addition, five of the six owners/employees of six takeout restaurants either pled guilty or were found guilty of food stamp trafficking. The owners/employees of seven other takeout restaurants were arrested after being indicted by the Philadelphia district attorney's office. The investigation is continuing with additional charges expected. This investigation was conducted jointly with the U.S. Secret Service.

- Also in Philadelphia, the owner of four retail stores pled guilty to fraudulently purchasing approximately $5.4 million in food stamps and laundering $4.8 million in funds. Sentencing is pending. The investigation revealed that, during the first 10 days of each month from 1992 through 1997, the subject illegally acquired food stamps from street traffickers (known as "runners"), who purchased the food stamps from recipients as they left the food stamp distribution centers. The investigation was conducted jointly with the FBI.

- In Georgia, a grocer was ordered to pay over $3.9 million in restitution after he pled guilty to charges of money laundering and redemption of illegally received food stamps. He was also sentenced to serve 5 years in prison, followed by 3 years of supervised release, and 200 hours of community service. As partial payment of his restitution, he agreed to forfeit his 8,000-square-foot home, five other parcels of real estate, and two vehicles.

  The grocer, who had previously been disqualified from FSP, notified FNS that he was selling his store to a second individual, later identified as his sister. FNS authorized the sister to accept food stamps at two locations. The grocer actually continued to operate both stores and, during the investigation, purchased $6,050 in food stamps from undercover operatives for $3,450 in cash. Subsequent investigation established that the grocer frequently made three or four deposits of food stamps each day, averaging approximately $3,000 per deposit, and immediately withdrew a corresponding amount of cash each time. Although his food stores were small and poorly stocked, he redeemed as many food stamps as a chain grocery, approximately $4.5 million over a 4-year period.

  The investigation was conducted jointly with the Internal Revenue Service (IRS), the local sheriff's office, and the FBI.

Convictions Obtained for EBT Fraud

- After a jury trial, two employees of a retail grocery store in Baltimore, Maryland, were found guilty of trafficking approximately $400,000 in EBT benefits. One employee was sentenced to 10 months in prison, and the other received 1 year. During plea negotiations, the owner of the store sent the assistant U.S. attorney a letter which appeared suicidal in nature. While attempting to locate the owner, we found that he had fled the United States to avoid prosecution. He is currently a fugitive in Nigeria, and efforts are being made through Interpol (International Criminal Police Organization) to have the owner returned to the United States for prosecution. The U.S. Customs Service assisted in the fugitive investigation of the owner.

- The owners of two retail grocery stores in Baltimore, Maryland, received prison sentences of 2 years and 18 months, respectively; were fined a total of $10,000; and were ordered to pay restitution of $400,000 to USDA. The two stores are estimated to have trafficked between $700,000 and $1 million in food stamps from 1993 through 1997. As part of his plea agreement, one store owner, who had filed false tax returns, conveyed to the Government all interest in his business and business property. One of the cases was conducted jointly with the Criminal Investigations Division, IRS. Both stores have been permanently disqualified from FSP.

Prominent Physician and His Wife Plead Guilty to Welfare Fraud

In Beltsville, Maryland, a prominent physician and his wife pled guilty to fraud charges for having collected approximately $120,000 in fraudulent welfare benefits from State and Federal agencies from 1993 through 1997. These benefits included food stamps, Aid for Dependent Children, general welfare, and educational grants. The wife used two different Social Security numbers to perpetrate the fraud: one to collect monthly benefits from welfare agencies and the other for tax purposes to report substantial family income. The husband, a noted neonatal physician making $300,000 per year, and three of their children assisted by applying for and obtaining portions of the illegal benefits. This case was worked together with OIG's for the U.S. Department of Education and the Social Security Administration. Sentencing is pending.

Criminal Defense Lawyer and Community Relations Board Member Plead Guilty, Await Sentencing

A well-known Cleveland, Ohio, criminal defense attorney (who was also a former county prosecutor) pled guilty in Federal court to aiding and abetting a former member of the Cleveland Mayor's Community Relations Board in illegal food stamp trafficking. The board member, who pled guilty to trafficking, had previously been authorized as an FSP retailer but was not authorized at the time. The attorney had previously represented criminal defendants and civil plaintiffs in FSP-related Federal and State court cases.

A former Cleveland grocer, who had pled guilty in 1987 and in 1995 for $2.5 million in illegal redemptions under a false store ownership, cooperated in an undercover capacity. He attempted to purchase a restaurant from the attorney which the board member was to manage and eventually co-own. A portion of the purchase price was to be paid legally and be reportable to regulatory agencies, while another part was to be paid "under the table" using food stamps. The board member unlawfully acquired and transferred $12,000 in food stamps from the informant for an unrecorded "credit" by the attorney against the restaurant's purchase price.

Both defendants are awaiting sentencing. This case was worked jointly with the FBI.

Former Congressional Aide Sentenced

A South Bend, Indiana, grocer, who was formerly a congressional aide, was sentenced to a prison term of 11 years 3 months and ordered to make more than $26,000 in restitution after his guilty pleas to redemption of illegally received food stamps and money laundering. As reported previously, our investigation disclosed that, from January 1988 through July 1993, the owner redeemed approximately $1.35 million in food stamps, while his reported food sales for the same period were less than $400,000. The owner admitted he had been illegally purchasing food stamps for cash since his release from prison on an unrelated charge in October 1991.

Store Owner Flees Country, Manager Arrested After Indictment

The owner of a downtown Minneapolis, Minnesota, convenience store fled the United States to Egypt after being indicted on food stamp trafficking, money laundering, and conspiracy charges. The investigation determined that food stamps benefits totaling nearly $400,000 were bought for cash by the owner and his employees while in operation for less than 2 years. In addition, evidence obtained from several search warrants showed the illegal proceeds were wire-transferred to the owner's bank account in Egypt.

The store itself, acting through an unindicted co-owner, pled guilty to related charges. The former manager had fled Minnesota prior to trial but was located and arrested in New York City and returned to Minnesota where he pled guilty. He was sentenced to prison prior to deportation. Efforts are being made through the U.S. Department of Justice to have the owner returned to the United States for prosecution.

Grocers Use Trafficked Food Stamps To Repay Personal Debt

Two Nevada grocery store owners were sentenced to serve 15 to 27 months in prison and were ordered to pay a total of $210,000 in fines and restitution after they pled guilty to conspiracy related to the illegal purchase of food stamps. Our investigation disclosed that the grocers purchased food stamps in Nevada and then sold the food stamps to an owner of a produce business in southern California for 90 to 95 cents on the dollar. During a 5-month period, the produce business owner wrote a total of 16 checks to the 2 grocers for more than $107,000. Witness statements disclosed that the primary motive of the food stamp trafficking was to repay a 10-year-old debt incurred by the two grocers to the produce business owner. Following an earlier OIG investigation, the owner of the produce business was convicted and sentenced to Federal prison, where he is currently serving time.

Armed Career Criminal Convicted, Associate Indicted

In St. Louis, Missouri, a man who once bragged that he had received food stamp benefits in 37 different false names was convicted by a Federal jury of being an armed career criminal and illegally possessing a handgun. Sentencing is pending. When arrested with the handgun, the man used one of the false names as identification to law enforcement authorities. The man and at least five associates obtained at least $27,000 in illegal food stamp benefits and thousands of dollars worth of other items through related credit card fraud.

The man's former associate has also been indicted for making false statements to obtain food stamp benefits. The associate used a fake Missouri Department of Corrections inmate identification card when she applied for food stamps using a false name. The ruse was that she had just been released from prison, was homeless, and needed food stamps.

This was a joint investigation with the Division of Legal Services, Missouri Department of Social Services; the U.S. Postal Inspection Service; the Bureau of Alcohol, Tobacco, and Firearms; the Social Security Administration OIG; the St. Louis, Missouri, Police Department; and the Jennings, Missouri, Police Department. The investigation continues.

Postal Employee Pleads Guilty to Theft of Food Stamps

In Des Moines, Iowa, a U.S. Postal Service employee pled guilty to two felony counts of theft from the mail following a 1-year investigation conducted in concert with the U.S. Postal Inspection Service. Sentencing is pending. Extensive surveillance conducted from February 1997 through February 1998 disclosed that the employee, while working at the general mail facility, absconded with $27,160 worth of food stamps from monthly issuance mailings and $80,000 in cash from a registered mail bag.

Owners of "Rolling Stores" Sentenced to Prison

- A Dallas, Texas, man who operated a "rolling store" (a vehicle used to sell merchandise to customers) pled guilty to a scheme whereby he personally purchased about $10,000 in food stamps at a discount from recipients and, for a percentage, redeemed over $1 million in food stamps for others who had illegally purchased the food stamps from recipients. He was sentenced in Federal court to 18 months' imprisonment and fined $10,000.

- In Georgia, an individual who had claimed to operate a "rolling store" but who actually used his food stamp authorization solely to redeem over $200,000 in illegally purchased food stamps, pled guilty to charges of food stamp trafficking and submitting false statements to the Government. The investigation began after an OIG audit of rolling store operations found that the individual lacked business records and that he had made bank deposits of food stamps obtained from a second individual, who has since been convicted of illegally purchasing food stamps. When asked to show his produce truck to FNS, the individual borrowed a truck and represented it as his own. He was sentenced to serve 5 months in prison, 5 months in home detention, 300 hours of community service, and 3 years of supervised release and to pay $217,300 in restitution to FNS.

CHILD NUTRITION PROGRAMS (CNP)

Presidential Initiative in the Child and Adult Care Food Program (CACFP) Continues With Operation "Kiddie Care"

In the last Semiannual Report to Congress, we reported on the status of our national Presidential Initiative to identify, audit, investigate, remove from CACFP if necessary, and prosecute sponsoring organizations (sponsors) abusing this important USDA feeding program. This initiative, named Operation "Kiddie Care," has focused on the work of sponsors who administer the program in day care homes and centers and disburse Government payments to those child care facilities.

"Sweeps" by OIG auditors and investigators with the assistance of FNS and State agency personnel since the fall of 1997 have been well targeted. Of the original 12 sponsors we reviewed, 11 were found to be seriously deficient in their administration of the program; of these 11, 5 were terminated initially from the program. In one of the five cases, the termination was overturned on appeal, but the sponsor did not continue participation. Four of the terminated sponsors were investigated for fraud, and four employees of one sponsor were sentenced to prison.

As of September 11, 1998, 53 sponsors in 23 States were being audited or investigated.

- In Ohio, nine persons, including the director of the sponsoring organization operating a local child and adult care food program, entered guilty pleas to conspiracy to submit false claims for issuing and/or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This ongoing investigation has so far identified at least 9 persons who conspired to set up more than 40 false providers, resulting in the submission of false claims for reimbursements totaling approximately $1.1 million. The scheme had been going on since about 1988. This investigation continues, and additional prosecutions are anticipated. The investigation was worked jointly with the U.S. Postal Inspection Service.

- Three former employees of a California CACFP nonprofit child care sponsor are awaiting sentencing after pleading guilty to mail fraud in connection with a scheme to defraud CACFP of over $110,000. Our investigation disclosed that the employees devised a scheme whereby they submitted false claims, through the sponsor, for day care home providers who were no longer participating in CACFP.

  As part of their plea agreements, the employees have agreed to testify against the two owners of the sponsoring organization, who were also charged with defrauding CACFP of approximately $142,000 and the California State Preschool Program of approximately $200,000. The owners' scheme involved the submission of false claims for expenses associated with CACFP. The owners were also charged with committing perjury to the grand jury and obstruction of justice for threatening Government witnesses.

  As a result of the investigation, the sponsoring organization was terminated from participation in CACFP and the State Preschool Program.

- In Tennessee, the former sponsor official of 69 day care homes was sentenced to serve 9 years 2 months in prison and ordered to pay restitution of $127,400 after being convicted at trial on 59 counts for mail fraud, making false statements, and money laundering. The official inflated the number of children enrolled and the number of meals claimed, paid the day care homes the correct amount, and then issued a second check in the sponsor's name for the inflated amount. Our investigation, conducted jointly with the IRS and FBI, disclosed false claims totaling approximately $127,000 for meals and snacks over a 3-year period, including payments issued in the names of 15 individuals who did not actually participate in the program.

- In Pennsylvania, a former sponsor official pled guilty to embezzlement, misapplication of funds, and theft totaling $92,000 from CACFP. She failed to reimburse 200 day care homes and misused funds to cover administrative expenses. The official used the embezzled money to cover personal expenses such as her mortgage and to buy equipment for a restaurant she owned. Sentencing is pending.

- The former manager of an Arizona CACFP sponsoring agency was placed on probation for 5 years and was ordered to pay restitution of $31,900 to FNS after she pled guilty to theft of Government money. Our investigation disclosed that the manager diverted money by writing 61 checks on the sponsoring agency's account, made payable to individuals whom she had falsely represented as day care providers. She then deposited these checks into her personal account.

- In California, an executive director of a sponsor retained food reimbursements to cover the salary he claimed to earn in California while he was actually working for another enterprise and living in Wisconsin. He also had a vehicle in Wisconsin for his personal use which was being paid for by the California sponsor. We questioned about $231,000 paid to this individual.

- In Louisiana, a sponsor is being investigated for allegedly embezzling the food payments claimed for providers who were no longer participating in CACFP. Our audit disclosed suspected forged checks that total about $35,000, and administrative costs of about $18,000 were also questioned. The 106 homes we visited that were administered by this sponsor showed very poor oversight; we issued a Management Alert recommending immediate termination. The sponsor was unable to meet corrective action demands by the State's deadline, and the sponsor's executive director turned in a letter of self-termination.

- In Florida, a sponsor is being investigated for apparently using food funds to pay for over $147,000 in questionable expenses uncovered during our audit. Large sums were paid to another enterprise with which the director of the sponsor was affiliated. In addition, our visits to 167 homes showed that the sponsor's oversight of the providers was very poor. We estimate that about 20 percent of the providers' claims will be questionable due to incomplete meals provided to children, meals claimed for children not present, and meals claimed for children with no enrollment forms on file at the day care homes.

- In California, two individuals, one of whom was a former manager for a child care provider, are awaiting sentencing after they pled guilty to a charge of making a false statement in connection with CACFP provider claims. Our investigation disclosed that the former manager conspired with her friend to create a fictitious child care provider case. From May 1995 through August 1997, they illegally obtained over $23,000 in Federal and State funds.

As part of Operation "Kiddie Care," 13 sponsors have been terminated from the program. These 13 had been receiving $24.2 million in program funds annually to administer the program and to reimburse the food costs of the homes and centers under their sponsorship. These funds may now go to legitimate sponsors to feed needy children.

Although Operation "Kiddie Care" requires a disproportionate amount of resources for a relatively small feeding program, the operation will continue as long as we find evidence that abuses are continuing. Returning integrity to this very important feeding program and protecting the resources of the American taxpayer are high priorities for OIG and FNS. Figure 2 shows the status of our investigations of sponsors and providers, as of September 11, 1998.

Figure 2

Status of Investigations of Sponsors and Providers

State	Investigations in Progress	Entities Terminated From CACFP	Individuals Indicted or Named in Criminal Information	Individuals Who Pled Guilty or Were Convicted	Individuals Sentenced
Arizona	1		1	1	1
California	6	4	11	9	4[1]
Colorado	1				
Florida	2				
Idaho	1	1	1	1	1
Louisiana	2	1			
Michigan	1	1	2		
New Mexico	2		1	1	1
New York	2		1	1	1
Ohio	2	1	9		
Pennsylvania	3	1	1		
Tennessee	3	2	1	1	1
Utah	1	1	1	1	
Washington	2			1	1[3]
TOTALS	**29**	**12[2]**	**29**	**16**	**10**

[1]The sentence handed down on these four individuals included $2.2 million in restitution.
[2]A thirteenth sponsor in Oregon was terminated from the program but not investigated for fraud.
[3]An administrative action, not a criminal action, was handed down to this provider.

Arkansas County Pays $900,000 Settlement

The sponsor for the 1992-1995 summer feeding program in Pulaski County, Arkansas, agreed to pay a $900,000 civil settlement after our investigation disclosed approximately $880,000 in overclaims submitted for those years. We found the private organization operating the feeding sites on behalf of the county inflated the attendance records, and the county submitted those claims. The settlement was for full restitution and the equivalent of two $10,000 civil penalties. Criminal action is still pending against the private organization actually operating the feeding sites for the county.

Improvements Needed in Administration of Meals Programs in the District of Columbia (District)

The National School Lunch Act authorizes payments to States based on the number and category of meals served—whether free, reduced price, or paid—for the National School Lunch Program (NSLP) and the School Breakfast Program (SBP). Our review of costs charged to the school food service account for school years 1995/1996 and 1996/1997 in the District disclosed that financial controls over program funds and reimbursement claims were inadequate, procurement policies were not always followed, and monitoring activities did not always disclose deficiencies or ensure that previously disclosed deficiencies were corrected.

We recommended that $4.2 million be refunded to the program for unallowable expenses (utility bills and special education) and $250,000 be refunded to FNS for contract overpayments, reimbursement of ineligible meals, and nonprogram employee salaries. In addition, the District needs to support $2.4 million in contract payments and obtain approval of $325,000 in salaries and $160,000 in bonuses or refund the amounts to FNS. We also recommended that procedures be developed to improve future operations.

FNS agreed with the findings and recommendations reported and will work with the District to obtain corrective action.

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

Puerto Rico Did Not Comply With Funding Requirements for Nutrition Education and Breastfeeding Promotion

The State agency in Puerto Rico did not comply with the regulatory requirement that at least one-sixth of total nutrition services and administrative costs be spent on nutrition education, for which we calculated a funding deficit of over $4.1 million for FY's 1993 through 1996. Overstated costs also affected the required allocation for breastfeeding promotion (by over $94,000 in FY 1996).

We recommended that FNS, as required, establish a claim against the State agency for the more than $4.1 million funding deficit. We also recommended that FNS closely monitor and assess the accuracy and applicability of the calendar year 1997 time study to be used in calculating spending requirements. In addition, we recommended that FNS assess the State agency's FY 1997 cost allocation operations to ensure that the methodologies implemented by the State agency are accurately applied. FNS generally agreed to implement our recommendations.

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 1998 was approximately $243 million.

Inadequate Oversight Provided Over the Fluid Milk Promotion Program

AMS and the National Fluid Milk Processor Promotion Board need to improve their oversight and controls over Fluid Milk Promotion Program activities to ensure that assessments on fluid milk products are used in accordance with the Fluid Milk Promotion Act. Those assessments, from approximately 370 processors, totaled almost $169 million from December 1993 through June 1997.

Our review identified (1) problems with the board's management structure, (2) contracts that were awarded without competition to procure services, (3) payments that exceeded contract limits, (4) a lack of enforcement of contract terms, and (5) instances where the board had not taken title to or possession of assets procured with program funds.

Neither AMS nor the board provided adequate management or oversight of program activities. AMS left most oversight efforts to the board. The board delegated most administrative functions to two contractors and was not actively involved in the day-to-day operations of the program. One contractor, the Milk Industry Foundation, was responsible for performing various management and administrative services. The other contractor, the board's Administrator, was responsible for collecting assessments, accounting for funds, and performing compliance reviews.

This alignment of the program's critical duties and responsibilities, combined with AMS' and the board's arm's-length approach in providing oversight, in effect, contributed to the compromise of the program's internal control structure.

The Administrator, through his public accounting firm, had contracts to provide financial, accounting, and compliance review services to the board. Altogether, the board's Administrator, either as an individual or through his firm, had three sole-source contracts with the board.

Although AMS was responsible for reviewing and approving all contracts, the board paid over $127 million for contracts, representing 75 percent of the funds collected through the program, without AMS' approval. The board entered into these sole-source contracts without any competition to ensure the most cost-effective procurement of services.

The act requires that the board obtain title to all assets developed using program funds. In one case, the contract to procure photographs, taken as part of a major milk marketing campaign, did not include language to secure title to the assets. Consequently, the program expended almost $130,000 in royalties for the continued use of the photographs. The photographer still has control and possession of the photographs, which were developed using over $2.7 million in program funds.

Our review disclosed that the board, the contractor, and some subcontractors were not in compliance with the terms of certain contracts. For instance, the contractor included provisions in a subcontract with an advertising agency to establish and pay an incentive commission of $350,000 if milk sales increased as a result of an advertising campaign. Although this arrangement is appropriate, neither the contractor nor the board ever established a contingency account for such potential liability.

The board also presented financial statements that did not accurately reflect its financial condition. The financial statements as of March 31, 1995; April 30, 1996; and June 30, 1997, contained material omissions and questionable statements that, in the aggregate, were significant enough to potentially affect the decisions of its users. These audits did not include adequate tests of compliance with laws and regulations.

Overall, neither AMS nor the board has determined, as required, whether the program has resulted in increased milk consumption. The program's most recognized promotion has been the milk-mustache advertising campaign. While this marketing campaign has been highly visible in the marketplace, no independent studies have been performed to determine this campaign's impact on fluid milk consumption.

We recommended that AMS (1) suspend board program activities until a plan is developed whereby the board will take full control of its activities and ensure compliance with the act (to include establishing guidelines for awarding contracts to ensure that contracted goods and services are obtained in the most cost-effective manner), (2) require the board to determine the effectiveness of its research and promotion activities to increase fluid milk consumption, (3) require the board to obtain AMS approval on all contracts before any funds are obligated or expended and that the board obtain title and possession of all assets acquired with program funds, and (4) require the board to assure that audits of its books and records are conducted using generally accepted Government auditing standards.

AMS did not agree to suspend the board's activities. However, it agreed to institute improvements and is working with the Fluid Milk Board to strengthen management controls.

Controls Over Federal-State Inspection Funds Need Strengthening

We found that the Puerto Rico Department of Agriculture (PRDA) used Federal-State Inspection (FSI) Program funds to pay for expenses unrelated to the inspection program. Also, costs associated with the inspection of a specific product were not always properly charged to the correct inspection program; program revenues for the inspection of fresh fruits and vegetables were incorrectly credited to other programs; and PRDA reimbursed AMS more than allowed in their cooperative agreement.

We recommended that AMS require PRDA to (1) reimburse approximately $69,000 for expenditures improperly claimed (PRDA has already reimbursed AMS over $103,000), (2) reallocate over $450,000 to specific inspection programs, and (3) develop and implement controls to ensure that FSI funds are used only for expenditures directly related to the FSI process. Furthermore, AMS will need to coordinate with PRDA to develop and implement a strategic plan to streamline operations and clearly define the organization's structure and responsibilities.

AMS agreed with our findings and recommendations and is working with Puerto Rico to ensure corrective action is implemented.

Owners of Home Delivery Food Service Plead Guilty to Charges of Theft and Conspiracy

The owners of a Delaware-based home delivery food service pled guilty in Delaware State Superior Court to 44 counts of theft and conspiracy to misrepresent grades of meats sold to customers. Sentencing is pending. The investigation, conducted jointly by OIG and the Delaware State attorney general's office, disclosed that, from June 1993 through November 1996, the company sold USDA Choice-graded beef products—while representing the beef product as being USDA Prime grade—to approximately 800 customers, for quantities ranging in price from $500 to $3,000.

Sentencing in Strawberry Substitution Case

We previously reported that a San Diego-based food processing company and its president/owner pled guilty to charges of submitting false claims to USDA in relation to the substitution of Mexican strawberries for U.S. domestic strawberries in the USDA National School Lunch Program. The president/owner has since been sentenced to 10 months in prison and has been fined $13,000. The company has been ordered to pay $200,000 in fines; $150,000 in restitution to USDA; and $1,300 in court penalties. In addition, the company has agreed to a $1.3 million civil settlement. The former sales manager of the company was placed on probation for 5 years after he pled guilty to conspiracy.

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 1998 are estimated to total over $516 million.

APHIS' Inspection Process for Registered Airline Carriers Needs Improvement

Inspection operations over airline carriers could be improved. APHIS did not always obtain comprehensive listings of airports from which inspected carriers operated and, thus, could not determine whether all sites were inspected on a periodic basis. We found in 1 APHIS region that of 221 sites used by 3 airlines, only 32 percent had been inspected since January 1995. In addition, because of the way the agency files inspection reports, APHIS officials could not readily determine whether any particular airport had been inspected within a given time period.

Since APHIS inspectors cannot determine at what times a registered carrier is actually transporting animals, most attempts at performing inspections at airports are unsuccessful because no animals are present. Of 297 inspections performed of 5 airlines between January 1995 and April 1997, only 43 (14.5 percent) were completed with animals present. However, violations were found on over 37 percent of these inspections, indicating that many violations may not be identified because no inspectors are present when animals are shipped.

We recommended that APHIS require airlines to submit comprehensive and up-to-date listings of airports through which they transport animals and develop a system to identify which airports have been inspected during any given time period. Also, because of the difficulty in getting animal care inspectors to airports at appropriate times, i.e., when animals are being shipped, we recommended that APHIS continue its earlier pilot program of cross-utilizing veterinary care personnel to perform this function. APHIS agreed with our recommendations and plans to implement corrective action to improve the inspection function.

Dogs Stolen for Medical Research

In Oregon, six individuals are awaiting sentencing after they pled guilty to charges of theft for their part in a conspiracy to fraudulently acquire and sell dogs to medical research facilities. The six defendants have also agreed to testify against a former USDA-licensed dog dealer, her husband, and their son, who have all been indicted for conspiracy and mail fraud related to the scheme. Our investigation disclosed that the dealer and her associates either stole dogs or obtained them under false pretenses. Over a 15-month period, they illegally obtained over 100 dogs in this manner. The dealer then falsified APHIS forms in order to conceal their activities. She also forwarded false documents to the Oregon Department of Agriculture. Because of her activities, APHIS refused to renew her dealer license.

Natural Resources and Environment

FOREST SERVICE (FS)

FS manages natural resources on over 191 million acres of National Forest System lands. It provides cooperative forestry assistance to States, communities, forest industries, and private landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and manage recreation use. For FY 1998, total FS funding was about $3.2 billion, with receipts generated from timber sales and other activities reported at $975 million.

Serious Deficiencies Found in Forest Land Adjustment Program

Our audit identified a serious breakdown of controls in all phases of the Humboldt-Toiyabe National Forest land adjustment program. The forest administers all national forest lands in the State of Nevada and was a major beneficiary of Federal land exchanges proposed by private parties and developers wanting to acquire highly desirable Federal lands in the Las Vegas metropolitan area. FS management allowed private parties to exert undue influence over the direction and outcome of almost all large-value land exchanges at the forest. We questioned accomplished and proposed land exchange transactions for 7,029 acres of Federal and non-Federal lands, valued at $27.9 million.

An FS bargaining team, formed to establish the value of property being acquired by the Government, disregarded guidelines provided by the FS Washington, D.C., office and the Office of the General Counsel (OGC) and allowed the private parties to control the bargaining process. The team excluded the participation of Federal appraisers and accepted uncorroborated valuations by an appraiser recommended by the private party, resulting in a loss of $5.9 million to the Government. In addition, the forest entered into an improper agreement that gave a private party exclusive marketing rights to 850 acres of forest lands near Reno, Nevada, valued at $6.5 million, for which the private party had not identified any private lands to be offered in exchange.

FS also allowed the private parties to control the selection of lands that the forest would acquire through land exchanges. Our audit questioned three proposed exchanges that were initiated by private parties and were taken under consideration by FS, even though the land, 1,065 acres valued at $10.5 million, was of little or no discernable interest to FS. In one case, lands on a developed subdivision near Reno had steep slopes and severely limited access, surrounded by a housing subdivision and an industrial park, and were, therefore, of limited value to FS. Upon our notification, FS immediately disclaimed title to the property and officially notified the private party of its decision.

Controls were also absent in the appraisal process. FS lands staff let private parties override the safeguards against excessive valuations, and FS acquired private lands whose appraised values were not based on credible evidence. We questioned the FS acceptance of three land appraisals that were based on speculative assumptions that overvalued non-Federal lands by $8.8 million. One of the transactions involved 458 acres of private lands called Deer Creek in the Mount Charleston area near Las Vegas. Although the land was in extremely steep, mountainous terrain with avalanche chutes on the slopes of the property, the private party's appraiser determined that the property's highest and best use was as a housing subdivision.

FS regional and forest lands staff compromised the independence of FS appraisers and weakened controls over the coordination of land transactions with the Bureau of Land Management (BLM), jeopardizing, in one land exchange, $2.1 million in water rights and $19.8 million worth of land that had not been properly cleared of encumbrances.

Finally, our audit questioned the integrity of FS lands staff dealing with private parties. We identified the improper conduct of one FS management employee who received gifts, gratuities, and entertainment from private parties doing business with FS. We also noted that the region did not track the outside interests of key FS lands personnel involved in approving multimillion-dollar exchanges.

In response to our audit, both the FS Chief and the Under Secretary for Natural Resources and Environment have taken immediate actions to implement needed controls in this area.

These lands near Reno were of limited value because they had poor access and were surrounded by a housing subdivision and industrial park. OIG photo.

The Deer Creek property contains avalanche chutes and steep terrain. OIG photo.

FS Is in Jeopardy of Losing Management Control Over Lands Recently Acquired for $38 Million

As part of our ongoing audit of land transactions at FS' Pacific Southwest regional office, we identified a serious problem relating to the treatment of building improvements in a land exchange transaction at the Lake Tahoe Basin Management Unit in Nevada. The exchange involves a 46-acre parcel on Lake Tahoe known as Zephyr Cove. The property, appraised at $38 million, has approximately 3,000 feet of sandy beach, a small wetland area, meadow, creek, and a 10,000-square-foot mansion and other buildings.

A private land developer offered the Zephyr Cove lands and building improvements to FS in exchange for Federal lands of equal value managed by BLM in the Las Vegas, Nevada, area. On June 30, 1997, the developer improperly transferred the FS-owned improvements to a private party for cash and gratuities at an estimated value of $3 million. The improvements included a 10,000-square-foot mansion, a caretaker's cottage, and a four-car covered garage.

Shortly after the sale of the improvements, the private party locked the gates of the driveway leading to the mansion, effectively precluding access to this publicly owned land. The private party also hired a caretaker to watch the grounds and to keep the public away from property belonging to the American taxpayer.

This is a beachfront view of Zephyr Cove. OIG photo.

A private party locked the gates to Zephyr Cove, limiting public access. OIG photo.

In January 1998, the private party submitted an application to FS to operate an upscale "bed and breakfast" and conference center at Zephyr Cove. The private party proposed using all 46 acres of public lands to install gazebos, swimming pools, picnic areas, and tennis courts for its private, paying guests. The application does not include any provision for general public access to the beaches nor does it provide for general public access for the entire FS acreage. The private party has also posted "private property" signs on FS lands surrounding the improvements.

Within a few months of the $38 million acquisition, FS management control over its newly acquired lands is now seriously compromised by the development plans of a second private party possessing the building improvements.

In response to an FS request, OGC issued a legal opinion concerning the ownership of the building improvements on Zephyr Cove. The OGC opinion stated that FS is the legal owner of the building improvements and that the developer had no authority or right to sell and transfer FS-owned improvements to the private party.

To preclude further deterioration of FS' control of the Zephyr Cove lands, it is imperative that FS immediately take aggressive action to assert its ownership of the property and all its improvements in coordination with OGC and the U.S. Department of Justice.

FS Estimates of Its Maintenance Backlog Unsupported

In response to a request from the House Committee on Appropriations, Subcommittee on Interior and Related Agencies, we performed a review of FS' maintenance backlog, also referred to as "deferred maintenance," reported by the agency to be $7 to $8 billion. We found that FS had no system or systematic way to compile maintenance backlog information, and FS had not prescribed a common definition as to what constituted deferred maintenance. Although we were unable to attest to reported backlog amounts, we did have enough information regarding certain segments of the backlog to conclude that the information was not reliable. The $5 to $6 billion for road maintenance, for example, was formulated via an unsupported mathematical extrapolation.

Management of the backlog could not be readily assessed, in part, because the budgeting, allocation, and expenditure of maintenance funds occur within the framework of program activity and cannot be specifically identified. We also found that FS had not yet initiated the process to capture deferred maintenance costs as required by Federal accounting standards for FY 1998 financial statements. We concluded that FS' management of maintenance could be greatly enhanced if it expanded its strategic plan per the Government Performance and Results Act (GPRA) to specifically include maintenance.

We recommended FS establish a common definition for deferred maintenance and a reliable, documented method to compile deferred maintenance data. We also recommended that maintenance be classified as an expanded budget line item to enhance accountability. In addition, we recommended that FS expedite the compilation of maintenance data to fulfill the new accounting standard and expand its GPRA plan to specifically include all significant components of maintenance activity.

FS concurred with all of the recommendations in the report, but the proposed corrective actions were inadequate to achieve management decision. We are working with the agency to resolve these issues.

Grants to Nonprofit Organizations (NPO) Ineffectively Managed

FS did not effectively manage grant agreements totaling about $11.9 million ($7.8 million in Federal grant funds plus about $4.1 million in required matching funds) to the eight NPO's that we reviewed. As a result, approximately $1.3 million in grant awards to the NPO's was not in compliance with authorizing statutes; about $4.9 million is subject to recovery (pending further investigations by FS) because Federal grants were not properly matched by three NPO's; over $200,000 in interest costs was incurred by the Federal Government because funds were advanced in excess of needs to all eight NPO's; approximately $315,000 in unallowable costs was paid to five NPO's; and over $970,000 in funds was not deobligated after the grant period expired for one NPO.

We recommended that FS design and implement national procedures to require approving officials to ensure that (1) only properly prepared assistance agreements are approved for NPO's, (2) matching fund requirements are met, (3) only funds needed within 30 days are advanced to NPO's, and (4) costs claimed for reimbursement by NPO's are proper and supported. We also recommended that FS recover the improperly issued grant funds and excess interest costs identified. In addition, we recommended that FS review all other grant and cooperative agreements with NPO's, recover any advance funds not needed within 30 days, and recover all interest earned by NPO's with grant funds. The agency agreed with the findings and recommendations and initiated corrective action.

Rural Development

Rural Development programs are designed to meet the diverse needs of rural communities, to help them obtain the financial and technical assistance needed to improve the quality of life in rural America, and to help individuals and businesses compete in the global marketplace. These programs consist of a variety of loan, loan guarantee, and grant programs, plus technical assistance, cooperative development, and rural housing. Rural Development loan programs, with an outstanding portfolio of approximately $77.7 billion, are delivered through a national office for each agency, 47 Rural Development State offices, and a network of other field offices.

RURAL HOUSING SERVICE (RHS)

Financial Misconduct Adversely Affected a Multifamily Housing Project

The Vermont Rural Development State office requested that we perform an audit of an RRH borrower it suspected was misusing project revenue. Our analysis disclosed that the borrower did not comply with requirements of his loan agreement or Rural Development regulations. We concluded that the borrower directed a number of ineligible and unallowable financial transactions that adversely affected project operations. Also, management of the reserve account by the borrower and its management company was not adequate; the borrower took improper returns on his investment; and Rural Development did not adequately monitor the reserve account and returns on investment. Specifically, we found the borrower inadequately funded the reserve account from 1983 through December 1996, took unentitled returns on investment of about $167,000, and withdrew $5,100 from the reserve account without Rural Development approval.

We recommended that Rural Development require the borrower to fund immediately the reserve account to the required level. We also recommended that Rural Development determine the amount of the improper returns on investment for which the borrower should be held liable and require him to deposit that amount into the reserve account. In addition, we recommended that Rural Development strengthen its controls over its financial reviews of project operations by monitoring project accounts for accuracy and performing complete and timely reviews of reports submitted by the borrower and certified public accountant (CPA).

Rural Development has agreed with the findings presented and, after consultation with OGC, will implement our recommendations.

CPA Admits to RRH Management Fraud

In Champaign, Illinois, a prominent local CPA was sentenced to a 3-year term of probation, with 5 months of monitored home confinement; fined $10,000; and ordered to pay $25,000 in restitution after he pled guilty to making false statements to Rural Development. Our investigation disclosed that the individual, acting as an RRH management agent, submitted false statements in order to collect rent subsidies for tenants who resided in an apartment building he managed. Civil litigation in the matter is ongoing.

Rural Housing Owners Plead Guilty to Conversion

Two owners/managers of a Boyne City, Michigan, Rural Development project pled guilty to converting mortgaged property and submitting false statements, and they will be placed in pretrial diversion for 1 year and have agreed to debarment for 3 years. The defendants kept two sets of project account ledgers to conceal their unauthorized withdrawal of project startup monies.

In addition, they charged a total of nearly $38,700 in unsupported and unallowable expenses to the project, some of which went toward the maintenance of their personal residence. The defendants also obtained several private loans, totaling more than $90,000, using the project accounts as collateral. An earlier consent judgment, a result of a parallel civil proceeding, ordered the defendants to pay $100,000 to USDA. This investigation was conducted jointly with the FBI.

Former Manager of RRH Projects Gets Prison Time for Embezzlement

The former manager of an RRH management company in northern California was sentenced to 1 year 4 months in State prison, fined $1,200, and ordered to pay $33,400 in restitution after he pled guilty to embezzling funds from the RRH projects he was managing. Our investigation disclosed that the manager embezzled over $33,000 by using the company's credit card to obtain money at casinos in Reno, Nevada, and then transferring money from the RRH reserve accounts to pay the credit card company. He also forged the owner's signature on company checks. The company subsequently replenished the projects' reserve accounts after its insurance company settled a claim for the loss.

Congressional Request Spurs Evaluation of Galt Self-Help Housing Program

We performed this audit at the request of members of Congress who asked us to determine if RHS had complied with agency regulations when it approved funding for the Grizzly Hollow housing project in Galt, California. Some citizens of Galt had argued that their city was not a rural area and, therefore, an inappropriate location for a 193-home self-help project.

Galt's population of 15,400 allows the city to retain a rural designation if it meets four criteria, including the requirement that its low- and moderate-income families face a serious lack of mortgage credit. We determined that the credit analysis performed by RHS did not support Galt's designation as a rural area, because RHS used inaccurate information and relied on unrealistic assumptions. We found that the available housing was more affordable than RHS calculated it to be and that mortgage companies were less restrictive than RHS assumed. Specifically, we noted three incorrect assumptions.

- RHS reviewed prices for existing housing from an outdated list that showed sales prices up to $160,000 but did not include affordable new homes being constructed in Galt for as low as $95,000.

- RHS used the median sales price of a home ($125,000), rather than the lower end price, to calculate which borrowers would qualify for private financing. At the median price, few moderate-income and no very low or low-income borrowers would qualify for private financing.

- RHS assumed that lenders would not approve loans if the cost of housing exceeded 29 percent of the applicant's income, but we found 15 such lenders that would consider such loans.

We concluded RHS should perform another review of the city's rural status because RHS' credit study was flawed, the mortgage industry had changed, and citizens of Galt had raised concerns about the economic impact of the Grizzly Hollow project on the city. We recommended that RHS determine if Galt still meets the definition of a rural area. Rural Development disagreed with many of our conclusions and recommendations. We are working together toward resolution.

Director of Self-Help Housing Organization Convicted of Embezzlement

The director of an Arkansas nonprofit corporation's self-help housing program pled guilty in Federal court to embezzling Rural Development self-help construction loan funds. The director oversaw the program by which prospective rural homeowners helped build their own homes in order to reduce costs. However, she diverted over $7,000 in loan funds for nonexistent material from a fictitious company. She was sentenced to 2 years' imprisonment and ordered to pay full restitution.

Doctor Pleads Guilty and Pays $21,500 Restitution

Our investigation in Texas showed that a doctor who obtained a rural housing loan while in medical school and received interest credit assistance later purchased a second house and rented the Government-financed house to a third party. During the annual interviews required to renew his loan payment subsidy, the doctor failed to disclose both the fact that he no longer lived in the house and that he was receiving rental income. The doctor pled guilty in Federal court to a theft charge and was placed on 2 years' probation. He deeded his house to the Government and paid $21,500 restitution for the unauthorized interest credit assistance received and other costs incurred by the Government.

Research, Education, and Economics

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

CSREES administers USDA's extramural research program in support of new and improved agricultural technology and its transfer to the farming and forestry community. At the direction of Congress, CSREES assists specified educational institutions with Federal matching grants for the construction, acquisition, and renovation of buildings, laboratories, and other capital facilities to enhance agriculture-related research or educational capabilities. As of September 30, 1997, CSREES administered 108 facility projects in various stages of completion with Federal funding of approximately $658 million.

CSREES Needs To Improve Controls Over Research Facility Construction Grants

During our review of CSREES' administration of research facilities construction grants, we visited 11 institutions and found that the institutions adequately monitored construction and compliance with applicable laws, completed facilities were well maintained and used as intended, financial and administrative records were satisfactory, and grant matching requirements were met.

However, our review of 43 project files with awards to 31 institutions, totaling about $310 million, showed that CSREES did not timely deobligate residual funds of about $542,000 for 4 projects after completion, and 6 institutions expended almost $2.6 million after the grants' expiration dates. Also, 7 institutions did not obtain prior approval of project architect, design, and construction contracts totaling $31.7 million; 17 institutions with Federal awards of about $115.1 million did not submit annual performance progress reports for projects; and 11 institutions with Federal awards of about $75.1 million did not submit final performance and financial status reports for completed projects. These deficiencies diminish CSREES' ability to forestall problems.

We recommended that CSREES (1) develop procedures to place a hold on grant funds after expiration dates, (2) review all expired grants and deobligate residual funds, (3) recover from the University of Southern Mississippi $630,000 of unallowable costs and deobligate remaining grant funds, and (4) establish controls to ensure timely submission of contracts and reports. The agency agreed with our recommendations, except for the recovery of approximately $300,000 from the University of Southern Mississippi.

Controls Over Matching Requirements Need Strengthening

Our review of grants to Prairie View A&M University (PVA&M) revealed that PVA&M did not maintain written records to substantiate its matching commitments of Federal grant disbursements of about $1.2 million for seven grants awarded from FY's 1995 through 1997. There were no records to support an additional $300,000 volunteered by the university for two additional Federal grants approximating $700,000.

Because PVA&M did not submit annual reports and timely final reports, CSREES did not know whether the institution was matching its fund requirements during a grant's life. PVA&M was delinquent in submitting reports for 15 grants. Ten of these were over 1 year delinquent with an average delinquency of about 39 months. The 10 PVA&M grants had balances of about $115,000 which had not been deobligated.

We recommended that CSREES recover from PVA&M all Federal grant funds that were not supported with the required matching contributions, require grant recipients to submit required reports on time, provide training to grant recipients regarding required records maintenance, obtain final reports for all delinquent grants over 1 year old, and deobligate any unused grant funds. CSREES agreed with our recommendations.

Financial, Administrative, and Information Technology

EQUAL EMPLOYMENT OPPORTUNITY

The Office of Civil Rights Does Not Ensure Complainants a Timely Hearing

The Assistant Secretary for Administration asked us to perform a followup review of the operations of USDA's Office of Civil Rights (CR), the office responsible for resolving complaints made against the Department for alleged civil rights violations in the administration of its programs. During four previous reviews of the Department's civil rights program complaints system, we determined that the system was not functioning properly and that the Department had amassed a growing backlog of complaints which required immediate attention. Although CR itself could not accurately determine how large the backlog was at the time of our first review, it later identified 1,088 outstanding unresolved complaints before November 1, 1997.

Our past reviews had questioned the productivity of CR; we had found a disaffected staff and a leadership vacuum. Little was being accomplished by USDA agencies to respond to citizen complaints of discrimination, and little was done by CR to manage the resolution process. Some complaints in CR's backlog had languished for over 2 years. After our February 1997 report, CR made the resolution of its backlog its first priority.

Our current review disclosed that the backlog of complaints of civil rights violations, although reduced, still stands at 616 cases as of September 11, 1998. Of these 616 cases, 80 are under investigation, 310 are awaiting adjudication, 23 are undergoing a legal sufficiency review, and 103 are pending closure. The remaining 100 cases still await a preliminary analysis.

The backlog is not being resolved at a faster rate because CR itself has not attained the efficiency it needs to systematically reduce the case load. Few of the deficiencies we noted in our previous reviews have been corrected. The office is still in disarray, providing no decisive leadership and making little attempt to correct past mistakes. Over the last 20 months, CR has made virtually no progress in implementing the corrective actions we determined to be essential to the viability of its operations.

We estimate that if CR continues to operate under its current methods and at its current rate, the backlog of complaints existing on November 1, 1997, will not be completely resolved for at least another year. Figure 3 summarizes the key areas for which our recommendations were made and in which the uncorrected deficiencies persist.

Most conspicuous among the uncorrected problems is continuing disorder within CR. The data base CR uses to report the status of cases is full of errors, and the files it keeps to store needed documentation are slovenly and unmanaged. Forty complaint files could not be found, and another 130 complaints that were listed in USDA agency files were not recorded in CR's data base. Management controls were so poor that we could not render an opinion on the quality of CR's investigations and adjudications.

Of equal significance is the absence of written policy and procedures. CR has not revised Departmental policy to ensure it complies with civil rights laws and to establish the framework of its own activities. Over the space of 20 months, CR has produced nothing to lay the foundation for good management controls.

The absence of formal procedures and accurate records raises questions about due care within the complaints resolution process. We found critical quality control steps missing at every stage of the process. Staff members with little training and less experience were assigned as adjudicators to render decisions on whether discrimination occurred. Legal staff members with OGC, who review CR's decisions for legal sufficiency, have had to return over half of the decisions because they were based on incomplete data or faulty analysis. Almost half of the 616 cases of the unresolved backlog had become bottlenecked in the adjudication unit.

CR's office morale is low. The many reorganizations the complaints resolution staff has undergone, the high turnover the staff has experienced within the last several years, and the inadequate training afforded both managers and staff members have left the staff unfocused and without clear direction. In turn, low morale possibly has contributed to a lack of productivity. CR's data base shows that since January 1997, CR has closed only 19 cases through adjudication, 8 of which were not even investigated by CR. Due to such inefficiency, complainants are being denied a timely hearing of their civil rights complaints.

Figure 3

Areas of Deficiency Previously Noted by OIG and Still Uncorrected

	Office of Inspector General Evaluation Phases					
Issue	Alert 2/25/97	I 2/27/97	II 9/29/97	Memo 12/18/97	IV 3/04/98	V 9/30/98
Review State foreclosure actions	X	0	0	0	0	0
Send letters of acknowledgement (Completed November 1997)		X	0			
Develop and maintain a data base		X	✓	✓	✓	✓
Evaluate each agency's civil rights staff		X	0	0	0	0
Clean case files		X	0	0	0	0
Clear backlog		X	0	0	0	0
Publish regulations		X	0	0	0	0
Reconcile case files with USDA agencies		X	0	0	0	0
Write plans for compliance reviews		X	0	0	0	0
Follow up on isolated instances of potential discrimination				X	0	0
Find lost case files		X	0	0	0	0
Use aging reports		X	0	0	0	0
Train investigators			X	0	0	0

X = Condition originally noted and recommendation made. 0 = Condition continues. ✓ = Corrective action taken but not adequately implemented.

Furthermore, CR does not exercise the full scope of its authority. CR has concentrated its oversight on federally conducted programs; it has largely ignored a host of federally assisted programs (e.g., crop insurance, research grants) in which complaints of discrimination may have been made.

Also disturbing were the number of discrepancies we found between staff members' reports and the actual level of their performance. We found that information provided to the Secretary about the number of open and closed cases was wholly inaccurate. This information was repeated at congressional hearings and other public forums.

We concluded that in order to complete the backlog of cases expeditiously, the Secretary needs to transfer resolution of the backlog to a complaints resolution task force, composed of seasoned adjudicators and well-qualified civil rights personnel from Federal agencies outside USDA. The task force should have full authority to review and resolve all complaints, both new and backlogged. The task force should also perform a case-by-case, document-by-document sweep of the case files to restore retrievability to the information contained in the files.

To increase CR's efficiency in the long term, the Secretary should create an Assistant Secretary of Civil Rights with subcabinet-level status. Concurrently, the CR Director should emphasize hiring managers who have a solid background in civil rights and a good knowledge of Department programs.

We also recommend that the Secretary require CR to (1) issue needed operational policies and procedures within a 2-month timeframe; (2) resolve, also within 2 months, all other recommendations that we made in our previous reports but that CR has failed to implement; (3) keep open all cases resolved through settlement agreements so the agreements may be tracked; and (4) institute other operational improvements that will ensure the efficient operation of the civil rights functions within the Department and ensure due care in the resolution of all civil rights complaints, as well as a timely hearing for all complainants.

FINANCIAL MANAGEMENT

USDA is required by the Chief Financial Officers Act and the Government Management Reform Act to prepare and audit financial statements for all Departmental accounts and activities. Financial statements for USDA are generated from six separate systems operated by various USDA agencies.

Financial Statement Audits

We completed audits of the FY 1997 financial statements of the Department (consolidated), the Forest Service (FS), the Food and Nutrition Service (FNS), the Rural Development mission area, the Commodity Credit Corporation (CCC), and the Rural Telephone Bank (RTB). The Department and FS received disclaimers of opinion, FNS and Rural Development received qualified opinions, and CCC and RTB received unqualified opinions.

USDA's Consolidated Financial Statements: Disclaimer of Opinion

We were unable to express an opinion on the Department's financial statements for FY 1997, largely because of the numerous material internal control weaknesses at the Office of the Chief Financial Officer (OCFO)/NFC which we have previously reported. OCFO has generally agreed with our recommendations, and plans have been made to fix identified problems. Some corrective actions have been taken, but much remains to be done.

The continuing delay in implementing the Department's new accounting system, the Foundation Financial Information System (FFIS), has had a significant impact on USDA financial operations and will continue to impact future operations. Without FFIS, USDA must rely on the OCFO/NFC Central Accounting System (CAS); however, as we have reported since 1992, the many significant problems in CAS diminish the reliability and integrity of this data. For example, because of numerous material internal control weaknesses with the OCFO/NFC reconciliation procedures, we estimated the number of disbursement exceptions to be about 55,000 with an absolute difference of about $7.1 billion between CAS and the U.S. Department of the Treasury (Treasury).

Most of the FFIS problems could be attributed to the premature implementation of three FS regions on October 1, 1997. To address our concerns, OCFO, in conjunction with a working group led by the Secretary's office, deferred the implementation of the remaining FS regions until problems with FFIS have been resolved. In addition, a new leadership team was brought in to manage the project, and a Statement of Work was entered into with a contractor to provide an independent assessment of the current FFIS approach and alternatives to correct accounting deficiencies at NFC. While we believe the actions taken by OCFO will be beneficial, we remain concerned with various aspects of the implementation of FFIS.

Forest Service: Disclaimer of Opinion

Because of the absence of an integrated general ledger and supporting subsidiary records, along with significant financial systems weaknesses, we were unable to express an opinion on the FS financial statements for FY 1997.

Our review of financial statement line items prepared by FS disclosed the need for accounting adjustments totaling over $1.9 billion due to errors and omissions in the initial preparation of the line items. FS corrected the errors and omissions before finalizing the financial statements. In addition, we found that internal controls over the total fund balances with Treasury and the property, plant, and equipment accounts, which combined represented 98.3 percent ($11.6 billion) of the reported $11.8 billion in assets held by FS, were not sufficient to ensure that account balances were reliable.

FS has taken significant steps toward improving its financial accountability. However, much work remains before FS can produce complete, reliable, timely, and consistent financial statements. In April 1998, the Secretary of Agriculture and the FS Chief announced major actions to address the problems, to include establishing clear accountability, ensuring necessary resources, and hiring key leadership.

FNS: Qualified Opinion

Our qualified opinion was the result of FNS' inability to substantiate the reported amount of FSP recipient claims against households. During FY 1997, FNS made progress in improving the agency's financial recording and reporting processes, but several material internal control weaknesses continue to warrant corrective action. FNS has not corrected its material internal control weakness related to food stamp recipient claims; as a result, we were unable to assess the reasonableness of the more than $942.3 million included in the gross accounts receivable, non-Federal, balance for FSP in FY 1997.

FNS made significant commitments in FY 1997 to address the longstanding issue with food stamp recipient claims and issued comprehensive review and self-assessment guidance to regional offices and State agencies. For FY 1998, FNS planned to focus management reviews on recipient claims using this guidance and to complete the evaluation of the accuracy of State agency balances reported.

Rural Development: Qualified Opinion

We issued Rural Development a qualified opinion because the mission area could not adequately substantiate the value of the Government's investment in its outstanding direct and guaranteed loans. Since FY 1994, we have reported problems with the mission area's procedures for establishing and reestimating loan subsidy costs. Early this year, Rural Development established a task force to address these longstanding problems. However, the corrective action plan is not scheduled for completion until September 1999. We are monitoring the agency's progress in resolving these material weaknesses.

CCC: Unqualified Opinion

Our report expresses an unqualified opinion in that CCC's financial statements presented fairly its financial position and results of operation, in accordance with generally accepted accounting principles for Federal agencies. However, although a new accounting system under development should provide enhancements and refinements to the current financial processes, we continue to find that increased oversight and supervision of accounting and budgeting operations are needed to timely and efficiently prepare the financial statements, congressional reports, and related supporting data.

We recommended that CCC strengthen its financial accounting procedures and operations. We also included recommendations on more effective use and improvement of the management control review process. CCC generally agreed with our recommendations and is continuing to improve its financial management.

RTB: Unqualified Opinion

We issued RTB an unqualified opinion. We concluded that the financial statements presented fairly its financial position and results of operations. We continued to find, however, that RTB needs to improve controls for establishing and reestimating loan subsidy costs.

FS "Financial Health Initiative" Yields Improvements, More Needed

In July 1996, immediately following issuance of the FY 1995 FS financial audit, FS, OIG, and OCFO began a cooperative task force effort to plan and implement improvements in FS' financial management and accountability. In March 1997, OIG began monitoring FS' implementation of financial health action plans at regional, forest, and research station field units. Overall, the FS units we visited were actively implementing the national financial health action plan. However, significant work remained to be done, and, in the current systems environment, maintaining accurate and current accounting data requires constant staff work at all field accounting units.

In June 1997, FS issued a financial health desk guide which was developed by the task force and, based on input from users, from OIG, and from OCFO, updated it in January 1998. Many of the accounting errors we noted should be corrected as FS personnel gain experience applying the instructions contained in the desk guide.

In FY 1997, our initial work identified major issue areas involving property, plant, and equipment; accounts payable and accounts receivable; management codes; and fire caches. During FY 1998, FS and OIG continued to work together to improve FS' financial accounting processes and data quality. Our initial FY 1998 consulting visits to seven FS field accounting units yielded the following observations:

- *Real Property* - Physical inventories of real property (excluding road assets) were progressing well; however, validations of real property capitalized costs and acquisition dates, as well as the completion of property documentation files, were not progressing in line with FS' goals.

- *Personal Property* - Physical inventories of all personal properties were not completed in FY 1997, as planned by FS. Also, capitalized costs for 38 percent of the properties we tested were incorrect or inadequately documented.

- *Accounts Payable/Accounts Receivable* - Both continued to be highly error prone.

- *Cash and Deposit Accounts* - Overall, maintenance of working capital fund accounts, budget clearing accounts, and suspense deposit accounts has improved since FY 1997, but frequent review and adjustment are required.

Accounting processes and accounts payable and accounts receivable are particularly burdensome and error prone because the existing accounting system lacks automated and integrated subsidiary ledgers. In addition, many of the errors are caused by nonaccountant employees receiving insufficient supervisory oversight and on-the-job training in applying financial health guide instructions. Improved information on transactions executed by operating personnel needs to be provided to fiscal staff so that transactions can be properly recorded. Improved accounting processes will take time to develop and apply in FS' decentralized management structure. Also, critical to FS success is implementation of a fully integrated standard general ledger accounting system. Until a new system is fully implemented, FS' accounting processes will continue to be error prone and consume significant staff resources.

FS Retroactive Redistribution Process Poses Great Risk That Funds May Be Misused

We reviewed FS' control of funds, specifically as it relates to the retroactive redistribution of incurred costs that occurs at NFC, to address the prospective impact the process could have on the burgeoning FFIS and to evaluate management controls over the redistribution process.

We found that FS shifted charged costs at least 269,000 times in FY 1997, the preponderance (125,000 occurrences) of which took place in the fourth quarter. We also found that controls had not been adequately prescribed to ensure that the actions were properly authorized, approved, justified, or documented. Accordingly, there was insufficient assurance that the shifting of incurred costs from one account to another was done in a manner consistent with appropriations law. We also found that the implementation of FFIS was unduly delayed and the costs of the project significantly increased because retroactive redistribution could not be made to run on the system.

The timing of these changes in charged costs epitomizes the potential risk and enforces the notion that the actions were undertaken to shift funding to those accounts which could absorb the charges, from those where they had been incurred. The retroactive redistribution process provides a great risk to adherence with appropriations law, as shifts in charges could cross appropriations lines and the receiving appropriation account could be exceeded. We did not seek to establish whether deliberate violations had occurred.

We recommended that FS eliminate the current capability to shift the charges of incurred expenditures and rescind plans to automate the process in FFIS. We also recommended that FS implement controls to ensure that all revisions to accounting transactions are proper.

FS concurred with the findings and recommendations regarding FFIS and the implementation of management controls. The agency cited, however, that it was not feasible to modify NFC's Central Accounting System and thereby eliminate the capability to retroactively redistribute funds. FS proposed an alternative action through policy, procedures, and monitoring which would greatly restrict management code changes. We have requested additional information about these proposed controls before coming to management decision.

INFORMATION TECHNOLOGY

Department Progressing With "Year 2000" Conversion Project

Most Departmental computer systems are not programmed to perform calculations based on the year 2000. These systems recognize such a data entry only as 1900. If by the year 2000 the systems are not converted to accept "2000," either they will fail to perform any calculations based on that year or will provide inaccurate information. This situation has become known as the "Year 2000" crisis.

The Office of Management and Budget (OMB) set the target date for all Federal systems to become converted by March 30, 1999. The Office of the Chief Information Officer (OCIO) serves as the Department's focal point for addressing conversion issues.

We performed a review to determine the accuracy of the quarterly data being reported to OMB by OCIO. We found that the Department had not adopted a common definition for the term "systems." This resulted in agencies reporting minor applications as mission critical systems, which significantly overstated the number of mission critical systems within the Department. For example, after a standard definition of "systems" was adopted, FS reduced its number of mission critical systems from 452 to 17. OCIO originally reported 1,319 mission critical systems to OMB; however, as of June 30, 1998, OCIO revised the number to 657.

We also found that OCIO's reported number of compliant systems overstated the Department's actual progress toward meeting Year 2000 compliance. We found that many of the systems being reported as compliant required no renovation work, which indicated they were already Year 2000 compliant. For example, OCIO reported that 539 (41 percent) of the Department's 1,319 mission critical systems were Year 2000 compliant as of February 1998. However, our review showed that 327 of these systems were originally compliant or were not affected by date fields in their programming code. As of June 30, 1998, OCIO revised the report to show that 375 systems were compliant.

OCIO officials agreed with our findings and have implemented corrective actions. Our review work is continuing. We have completed reviews at NFC, NITC, and Rural Development. Additional reviews are under way or planned at FS, the National Agricultural Statistics Service, APHIS, FSA, and FNS.

AUDITS OF CONTRACTS

Questioned Costs of $192,000 on FS Contract Settlement Proposal

The audit reviewed an FS contract modification proposal resulting from a Government-ordered change in construction from a conventional heating and ventilating system to a system capable of using onsite geothermal resources. The audit of the $630,000 proposal identified questioned costs of $192,000 consisting of unsupported overhead costs and unallowable costs due to related-party transactions and interest financing. The FS contracting officer used the audit findings to eliminate the questionable items from the settlement proposal and issued a final determination on the matter.

Review of the Department's Mail Operations Substantiated Overcharges

At the request of the Office of Operations' (OO) contracting officer, we performed a review of the blanket purchase agreement and subsequent contract with a private company for mail services at the USDA headquarters complex. OO asked us to verify whether the contractor had, as suspected, overcharged the Government.

We confirmed that the contractor had overcharged the Department by at least $250,000 by charging for (1) 40 hours of work per week when only 37.5 hours were performed, (2) holidays not permitted by the contract, (3) a labor category not included in the contract, and (4) hours not supported by documentation.

OO's management control deficiencies allowed the contractor's overcharges to remain undetected for 16 months. During the course of our review, the contract came up for renewal. The Department elected not to exercise the contract option year.

We recommended that OO recover the overpayment to the contractor. OO agreed and has initiated the recoupment process.

OVERSIGHT OF NON-FEDERAL AUDITORS

OIG monitors the work performed by non-Federal auditors for agencies of the Department and takes appropriate steps to ensure that their work complies with professional audit standards. We oversee the audits of State and local governments for which USDA has been assigned single audit cognizance and provide technical assistance when needed. In addition, OIG commonly participates in quality control reviews, led by other assigned cognizant Federal audit organizations, of State agencies administering major USDA programs.

Single Audits

During this reporting period, we issued 24 audit reports covering areas over which we have been assigned cognizance or where large amounts of USDA funds have been expended. As a result of one of these single audits, we were notified by FNS that it had received a check of nearly $2 million for questioned costs for three prior Connecticut single audits performed. During FY 1996, Connecticut received over $295 million in USDA funds.

Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct, including conflicts of interest, misuse of official position for personal gain, and the misuse or theft of Government property and money. During the past 6 months, our investigations into these types of matters resulted in 14 convictions of current or former USDA employees and 36 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations that yielded results during the past 6 months.

Employee Sentenced in Embezzlement Case

A Louisiana Rural Development county office employee pled guilty in Federal court to embezzling and misapplying over $82,000 in rural housing loan payments she had received in her office. She was sentenced to serve 6 months' imprisonment, to be followed by 4 months' home confinement. She was also fined $10,000 and ordered to pay nearly $24,350 restitution. The employee resigned soon after we initiated our investigation.

Three NRCS Employees Guilty of Accepting Bribes and Gratuities

In July 1994, a tropical storm struck southern Georgia, causing serious flooding and millions of dollars in damage. As a result, NRCS negotiated and funded numerous watershed repair contracts under the Emergency Watershed Protection Program (EWPP). After we received confidential information from a private sector contractor, our 18-month investigation developed evidence showing that two NRCS employees who were responsible for managing EWPP contracts accepted cash bribes from a contractor in exchange for special considerations in obtaining EWPP contracts. A third employee arranged for a contractor doing business with NRCS to perform construction work on personally owned land. The cost of this work was then improperly billed to USDA. Between July and September 1998, the three employees entered guilty pleas in U.S. District Court, Middle District of Georgia, to violations resulting from their acceptance of bribes and gratuities. One employee was fined and placed on probation, and resigned from NRCS. The other two employees are currently on indefinite suspension; they stated in their plea bargains that they would resign from their positions and are awaiting sentencing.

Statistical Data

AUDITS WITHOUT MANAGEMENT DECISION

The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives follow this table.

Audits Pending Agency Action

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
CR	09/29/97	1. Farm Loan Programs - Civil Rights Complaint System (50801-3-HQ)	0	0
	03/04/98	1. Followup on Civil Rights Recommendations (50801-5-HQ)	0	0
CSREES	03/27/97	2. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)*	5,633	0
	03/31/98	3. Use of Grant Funds by Langston University (13011-1-Te)	1,364,560	857,325
	03/31/98	4. National Research Initiative Competitive Grants Program (13601-1-At)	32,757,862	32,757,862
FAS	12/02/96	5. Evaluation of the Fund for Democracy and Development (07801-4-Te)*	5,855,622	5,853,589
FNS	03/21/97	6. Establishment and Collection of Food Stamp Claims (27002-2-Te)*	1,908,988	1,908,988
	07/08/97	7. Reinvestment of Quality Control Penalties (27099-4-At)*	50,150,541	30,497,946
	08/25/97	8. National School Lunch Program Verification of Applications in Illinois (27010-11-Ch)*	31,200,000	31,200,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/25/97	9. Strategic Monitoring of the Electronic Benefits Transfer System in Illinois (27099-11-Ch)*	0	0
	09/30/97	10. Food Stamp Program - Reporting Accuracy of Claims Activity (27601-12-Ch)*	0	0
	03/30/98	11. New York City Case File Documentation (27010-12-Hy)	2,047,988	2,047,988
FS	10/27/92	12. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	1,079,189
	07/18/96	13. FY 1995 FS Financial Statements (08401-1-At)*	1,150,183,750	1,150,183,750
	09/30/96	13. Real and Personal Property Issues (08801-3-At)*	0	0
	02/11/98	14. Forest Service Grants to Nonprofit Organizations (08801-1-Te)	1,248,595	1,247,824
FSA	09/18/95	15. Management of the Dade County, FL, FSA Office (03006-1-At)*	75,175,410	909,437
	03/15/96	16. Wool and Mohair Payment Limitation, Concho County, TX (03099-2-Te)*	2,072,102	1,177,675
	03/29/96	17. Texas Agricultural Mediation Program (03801-15-Te)*	964,878	964,878
	03/29/96	18. Cash/Share Lease Provisions (03801-2-Te)*	1,076,557	18,911

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	05/02/96	19. Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	03/04/97	20. State-Administered Mediation Programs (03801-23-Te)*	1,174,624	1,174,624
	08/27/97	21. Operator Compliance With Payment Eligibility and/ or Limitation Provisions in South Dakota (03006-5-KC)*	63,909	63,909
	09/29/97	22. Peanut Price Support Program (03601-6-At)*	46,704,388	46,704,388
	02/24/98	23. Implementation of the Beginning Farmer Program (03601-9-KC)	127,679,250	225,050
	03/05/98	24. Emergency Disaster Loan Program - Mississippi (03601-7-At)	111,026	111,026
	03/10/98	25. Emergency Disaster Loan Eligibility (03601-22-Te)	661,870	661,870
	03/18/98	26. Noninsured Crop Disaster Assistance Payments for 1996 Crop Losses in Florida (03601-27-Te)	190,320	0
	03/31/98	27. Reorganization of Payment Limitation in Hildago County, TX (03601-23-Te)	542,807	542,807
FSIS	05/23/97	28. Controls Over the Export of Meat and Poultry Products (24099-1-Te)*	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
NRCS	03/30/98	29. Conservation Reserve Program Acreage Enroll- ments - Signup 16 (50601-6-KC)	0	0
Office of Community Development	02/27/98	30. Rio Grande Valley Empowerment Zone - Texas (34801-2-Te)	0	0
OCFO	03/25/98	31. Review of Controls in the Payroll/Personnel and Time and Attendance System - Phase I (50099-0011-FM)	27,259	27,259
RBS	03/31/97	32. Intermediary Relending Program (34601-1-Te)*	3,602,796	3,602,795
RHS	03/26/98	33. Evaluation of Tenant Income Verification Process (04801-1-KC)	67,477	17,073
RMA	09/30/97	34. Reinsured Companies' APH Self-Reviews (05099-1-Te)*	0	0
	09/30/97	35. Crop Insurance on Fresh Market Tomatoes (05099-1-At)*	15,082,744	15,082,744
	11/25/97	36. Crop Insurance Claims in the Midwest (05601-1-Ch)	726,057	726,057
	03/03/98	37. Transfer of CAT Policies to Reinsured Companies (05099-1-KC)	0	0
Audits Pending Judicial, Legal, or Investigative Proceeding				
AARC Corporation	09/30/96	38. AARC Cooperative Agreement With Agro- Fibers, Inc. (34099-1-At)*	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FNS	09/22/97	39. Child and Adult Care Food Program - Sponsor Abuses (27601-7-KC)*	56,296	56,296
FS	03/31/97	40. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)*	469,000	469,000
FSA	09/30/93	41. Disaster Program, Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	03/02/95	42. Disaster Assistance Program, Jackson County, FL (03099-158-At)*	359,265	359,265
	03/31/95	43. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (03600-26-SF)*	484,972	364,552
	09/07/95	44. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI (03099-8-KC)*	165,069	165,069
	09/07/95	45. A&B Professional Consulting, Inc. (03004-1-At)*	628,976	628,976
	09/28/95	46. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	47. Crop Disaster - Brooks/Jim Hogg, TX (03006-1-Te)*	2,469,829	2,418,167
	09/18/96	48. Emergency Feed Program in Texas (03601-7-Te)*	626,182	115,425

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/30/96	49. 1994 Disaster Assistance Program - Maine (03601-1-Hy)*	2,666,383	2,660,573
	03/27/97	50. Emergency Disaster Loan Eligibility in Arkansas (03099-13-Te)*	614,490	280,000
	12/04/97	51. Emergency Disaster Loan Program in California (03601-8-SF)	797,696	620,666
RHS	05/02/96	52. RRH Project Operations - Cato Company, Michigan (04010-12-Ch)*	235,498	235,498

*Reported in last semiannual report.

Audits Without Management Decision - Narrative

1. Farm Loan Programs - Civil Rights Complaint System, Issued September 29, 1997, and Followup on Civil Rights Recommendations, Issued March 4, 1998

We continue to audit CR activities and are finding that issues reported in the above-referenced reports are recurring. We are working with Department officials to craft solutions that will address the recurring problems.

2. Use of 4-H Program Funds - University of Illinois, Issued March 27, 1997

After having participated on a team that identified members of a county 4-H volunteer committee who had diverted club funds to their own organization, two Schedule A, joint Federal-State employees of the University of Illinois Cooperative Extension Service (CES), were removed from their positions and given notice that their employment would be terminated. We recommended that Illinois CES be required to suspend its personnel actions against these two Schedule A appointees and that CSREES monitor the situation to ensure that any rights due these employees under the Merit Service Protection Act are honored. Finally, we recommended that CSREES clarify and disseminate its position regarding the legal rights and protection of Federal appointees to all CES directors.

The Office of the General Counsel (OGC) advised the agency that the CES Schedule A positions were covered under the 1990 law extending coverage to Schedule A excepted-service positions. OGC concluded that, specifically in the case of the two Schedule A appointees, the provisions of the act covering due process, appeal rights, and whistleblower protections applied. CSREES officials stated they will implement all recommendations except those relating to the dissemination of the OGC opinion of Schedule A appointees' employment rights and our recommended intervention in the prohibited personnel actions at the university. The university contends that Federal civil service provisions of due process and whistleblower protection are not applicable to actions taken by the university against State employees who are also Schedule A appointees. The university has agreed to defer further actions pending a decision by the Merit Systems Protection Board (MSPB) and has reassigned one of the Schedule A appointees and retracted the termination letter.

In February 1998, OIG issued a management alert to the Under Secretary for Research, Education, and Economics elevating the findings of our report to obtain his position on Schedule A coverage. As a result, the Under Secretary directed the CSREES Administrator to accept the application of civil service coverage to Schedule A extension employees, disclose fully the pertinent facts and information on these positions to MSPB, inform all CES directors of the protections afforded to Schedule A appointees, and prevent prohibited personnel practices to include protections from adverse actions against whistleblowers. CSREES's response, however, was not acceptable to reach management decisions on the recommendations. Subsequently, the Department's Office of Human Resources Management issued a statement that the Schedule A appointees are joint Federal and State employees who are entitled to civil service and whistleblower protections. We are currently working with the Under Secretary to resolve the differences between the Department's official position and the agency's actions, including the need for the Under Secretary and CSREES to work with the State CES partners to resolve the dual status of these Schedule A appointees.

3. Use of Grant Funds by Langston University, Issued March 31, 1998

After we reported that a former director of research and extension at Langston University had misused up to $1.2 million of CSREES grant funds, CSREES agreed to require the university to replace any funds that the university could not justify within Federal funding standards and the criteria for these projects. We continue to work with the agency to reach an agreement on the amount that the university must replace.

4. National Research Initiative Competitive Grants Program (NRICGP), Issued March 31, 1998

The audit disclosed that CSREES' process for awarding grants favors large institutions and researchers previously awarded NRICGP grants, that there appears to be a direct relation between the institutional affiliations of peer review panel members and the institutions receiving awards, and that more than 60 percent of the approximately $32 million for Strengthening Program funds awarded from FY's 1994 through 1996 did not fully meet NRICGP objectives. Management decisions have not been reached for our eight recommendations. We are withholding our response to CSREES' latest proposed action while OGC completes an opinion.

5. Evaluation of the Fund for Democracy and Development (FDD), Issued December 2, 1996

OIG recommended that FAS collect $2,163,390 from FDD for its failure to account for donated commodities and its agent's misappropriation of donated commodities. Although the donation agreement provides that the cooperating sponsor will be liable to CCC for any use of the commodities or sales proceeds that is inconsistent with the donation agreement, the General Sales Manager believes that CCC did not intend to make the cooperating sponsor an insurer against any unauthorized use of the commodities, regardless of the circumstances relating to any such unauthorized use. OIG believes that if accountability is not established for the donated commodities, program losses may even escalate. We also recommended that FAS determine the proper disposition of $3.6 million in sales proceeds from donated commodities because of the auditee's noncompliance with its operating plan.

Although CCC has established an account receivable, FAS has not issued demand letters seeking collection of $2,163,390 from FDD. FDD contends it has accounted for all the donated commodities. FAS is still reviewing the documents provided by FDD; the four recommendations relating the monetary exceptions are still open.

6. Establishment and Collection of Food Stamp Claims, Issued March 21, 1997

We reported that the State agency in Texas referred potential fraud claims for investigation before establishing them as inadvertent household errors in the accounts receivable tracking system. This happened because of a State agency policy that requires delay in establishment of a claim until a determination of intentional program violation is made. As a result, outstanding claims valued at over $1.9 million are not recorded in the accounts receivable tracking system and reported as a receivable for financial statement purposes. We recommended that the State agency compute the overissuance for all cases referred for investigation and establish these cases as inadvertent household error claims. We also recommended that the State agency change its policy and classify all future referral cases as inadvertent household error claims. To address these matters, FNS officials decided to seek guidance from the Federal Accounting Standards Advisory Board; however, FNS now is seeking alternative solutions. We cannot reach a management decision until FNS advises us of planned corrective actions.

7. Reinvestment of Quality Control Penalties, Issued July 8, 1997

We questioned the eligibility of reinvestment projects in nine States and costs charged to other eligible projects. FNS disagreed with some questioned costs, is in the process of assessing the eligibility of the remaining costs, and is processing fiscal settlements with the respective States as appropriate. Management decision is pending settlement of the questioned costs and assessments against three of the nine States.

8. National School Lunch Program (NSLP) Verification of Applications in Illinois, Issued August 25, 1997

We recommended that FNS require the Illinois State agency to monitor verification efforts of its school food authorities (SFA) regarding NSLP applications and take appropriate followup measures on those which had high error rates. We also 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 the State agencies monitored verification activities as part of the Coordinated Review effort. However, since these reviews are performed only every 3 years, we do not believe this is adequate oversight, as was evidenced by the high error rates which we detected. FNS has been unwilling to require expanded sampling, even for SFA's whose applications have high error rates. FNS did not want to require additional verifications based on the work in only one State; it proposed to do a study which would collect data from additional States before making a decision. Subsequently, FNS advised that its funding for this project had been transferred to another agency and that FNS would be unable to do the study. FNS has now agreed to contact State agencies and obtain error-rate information for major cities to assist in making a decision on our recommendations. FNS also believes that the potential savings from any increase in verification requirements should be accurately determined and should be weighed carefully against the increase in administrative burden which it would impose on SFA's.

9. Strategic Monitoring of the Electronic Benefits Transfer (EBT) System in Illinois, Issued September 25, 1997

Illinois does not monitor the use of food stamp benefits separate from other State-issued benefits on the EBT card. The State regards an EBT card as "active" if any benefit, including a State-issued benefit, is accessed by the recipient. Therefore, unused food stamp benefits could accrue on the EBT card while the recipient is accessing other benefits. Federal regulations require unused food stamp benefits to be expunged after 1 year. Unless food stamp benefit access is tracked separately, the State is unable to identify whether stamp benefits were accessed. FNS initially disagreed with our recommendation addressing this issue; however, based on subsequent discussions, FNS agreed to reevaluate its position. We continue to work with FNS to achieve management decision.

10. Food Stamp Program - Reporting Accuracy of Claims Activity, Issued September 30, 1997

One issue relating to the establishment of claims by the States remains unresolved. We recommended FNS monitor State agencies to ensure that all potential fraud claims are established and entered to the accounts receivable system in accordance with existing regulations. This issue, in part, has caused FNS to receive a qualified opinion to its financial statement audit. FNS officials decided to seek guidance from the Federal Accounting Standards Advisory Board; however, FNS now is seeking alternative solutions. We cannot reach a management decision until FNS advises us of planned corrective actions as appropriate.

11. New York City Case File Documentation, Issued March 30, 1998

One recommendation remains open. We recommended that FNS establish a minimum acceptable standard for determining compliance with case file documentation requirements and establish penalties to recover the value of food stamp issuances that are not supported when the standard is not met. FNS responded that current regulations require case file documentation to support eligibility and benefit levels. FNS agreed to issue a memorandum to States reiterating this policy and to use financial penalties when States do not comply. However, FNS stated that financial penalty guidelines would be too complex to develop and reiterated that all case files should be properly documented.

We agree that issuing a policy memorandum to remind States of the requirements is needed; however, we continue to believe that additional guidelines should be implemented. Per our September 22, 1998, meeting with FNS, and our memorandum of September 25, 1998, we believe these issues may be resolved, or are close to being resolved, and are working with FNS to achieve management decision.

12. Historic Aircraft Exchange Program, Issued October 27, 1992

We recommended that FS officials resolve ownership issues involving C-130A and P-3A aircraft that were improperly exchanged for private aircraft and recover ownership of the aircraft as appropriate. The U.S. Department of Justice and OGC have recommended that FS proceed with action to claim title of the aircraft in dispute. FS has agreed to begin actions to claim title to the aircraft but, as of September 28, 1998, had not formally notified holders of the aircraft. Once FS formally begins proceedings to recover the Government aircraft, we will be able to reach management decision.

13. FY 1995 FS Financial Statements, Issued July 18, 1996, and Real and Personal Property Issues, Issued September 30, 1996

FS and OIG personnel have been working closely in a task force approach to improve FS accounting systems and processes and to adopt new accounting standards issued by OMB. One primary objective of the task force 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 is working toward converting field offices to the new Departmental general ledger system. Implementation timeframes for (1) the new general ledger, (2) improvements in FS accounting subsystems, and (3) new accounting standards will extend into FY 1999.

We continue to work closely with FS to ensure that longstanding deficiencies in its accounting systems and controls are eliminated.

14. Forest Service Grants to Nonprofit Organizations, Issued February 11, 1998

In our audit of the National Forest Foundation (NFF), we recommended that FS recover $1.2 million in funds that had not been matched as required by the terms of the grant agreement. FS disagreed with our recommendation and proposed to evaluate the financial records of NFF to determine if sufficient private donations were available and used to match FS funds. However, to date, sufficient detailed cost data has not been provided to determine the allowability of the $1.2 million, and we continue to recommend that FS recover the amount in question.

15. Management of the Dade County, FL, FSA Office, Issued September 18, 1995

We found that eight producers, including a county committee member, received over $850,000 in payments that were improper because the producers' qualifying gross income exceeded the $2 million limit. Also, a county office employee, primarily responsible for administering the disaster assistance program, received questionable payments of over $50,000 based on inaccurate supporting information. We recommended that FSA recover the excessive payments. We are working with FSA officials to reach agreement on the cases.

16. Wool and Mohair Payment Limitation, Concho County, TX, Issued March 15, 1996

We questioned approximately $1.2 million in wool and mohair price support payments to a family group because the producer did not operate as reported to FSA. Not all of the producers were actively engaged in farming, they were not separate and distinct, and their shares of a partnership were not properly reported to FSA. In addition, another producer's farming operation was not separate and distinct from the partnership. We recommended that the agency determine whether the members of the partnership and the other producer should be combined as one "person" for payment limitation purposes. We are working with FSA officials to reach management decision.

17. Texas Agricultural Mediation (TAM) Program, Issued March 29, 1996

The Texas Attorney General instructed Texas Tech University (TTU) officials to deny OIG access to mediation program records, asserting that such records were confidential under Texas law. We have issued Inspector General subpoenas to obtain the records, and litigation in this matter is ongoing.

We identified a potential conflict of interest for three of the four full-time mediation program employees, excessive grant reimbursements totaling over $485,000, a TAM official claimed as a full-time employee of the mediation program who was engaged in numerous other time-consuming duties, and questionable charges for training.

We recommended that the FSA Administrator cancel the certification of the agricultural mediation program administered by TTU and instruct the FSA Texas State Executive Director to implement an alternative mediation program (regulations already provide for such a program) for Texas borrowers. We also recommended that FSA recover the excessive grant funds, clarify the extent and type of mediation training required to meet the mediation program certification requirement, and evaluate the effectiveness of the agricultural loan mediation program by determining whether grant funds are being used effectively. We continue to meet with the FSA Administrator and other Department officials to discuss resolution of these issues.

18. Cash/Share Lease Provisions, Issued March 29, 1996

We recommended that FSA officials clarify and consistently apply regulations prohibiting landlords from using combination leases requiring tenants to pay them any Government payments or price support benefits earned by the tenant under FSA programs. We also recommended that FSA issue specific instructions that would prohibit landlords from receiving Government payment or price support benefits earned by their tenants. We are working with agency officials to reach management decision.

19. Disaster Assistance Program - 1994, Thomas County, GA, Issued May 2, 1996

We found that 17 producers, involving 2 separate family farming operations and 1992 and 1993 payments totaling $2,145,533, appeared to have participated in schemes or devices to avoid maximum payment limitations. One family farming operation is under investigation, and FSA has been precluded from taking action on these producers until investigative actions are completed. The FSA Georgia State office advised us that it was acting on the other family farming operation.

20. State-Administered Mediation Programs, Issued March 4, 1997

For Texas, Michigan, Minnesota, and North Dakota, we recommended that FSA recover $2.1 million as a result of excessive and unsupported claims for reimbursement (includes almost $1 million recommended for recovery in report No. 03801-15-Te, Texas Agricultural Mediation Program). We also recommended that FSA withhold FY 1997 and future grant funds until the State agencies provide access to all mediation records needed to evaluate the effectiveness of program operations and use of grant funds. We are working with FSA to reach management decision.

21. Operator Compliance With Payment Eligibility and/or Limitation Provisions in South Dakota, Issued August 27, 1997

We reported that a producer, the producer's spouse, and an associated corporation inaccurately reported their interest in 1996 production flexibility payments and 1995 conservation use for payment acres, bringing into question payments totaling $61,459. We recommended that the county committee perform an end-of-year payment review and determine if the producers adopted a scheme or device to evade the payment limitation provisions. The South Dakota State office agreed to include the entities in its end-of-year reviews. FSA, when conducting the review, determined that the producer had already provided copies of pertinent documentation to OIG. As a result, OIG provided copies of requested documents to the South Dakota State office in January 1998. We continue to work with the agency to reach management decision.

22. Peanut Price Support Program, Issued September 29, 1997

We reported that FSA did not assess required penalties against handlers who remitted marketing assessment fees late. FSA agreed with the recommendations to assess up to $9,401,964 in penalties for crop-years 1995 and 1996. However, before the penalties can be assessed, FSA must complete a complex reconciliation procedure and verify the fees were remitted late. We are working with FSA to reach management decision pending FSA's assessments of the penalties.

23. Implementation of the Beginning Farmer Program, Issued February 24, 1998

We reported that FSA has been partially successful in implementing the Beginning Farmer Loan Program (BFLP) but that a significant portion of the BFLP loans were made to borrowers who did not meet the definition of a beginning farmer. We recommended, in part, that FSA inform county office personnel of the conditions reported and require that coverage of these areas be provided in future staff training. In addition, we recommended FSA request the guaranteed lender for one loan to prepare a new promissory note reflecting payment terms specified in the conditional commitment. As part of the agreed-to corrective action, FSA committed to requesting the lender to correct the payment terms for the cited loan. We are working with agency officials to reach management decision.

24. Emergency Disaster Loan Program - Mississippi, Issued March 5, 1998

We reported excessive loan amounts totaling $111,026 made to borrowers. The FSA State office is in the process of taking appropriate loan-servicing actions to recover the unauthorized assistance.

25. Emergency Disaster Loan Eligibility, Issued March 10, 1998

In Oklahoma, contrary to law, 11 borrowers received catastrophic risk protection (CAT) indemnity payments or Noninsured Crop Disaster Assistance Program (NAP) benefits totaling $98,512 along with emergency loan benefits totaling $459,220 for the same losses. Further, all borrowers included in the review provided false or inaccurate information, and FSA county office personnel mae errors computing six borrowers' loans. As a cumulative result of the inaccurate information and errors, the borrowers received excess loan funds totaling $314,217. Of the 13 borrowers who submitted false information, 8 have been referred to the U.S. attorney's Affirmative Civil Enforcement Division for prosecution under the False Claims Act.

26. Noninsured Crop Disaster Assistance Payments for 1996 Crop Losses in Florida, Issued March 18, 1998

We questioned payments of $190,320 because county office personnel incorrectly used the county-expected yield rather than the approved yield to compute the payments. We recommended that action be taken to recover the cited overpayments and that all other crop-year 1996 NAP payments be reviewed for accuracy. FSA determined that county office error caused the overpayments, and the finality rule was applied to waive collection. A management decision has been reached for all recommendations in the report except for the one recommending a review to verify the accuracy of NAP payments that were not included in our review.

27. Reorganization of Payment Limitation in Hildago County, TX, Issued March 31, 1998

We found that seven members of one family, including a present county committee member and a former county committee member, did not, as they claimed, operate as separate producers for crop-years 1996 and 1997, and we questioned payments of over $500,000. FSA is determining whether the seven family members adopted a scheme or device. Upon that conclusion, FSA will need to further address the recommendation and collect the resultant overpayments.

28. Controls Over the Export of Meat and Poultry Products, Issued May 23, 1997

FSIS' current directive precludes FSIS inspectors from opening, inspecting, and verifying the contents of product containers presented for export unless the containers appear to be damaged. We believe that the absence of such a control constitutes a material internal control system weakness of FSIS' food safety oversight responsibility. FSIS officials proposed to resolve the matter by transferring the responsibility to AMS. However, before we can accept a management decision, FSIS needs to provide us with its proposed corrective action plan addressing FSIS/AMS export inspection procedures, responsibilities, and internal controls.

29. Conservation Reserve Program Acreage Enrollments - Signup 16, Issued March 30, 1998

We reported that States experienced problems with existing Environmental Benefits Index (EBI) software packages. We recommended that NRCS solicit input from each State as to the nature of its problem(s). We concur with the actions taken to implement the recommendation. We can reach management decision when NRCS provides documentation of its implementation. We also reported that NRCS increased the risk of criticism to USDA by awarding producers offering larger tracts of land additional EBI points. We recommended that NRCS conduct an analysis to determine whether producers have been denied participation in the Conservation Reserve Program or other agency programs due to any associated farm size requirements.

30. Rio Grande Valley Empowerment Zone - Texas, Issued February 27, 1998

We recommended that Rural Development officials ensure that Rio Grande Valley Empowerment Zone officials take appropriate action on a grant-specific audit of a subrecipient that received over $500,000 in empowerment zone funds and failed to fulfill its contractual obligations. The audit questioned use of over $282,000 in program funds. We are working with Rural Development to ensure there is a proper accounting for these funds.

31. Review of Controls in the Payroll/Personnel and Time and Attendance (T&A) System - Phase I, Issued March 25, 1998

We reported that additional procedure processes and controls were needed to more fully protect the payroll/personnel systems from errors or irregularities and recommended that the Department implement internal controls to preclude the weaknesses noted in the report. Management decision is pending receipt of information from the Acting Assistant Secretary for Administration and OCFO advising as to the specific actions that have been taken and/or planned regarding Departmental guidance for payroll/personnel management, redesign of T&A business processes, reports management and related training, and improvement of controls over the Voluntary Leave Transfer Program, including related timeframes for completion.

A reply was due July 30, 1998, from Departmental Administration, and we are working with the audit liaison for the Acting Assistant Secretary for Administration to obtain and evaluate it to reach management decision on the outstanding recommendations.

32. Intermediary Relending Program, Issued March 31, 1997

We recommended that the Rural Business-Cooperative Service (RBS) notify relenders that 17 loans totaling $1.4 million were for ineligible purposes and initiate action to recover the loan funds; determine whether another 22 questioned loans totaling $1.6 million met program guidelines, loan agreements, and workplans; and for those loans that did not meet eligibility requirements, initiate action to recover the funds from the relenders. We also recommended that RBS determine if five loans totaling $750,000 which involved conflicts of interest should be recovered. The agency reviewed the cited loans; however, proposed actions were insufficient to reach a management decision on all recommendations. We continue to work with the agency to obtain the information needed to reach a management decision.

33. Evaluation of Tenant Income Verification Process, Issued March 26, 1998

We recommended that RRH management companies recover improper rental assistance and interest credit subsidies from audit sample tenants who inaccurately reported income information. RHS officials have stated they have no disagreements with the audit recommendations and are currently evaluating alternatives for implementing corrective action and timeframes for completing those actions.

34. Reinsured Companies' Actual Production History (APH) Self-Reviews, September 30, 1997

We recommended that RMA take action to ensure that APH's are corrected in all data bases, track and ensure the receipt of APH results, perform tests to determine the accuracy of past results, and establish a system of rewards and penalties for APH accuracy. We have reached management decisions on three of the six recommendations and are continuing to work with RMA to reach management decision on the remaining three recommendations.

35. Crop Insurance on Fresh Market Tomatoes, Issued September 30, 1997

The audit disclosed that the Fresh Market Tomato Crop Insurance Program in Florida has been poorly managed by the reinsured companies and abused by sales agents, loss adjusters, and producers. Reinsured companies paid indemnities for (1) abandoned crops, (2) losses outside the insured period, (3) crops planted on wetlands, and (4) under/nonreported production. We also found two sales agents of reinsured companies who received almost $400,000 in commissions for crop insurance policies sold to producers in conflict-of-interest situations. The report included 13 recommendations addressing the problems disclosed. We are currently evaluating RMA's latest response to the audit and continue to work with RMA to reach management decision on the 13 recommendations.

36. Crop Insurance Claims in the Midwest, Issued November 25, 1997

We reviewed 7 policies, involving 3 producers filing 12 loss claims on corn, cranberries, potatoes, and soybeans. The review disclosed that seven of the indemnity payments were incorrect. Six of these resulted in overpayments, totaling about $725,000, because optional units were improperly used to calculate indemnity payments. The remaining claim was underpaid $449. We are evaluating RMA's latest response and continue to work with RMA to reach management decision on the audit recommendations.

37. Transfer of Catastrophic Risk Protection (CAT) Policies to Reinsured Companies, Issued March 3, 1998

Our audit of the first transfer of CAT policies showed that RMA, FSA, and private insurance companies did not effectively coordinate their activities. Specifically, we found that producers did not always receive adequate local agent servicing, the needs of limited resource producers were not addressed, and RMA's evaluation process did not fully assess the effectiveness of CAT program servicing. RMA concurred with the recommendations but generally proposed or offered actions that did not address the recommendations. RMA has not responded to the audit since it was issued. We are continuing to work with RMA to reach management decision on the four recommendations that are still open.

38. Alternative Agricultural Research and Commercialization (AARC) Cooperative Agreement With AgroFibers, Inc., Issued September 30, 1996

The AARC Corporation awarded $800,000 to a company to develop, manufacture, and market kenaf (papyrus grass) nonwoven mat products. Our audit disclosed that, after 5 years, the company had only $100 equity in the business and had misrepresented its financial position. Soon after our visit to the site, the plant burned to the ground. The AARC Corporation has taken action to improve its project management and agreed to apply due diligence in future arrangements with the company. The U.S. attorney recently concluded that criminal or civil prosection was not warranted. OIG is currently presenting the case to the Department of Justice for civil fraud prosecution.

39. Child and Adult Care Food Program - Sponsor Abuses, Issued September 22, 1997

The sponsor reviewed is under investigation, and we recommended that the sponsor be terminated from the program. FNS concurs with this recommendation; however, OGC is working with us to determine the conditions for termination. FNS will act upon OGC's decision. We also need to be advised when claims are established. FNS can take no action until the investigation is complete.

40. Research Cooperative and Cost Reimbursable Agreements, Issued March 31, 1997

We recommended FS recover about $469,000 of administrative overhead expenses that had been incorrectly reimbursed to a university. FS has required a legal review by OGC before determining the corrective actions it will take. No action will be taken prior to an OGC opinion regarding this matter.

41. Disaster Program, Nonprogram Crops, Mitchell County, GA, Issued September 30, 1993

We found that disaster payments on nonprogram crops, primarily squash, were not proper because producers had reported incorrect or questionable information that county staff accepted even though, in many cases, other readily available data would have shown that inaccurate information was provided. FSA officials agreed with our recommendations. However, claims cannot be established until all investigative actions are complete.

42. Disaster Assistance Program, Jackson County, FL, Issued March 2, 1995

We identified program payments of $359,265 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

43. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA, Issued March 31, 1995

One recommendation is without management decision. After two producers had settled with plea agreements, OIG/Investigations referred the two producers to the FSA State office for administrative action. Subsequently, the county committee determined that the producers acted in good faith on a farming operation; this decision was affirmed by the FSA State and national offices. However, we strongly disagreed with FSA's interpretation, and we concluded that, based on signed statements by the producers, the county office should have collected all payments on the farming operation. After discussing this with a regional counsel on May 11, 1998, we referred the issue to OGC for a legal opinion. We are still awaiting a response from OGC.

44. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI, Issued September 7, 1995

We found that a producer and an individual adopted a scheme to evade application of the maximum payment limitation provisions and received excessive payments of $165,069. FSA agreed with our recommendations; however, claims cannot be established until investigative actions are completed.

45. A&B Professional Consulting, Inc., Issued September 7, 1995

We identified program payments of $628,976 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations; however, claims cannot be established until review is completed by the U.S. attorney.

46. Disaster Assistance Payments - Lauderdale, TN, Issued September 28, 1995

Our review disclosed questionable payments totaling $1,890,622, including $1,523,918 for disaster payments and $366,704 for other program payments obtained by producers who participated in schemes to evade disaster payment limitation provisions. FSA officials agreed with our recommendations and assembled a team to review the payments; however, claims cannot be established until investigative actions are completed.

47. Crop Disaster - Brooks/Jim Hogg, TX, Issued January 2, 1996

Twenty-seven cases have been referred for investigation for possible criminal prosecution, and we questioned payments to two producers. We recommended that FSA take administrative action; however, claims cannot be established until the investigative actions are completed.

48. Emergency Feed Program in Texas, Issued September 18, 1996

We recommended recovery of program overpayments totaling $214,267 from producers in two counties. The State office has begun corrective action to collect the overpayments in one of the counties. Due to ongoing investigations, the State executive director was notified not to take administrative action against the producers in the other county because it might interfere with legal actions.

49. 1994 Disaster Assistance Program - Maine, Issued September 30, 1996

The report identified 21 producers who provided inaccurate information and received excessive disaster payments of $1.6 million. We also reported that the State committee, acting without approval, improperly established the payment rate and yield used in the computation of 1994 potato disaster payments, resulting in Maine producers being overcompensated by approximately $887,443. We recommended that the agency take steps to recover overpayments in those cases for which they were not prohibited from taking action pending the conclusion of the investigative actions. The agency response indicated concurrence with the recommendation, but the agency has determined that no action should be taken until the investigations are complete.

50. Emergency Disaster Loan Eligibility in Arkansas, Issued March 27, 1997

This report identified one borrower who falsified information to qualify for excessive loan funds and two borrowers who did not qualify for the excessive loans due to excessive resources. We also identified nine borrowers where excessive loans were made due to agency errors in determining qualified disaster losses. We recommended that FSA take administrative action; however, claims against the borrower who falsified information cannot be established until the investigative actions are completed.

51. Emergency Disaster Loan Program in California, Issued December 4, 1997

We reported that several producers in Monterey and Tulare Counties received duplicate emergency loans and NAP payments for the same disaster. We recommended that the FSA State office instruct all Agricultural Credit Offices to review their emergency loans and NAP payment records for other producers who may have received duplicate benefits and take the appropriate corrective actions. The FSA State office contends that the recommendations would impose an undue hardship on the producers. FSA is seeking advice from OGC. The FSA State office informed us on August 17, 1998, that OGC is reviewing the matter.

52. Rural Rental Housing (RRH) Project Operations - Cato Company, Michigan, Issued May 2, 1996

The management company charged RRH projects $215,631 in unsupported and unallowable operating costs. The unallowable costs included expenditures for training, travel, bookkeeping fees, and office equipment purchases. In addition, the management company used another firm with an undisclosed identity of interest to purchase supplies and other items for its projects. These unallowable costs totaled $19,867. We recommended that the borrower reimburse the projects for $235,498 in unallowable and unsupported charges made to RRH projects. In accordance with our instructions, RHS has suspended corrective action pending completion of an ongoing investigation.

Indictments and Convictions

Between April 1 and September 30, 1998, OIG completed 421 investigations. We referred 308 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 488 indictments and 333 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 333 convictions do not necessarily relate to the 488 indictments. Fines, recoveries/collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled about $42.8 million.

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

Indictments and Convictions
April 1 - September 30, 1998

Agency	Indictments	Convictions*
AMS	47	6
APHIS	14	4
ARS	0	1
FAS	4	2
FSA	29	30
FNS	334	254
FS	0	2
FSIS	4	6
GIPSA	5	3
NRCS	1	1
RHS	5	6
RMA	9	0
RUS	8	0
SEC	24	18
Other**	4	0
Totals	488	333

* This category includes pretrial diversions.
** This category includes cases involving multiple agencies (one indictment) and non-USDA/affiliated agencies (three indictments).

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 1,215 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 4 displays the volume and type of the complaints we received, and figure 5 displays the disposition of those complaints.

Figure 4

Hotline Complaints
April 1 to September 30, 1998
(Total = 1,215)

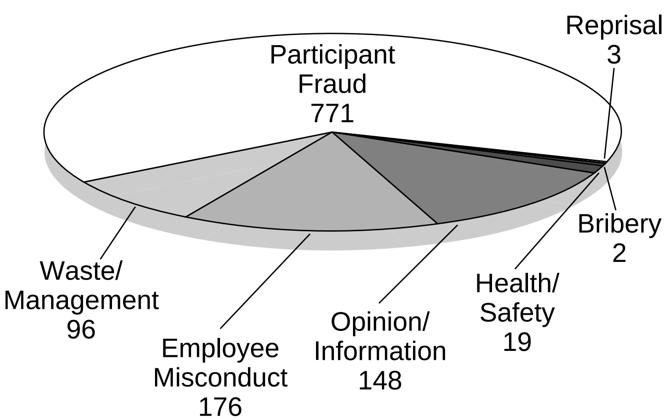
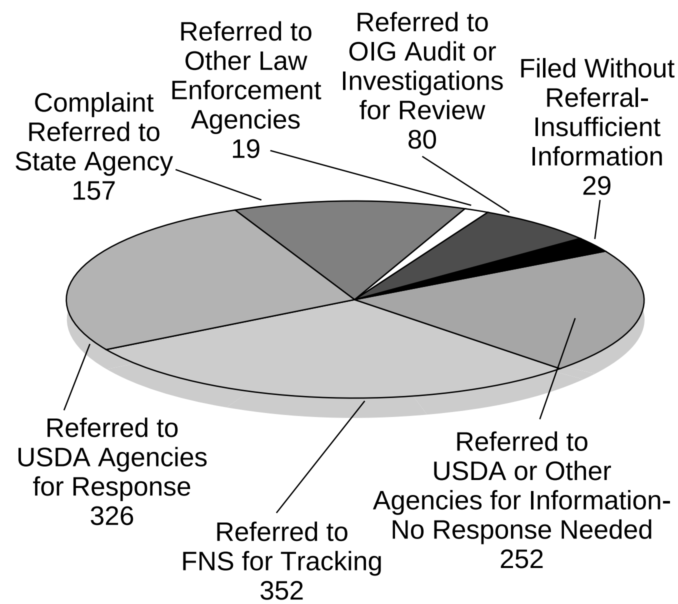


Figure 5

Disposition of Complaints
April 1 to September 30, 1998



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period April 1 to September 30, 1998

Number of FOIA/PA Requests Received		309
Number of FOIA/PA Requests Processed:		305
Number of Requests Granted in Full	137	
Number of Requests Granted in Part	112	
Number of Requests Not Granted	56	
Reasons for Denial:		
No Records Available	20	
Requests Denied in Full	21	
Referrals	15	
Requests for OIG Reports From Congress and Other Government Agencies		
Received	114	
Processed	113	
Appeals Processed		7
Appeals Granted	0	
Appeals Denied in Full	5	
Appeals Denied in Part	2	
Number of OIG Reports Released in Response to Requests		321

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 SEPTEMBER 30, 1998	69	$560,012,559	$149,157,565
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	56	34,200,634	12,612,432
TOTALS	125	$594,213,193	$161,769,997
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	50		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$12,057,372	$860,326
NOT RECOMMENDED FOR RECOVERY		$36,526,447	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		132,719,919	123,327,295
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	75	413,931,298	37,582,376
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	42	381,855,280	25,187,180

* 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 SEPTEMBER 30, 1998	22	$5,420,425,577
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	10	7,331,905,976
	TOTALS	32	$12,752,331,553
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	12	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		$5,343,407,301
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		1,166,215
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	20	7,407,758,037
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	11	76,101,927

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED
BETWEEN APRIL 1 AND SEPTEMBER 30, 1998

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 1998, THE OFFICE OF INSPECTOR GENERAL ISSUED 108 AUDIT REPORTS AND EVALUATIONS, INCLUDING 7 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE REPORTS BY AGENCY:

AGENCY	REPORTS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	2	$180,823		
AGRICULTURAL RESEARCH SERVICE	2			
FARM SERVICE AGENCY	18	$6,128,518		
RURAL HOUSING SERVICE	8	$272,467	$190,049	$2,669
RISK MANAGEMENT AGENCY	3	$126,787	$7,909	
COMMODITY CREDIT CORPORATION	1			
FOREIGN AGRICULTURAL SERVICE	2			
FOREST SERVICE	10	$6,115,608	$5,224,986	$7,329,073,925
RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE	3	$17,728		$974,127
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE	1	$1,239,314	$1,239,314	$185,669
OFFICE OF OPERATIONS	1			$249,866
FOOD AND NUTRITION SERVICE	24	$16,090,629	$3,093,185	$802,677
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
RURAL BUSINESS-COOPERATIVE SERVICE	2			
MULTIAGENCY	28	$4,028,760	$2,856,989	$617,043
CIVIL RIGHTS	1			
TOTALS	108	$34,200,634	$12,612,432	$7,331,905,976

TOTAL COMPLETED:	
SINGLE AGENCY AUDIT	63
MULTIAGENCY AUDIT	27
SINGLE AGENCY EVALUATION	17
MULTIAGENCY EVALUATION	1
TOTAL RELEASED NATIONWIDE	108
TOTAL COMPLETED UNDER CONTRACT [b]	7
TOTAL SINGLE AUDIT ISSUED [c]	24

[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, 1998

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE					
01-001-0003-CH 1998/09/24	NATIONAL FLUID MILK PROCESSOR PROMOTION PROGRAM				
01-005-0001-HY 1998/09/10	PUERTO RICO FEDERAL-STATE AMS INSPECTION PROGRAM		$180,823		
TOTAL: AGRICULTURAL MARKETING SERVICE		2	$180,823		
AGRICULTURAL RESEARCH SERVICE					
02-017-0013-HY 1998/04/27	BURNS AND ROE 1997 LABOR REVIEW				
02-017-0014-HY 1998/05/20	DCAA AUDIT OF BIONETICS CORPORATION FY 1991, 1992, AND 1993 INCURRED COSTS				
TOTAL: AGRICULTURAL RESEARCH SERVICE		2			
FARM SERVICE AGENCY					
03-001-0003-AT 1998/08/20	ASSESSMENTS FOR STORED TOBACCO				
03-004-0008-KC 1998/07/08	EMERGENCY DISASTER LOAN ELIGIBILITY		$96,666		
03-006-0009-CH 1998/05/05	EMERGENCY DISASTER LOANS - EFFINGHAM CO., IL		$1,330		
03-006-0011-CH 1998/06/25	EMERGENCY DISASTER LOANS - GRUNDY CO., IL		$43,720		
03-006-0012-CH 1998/05/04	EMERGENCY DISASTER LOANS - LASALLE CO., IL				
03-012-0001-AT 1998/09/25	REVIEW OF CCC OPERATIONS				
03-099-0020-TE 1998/09/30	WOOL AND MOHAIR PAYMENT LIMITATION IN VAL VERDE COUNTY, TX		$2,432,120		
03-099-0021-TE 1998/08/18	1997 FOUNDATION LIVESTOCK RELIEF PROGRAM IN NEW MEXICO		$785		
03-099-0022-TE 1998/08/21	REVIEW OF GUARANTEED LOAN APPLICATION IN LINCOLN COUNTY, AR				
03-099-0027-KC 1998/07/02	EMERGENCY DISASTER RELIEF ASSISTANCE FOR LIVESTOCK		$2,543,916		
03-099-0029-KC 1998/08/24	LIVESTOCK INDEMNITY PROGRAM		$217,546		
03-601-0024-TE 1998/06/11	NONINSURED ASSISTANCE PROGRAM PAYMENTS FOR 1996 CROP YEAR LOSSES		$109,776		
03-601-0026-TE 1998/06/24	NONINSURED CROP DISASTER ASSISTANCE PAYMENTS FOR 1996 CROP LOSSES IN GEORGIA		$110,551		
03-601-0030-TE 1998/09/25	EMERGENCY LOAN PROGRAM		$1		
03-801-0006-CH 1998/04/01	EVALUATION OF STATE ADMINISTERED MEDIATION PROGRAM - WISCONSIN				
03-801-0034-TE 1998/06/30	EMPLOYEE DEBT FORGIVENESS				
03-801-0035-TE 1998/07/08	PROCESSING OF A FARM LOAN PROGRAMS DEBT SETTLEMENT PROPOSAL - YORK COUNTY, PA		$572,107		
03-801-0036-TE 1998/04/30	REEVES COUNTY OFFICE OPERATIONS - TEXAS				
TOTAL: FARM SERVICE AGENCY		18	$6,128,518		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1998

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
RURAL HOUSING SERVICE					
04-099-0001-CH 1998/04/14	RRH PROJECT OPERATIONS - BETA MANAGEMENT, INC.		$43,985		
04-099-0001-SF 1998/06/18	FARM LABOR HOUSING AND RENTAL ASSISTANCE SURVEY				
04-099-0004-HY 1998/08/28	MOUNTAIN VIEW ESTATES RRH PROJECT - VERMONT		$180,625	$167,408	
04-801-0002-AT 1998/04/28	RRH TENANT INCOME VERIFICATION		$22,641	$22,641	
04-801-0002-HY 1998/07/30	EVALUATION OF RRH TENANT INCOME VERIFICATION PROCESS		$16,102		
04-801-0002-SF 1998/08/10	SELF-HELP HOUSING PROGRAM - GRIZZLY HOLLOW PROJECT, GALT, CA				
04-801-0007-SF 1998/09/24	RRH PROGRAM - BUCKINGHAM PROPERTIES, FRESNO, CA		$8,401		
04-801-0013-TE 1998/09/10	RRH INITIATIVE - GREEN DEVELOPMENT, OKLAHOMA		$713		$2,669
TOTAL: RURAL HOUSING SERVICE		8	$272,467	$190,049	$2,669
RISK MANAGEMENT AGENCY					
05-099-0001-FM 1998/05/08	EVALUATION OF MANAGEMENT AND CONTROL OF SOFTWARE				
05-099-0002-KC 1998/07/14	QUALITY CONTROL FOR CROP INSURANCE DETERMINATIONS				
05-601-0001-KC 1998/04/10	CROP INSURANCE CLAIMS		$126,787	$7,909	
TOTAL: RISK MANAGEMENT AGENCY		3	$126,787	$7,909	
COMMODITY CREDIT CORPORATION					
06-401-0007-FM 1998/07/13	FISCAL YEAR 1997 CCC FINANCIAL STATEMENTS				
TOTAL: COMMODITY CREDIT CORPORATION		1			
FOREIGN AGRICULTURAL SERVICE					
07-099-0002-HY 1998/07/07	SURVEY OF THE SUPPLIER CREDIT GUARANTEE PROGRAM				
07-801-0001-AT 1998/08/21	INTERNATIONAL TRADE POLICY PROCEDURES				
TOTAL: FOREIGN AGRICULTURAL SERVICE		2			
FOREST SERVICE					
08-003-0002-SF 1998/08/05	HUMBOLDT-TOIYABE NATIONAL FOREST LAND ADJUSTMENT PROGRAM				$27,900,000
08-003-0004-SF 1998/08/26	IMPROVEMENTS ON THE ZEPHYR COVE LAND EXCHANGE				
08-005-0001-HY 1998/07/31	STATE AND PRIVATE FORESTRY GRANTS				
08-017-0002-HY 1998/08/27	SETA CORPORATION INCURRED COSTS AUDIT FYE 12/31/94 THROUGH 12/31/96				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
08-017-0009-SF 1998/06/30	CONTRACT MODIFICATION PROPOSAL, GASCHLER-HILL INVESTMENTS, L.L.C.		$191,507	$90,188	
08-099-0003-CH 1998/07/09	INFRASTRUCTURE MAINTENANCE ON NATIONAL FOREST LANDS				
08-401-0007-AT 1998/07/13	FISCAL YEAR 1997 FS FINANCIAL STATEMENTS				
08-801-0002-TE 1998/09/24	ASSISTANCE AGREEMENTS TO NONPROFIT ORGANIZATIONS		$5,924,101	$5,134,798	$1,173,925
08-801-0003-HQ 1998/06/15	FOREST SERVICE MAINTENANCE BACKLOG				$7,300,000,000
08-801-0004-HQ 1998/08/19	FOREST SERVICE - RETROACTIVE REDISTRIBUTION				
TOTAL: FOREST SERVICE		10	$6,115,608	$5,224,986	$7,329,073,925
RURAL UTILITIES SERVICE					
09-401-0003-FM 1998/06/04	FISCAL YEAR 1997 RUS/RTB FINANCIAL STATEMENT AUDIT				
TOTAL: RURAL UTILITIES SERVICE		1			
NATURAL RESOURCES CONSERVATION SERVICE					
10-017-0001-HY 1998/07/30	CLAIMS AUDIT - CONTI ENTERPRISES				$974,127
10-601-0002-KC 1998/08/13	EMERGENCY WATERSHED PROTECTION PROGRAM PILOT FOR THE PURCHASE OF FLOODPLAIN EASEMENTS				
10-801-0002-TE 1998/04/10	GREAT PLAINS CONSERVATION PROGRAM EVALUATION HOWARD COUNTY, TX		$17,728		
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		3	$17,728		$974,127
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE					
13-011-0002-TE 1998/09/30	USE OF CSREES GRANT FUNDS BY PRAIRIE VIEW A&M UNIVERSITY, PRAIRIE VIEW, TX		$1,239,314	$1,239,314	$185,669
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE		1	$1,239,314	$1,239,314	$185,669
OFFICE OF OPERATIONS					
23-801-0001-HQ 1998/08/20	REVIEW OF OO'S CONTRACT WITH B&G BUILDING MAINTENANCE				$249,866
TOTAL: OFFICE OF OPERATIONS		1			$249,866
FOOD AND NUTRITION SERVICE					
27-002-0012-CH 1998/05/13	ACCOUNTABILITY FOR FOOD STAMPS PROVIDED TO STATE LAW ENFORCEMENT BUREAUS		$370,545	$122,989	
27-004-0003-CH 1998/08/13	ADMINISTRATION OF THE FOOD STAMP EMPLOYMENT & TRAINING PROGRAM IN OHIO		$2,921,556		
27-004-0006-HY 1998/09/10	NUTRITION EDUCATION COSTS CHARGED TO THE WIC PROGRAM - PUERTO RICO		$4,126,822		
27-010-0001-KC 1998/08/19	NATIONAL INITIATIVE TO IDENTIFY PROBLEM SPONSORS - CACFP		$12,234		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-010-0006-SF 1998/04/21	CACFP - FEEDING ARIZONA KID, INC., PHOENIX, AZ		$45,409		
27-010-0007-SF 1998/06/15	CACFP - B J ENTERPRISES, INC., SCOTTSDALE, AZ		$8,322		
27-010-0009-SF 1998/09/23	CACFP - C.B.I.A., INC., PASADENA, CA		$462,387		
27-010-0013-HY 1998/09/29	CHILD AND ADULT CARE FOOD PROGRAM - SPONSOR ABUSES		$353,823		
27-010-0013-SF 1998/07/10	CACFP - CHILDREN'S SPECTRUM, YUCCA VALLEY, CA		$231,371		
27-010-0015-HY 1998/08/28	DISTRICT OF COLUMBIA NSLP		$7,441,944	$2,950,142	
27-010-0020-HY 1998/09/03	CACFP - CHILDREN'S BEST INTERESTS, INC.		$15,756		
27-017-0015-HY 1998/07/30	ABT ASSOCIATES, INC., 1994 INCURRED COST AUDIT		$1,414	$1,414	
27-099-0008-TE 1998/07/24	FOOD SERVICE MANAGEMENT COMPANY CONTRACTS				
27-099-0009-TE 1998/07/16	CACFP - SOUTHEAST ARKANSAS COMMUNITY ACTION CORP., WARREN, AR		$322		
27-401-0011-HY 1998/05/21	FOOD AND NUTRITION SERVICE FISCAL YEAR 1997 FINANCIAL STATEMENTS				
27-601-0004-AT 1998/09/04	CACFP - CAPE FEAR TUTORING, INC., WILMINGTON, NC		$355		
27-601-0005-AT 1998/09/22	STRATEGIC MONITORING OF EBT SYSTEM DEVELOP-MENT, PHASE IV - ALABAMA		$20,179		
27-601-0005-TE 1998/08/13	CHILD AND ADULT CARE FOOD PROGRAM IN LOUISIANA		$63,014	$18,640	$736,278
27-601-0006-TE 1998/09/25	CHILD AND ADULT CARE FOOD PROGRAM IN ARKANSAS				
27-601-0010-HY 1998/07/22	AUDIT OF THE FOOD STAMP REDEMPTION ACCOUNTABILITY PROGRAM				
27-601-0010-KC 1998/09/29	FOOD STAMP STORES SWEEP				$66,399
27-601-0017-CH 1998/09/03	CHILD AND ADULT CARE FOOD PROGRAM - YWCA OF CHICAGO, IL		$14,309		
27-601-0018-CH 1998/09/21	CHILD AND ADULT CARE FOOD PROGRAM - HUMAN DEVELOPMENT CENTER, HARVEY, IL		$867		
27-801-0003-TE 1998/09/29	OKLAHOMA EBT SYSTEM DEVELOPMENT				
TOTAL: FOOD AND NUTRITION SERVICE		24	$16,090,629	$3,093,185	$802,677
ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-099-0002-CH 1998/08/24	MONITORING OF REGISTERED CARRIERS AND INTERMEDIATE HANDLERS				
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1			
RURAL BUSINESS-COOPERATIVE SERVICE					
34-004-0002-CH 1998/04/16	BUSINESS AND INDUSTRY LOAN PROGRAM - MINNESOTA				
34-601-0001-HY 1998/07/22	BUSINESS AND INDUSTRY LOANS - FINANCIAL STATEMENT ANALYSIS				
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		2			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1998

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
MULTIAGENCY				
50-018-0003-TE 1998/06/22	DESK REVIEW OF ARKANSAS STATE FORESTRY COMMISSION SINGLE AUDIT FYE 6/30/96			
50-018-0010-SF 1998/07/23	A-133 STATE OF HAWAII, DEPARTMENT OF AGRICULTURE, FYE 6/30/97			
50-019-0019-HY 1998/06/17	TOWN OF THOMASTON, ME, SINGLE AUDIT, A-128, FYE 6/30/96			
50-020-0031-AT 1998/08/20	A-128 AUDIT OF THE STATE OF ALABAMA FOR FYE 9/30/96			
50-020-0039-KC 1998/06/11	A-128 STATE OF MONTANA	$4,576		
50-020-0040-KC 1998/06/15	A-128 STANDING ROCK SIOUX FY 1996	$4,059	$4,059	
50-020-0041-KC 1998/06/11	A-128 INTERTRIBAL AGRICULTURE COUNCIL	$2,477	$2,477	
50-020-0042-KC 1998/06/11	A-128 NORTHERN CHEYENNE TRIBE	$1,526		
50-020-0053-HY 1998/04/17	COMMONWEALTH OF VIRGINIA, A-128, SFYE 6/30/96	$114,688		
50-020-0054-HY 1998/04/29	STATE OF RHODE ISLAND, A-128, SFYE 06/30/96			
50-020-0055-HY 1998/04/30	STATE OF MAINE, A-128, SFYE 06/30/96	$1,402		
50-020-0056-HY 1998/04/30	STATE OF NEW JERSEY, A-128, SFYE 06/30/96	$769		
50-020-0057-HY 1998/05/11	STATE OF MARYLAND, A-128, SFYE 06/30/96			
50-020-0058-HY 1998/04/17	STATE OF VERMONT, A-128, 6/30/96	$10		
50-020-0059-HY 1998/04/17	STATE OF DELAWARE, A-128, 6/30/96			
50-020-0061-HY 1998/05/27	GOVERNMENT OF THE U.S. VIRGIN ISLANDS A-128, SFYE 9/30/94	$246,002		
50-020-0061-SF 1998/04/30	A-133 AUDIT REPORT - GUAM TELEPHONE AUTHORITY FYE 09/30/97			
50-020-0062-HY 1998/05/12	STATE OF NEW YORK SINGLE AUDIT, A-128 03/31/96			
50-020-0062-SF 1998/06/12	A-128 AUDIT - COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS - FYE 9/30/95	$3,386		
50-020-0063-HY 1998/05/22	STATE OF CONNECTICUT SINGLE AUDIT, A-128 SFYE 06/30/96	$167,093		
50-020-0063-SF 1998/06/12	A-128 AUDIT - COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS - FYE 9/30/96	$1,315		
50-020-0064-HY 1998/07/10	STATE OF NEW HAMPSHIRE SINGLE AUDIT, A-128 SFYE 06/30/96	$273,527	$273,527	
50-020-0065-HY 1998/06/17	INDIAN TOWNSHIP TRIBAL GOVERNMENT, SINGLE AUDIT, A-128, FYE 6/30/96	$762		
50-022-0004-HY 1998/06/17	NATIONAL COUNCIL OF AGRICULTURAL EDUCATION, SINGLE AUDIT, A-133, FYE 6/30/96			
50-401-0021-FM 1998/05/29	RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT			
50-401-0024-FM 1998/07/16	FISCAL YEAR 1997 USDA FINANCIAL STATEMENTS			
50-601-0005-AT 1998/09/30	FACILITIES CONSTRUCTION GRANTS	$3,207,168	$2,576,926	$617,043
50-801-0005-FM 1998/06/02	MATERIAL CONTROL WEAKNESSES WILL CONTINUE TO IMPACT DEPARTMENTAL FINANCIAL OPERATIONS			
TOTAL: MULTIAGENCY	28	$4,028,760	$2,856,989	$617,043

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
CIVIL RIGHTS					
60-801-0001-HQ 1998/09/30	EVALUATION OF CR EFFORTS TO REDUCE COMPLAINTS BACKLOG				
TOTAL: CIVIL RIGHTS		1			
TOTAL: RELEASE - NATIONWIDE		108	$34,200,634	$12,612,432	$7,331,905,976

Abbreviations of Organizations

AARC	Alternative Agricultural Research and Commercialization (Corporation)
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BLM	Bureau of Land Management
CCC	Commodity Credit Corporation
CES	Cooperative Extension Service
CR	Office of Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDD	Fund for Democracy and Development
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers, and Stockyards Administration
Interpol	International Criminal Police Organization
IRS	Internal Revenue Service
MSPB	Merit Systems Protection Board
NFC	National Finance Center
NFF	National Forest Foundation
NRCS	National Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OO	Office of Operations
PRDA	Puerto Rico Department of Agriculture
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
SEC	Office of the Secretary
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture