



United States  
Department of  
Agriculture

Office of  
Inspector  
General

No. 51

June 2004

# Office of Inspector General Semiannual Report to Congress

FY 2004—First Half



On the cover: Graphic commemorating the 25<sup>th</sup> anniversary of the enactment of the Inspector General Act of 1978, courtesy of the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency.

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## MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to provide the semiannual report for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA). Reflecting our new 5-year Strategic Plan, this report focuses on the three key challenges we identified for USDA:

- 1. Safety, Security, and Public Health**—As a result of our work in this area, during this semiannual period the Animal and Plant Health Inspection Service and the Agricultural Research Service agreed to implement several recommendations for improving controls over genetically engineered organisms, and the Department agreed to enhance security over chemical and radioactive materials at USDA facilities, as well as strengthen biosecurity measures at USDA laboratories.
- 2. Integrity of Benefits and Entitlements Programs**—Our investigative work in these programs yielded the largest restitution ever—\$29.1 million—for a food stamp Electronic Benefits Transfer fraud case in Chicago. We also monitored the renegotiation of the Standard Reinsurance Agreement for crop insurance.
- 3. Management of Public Resources**—In this semiannual period, USDA again achieved an unqualified opinion on its consolidated financial statements, but we cautioned that significant challenges lie ahead to maintain that accomplishment. The National Finance Center acted quickly on our recommendations to strengthen controls over administrative and financial systems.

With this semiannual report, we are also beginning to highlight important planned and ongoing reviews. The most significant of these efforts pertain to the Department's Bovine Spongiform Encephalopathy (commonly known as BSE or "mad cow disease") surveillance program, genetically engineered organisms, crop insurance, and the National Fire Plan. They will be detailed in future reports as they reach completion.

In our audit work this period, we achieved total dollar results of \$51.6 million, based on funds to be put to better use and questioned/unsupported costs that we disclosed. We issued 46 audit reports. Our investigative efforts resulted in \$59.9 million in recoveries or collections, fines, restitutions, claims established, and cost avoidance. Our investigations produced 218 indictments, 139 convictions, and 205 reports.

Finally, I once again wish to express my appreciation for the support shown by Secretary Veneman, Deputy Secretary Moseley, and program officials at all levels of the Department, as well as the members of the Senate and House of Representatives with whom we work.



Phyllis K. Fong  
Inspector General



# Key Challenges and Strategic Goals To Meet Them

During the last 6 months, we at the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) have been working diligently on our Strategic Plan for Fiscal Years (FY) 2004-2008. This plan reflects work, introspection, and insight at all levels of the organization. It assesses our purpose, our future, and what we must do to provide a worthy return on the U.S. taxpayers' investment. It constitutes a roadmap and vitalizes our efforts in OIG.

As part of our strategic plan, we have identified three key challenges overall for USDA, which constitute the main sections of this report:

1. Safety, Security, and Public Health
2. Integrity of Benefits and Entitlements Programs
3. Management of Public Resources

To support the Department in these areas, we have prioritized our work to focus on five key areas of emphasis:

- Public Health and Safety
- Physical and Research Security
- Information Technology Security and Management
- Farm Programs
- Employee Corruption

Finally, our strategic plan addresses not only the challenges facing the Department but also how the OIG can work better as well. We have developed four strategic goals for improving OIG—three business goals to address the three key challenges facing the Department and one management goal on improving OIG operations:

1. Support USDA in the Enhancement of Safety and Security Measures To Protect USDA and Agricultural Resources and in Related Public Health Concerns
2. Reduce Program Vulnerabilities and Enhance Integrity in the Delivery of Benefits to Individuals
3. Increase the Efficiency and Effectiveness With Which USDA Manages and Employs Public Assets and Resources, Including Physical and Information Resources
4. Ensure OIG Readiness To Achieve Its Strategic Goals

Ultimately, our strategic plans, annual plans, budget requests, and semiannual reports will work in concert to present a unified view of historical trends, our current situation, ongoing efforts, and future goals, all based on the blueprint of our strategic plan. We are at the beginning of this process and expect to further refine our plans and accomplishment reports as we progress.



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# Safety, Security, and Public Health

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

USDA works to ensure that the Nation's commercial supply of imported and domestic meat, poultry, and egg products is safe, wholesome, and correctly labeled. Challenges to this include food-borne illnesses and the intentional adulteration of meat and poultry and related food products.

- The Food Safety and Inspection Service (FSIS) sets standards for food safety; inspects meat, poultry, and egg products; informs the public about food safety issues; and works with a number of national and international organizations.
- The Animal and Plant Health Inspection Service (APHIS) protects America's animal and plant resources by safeguarding them from exotic invasive pests and diseases, monitoring and managing pests and diseases existing in the United States, resolving trade issues related to animal and plant health, and ensuring the humane care and treatment of animals.
- The Agricultural Research Service (ARS) works to provide the scientific knowledge and technologies needed to ensure the viability of American agriculture.

For the first half of FY 2004, OIG issued seven audit reports relating to safety, security, and public health. OIG's investigations for that key challenge during the first half of FY 2004 yielded 2 indictments, 17 convictions, and more than \$700,000 in monetary results.

### OIG WORK ON AGRICULTURAL SECURITY ISSUES

*The events of September 11, 2001, and heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's missions to ensure the safety and abundance of the Nation's food supply, from the farm to the table, and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. USDA must now readily identify its assets, perform security risk assessments, and design and implement appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens.*

#### Safety and Security Measures for Agricultural Commodities Need Upgrading

In our recent audit of Farm Service Agency (FSA) oversight of its inventories of food, feed, and fiber, we found that FSA

- failed to conduct vulnerability and risk assessments to determine security weaknesses and needed protections;
- did not have a clear safety and security policy to address the prospect of intentional and widespread contamination in the handling, transportation, storage, and distribution of these commodities;
- does not maintain commodity inventory management systems capable of providing timely information to managers on the location and disposition of questionable (i.e., potentially contaminated) inventories; and
- does not subject its warehouse examiners to background investigations.

We recommended that FSA, in collaboration with the USDA Homeland Security Office, develop food safety and security strategies and conduct risk assessments for agricultural commodity operations and related programs. We further recommended that these risk assessments be used as the basis for formulating corrective action for our remaining recommendations, including that FSA develop and implement security action plans and tactical procedures to protect its food,

feed, and fiber inventories. While FSA generally agreed with our recommendations, they have not yet set a target completion date for the necessary risk assessments. (Homeland Security Issues for USDA Grain and Commodity Inventories; Audit Report No. 50099-13-KC)

### **Better Controls Needed Over Genetically Engineered Germplasm**

The StarLink corn incident—when genetically engineered corn approved only for animal feed appeared in consumer food products—raised public awareness of biotechnology issues. It also prompted us to review USDA’s role in controlling genetically engineered organisms (GEO), with a specific focus on the National Plant Germplasm System (NPGS). We focused on NPGS because, in the event of a massive crop failure or intentional crop destruction, the agriculture industry would need to use NPGS germplasm (living tissue from which new plants could be grown) to restock crops. NPGS would need to know that its germplasm inventory had not been contaminated and that it could accurately identify which of its germplasm stores were naturally occurring in plants (and, hence, should be used to restock the world’s crops) and which were genetically engineered (or GEO).

We found several weaknesses in NPGS oversight: the NPGS handbook does not provide national guidance for the identification, shipment, inventory and disposal of GEOs; NPGS cannot always identify which of its germplasms are genetically engineered; because NPGS does not require physical inventories of germplasm, most facility managers do not conduct them regularly; facilities lacked uniform written instructions on the disposal of germplasm—including GEOs; and physical security and oversight of foreign visitors was not always adequate to prevent theft or contamination. We also found that APHIS (which regulates the movement of certain GEOs) policies governing the shipment of GEOs were insufficient; and that it did not adequately ensure that interstate shipments of GEOs complied with even these insufficient policies.

ARS, which oversees NPGS activities, and APHIS generally agreed with our recommendations that:

- ARS issue written guidance requiring documentation of all GEOs entering NPGS, the conduct of routine physical inventories of all germplasm storage

facilities, appropriate oversight of foreign visitors at NPGS facilities, and proper germplasm disposal methods, including those for GEOs;

- ARS take reasonable steps to enhance physical security at NPGS facilities; and
- APHIS revise its requirements for movement of GEOs to prevent unauthorized shipment of genetically engineered bioplasm.

(Controls Over Plant Variety Protection and Germplasm Storage; Audit Report No. 50601-6-Te)

### **Improved Security Needed Over Chemical and Radioactive Materials at USDA Facilities**

We audited security controls over hazardous chemical and radioactive materials at 33 USDA laboratories. We found that while there is generally adequate national guidance on the management and protection of radioactive materials, there is little indepth guidance on security controls for hazardous chemicals. Instead, each USDA agency provides its own definition of hazardous chemicals and determines how its laboratories will maintain inventory records—resulting in chemical inventory control problems at some laboratories. Also of concern was the absence of a centralized, comprehensive listing of hazardous chemicals at the agency headquarters level, which could potentially limit the agencies’ ability to respond in the event of a hazardous chemical incident. One weakness we found that was common to both hazardous chemical and radioactive materials programs was the lack of policies and procedures specifying the minimum level of background investigation for personnel with access to hazardous materials.

USDA generally agreed with our recommendations to require routine physical inventories of chemicals and to develop a comprehensive, secure inventory, organized by agency and readily accessible by Department managers, of hazardous materials at USDA laboratories. We further recommended that the Department develop a monitoring program with site-specific risk assessments for laboratories housing hazardous chemicals and require USDA agencies to improve security measures based on the results of these site assessments. Finally, we recommended that the Department implement policies and procedures specifying the minimum level of background

investigation necessary for personnel with access to hazardous materials. (Controls Over Chemicals and Radioactive Materials at USDA Facilities; Audit Report No. 50601-9-At)

### **Security Over Dangerous Pathogens at USDA Laboratories Is Significantly Improved, but Further Protections Are Needed**

In a March 2002 audit, we found that security over biological agents was lax at almost half of the 124 USDA laboratories we visited. Because USDA performs research on animal and plant pathogens, some of which (e.g., citrus canker) can harm agricultural crops, while others (e.g., Avian influenza virus) can cause disease or death in animals and humans, the security of these laboratories from inadvertent or intentional release of pathogens is of extreme importance.

To gauge the Department's progress in safeguarding these dangerous pathogens, we recently made unannounced visits to 16 laboratories where our 2002 audit had previously identified deficiencies in physical security, inventory control, and access to laboratory areas. Four of the laboratories visited were biosafety level-3 (BSL) (high risk) laboratories, and 12 were non-BSL-3 (medium- and low-risk) laboratories.

We found that agency officials have generally made great strides to implement biosecurity measures, particularly for BSL-3 laboratories. Overall, we noted significant progress during our limited review, although some areas continue to need improvement.

- All four BSL-3 laboratories have had site-specific risk assessments and are remedying security concerns. BSL-3 laboratories have started to implement security system upgrades such as fences, new doors and locks, 18-gauge expanded metal fastenings for windows, and proximity card readers.
- The laboratories have implemented stricter requirements for employees and visitors. Only those with the appropriate background investigation may have unsupervised access to laboratories working with high-consequence pathogens. All personnel lacking the appropriate clearance are escorted at all times while in high-containment areas as required.

- In accordance with new Departmental guidelines, all 16 laboratories have developed inventory lists for biological agents, and have forwarded inventory information for the National Pathogen Inventory to their agency headquarters. The four BSL-3 laboratories have requirements in place specifying the information the inventory records should contain, and no inventory discrepancies were disclosed during our fieldwork at BSL-3 laboratories. Laboratories that possessed or used listed agents and toxins have reported them to APHIS as required.
- Some improvements were still needed, however, in terms of key biosecurity measures for accountable records, internal reviews, and cybersecurity systems. Also, we found that the Department-wide policy and procedures for BSL-3 laboratories lack key regulatory requirements mandated under the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188).

APHIS and ARS officials concurred with our recommendations that they give more specific guidance to BSL-3 laboratories about interpreting and enforcing the biosecurity measures listed in the BSL-3 manual and update the BSL-3 manual to include requirements and regulations published subsequent to the manual's issuance. They also agreed to work with non-BSL-3 laboratories to expedite their implementation of the appropriate policies and procedures. In response to one particularly sensitive incident found by the audit, APHIS verified that listed agents, in particular Bovine Spongiform Encephalopathy (commonly known as BSE or "mad cow disease"), were removed from a strip mall facility that had previously been used for testing. (Followup Review on the Security of Biohazardous Material at USDA Laboratories; Audit Report No. 50601-10-At)

### **Rural Water Systems Face an Elevated Risk of Contamination or Interruption of Service in the Face of Manmade or Natural Disasters**

Through the Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS), USDA provides needed support and funding for basic infrastructure in our Nation's rural areas. Given the importance of the rural infrastructure supported by these programs, we reviewed how each

program works with participants to identify and address risks related to manmade or natural disasters.

- Our review of RBS activities and RBS-financed facilities did not identify any significant homeland security risks other than those common to all small businesses. We also found that RBS was proactive in identifying those borrowers and applicants for loans that had potentially suspicious purposes (e.g., loan for purchase of a crop duster airplane, etc.).
- In general, RHS housing activities and related loans did not present any unique risks or vulnerabilities to terrorist activity. The community facilities loan program borrowers we reviewed had developed and implemented effective emergency response plans.
- The results of our review at RUS were more complicated. The electric and telephone borrowers we visited had generally taken steps to plan for emergency situations. However, we found that RUS water facility borrowers did not assess the vulnerabilities of their water systems and prepare effective, updated emergency response plans. The 10 water systems we reviewed in 2 States were unprepared to address emergency situations and did not have effective processes in place to detect and react to unanticipated hazards—situations that could lead to interruptions in the supply of clean drinking water in the event of natural or manmade disaster. We concluded that it is vital for RUS to assist community water systems in assessing vulnerabilities, developing effective emergency response plans, and implementing the plans to address the risks associated with a natural or manmade disaster.

In response to our recommendations, RUS agreed to provide its nearly 8,000 borrowers with technical assistance for emergency planning over the next 3 years. The OIG, however, believes that the current global environment warrants that RUS move to more quickly provide community water facilities with help in assessing vulnerabilities and developing and implementing effective emergency response plans to deal with a natural or manmade disaster. Without such assistance, rural communities will continue to face an elevated risk of contamination or interruption in their supply of clean drinking water. (Survey of Homeland Security Issues at Rural Development; Audit Report No. 85099-1-Hy)

### **Department Effectively Used Supplemental Appropriations for Homeland Security, but Could Benefit From Improved Agency Reporting**

In a recent audit of USDA procedures for overseeing the \$302 million supplemental appropriation Congress provided in 2002 to cover USDA homeland security activities, we found that the USDA agencies included in our review were using the supplemental appropriations for allowable homeland security purposes. However, the monthly obligations and expenditures status reports the Department requires each agency to submit were not always clear and accurate.

USDA has implemented our recommendation to require each agency to establish a review process and internal controls to identify and correct errors and outdated information on the monthly obligations and expenditures status reports. (Allocation and Use of Homeland Security Funds; Audit Report No. 50601-7-Ch)

### **Foreign National Convicted for Smuggling Narcotic Plant Into U.S.**

The OIG participated in an investigation that led to the arrest and conviction of a Yemeni national for smuggling 519 kilograms of khat (a shrub containing cathinone—a schedule-one narcotic) into the United States. In addition to the narcotics issue, it is illegal to import khat,



Some of the captured khat and the box in which it was smuggled into the United States. APHIS photo.

and the banana leaves that is generally wrapped in to preserve its narcotic effect, due to the potential for introducing exotic diseases and pests.

The subject received 5 years of probation and was fined \$7,700. APHIS is also proceeding with administrative action against the subject. This investigation was conducted jointly with APHIS, the Federal Bureau of Investigation (FBI), and the New York City Police Department's Counter Terrorism Bureau.

### **ONGOING AND PLANNED REVIEWS FOR AGRICULTURAL SECURITY ISSUES**

Agricultural security issues that will be covered in ongoing or planned OIG reviews include:

- information technology (IT) security controls in the Risk Management Agency, Economic Research Service, Rural Development (RD), and Foreign Agricultural Service;
- controls over hazardous materials at APHIS;
- use of homeland security funds provided by the Department to non-Federal research and other private institutions;
- controls over issuance of GEO release permits;
- controls over APHIS-owned and -leased aircraft;
- transition and coordination of border inspection activities between USDA and the Department of Homeland Security;
- USDA activities involving genetically engineered animals and insects and the separation of genetically engineered crops in the food chain; and
- USDA coordination with other Federal agencies in implementing the food security provisions of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188).

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

### **PUBLIC HEALTH AND SAFETY**

*This area of emphasis includes audit and investigative work related to tainted food products, food safety program integrity, intentional or inadvertent dissemination of animal and plant diseases including mad cow and foot-and-mouth disease, threats against and assault of USDA employees, and other issues that affect or have the potential to affect the physical well-being of individuals.*

#### **FSIS Improved Controls for the Equivalence of Foreign Food Safety Systems**

FSIS determines whether foreign countries and their establishments have food safety systems and inspection requirements equivalent to those of the United States, and randomly reinspects imported meat and poultry products from those countries. We evaluated FSIS' procedures for making the initial determination of a foreign country's equivalence and actions FSIS took in response to OIG's recommendations in our June 2000 audit report. In our June 2003 audit, we found that FSIS had implemented controls based on our previous audit and was following its controls for documenting, reviewing, and approving the equivalence determinations for

- the Hazard Analysis and Critical Control Point (HACCP) and *Salmonella* testing requirements for the 32 countries we reviewed;
- the residue control programs for the 33 countries already approved to export product to the United States; and
- Slovakia's meat inspection program and New Zealand's alternative generic *E. coli* testing program for bobby calves (veal).

Because FSIS had implemented the agreed-upon corrective actions for the 17 recommendations in our June 2000 audit report, we made no additional recommendations. (Imported Meat and Poultry Inspection Process Equivalence Determinations – Phase III; Audit Report No. 24099-5-Hy)

## **Company Owner Sentenced for Poultry Adulteration**

In January 2004, the owner of a southern California food service management, storage, and distribution business was sentenced to 1 year of supervised probation and fined \$10,000 after he pled guilty to delivering adulterated turkey products to area schools. The company, which supplied 47 school districts, transported and distributed poultry products that had been adulterated with rodent hair, rodent feces, and gnawings by rodents to schools in the Bakersfield, California, area in 1996 and 1997. The plant manager had previously pled guilty to causing the adulteration of poultry products and had agreed to testify against the plant owner. The owner and his company are awaiting trial for similar violations related to his northern California warehouse.



The fighting dogs were kept in poor conditions. OIG photo.

## **Former Utah APHIS Worker Sentenced for Brutal Murder of Teenage Girl**

In a followup from the second half of FY 2002, a former APHIS employee was sentenced in January 2004 to life in prison without the possibility of parole for the brutal murder and dismemberment of a teenage girl in June 2000 at an APHIS animal research facility in Utah. The 31-year-old former USDA employee was found guilty at trial of aggravated capital murder, aggravated felony kidnapping, and desecration of a dead human body. This investigation was conducted jointly with the Cache County, Utah, Sheriff's Department.

## **Multi-State Dogfighting Case Yields Guilty Pleas**

An ongoing investigation identified a loose-knit group of individuals in the Northeast who participated in and promoted illegal dogfighting. The case identified dogfighters, dog breeders, and an owner and former owner of an international underground dogfighting magazine, the Sporting Dog Journal (SDJ), in Georgia, New York, Pennsylvania, West Virginia, and Virginia.

- In New York, the owner and publisher of SDJ was convicted in March 2004 on State charges of animal cruelty, animal fighting, tampering with evidence, and other charges.
- Another individual was indicted in March 2004 for the interstate distribution of animal fighting videotapes and books.
- Information obtained from the investigation has also led to the arrest or indictment of six individuals in Pennsylvania on State charges of animal cruelty, animal fighting, and other charges. Five have pled guilty, and one is awaiting trial.
- During the execution of State and Federal search warrants in 4 States, 96 dogs were seized, as well as truckloads of dogfighting books, videotapes, related equipment, and computers.

OIG worked with the Georgia Bureau of Investigation, New York State Police, Pennsylvania State Police, West Virginia State Police, and State and Federal prosecutors on this case.

## **ONGOING AND PLANNED REVIEWS FOR PUBLIC HEALTH AND SAFETY**

Public health and safety topics that will be covered in ongoing or planned reviews include:

- poultry recalls due to a *listeria* outbreak in the Northeastern United States;
- implementation of HACCP in very small plants;
- followup to assess the implementation of recommendations made in our 2000 Food Safety Initiative;
- analysis of food safety information systems;
- the Department's BSE surveillance program;
- APHIS' implementation of the listed agents and toxins provisions of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188);
- egg processing inspections; and
- emergency eradication and control programs.

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

# Integrity of Benefits and Entitlements Programs

## OIG Strategic Goal Number Two: Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.

Benefit and entitlement programs in USDA include a variety of programs that provide payments directly and indirectly to individuals or entities to feed at-risk populations, including the poor and mothers and children, and support farmers and rural communities. These programs involve tens of billions of dollars in estimated outlays for FY 2004 and are susceptible to misuse by organized groups (such as large-scale food stamp traffickers) and individuals.

- The Food and Nutrition Service (FNS) administers the Federal domestic nutrition assistance programs, including the Food Stamp Program (FSP), the Child Nutrition Programs, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).
- The Farm Service Agency (FSA) helps ensure the well-being of U.S. agriculture through the administration of farm commodity programs; farm operating, ownership, and emergency loans; conservation and environmental programs; emergency and disaster assistance; domestic and international food assistance; and international export credit programs.
- The Risk Management Agency (RMA) provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools, such as crop insurance.

For the first half of FY 2004, OIG issued 23 audit reports relating to the integrity of benefits and entitlements programs. OIG's investigations for that key challenge during the first half of FY 2004 yielded 168 indictments, 98 convictions, and \$57.2 million in monetary results.

### FEEDING PROGRAMS

*Because FNS programs have large dollar outlays (approximately \$42 billion estimated for FY 2004), the potential exists for fraud and large dollar losses. In FY 2004, we are emphasizing audits of FNS programs, particularly FSP, to ensure that critical internal control checks are in place to guarantee efficiency, effectiveness, and economy. We are continuing to monitor Electronic Benefits Transfer (EBT) systems as they are implemented.*

### Food Stamp and EBT Fraud Investigations Reap Significant Results

OIG investigations of Food Stamp Program fraud continued to result in substantial penalties for retail store owners and their associates who illegally profit by "discounting" food stamp benefits—returning a lesser amount of cash (typically 50 cents on the dollar) to recipients in exchange for program benefits that are supposed to be used only to purchase food. Nearly all FSP benefits are now issued through Electronic Benefits Transfer, which, in addition to saving administrative program costs by eliminating costs of printing, issuing, and reconciling millions of paper food stamps every month, also provides indisputable assistance to investigators in the form of complete electronic records of FSP transactions made by authorized retailers. EBT records can be used to target investigations by highlighting suspicious patterns of activity; they also provide evidence of food stamp fraud, conspiracy, and wire fraud in criminal proceedings. EBT is a powerful tool for identifying and stopping large-scale traffickers and for identifying recipients who misuse their benefits.

- **Chicago, Illinois:** Four individuals in Chicago have been sentenced to serve from 15 to 57 months in prison and ordered to pay \$29.1 million in restitution for defrauding FSP from the fall of 1997 through August 2001. The restitution is the largest ever ordered in a single FSP EBT fraud case in the Chicago area. The subjects moved the authorized point of sale device to different locations in Chicago so they could exchange cash for EBT benefits away from the authorized store. Three pled guilty in September 2003, and the fourth was convicted of all counts during a jury trial in October 2003.



- **Miami, Florida:** In October 2003, the owner of a small Miami convenience store was sentenced in U.S. District Court to serve 60 months in Federal prison, ordered to pay nearly \$4.5 million in restitution to USDA, and fined \$4,500 after he was convicted at trial on charges of conspiracy, illegal redemption of food stamp coupons, and money laundering. An employee was also convicted at trial on conspiracy charges and was sentenced to serve 42 months in prison. From April 1996 through February 1998, the store redeemed approximately \$3.3 million in illegally obtained food stamps. The investigation also found that the storeowner conspired with others from 1992 to 1998 and, for a commission, redeemed food stamps for unauthorized stores.
- **Tampa, Florida:** In November 2003, as a result of a joint investigation with Federal, State, and local law enforcement authorities, the owner and three employees of a community grocery store in Tampa received sentences ranging from 12 to 55 months in Federal prison after pleading guilty to Federal charges of EBT fraud. The defendants were ordered to pay a total of \$2.6 million in restitution to USDA and a \$500,000 judgment order. From November 1998 to October 2002, the store redeemed more than \$3 million in food stamp benefits. The storeowners were previously disqualified from the FSP and conspired with an employee to fraudulently obtain an authorization to accept food stamp benefits. In addition, seven Federal criminal complaints were filed against recipients who had traded as much as \$19,500 in food stamp EBT benefits for cash. More recently, 53 State arrest warrants were obtained for recipients who had discounted up to \$5,000 in food stamp benefits, and 115 cases naming other recipients have been referred to FNS for administrative disqualification.
- **Philadelphia, Pennsylvania:** The owner of a grocery store in Philadelphia, Pennsylvania, was spared incarceration due to his failing physical health and was sentenced in Federal court to 51 months of electronic home confinement, followed by 3 years of probation. He was ordered to pay more than \$770,000 in restitution to USDA for his participation in a \$1.1 million food stamp trafficking and money-laundering scheme.

### **New Mexico Generally Successful in EBT System Implementation**

All 50 States and the District of Columbia now use EBT systems to deliver food stamp benefits. This semiannual period, we found that the EBT system in New Mexico was successfully implemented but that weak controls allowed EBT service fees of more than \$95,000 to be improperly charged to FSP for the New Mexico gross receipts tax, and an error in account setup resulted in a needed adjustment to the State Automated Application for Payments balance of more than \$450,000. We also found that

- EBT benefits of more than \$500,000 needed to be removed from the processor's authorization-pending file, and
- the State agency needed to develop adequate written policies and procedures for reviewing management reports, performing reconciliations, resolving complaints, and ensuring authorized access.

The State agency and FNS generally concurred with our recommendations. (State of New Mexico Continued Monitoring of EBT System Development; Audit Report No. 27099-18-Te)

### **Welfare Recipient Claims Benefits in Five States at Once**

In December 2003, a U.S. District Court judge in Michigan sentenced a welfare recipient to 180 days of home confinement and 2 years of probation, and ordered her to pay full restitution after she pled guilty to one count of unlawful acquisition of food stamp coupons. The recipient fraudulently received over \$91,000 from the food stamp and other welfare benefit programs simultaneously in five States (Arkansas, Louisiana, Tennessee, Indiana, and Michigan) from 1994 through 1998.

### **Georgia State Employee Sentenced to Federal Prison for Fraudulent Scheme Involving USDA Assistance Program**

A former Georgia Department of Family and Children Services employee was sentenced in December 2003 to serve 15 months in Federal prison, followed by 3 years of supervised release, after pleading guilty to conspiracy charges. The subject also was ordered to

pay approximately \$15,000 in restitution. During the course of the OIG investigation, it was determined that, during a 7-month period in 1998, the subject conspired with an associate to create fictitious recipient cases and received food stamp and Temporary Assistance to Needy Families benefits fraudulently. The subject's accomplice also pled guilty to conspiracy charges and is awaiting sentencing.

### **Control Weaknesses Cost National School Lunch Program Operations Money**

During this reporting period, we evaluated 10 School Food Authorities' (SFA) internal controls related to meal accountability, procurement, and accounting systems in 4 States. The SFAs did not always follow meal accountability procedures, including proper use of edit checks to ensure the accuracy of the daily meal counts and claims for reimbursement, and procurement procedures did not always comply with Federal or State requirements. As a result of such issues:

- **Kansas and Missouri:** We identified overclaims of \$2,850 and underclaims of \$142,450. In addition, schools did not perform cost analyses to determine the cost-effectiveness of individual vendors, purchasing cooperatives, and Food Service Management Companies (FSMC). Some SFAs did not adequately monitor FSMC billings and contract terms, and purchasing cooperatives did not specify that they would maximize competition. (Audit Report Nos. 27010-14-KC, 27010-15-KC, 27010-16-KC, 27010-17-KC, 27010-19-KC, 27010-20-KC, and 27010-21-KC)
- **Texas:** SFA officials did not competitively bid a contract with an FSMC to provide food services, and they accepted the contract and subsequent renewals as fixed-cost contracts, resulting in about \$18,300 in ineligible management fees. The SFA also could not ensure the accuracy and eligibility of meals claimed for reimbursement. (Accountability and Oversight of the National School Lunch Program – Star Programs, Inc., Ingram, Texas; Audit Report No. 27010-9-Te)
- **Illinois:** An SFA improperly claimed more than 71,000 meals during school years 2002 and 2003. Applications were not maintained to support every meal claimed as free or reduced price, and the meal-counting systems did not yield accurate totals. The SFA's milk purchases were inconsistent with

providing a nutritious meal to every eligible student. We questioned \$136,138 in National School Lunch Program reimbursements. In addition, the procurement of vended meal services restricted competition, and the SFA did not maintain key documents used in approving and awarding the bid. (Accountability and Oversight of the National School Lunch Program; Audit Report No. 27010-16-Ch)

We recommended that FNS require the applicable State agencies to institute claims against the SFAs as necessary. State agencies should ensure that the SFAs establish controls and implement adequate meal counting and claiming systems, review those systems for accuracy, provide SFAs with procurement training, and ensure the SFAs adhere to Federal or State procurement requirements. The State agencies and FNS concurred with our findings and recommendations, and are implementing the recommendations.

### **Wisconsin Daycare Sponsor Convicted of Theft**

A Wisconsin daycare provider and Child and Adult Care Food Program (CACFP) sponsor was found guilty of defrauding CACFP of approximately \$85,000 and defrauding a La Crosse, Wisconsin, bank of more than \$150,000. From January 1996 through October 1998, the sponsor obligated CACFP funds to the bank as collateral for a line-of-credit loan by representing those funds as receivables owed to her by the Wisconsin Department of Public Instruction. In fact, those monies were intended to go directly to daycare providers under her sponsorship. This allowed the sponsor to use the CACFP funds for purposes not allowed under program regulations. In December 2003, the sponsor was sentenced to 6 months of incarceration and 10 years of probation, and was ordered to pay restitution of \$212,870.

### **Director of Louisiana Nonprofit Organization Sent to Prison**

In December 2003, the executive director of a Louisiana nonprofit organization was sentenced to serve a year and a day in Federal prison and ordered to pay \$249,000 in restitution. From July 2000 to May 2001, the director inflated meal count records submitted to the Louisiana Department of Education in connection with CACFP. The inflated meal counts resulted in ineligible reimbursements of more than \$80,000. The director also was involved in bank fraud violations and violations

of laws pertaining to the U.S. Department of Health and Human Services.

### **Retailer Forfeits More Than \$166,000 in Cash and Vehicle for WIC Fraud**

The owner of a Georgia retail establishment was sentenced to 60 months of probation and ordered to pay \$434,032 in restitution for WIC trafficking. The owner also forfeited \$166,092 in cash and a 1999 Lincoln Navigator in January 2004 as part of his plea arrangement. From March 1996 through April 2001, an accomplice purchased WIC vouchers on the street for cash and sold them to the retailer at a discount. The retailer redeemed the illegally trafficked vouchers for full face value and paid the co-conspirator a percentage. The U.S. Attorney's office for the Northern District of Georgia has appealed the probation sentence.

### **Phoenix EBT Retailer Convicted in WIC Conspiracy Scheme**

In February 2004, a Federal jury found a Phoenix, Arizona, storeowner guilty of trafficking in WIC benefits. Our investigation showed that the storeowner had trafficked in both food stamp and WIC benefits, and that from about June 2002 through September 2003, the storeowner fraudulently redeemed more than \$1.3 million in WIC benefits. One of the individuals who committed WIC fraud at this store was a Maricopa County, Arizona, employee who created more than 80 fictitious families, each with multiple fictitious births, and generated WIC instruments valued at more than \$83,000 for those families. This employee and three undocumented aliens assumed the identities of the fictitious persons, negotiated many of the instruments for baby formula, and sold the baby formula to the above-mentioned Phoenix storeowner for half price. The storeowner also negotiated some of these fraudulent WIC instruments for cash. The Maricopa County employee pled guilty and is currently serving a Federal prison term of 15 months. Two of the undocumented aliens also pled guilty. Sentences for the storeowner and the two undocumented aliens are pending. The third undocumented alien is a fugitive.

## **ONGOING AND PLANNED REVIEWS FOR FEEDING PROGRAMS**

Feeding program topics that will be covered in ongoing or planned OIG reviews include:

- vendor sanction policies for FNS programs;
- a review of the special wage incentive program under the Nutrition Assistance Program in Puerto Rico;
- controls over USDA-donated commodities;
- effectiveness of FNS Compliance Branch operations;
- New York City FSP casefile documentation;
- the Summer Food Service Program;
- WIC Program eligibility;
- WIC vendor monitoring;
- analyses of EBT databases;
- reauthorization of FSP retailers; and
- implementation of tiering requirements for CACFP.

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

## **FARM PROGRAMS**

*OIG's farm programs work encompasses a variety of farm commodity, farm credit, and conservation programs administered by the Farm Service Agency. The programs are funded primarily through the Commodity Credit Corporation (CCC), a Government entity for which FSA provides operating personnel.*

*Since the new Farm Bill—the Farm Security and Rural Investment Act of 2002 (the 2002 FSRIA)—was enacted in May 2002, market conditions have improved, and the only major disaster assistance authorized is the \$3.1 billion provided in the Agricultural Assistance Act of 2003. The 2002 FSRIA mandated substantial changes in farm program and conservation payments; we have been monitoring the effects of those changes. Total FSA outlays are projected to be about \$16.2 billion in 2004 and \$16.3 billion in 2005. FSA's 2004 budgeted program level is more than 24 percent of the Department's total.*

### **Direct and Counter-Cyclical Program Base Acres and Payment Yields Must Be Properly Established**

The Farm Service Agency is responsible for implementing the provisions of the Farm Security and Rural Investment Act of 2002 (Farm Bill) that provide for direct payments, counter-cyclical payments, marketing assistance loans, and loan deficiency payments on selected agricultural commodities. Overall, FSA had controls to reasonably ensure the loan and payment rates were properly implemented and administered for those programs.

Our nationwide survey of the newly implemented Direct and Counter-Cyclical Program (DCP) for the 2002 and 2003 program signup disclosed that FSA generally had implemented DCP in compliance with the Farm Bill and FSA procedures. However, we did identify a number of issues that will require our further review, including the apparent disparate default base and yield options available to producers in different States, proper documentation of producers' certified eligibility before issuing payments, the establishment of assigned yields, and the county offices' verification of land ownership. Additional work planned for FY 2004 includes an audit of DCP base acres and payment yields to address the questions raised. (Closeout memorandum; Audit Assignment No. 03099-51-KC)

### **Misrepresentation of Land Ownership Nets Louisiana Producers Excess Payments of Almost \$1 Million**

Prompted by a request from the Louisiana State office, we found that a current FSA county committee chairperson used his preexisting power of attorney for a relative to continue to sign up and qualify for program benefits even though the relative had passed away and the heirs of the relative's estate had sold the land in 1993. Another Louisiana producer received improper farm program benefits for crop acreage bases on land that the producer had sold and, therefore, in which he had no interest. However, a county office employee, who became aware of the sale, allowed the producer, nonetheless, to receive program payments on the land. For these two cases, producers received improper farm program benefits, totaling more than \$918,300, under the Production Flexibility Contract program and DCP from 1997 through 2003. FSA generally concurred with the audit recommendations to recover the improper program benefits and to take administrative actions against the two county office employees. (Farm Service Agency Farm Programs Audit; Audit Report No. 03601-42-Te)

### **North Carolina Producer Agrees To Repay FSA \$2.7 Million**

In October 2003, a producer in eastern North Carolina signed a civil settlement agreement and consent order agreeing to repay FSA \$2.7 million plus interest. The farmer admitted to removing and selling 373,064 bushels of soybeans held by the Commodity Credit Corporation as collateral for two loans totaling \$2 million and converting the proceeds to his own personal use.

### **Farm Manager Sentenced in FSA Conspiracy**

In October 2003, a California farm manager of a Texas-based landlord was sentenced to serve 7 months in a Federal facility, followed by 36 months of supervised release, and was ordered to pay restitution of \$396,638 to USDA after he pled guilty to submitting false claims. Our investigation disclosed that the manager conspired with three tenant farmers from 1999 to 2001 to defraud FSA of approximately \$400,000 from the Production Flexibility Contract and Market Loss Assistance programs. The farm manager had the tenants sign bogus lease agreements for land they did not plant or farm. The tenants then applied for farm subsidy

payments, claiming they had planted rice and oilseeds on the land. Upon receipt of the subsidy payments from FSA, the tenants kept approximately \$40,000 and issued checks to the manager for the remainder. In addition, the landlord agreed to pay approximately \$400,000 as part of a civil settlement that was agreed to in March 2004.

### **ONGOING AND PLANNED REVIEWS FOR FARM PROGRAMS**

Farm program topics that will be covered in ongoing or planned OIG reviews include:

- DCP base acres and payment yields;
- FSA's implementation of the Cattle Feed Program;
- FSA's implementation of the Livestock Compensation Program;
- FSA's implementation of the Milk Income Loss Contract Program; and
- FSA's application of its finality rule and equitable relief provisions as they apply to identifying any improper payments.

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

### **RISK MANAGEMENT AGENCY AND CROP INSURANCE**

*RMA administers the Federal Crop Insurance Corporation (FCIC); its 2003 crop-year liability exceeded \$40 billion. FCIC is a wholly owned Government corporation that offers subsidized multiple-peril and revenue crop insurance through a private delivery system by means of insurance companies. Its 2003 crop-year premium subsidy and crop indemnity payments were \$2 billion and \$3 billion, respectively. Producer-paid premiums were about \$1.4 billion.*

#### **Monitoring of RMA Efforts To Renegotiate the Standard Reinsurance Agreement**

The Standard Reinsurance Agreement (SRA) is considered a cooperative financial assistance agreement between FCIC and the insurance company named on the agreement. Starting in October 2003, in anticipation of RMA's decision to renegotiate the SRA for Federal crop insurance, we began to monitor RMA's actions in this area. We have provided RMA officials our perspective on their draft SRA and the draft Quality Control Appendix, reviewed portions of a model used by RMA to simulate the loss experience that would have been realized under various types of SRA arrangements, discussed recommendations contained in prior audit reports, and provided RMA officials feedback from our preliminary analysis. RMA has indicated that it intends to achieve a cost savings of about \$68 million per year through a 25-percent cession of net underwriting gains and losses from each approved crop insurance provider. Our monitoring of the renegotiation process continues. (Ongoing audit; Audit Assignment No. 05099-109-KC)

#### **RMA Managers Need To Better Oversee Written Agreements**

RMA provides crop insurance coverage either through standard policies or through written agreements, which provide some flexibility by allowing RMA regions to insure crops in areas where coverage is unavailable by modifying existing policies for insured acres. Our review disclosed that in crop year 2001, personnel at the RMA Regional Offices issued written agreements without ensuring that the documentation required by RMA to support actuarial changes was provided. As a result, we projected that RMA accrued an additional \$138.7 million in liability and \$7.6 million in subsidized premiums. In

addition, we found that RMA officials were unable to accurately and effectively track accepted written agreements, which could, and did, allow insurance providers to misidentify units or terms and resulted in an excessive indemnity paid.

We recommended that RMA National Office officials provide oversight of Regional Office activities related to written agreements, and that they develop a review form for required documentation. We also recommended that RMA establish procedures to ensure that insurance providers properly enter into the data acceptance system those units insured under written agreements and correctly apply the terms of the written agreements to the applicable units. RMA agreed to issue a review form and guidance promptly. (Review of Written Agreements; Audit Report No. 05601-11-Te)

#### **Crop Price Elections Adequately Supported, Reasonable, Consistent**

RMA establishes commodity price elections with information from the World Agricultural Outlook Board (WAOB) and other USDA agencies to provide the basis for the various program price options available to producers who purchase all types of crop insurance. Our review disclosed that RMA procedures and controls resulted in reasonable and supportable crop price elections for the 2001 through 2002 crop years. RMA had been generally complying with a prior U.S. General Accounting Office (GAO) report that recommended RMA use the crop price information from WAOB and other USDA agencies. The methodology and process RMA used to prepare the price memoranda submitted to OMB were sound, and we were able to verify the supporting documentation for the price guarantees and/or price selections for a variety of agricultural crops.

The reinsured companies use the data supplied by RMA to inform the producers of the established price guarantees and/or price selections for each type of crop for each applicable crop year. We assessed the internal controls for one reinsured company's computer systems and noted that they caught all data errors submitted for the tests and showed them on error listings as intended. (Risk Management Agency Establishment of Maximum Prices; Audit Report No. 05099-17-KC)

#### **Improper Indemnity Payments Made To Prune Producer, Partner**

Our audit disclosed that a California prune producer and one of its two partners received unentitled federally insured crop indemnity payments. The prune producer underreported acreage (1997 and 1998) when applying for insurance and underreported crop production (1997 through 1999) when submitting loss claims. The prune producer's insurance provider did not follow procedures when it failed to verify claimed losses by collecting final settlement sheets from packinghouses where the prune producer sold its fruit. The improper payments resulted from inaccurate information submitted by the prune producer and its partner to support insurance claims filed with two separate insurance providers. Because of negligent servicing, the two insurance providers did not detect the misrepresentations and improperly paid the prune producer and its partner \$386,772 in indemnities for crop losses from 1997 through 1999.

RMA concurred with all the recommendations to pursue recovery of the questioned amounts except for one—that mandatory claims reviews be performed in cases where an arbitration settlement caused an indemnity payment to exceed the \$100,000 threshold. RMA explained that these reviews are based on a unit basis and even after the arbitration none of the individual units exceeded the \$100,000 threshold. OIG's position is that mandatory claims reviews should not be conducted on a "per unit basis." Rather, they should be conducted on a producer's entire operation to avoid improper payments such as those that occurred for this producer. (Indemnity Payments to Prune Producers in California – Producer D; Audit Report No. 05099-7-SF)

#### **Minnesota Elevator Manager and Four Farmers Convicted in \$1.2 Million Conspiracy**

After a 7-day trial, a Minnesota elevator manager was found guilty of conspiring to defraud USDA and making false statements that enabled farmers to receive approximately \$1.2 million to which they were unentitled. The scheme involved the misgrading of durum wheat, from October 1999 through April 2000, by inflating the damage so that the farmers would receive a quality adjustment on their crops. This action reduced their reported production by 80 percent and qualified

them for disaster payments from FSA and insurance indemnities from RMA. Before the trial began, four farmers charged in the scheme entered guilty pleas to mail fraud and making false writings. The elevator manager was sentenced to serve 46 months in prison and ordered to pay restitution of \$751,758. The four farmers who pled guilty were placed on probation and ordered to pay a combined \$32,834 in restitution.

### **Federal Jury Finds West Texas Crop Insurance Agent Guilty of Making False Statements to RMA**

A producer, who was also a crop insurance agent, provided false planting information about his 1999 crop-year wheat, cotton, and sorghum with the false claims resulting in an overall loss to the Government of more than \$640,000. A Federal jury found him guilty in February 2004 after a 2-week trial. A crop insurance adjuster previously had pled guilty to making false claims in this matter. The adjuster attested to crop appraisals knowing he had not conducted them on the insurance agent's 1999 crops. Sentencing is pending for both the insurance agent and adjuster.

### **ONGOING AND PLANNED REVIEWS FOR RMA AND CROP INSURANCE**

RMA and crop insurance topics that will be covered in ongoing or planned reviews include:

- the effectiveness of RMA's data acceptance system;
- the effectiveness of RMA's compliance activities and oversight in preventing and detecting program abuse;
- a review to evaluate and validate the zero acreage data for insured crops submitted to RMA by the reinsured companies in contrast to acreage reports submitted by producers to FSA;
- continued monitoring of and commenting on RMA's renegotiation of the SRA; and
- as a followup to our ongoing review of RMA's data acceptance system, a more intensive review verifying and validating the policyholders' data submitted by the reinsured companies.

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

# Management of Public Resources

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

USDA program assets of more than \$118 billion comprise loans receivable, cash, property, plant, equipment, and other assets. In addition, the Forest Service (FS) is responsible for the stewardship of 192 million acres of national forests and grasslands. USDA also employs thousands of personnel who inspect or grade agricultural products and operations. The effectiveness and efficiency with which USDA manages its assets are critical.

To effectively manage the funds and goods which it holds in trust for the American people, USDA must have effective financial management and information technology. Two key players in this are:

- the National Finance Center (NFC), which develops and/or operates administrative and financial systems, processing about \$67 billion in disbursements in FY 2003; and
- the National Information Technology Center (NITC), which is the Department's primary mainframe processing facility and processes the data of FSA/CCC, RMA, FNS, the National Agricultural Statistics Service, APHIS, and the FS.

For the first half of FY 2004, OIG issued 16 audit reports relating to the management of resources, including information technology. OIG's investigations for that key challenge during the first half of FY 2004 yielded 48 indictments, 24 convictions, and \$2 million in monetary results.

### FINANCIAL MANAGEMENT AND ACCOUNTABILITY

*The Department and the standalone agencies required to prepare their own financial statements received, for the second consecutive year, unqualified opinions. This extraordinary achievement once again reflected the overall improvements made in financial management. Errors were disclosed, however, in the FS FY 2002 financial statements subsequent to issuance, thus necessitating a restatement. Because of the materiality of the errors corrected, the Department's FY 2002 financial statements also had to be restated.*

*Significant challenges lie ahead in FY 2004 for the issuance of the statements, because of the accelerated timeframes required by law. As in past years, the FS FY 2003 financial statements required extensive adjustments, long after the end of the fiscal year, before they could be considered to be fairly presented. A timely and unqualified opinion on the FY 2004 financial statements will be attainable only if the FS implements sustainable financial management systems. (Audit Report Nos. 50401-51-FM, 06401-16-FM, 08401-3-FM, 05401-12-FM, 85401-9-FM, and 15401-4-FM)*

### USDA Consolidated—Unqualified Opinion

Our report on Internal Control Over Financial Reporting in the Department's consolidated financial statements disclosed that continued improvements are needed in financial management at the corporate level, including quality control, and continued improvements are needed in information technology (IT) security. In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary to improve financial management systems and the reporting of material IT security weaknesses. We also noted a potential Anti-Deficiency Act violation where APHIS issued a purchase order for more than \$950,000 for computers for the Grain Inspection, Packers and Stockyards Administration (GIPSA) at yearend; it was subsequently found that GIPSA did not have the funds available to fund the acquisition.

The Office of the Chief Financial Officer (OCFO) has immediate and long-term plans to substantially address all of the weaknesses in its financial management systems. Our recommendations in this report were directed toward the need to implement further improvements in quality control in order to enhance the



reporting and tracking of weaknesses within financial management and information technology. OCFO generally agreed with our findings and recommendations.

**Forest Service Internal Controls:** The FS contracts with an independent accounting firm to perform the annual financial statement audit; OIG serves as the Contracting Officer's Technical Representative (COTR). The firm's report on Internal Controls Over Financial Reporting for the FS noted the following reportable conditions:

- FS needs to improve its financial management and accountability, general controls environment, reconciliation and management of fund balance with Treasury, and compilation of required supplementary information and required supplementary stewardship information; and strengthen its accrual methodology.
- Controls over several areas need improvement—various accounting feeder systems, the accurate recording of personal property transactions, physical inventories of capitalized assets, and FS IT application systems.
- Posting of certain transactions need proper reference data.

The firm recommended that FS, to address the weaknesses in controls over financial reporting, train personnel, implement new procedures and/or improve existing procedures, increase management review and monitor procedures for compliance, review and revise business processes and general ledger posting models, perform certifications of financial systems, and make system enhancements. The agency's response is still pending.

#### **Rural Development's IT and Compliance**

**Weaknesses:** RD's ineffective oversight and management of its IT resources had unnecessarily exposed its \$56 billion loan portfolio data to the risk of disclosure, modification, or deletion. In addition, RD was not properly reconciling its suspense/deposit series of Treasury Symbols to its general ledger. We noted that RD's RUS legacy systems were not in compliance with Office of Management and Budget (OMB) Circular A-127 (Financial Management Systems) and not all financial management systems have been certified in accordance with OMB Circular A-130 (Management of

Federal Information Resources). Rural Development officials generally agreed with our findings and recommendation that RD establish procedures to reconcile and age the suspense accounts at a detailed transaction level and on time.

**RMA/FCIC Information Systems Controls:** OIG contracts, under a reimbursable agreement with the agency, with an independent accounting firm to perform the annual financial statement audit. OIG serves as the COTR. The firm's report on RMA/FCIC disclosed that controls over access to its information systems needed improvement, as did its application program and system software change controls. The firm recommended that RMA/FCIC implement corrective actions to strengthen the cited control weaknesses. With more than \$4 billion in indemnities and \$1.4 billion in premium revenue, these systems are highly critical. RMA/FCIC officials generally agreed with the findings and recommendations in the report.

#### **FSA/CCC Material Internal Controls Weaknesses:**

FSA contracts with an independent accounting firm to perform the financial statement audit; OIG serves as the COTR. The independent firm's report on FSA/CCC disclosed material internal control weaknesses in information security controls, financial system functionality, monitoring and controlling budgetary resources at the transaction level, financial accounting and reporting policies and procedures, and procedures for the budget execution process. Instances of noncompliance with the Federal Information Security Management Act of 2002 (FISMA), the Debt Collection Improvement Act of 1996 (DCIA), and the Federal Financial Management Improvement Act of 1996 (FFMIA) included issues relating to the information security program, timeliness in referring delinquent non-tax debts for collection, and financial management systems, respectively. The firm recommended that CCC improve its controls related to information security, implement additional financial system improvements, improve funds control processes, and improve policies and procedures over financial accounting and reporting as well as budget execution. FSA/CCC generally agreed with the recommendations and has developed corrective action plans.

#### **Rural Telephone Bank's (RTB) IT and Compliance**

**Weaknesses:** OIG contracts, under a reimbursable agreement with the agency, with an independent accounting firm to perform the annual financial

statement audit. OIG serves as the COTR. The firm's report on RTB disclosed that a material internal control weakness was found in that improvements were needed in IT security controls. The compliance report found that RTB's legacy financial management system is not in substantial compliance with OMB Circular A-127 and not all financial management systems have been certified in accordance with OMB Circular A-130. RTB is working to correct these weaknesses.

### **ONGOING AND PLANNED REVIEWS FOR FINANCIAL MANAGEMENT AND ACCOUNTABILITY**

Financial management and accountability topics that will be covered in ongoing or planned OIG reviews include:

- annual audits of the Department and standalone agencies' financial statements for FY 2004, and
- the Department's implementation of the Improper Payments Act.

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

### **INFORMATION TECHNOLOGY (IT) SECURITY AND IT MANAGEMENT**

*USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains. The Department and most of its agencies have taken numerous actions in the past few years to improve security over their IT resources; however, additional actions are still needed. Most critical is management commitment and accountability for implementing the requirements of OMB Circular A-130 and other federally mandated security guidelines.*

#### **The Department Is Improving Its IT Security, but Further Actions Are Needed**

During this reporting period, we assessed the adequacy of IT security at RD; APHIS; the Economic Research Service; the Grain Inspection, Packers and Stockyards Administration; the Office of Budget and Program Analysis; and the Office of the Chief Economist. Our audits established trends Department-wide in that some weaknesses were disclosed at every agency we reviewed.

- Many of the agencies still did not comply with the requirement of OMB Circular A-130 to prepare all required security plans, conduct risk assessments, prepare disaster recovery plans, provide security awareness training to all employees, and perform system certification and accreditations.
- We found physical and logical access control weaknesses in every agency we reviewed, hindering agencies' abilities to adequately protect their critical IT resources. Most agencies we reviewed did not have adequate controls in place to timely identify and correct potential system vulnerabilities that could compromise the confidentiality, integrity, and availability of critical IT systems and data.
- Not all agencies had adequate controls in place to properly manage and test changes to their applications, leaving those applications vulnerable to unauthorized and potentially malicious changes.

Of particular concern were the problems we noted at RD. Since 1988, RD has a history of unsatisfactorily correcting the IT-related weaknesses identified in our audit reports. RD has not instituted a framework for proactively managing the information security risks associated with its operations by addressing the underlying causes of its poor information security. Instead, RD has reacted to individual findings as they were reported, with little attention to the systemic ongoing control weaknesses. (Audit report Nos. 85099-4-FM, 33099-4-Ch, 14099-1-Te, 30099-1-SF, 39099-1-At, and 12099-1-At)

### **NFC's Administrative and Financial Systems Internal Controls Require Strengthening**

Our audit identified internal control weaknesses in NFC's administrative and financial systems that could jeopardize the confidentiality, integrity, and availability of the data it processes.

- NFC did not always protect information from improper access on its mainframe and network systems;
- NFC had not fully complied with the security management requirements included in the Federal Information Security Management Act of 2002 (FISMA); and
- NFC had not always adequately tested system software changes or evaluated the security impact resulting from system software changes and established adequate controls over the configuration of its mainframe operating system.

We recommended that NFC

- establish and/or improve current procedures and guidance to prevent and detect unauthorized access to sensitive data and resources on its systems;
- finalize security plans and underlying risk assessments for its general support systems and major applications and complete revisions to its certification and accreditation program to ensure that both application and general support systems are certified; and

- ensure that system software changes are sufficiently tested and security impacts associated with these changes to system software are adequately addressed during the system software change control process.

NFC agreed with all of the findings and recommendations and was very responsive to the audit report. The Center took significant actions before the final report to correct identified weaknesses. (FY 2003, NFC, Review of Internal Controls; Audit Report No. 11401-15-FM)

### **Improvements in IT Security at NITC, but Some Weaknesses Continue**

Our review of NITC disclosed that it continued to take actions toward complying with federally mandated security requirements but the necessary corrective actions are long-term in nature and continued actions are needed. We found that NITC needs to prepare security and contingency plans for its general non-mainframe support systems and complete the system certification and accreditation process for its critical systems. We also noted instances where NITC had not removed separated employees' remote access accounts, completed documentation of users with special access privileges, completed review and documentation of security software parameters, implemented policies and procedures outlining monitoring of security logs, or completed its implementation of secure Internet access. Finally, we continued to find that approval, testing, and implementation documentation for NITC's system change management process was not always maintained.

Because NITC was in the process of implementing significant actions to correct the previous weaknesses we identified, we did not make additional recommendations on outstanding issues. However, based on our recent disclosures, we made a new recommendation to periodically reconcile NITC user identifications to current employees and contractors to ensure timely removal of unneeded accounts. (NITC, General Controls Review – FY 2003; Audit Report No. 88099-5-FM)

## FS Employee Imprisoned for Possession of Child Pornography

In November 2003, a former FS employee in Arkansas was sentenced to serve 30 months in Federal prison, followed by 3 years of supervised release, after pleading guilty to possession of child pornography. The FS employee had reviewed, scanned, and saved child pornography from diskettes in his possession onto his Government computer while he was supervising troubled male youth at a Job Corps center. The employee was separated from Government service. This case was worked jointly with FS' Law Enforcement and Investigations organization.

## Utah Nonprofit Employee Sentenced for Possession of Child Pornography

In Utah, an employee of a nonprofit organization, working at a Natural Resources Conservation Service (NRCS) field office, was sentenced in January 2004 to 21 months in prison after pleading guilty to possession of child pornography. Forensic examination of the computers by OIG's Computer Forensic Unit found that the nonprofit employee used an NRCS Government computer and his personal computer to access sexually explicit materials, including child pornography.

## ONGOING AND PLANNED REVIEWS FOR IT SECURITY AND IT MANAGEMENT

IT security and IT management topics that will be covered in ongoing or planned reviews include:

- the adequacy of application controls (methods and measures that ensure that individual programs process data as intended);
- the adequacy of IT security at several additional agencies;
- telecommunications controls in the Department;
- mandated audits of the Department's adherence to FISMA; and
- annual assessment of general controls at NFC and NITC.

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

## SPECIAL RESOURCE CHALLENGES FACING THE FOREST SERVICE (FS)

*The Forest Service is the largest USDA agency. The stewardship of 192 million acres of national forests and grasslands is its responsibility.*

### FS Needs To Take Further Actions To Acquire Suitable Aircraft In the Most Cost-Efficient Manner Possible

The FS has an urgent need to replace its current fleet of lead planes, used to direct air tankers during firefighting operations, supervise fire operations from the air, and provide logistical and tactical support for firefighters on the ground. While the FS had followed acquisition regulations, we determined that the FS planned acquisition of 20 aircraft on long-term lease at an estimated cost of \$113 million needed improvement.

The FS could save an estimated \$42.5 million over the term of the lease by contracting airplanes seasonally. The FS plan to lease the aircraft for the full year on a 10-year contract is unnecessary and inefficient because the FS has only minimal use for its lead plane fleet during the non-fire season. We also questioned the need to retain the lead plane pilots as governmental employees instead of using seasonally contracted pilots (though FS' legal ability to contract for the positions is uncertain).



A Beechcraft 58P Baron aircraft that the FS currently uses as a lead plane, guiding an air tanker. FS photo.

The FS draft solicitation for aircraft did not adequately describe the abnormally rigorous conditions under which the aircraft would be flown or the increased maintenance and inspections that would be required under the contract. Further, it did not identify the FS plans for competitive flight-testing or the selection process. This could lead to contractors not offering the most appropriate aircraft or a challenge or protest to the contract award, potentially delaying the acquisition of new aircraft and impairing FS' ability to combat wildfires. While the FS had notified OMB of its plan for procuring the new lead planes, it had not prepared the required formal analysis, thus risking not having funds available.

The Forest Service agreed with our findings and recommendations to address the cited issues of cost-effectiveness, contracting pilots, expanding its draft solicitation, explaining its plans for test flights and the selection process, and providing documentation to OMB. It has already taken corrective action on a number of them, for example, amending its draft solicitation. The Forest Service is in the process of evaluating the cost savings to the Government if it contracts out for both lead planes and pilots only when needed and is providing OMB the documentation it requires for the lead plane acquisition. (FS Procurement of Firefighting Lead Planes; Audit Report No. 08601-37-SF)

### **Two Arizona FS Firefighters Convicted for Transporting Marijuana**

In January 2003, two Forest Service firefighters in Nogales, Arizona, while officially employed, conspired to distribute and transport more than 150 pounds of marijuana. Both pled guilty and were sentenced in February 2004. One firefighter, who actually transported the marijuana, was sentenced to Federal prison for 15 months, followed by 3 years of supervised release. The other firefighter, who acted as a lookout, was placed on 3 years of probation. Both employees resigned. This investigation was conducted with several Federal, State, and local law enforcement agencies, including FS' Law Enforcement and Investigations organization.

### **FS Employee Sentenced for Misuse of Purchase Card and Convenience Checks**

In December 2003, a former FS employee was placed on 5 years of probation, including 6 months of home detention, and was ordered to pay \$35,600 in restitution after pleading guilty to submitting false claims. An audit conducted by the FS disclosed evidence that the employee misused the office purchase card and convenience checks. The employee was the regional coordinator for those items and was responsible for providing guidance and training to the regional employees regarding their proper use, as well as auditing the accounts of those employees. The internal audit disclosed recent purchases of such items as a refrigerator, washer, dryer, sofa, loveseat, coffee table, and end tables, all of which were delivered to the employee's residence. In September 2002, we executed a search warrant at the employee's residence and seized these items. The employee admitted misusing the purchase card and convenience checks in order to obtain those items, and she resigned. We subsequently determined that, in 2001 and 2002, she illegally used the procurement process in order to obtain more than \$35,000 in goods and services for personal use.

### **Procurement Employee Pleads Guilty to Accepting Gratuities**

The president of a large office supply company paid illegal gratuities to a number of Federal employees at various agencies, including two USDA purchasing agents employed by the Office of Procurement and Property Management and the FS. The company also improperly charged items that were not ordered by the Government to various Government purchase card accounts. The president of the company entered a guilty plea to one count of paying an illegal gratuity and was sentenced in September 2003 to 2 years of probation with 6 months of home confinement. One USDA employee pled guilty to supplementation of a Government employee's salary and was sentenced in January 2004 to 1 year of probation and a \$500 fine. The other employee was not prosecuted but was reprimanded by the agency. This was a joint investigation with the FBI and the Defense Criminal Investigative Service (DCIS).

## **ONGOING AND PLANNED REVIEWS FOR THE FS**

FS topics that will be covered in ongoing or planned reviews, include:

- FS administration of its firefighting safety program;
- the efficiency and effectiveness of contracting activities related to the National Fire Plan;
- FS progress in implementation of the Government Performance and Results Act; and
- FS implementation of the Healthy Forests Initiative – Hazardous Fuels Reduction.

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

## **GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA)**

*The Grain Inspection, Packers and Stockyards Administration facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and promotes fair and competitive trading practices.*

### **Cattle Broker and Bookkeeper Plead Guilty to Cattle Scam**

OIG, the FBI, and GIPSA jointly investigated a cattle broker who falsified GIPSA documents in furtherance of a scheme to defraud investors, business associates, and financial institutions out of \$166 million. The scheme involved the broker's misrepresentation to his clients (private investors and financial institutions) of the financial status of his business entity and of the number of cattle available at the time investments were made. Investors relied on untrue, misleading, deceptive, and inaccurate information when making their investments. When the scheme unraveled, the broker was in control of only 5 percent of the cattle for which he was obligated to his investors. During the 30-month investigation, more than 150 victims from 4 States were identified. In November 2003, the broker and his bookkeeper pled guilty to five counts each of mail fraud, wire fraud, false entries, and criminal forfeiture. Sentencing information will be reported in the next semiannual report.

## Summary of Audit Activities—October 2003-March 2004

<b>Reports Issued</b> .....		46
Audits Performed by OIG .....	40	
Evaluations Performed by OIG .....	0	
Audits Performed Under the Single Audit Act .....	2	
Audits Performed by Others .....	4	
<b>Management Decisions Made</b>		
Number of Reports .....		36
Number of Recommendations .....		335
<b>Total Dollar Impact (Millions)</b> .....		\$51.6
Questioned/Unsupported Costs .....	\$ 5.8 <sup>ab</sup>	
Recommended for Recovery .....	\$4.4	
Not Recommended for Recovery .....	\$1.4	
Funds To Be Put to Better Use .....	\$45.8	

<sup>a</sup> These were the amounts the auditees agreed to at the time of management decision.

<sup>b</sup> 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—October 2003-March 2004

Reports Issued .....		205
Cases Opened .....		177
Cases Closed .....		289
Cases Referred for Prosecution .....		84
<b>Impact of Investigations</b>		
Indictments .....		218
Convictions .....		139 <sup>a</sup>
Searches .....		49
Arrests .....		213
<b>Total Dollar Impact (Millions)</b> .....		\$59.9
Recoveries/Collections .....	\$ 2.9 <sup>b</sup>	
Restitutions .....	\$50.6 <sup>c</sup>	
Fines .....	\$ 1.4 <sup>d</sup>	
Claims Established .....	\$ 3.3 <sup>e</sup>	
Cost Avoidance .....	\$ 1.7 <sup>f</sup>	
<b>Administrative Sanctions</b> .....		109
Employees .....	30	
Businesses/Persons .....	79	

<sup>a</sup> Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 139 convictions do not necessarily relate to the 218 indictments.

<sup>b</sup> Includes money received by USDA or other Government agencies as a result of OIG investigations.

<sup>c</sup> Restitutions are court-ordered repayments of money lost through a crime or program abuse.

<sup>d</sup> Fines are court-ordered penalties.

<sup>e</sup> Claims established are agency demands for repayment of USDA benefits.

<sup>f</sup> Consists of loans or benefits not granted as the result of an OIG investigation.

# Statistical Data

## AUDITS WITHOUT MANAGEMENT DECISION

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

### NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FSIS	09/30/03	1. FSIS Oversight of ConAgra Recall (24601-2-KC)	0	0
Multiagency	09/30/03	2. Implementation of ARPA (50099-12-KC)	0	0
	09/30/03	3. 2000 Crop Disaster Program (50099-15-KC)	20,049	19,649
RBS	08/27/03	4. Lender Servicing of a B&I Guaranteed Loan in Georgia (34601-5-At)	5,436,201	224,951
	09/30/03	5. Liquidation of B&I Guaranteed Loans (34601-8-SF)	818,121	220,009
	09/30/03	6. Request Audit of B&I Guaranteed Loan in Louisiana (34099-5-Te)	5,585,136	5,585,136
RHS	06/26/03	7. RRH Tenant Income Verification – Gainesville, FL (04004-3-At)	7,781,635	7,781,635
RUS	09/08/03	8. Water and Wastewater Grants (09601-6-KC)	672,085,758	508,776,607



## PREVIOUSLY REPORTED BUT NOT YET RESOLVED

These audits are still pending agency action. Some are under judicial, legal, or investigative proceedings. We have marked those with an asterisk (\*) that must be resolved before the agency can act on the recommendations. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies have been informed of actions that must be taken to reach management decision, but for various reasons the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
APHIS	02/20/03	9. Safeguards to Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch)	0	0
	03/31/03	10. Controls Over Permits To Import Biohazardous Materials (33601-4-Ch)	0	0
CCC	12/26/02	11. FY 2002 CCC Financial Statements (06401-15-FM)	0	0
Office of Civil Rights (CR)	09/30/98	12. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-HQ)	0	0
	03/24/99	13. Evaluation of CR Management of Settlement Agreements (60801-2-HQ)	0	0
	03/10/00	14. Office of CR Management of Employment Complaints (60801-3-HQ)	0	0
	03/10/00	15. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-HQ)	0	0
CSREES	08/06/02	16. Grants to National Center For Resources Innovation (13099-2-Te)	1,246,161	1,246,161
FNS	05/11/01	17. NSLP Food Service Management Companies (27601-12-KC)	3,572,137	3,572,137
	09/06/01	18. NSLP – Food Service Management Companies (27601-24-Ch)*	3,537,912	3,198,926

<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
	11/21/01	19. CACFP – Wildwood, Inc. Phase II (27010-6-KC)	36,895,611	36,895,611
	03/29/02	20. NSLP – Chartwell’s Food Service Management Company (27601-13-KC)	307,711	307,711
	02/07/03	21. FSP Administrative Costs in New Mexico (27099-14-Te)	8,663,131	0
	03/31/03	22. FSP – Employment and Training Program in Tennessee (27601-12-At)	3,152,731	614,600
FSA	03/30/99	23. Payment Limitation - Mitchell County, GA (03006-20-At)	881,924	881,924
	07/30/01	24. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
	09/30/02	25. Assessments on Imported Tobacco (03099-164-At)	4,583,797	4,583,797
FSIS	06/21/00	26. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	27. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0
	09/30/02	28. Overtime Controls (24099-4-At)	0	0
Multiagency	09/30/98	29. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	74,366
	03/31/99	30. Private Voluntary Organization Accountability (50801-6-At)	18,629,558	18,236,625
RBS	01/28/02	31. Lender Servicing of a B&I Guaranteed Loan (34601-3-At)	1,536,060	1,536,060
	01/10/03	32. Lender Servicing of B&I Guaranteed Loans (34601-4-At)	3,766,908	3,706,908

<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
RD	08/05/02	33. Security Over IT Resources - Rural Development (85099-2-FM)	0	0
RHS	01/08/99	34. RRH Program - Dujardin Property Management, Inc. Everett, WA (04801-5-SF)*	195,694	195,694
	05/25/00	35. RRH Nationwide Initiative in Missouri, St. Louis, MO (04801-2-KC)	4,922,879	4,919,579
	09/28/01	36. RRH, Insurance Expenses, Phase II (04601-4-KC)	596,665	499,688
RMA	09/30/97	37. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	02/28/01	38. FY 2000 FCIC Financial Statements (05401-1-HQ)	0	0
	03/14/01	39. Crop Insurance for Specialty Crops (05601-4-At)	2,128,843	2,128,843
	05/21/01	40. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	03/15/02	41. Monitoring of RMA's Implementation of Manual 14 Reviews/ Quality Control Review System (05099-14-KC)	0	0
	09/30/02	42. Viability of 1999 Fall Watermelon Crop Insurance In Texas (05601-8-Te)	21,100,000	21,100,000
	09/30/02	43. Review of Large Insurance Claim for Watermelons (05601-9-Te)	6,998,779	6,998,779
	01/09/03	44. FY 2002 FCIC Financial Statements (05401-11-FM)	0	0

## AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

### **1. FSIS Oversight of ConAgra Recall (24601-2-KC), Issued September 30, 2003**

Management decisions have been accepted for 10 of the 31 recommendations. We recommended that FSIS provide clear authority for its access to all internal and external plant pathogen and microbial testing results and ensure plants notify FSIS of test results. FSIS needs to provide a documented management control program that specifies the actions required at each level in the organization to analyze data, establish criteria to ensure consistent application of its enforcement actions, and identify options or alternatives to ensure compliance with regulatory requirements.

FSIS needs to reassess its management control process over the recall operations, provide a compensating control to ensure recalls are timely and efficient, provide clear directions on traceback collection and processing, establish enforcement action against firms that do not fulfill their recall notification responsibilities, improve the recall effectiveness checks process, and document determinations made for the suitability of new ingredients used in meat products.

We also recommended that FSIS strengthen its monitoring of inspector activities by developing a risk-based sampling program, strengthening sampling procedures, providing adequate physical security over the samples, verifying compliance with sampling procedures, providing a time-phased plan for targeting and reviewing establishment HACCP plans, furnishing details on requirements for recurring reassessments, establishing a proactive technical assistance program when HACCP plans are found to be technically deficient, providing details on how contaminated carcasses will be handled, and supplying information on the inspector responsibilities to monitor the disposition of contaminated products. We are requesting that the agency reconsider its initial proposals and provide us with an alternative corrective action plan.

### **2. Implementation of the Agricultural Risk Protection Act (ARPA) (50099-12-KC), Issued September 30, 2003**

We reported that departmental efforts to reconcile FSA and RMA data regarding producers that carried crop insurance on 2001 crops were not timely or effective. As a result, effectiveness of the reconciliation as a tool to enhance program integrity has been compromised and the reconciliation process may not be in compliance with legislative requirements. We recommended that RMA and FSA, in consultation with the Under Secretary for Farm and Foreign Agricultural Services, establish an executive-level joint departmental agency task force to develop plans for reengineering the Department's data reporting for each producer, landowner, and policyholder under a single integrated common comprehensive information collection system. In addition, we recommended that the agencies develop strategies to address conditions reported in the report. We also recommended that RMA obtain written legal opinions as to whether (1) reinsured companies can be required to participate in the data reconciliation process and to clarify their roles and responsibilities in resolving identified discrepancies and (2) the limited sampling plan approach being used to address and resolve the discrepancies identified during the 2001 reconciliation meets the requirements of ARPA.

### **3. 2000 Crop Disaster Program (50099-15-KC), Issued September 30, 2003**

We identified six producers for whom a reinsured company had changed reported ineligible causes of loss on irrigated land to eligible losses. We recommended that RMA review the reinsured company's operations and determine whether other ineligible causes of loss were improperly changed. RMA should specifically review the indemnities for the six producers cited in the report. Further, any ineligible indemnity amounts disclosed by RMA's reviews should be recovered and reported to FSA, and FSA should recover any improper Crop Disaster Program payments based on the incorrect indemnities. The agencies generally agreed with the audit findings and recommendations. We are working with RMA and FSA to achieve management decision.

**4. RBS Lender Servicing of a B&I Guaranteed Loan in Georgia (34601-5-At) Issued August 27, 2003**

For the one open recommendation, the agency must determine whether a borrower that defaulted on a \$5 million loan and spent \$224,951 for ineligible and questionable purposes should be debarred from participation in Government programs. We are working with the agency to resolve this issue.

**5. RBS Liquidation of B&I Guaranteed Loans (34601-8-SF), Issued September 30, 2003**

Three recommendations remain without management decision, which require the collection of almost \$220,000 of improper or unsupported liquidation expenses and protective advances. RBS is consulting with USDA's Office of the General Counsel (OGC) to determine whether there is a legal basis for seeking recovery of the recommended amounts. To reach management decision for these recommendations, we will need a copy of the OGC decision, or documentation that accounts receivable have been established in the agency's accounting records for the recommended amounts.

**6. RBS Request Audit of B&I Guaranteed Loan in Louisiana (34099-5-Te), Issued September 30, 2003**

One recommendation has not been resolved. We recommended that RBS recover \$1.3 million, caused by negligence, from the lender. RBS has proposed

recovering only \$158,246 of this amount. We have requested that RBS provide the documentation it used that was supplied to OGC through counsel for the lender to support recovering the lesser amount. When we have evaluated this documentation, we will determine the actions necessary for management decision.

**7. RHS Rural Rental Housing Tenant Income Verification – Gainesville, FL, (04004-3-At), Issued June 26, 2003**

Four recommendations are without management decision. We recommended that the RHS State Office (a) collect the overpaid assistance, (b) revise agreements with the appropriate State agency to enable project managers to use the wage and benefit information to certify tenant eligibility, (c) develop and issue a policy requiring the use of wage and benefit data at the time tenants are certified as eligible for the program, and (d) recompute assistance amounts for tenants in the project we reviewed and recover improper payments. In order to reach management decision, RHS should provide documentation of corrective actions planned, including dates for their completion.

**8. RUS Water and Wastewater Grants (09601-6-KC), Issued September 8, 2003**

Three recommendations remain open. RUS needs to inform us of the timeframes for implementing the actions we have agreed upon.

## INDICTMENTS AND CONVICTIONS

Between October 1, 2003, and March 31, 2004, OIG completed 205 investigations. We referred 84 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 218 indictments and 139 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 139 convictions do not necessarily relate to the 218 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$59.9 million.

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

### Indictments and Convictions October 1, 2003 - March 31, 2004

Agency	Indictments	Convictions*
AMS	1	4
APHIS	26	9
ARS	1	3
ERS	0	2
FNS	115	69
FS	1	2
FSA	46	28
FSIS	4	5
NRCS	3	3
OALJ	2	0
OCFO	1	2
RBS	4	0
RHS	7	10
RMA	7	1
SEC	0	1
Totals	218	139

\*This category includes pretrial diversions.

## 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 443 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1

### Hotline Complaints

October 1, 2003 to March 31, 2004  
(Total = 443)

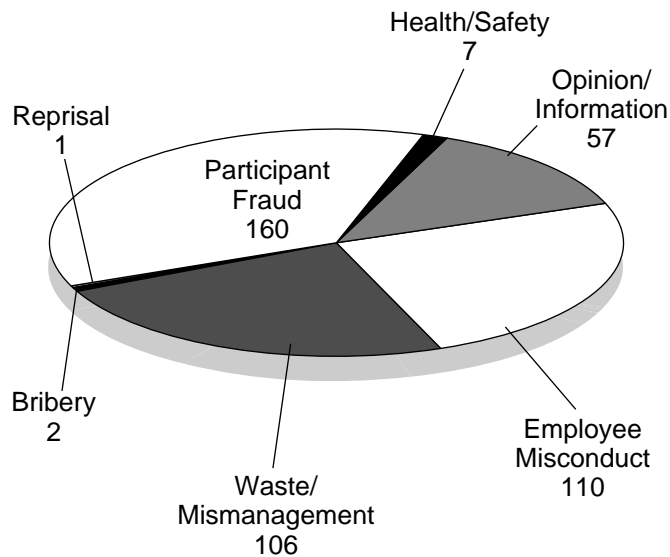
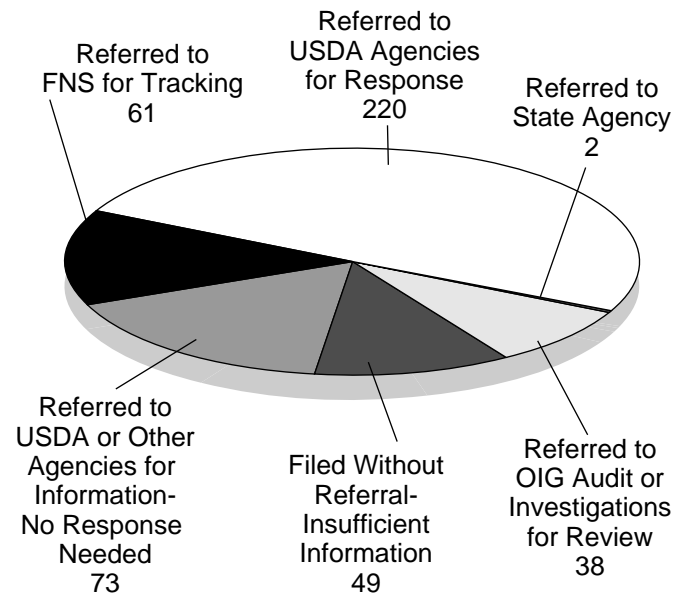


Figure 2

### Disposition of Complaints

October 1, 2003 to March 31, 2004



**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS  
FOR THE PERIOD OCTOBER 1, 2003 – MARCH 31, 2004**

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**Number of FOIA/PA Requests Received** 105

**Number of FOIA/PA Requests Processed:** 53

Number Granted 15  
 Number Partially Granted 17  
 Number Nondisclosed 10

**Reasons for Denial:**

No Records Available 3  
 Referred to Other Agencies 3  
 Denied in Full (Exemption 7A) 4

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**Requests for OIG Reports From Congress  
and Other Government Agencies**

Received 27  
 Processed 23

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**Appeals Processed** 1

Appeals Completely Upheld 0  
 Appeals Partially Reversed 0  
 Appeals Completely Reversed 0  
 Appeals Requests Withdrawn 1

---

**Number of OIG Reports/Documents  
Released in Response to Requests** 43

NOTE: A request may involve more than one report.

During this 6-month period, 44 audit reports were posted to the Internet at the OIG Web site:  
[www.usda.gov/oig/whatsnew.htm](http://www.usda.gov/oig/whatsnew.htm).



# Appendix I

**INVENTORY OF AUDIT REPORTS  
WITH QUESTIONED COSTS AND LOANS  
FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004**

DOLLAR VALUES

	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED <sup>a</sup> COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2003	37	149,031,962	86,002,502
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	9	1,566,497	1,893
TOTALS	<u>46</u>	<u>\$150,598,459</u>	<u>\$86,004,395</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	13		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$4,446,838	\$1,489,109
NOT RECOMMENDED FOR RECOVERY		\$1,353,520	\$0
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$12,376,453	\$1,250,855
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	33	\$133,107,404	\$83,593,713
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	25	\$131,677,045	\$83,591,820

<sup>a</sup> Unsupported values are included in questioned values.

# Appendix II

## INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2003	12	\$710,047,556
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	6	\$51,269,334
TOTALS	<u>18</u>	<u>\$761,316,890</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	7	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$45,800,461
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	11	\$715,516,429
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	8	\$707,899,286

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004

DURING THE 6-MONTH PERIOD FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004, THE OFFICE OF INSPECTOR GENERAL ISSUED 46 AUDIT REPORTS, INCLUDING 4 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED <sup>a</sup> COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
CHIEF INFORMATION OFFICER	1			
COMMODITY CREDIT CORPORATION	1			
ECONOMIC RESEARCH SERVICE	1			
FARM SERVICE AGENCY	2	\$918,390		
FOOD AND NUTRITION SERVICE	14	\$261,335	\$1,893	\$21,228
FOOD SAFETY AND INSPECTION SERVICE	1			
FOREST SERVICE	2			\$42,525,000
GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION	1			
MULTIAGENCY	8			\$1,123,106
OFFICE OF BUDGET AND PROGRAM ANALYSIS	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
OFFICE OF THE CHIEF ECONOMIST	1			
RISK MANAGEMENT AGENCY	4	\$386,772		\$7,600,000
RURAL DEVELOPMENT	3			
RURAL HOUSING SERVICE	2			
RURAL TELEPHONE BANK	1			
<b>TOTALS</b>	<b>46</b>	<b>\$1,566,497</b>	<b>\$1,893</b>	<b>\$51,269,334</b>
<b>TOTAL COMPLETED:</b>				
SINGLE AGENCY AUDIT	38			
MULTIAGENCY AUDIT	8			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
<b>TOTAL RELEASED NATIONWIDE</b>	<b>46</b>			
<b>TOTAL COMPLETED UNDER CONTRACT <sup>b</sup></b>	<b>4</b>			
<b>TOTAL SINGLE AUDIT ISSUED <sup>c</sup></b>	<b>2</b>			

<sup>a</sup>Unsupported values are included in questioned values

<sup>b</sup>Indicates audits performed by others

<sup>c</sup>Indicates audits completed as Single Audit

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>ANIMAL AND PLANT HEALTH INSPECTION SERVICE</b>				
330990004CH 2004/03/03	MANAGEMENT AND SECURITY OF APHIS INFORMATION TECHNOLOGY RESOURCES			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1		
<b>CHIEF INFORMATION OFFICER</b>				
880990005FM 2003/10/20	FY 2003 NATIONAL INFORMATION TECHNOLOGY CENTER GENERAL CONTROLS			
TOTAL: CHIEF INFORMATION OFFICER		1		
<b>COMMODITY CREDIT CORPORATION</b>				
064010016FM 2003/11/07	MONITORING FISCAL YEAR 2003 COMMODITY CREDIT CORPORATION FINANCIAL STATEMENT AUDIT			
TOTAL: COMMODITY CREDIT CORPORATION		1		
<b>ECONOMIC RESEARCH SERVICE</b>				
140990001TE 2004/03/31	MANAGEMENT AND SECURITY OF ERS INFORMATION TECHNOLOGY RESOURCES			
TOTAL: ECONOMIC RESEARCH SERVICE		1		
<b>FARM SERVICE AGENCY</b>				
036010020KC 2003/12/22	REVIEW OF 2002 FARM BILL COMMODITY LOAN AND PAYMENT RATES			
036010042TE 2004/03/19	FARM SERVICE AGENCY FARM PROGRAMS AUDIT	\$918,390		
TOTAL: FARM SERVICE AGENCY		2	\$918,390	
<b>FOOD AND NUTRITION SERVICE</b>				
270100005TE 2004/01/23	ACCOUNTABILITY AND OVERSIGHT OF THE NATIONAL SCHOOL LUNCH PROGRAM			
270100009TE 2003/10/09	ACCOUNTABILITY AND OVERSIGHT OF THE NATIONAL SCHOOL LUNCH PROGRAM - STAR PROGRAMS, INC., INGRAM, TX	\$18,392		
270100014KC 2004/03/26	NATIONAL SCHOOL LUNCH PROGRAM - LAWRENCE, KS			
270100015KC 2003/10/15	NATIONAL SCHOOL LUNCH PROGRAM, IOLA, KS			
270100016CH 2003/12/03	ACCOUNTABILITY AND OVERSIGHT OF THE NATIONAL SCHOOL LUNCH PROGRAM	\$136,138		\$4,085
270100016KC 2004/02/18	NATIONAL SCHOOL LUNCH PROGRAM, LEAVENWORTH, KS	\$684	\$684	
270100017KC 2003/10/15	NATIONAL SCHOOL LUNCH PROGRAM, OSKALOOSA, KS			
270100019KC 2004/02/18	NATIONAL SCHOOL LUNCH PROGRAM, ODESSA, MO	\$1,209	\$1,209	
270100020KC 2004/03/25	NATIONAL SCHOOL LUNCH PROGRAM, KEARNEY, MO	\$959		\$8,862
270100021KC 2004/03/24	NATIONAL SCHOOL LUNCH PROGRAM, PLATTE COUNTY, MO			\$8,281
270990018TE 2004/03/18	STATE OF NEW MEXICO CONTINUED MONITORING EBT SYSTEM DEVELOPMENT	\$95,553		
270990023SF 2004/02/19	FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM IN CALIFORNIA	\$8,400		

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004**

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
270990024SF 2004/03/26	NATIONAL SCHOOL LUNCH PROGRAM - REVIEW OF LOCAL SCHOOL DISTRICT				
270990062HY 2004/03/08	FOLLOW UP ON THE ADMINISTRATION AND MANAGEMENT OF THE NEW YORK WIC PROGRAM				
TOTAL: FOOD AND NUTRITION SERVICE		14	\$261,335	\$1,893	\$21,228
<b>FOOD SAFETY AND INSPECTION SERVICE</b>					
240990005HY 2003/12/29	IMPORTED MEAT AND POULTRY INSPECTION PROCESS EQUIVALENCE DETERMINATIONS – PHASE III				
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		1			
<b>FOREST SERVICE</b>					
084010003FM 2004/01/26	FISCAL YEAR 2003 FOREST SERVICE FINANCIAL STATEMENTS				
086010037SF 2004/03/26	FS PROCUREMENT OF FIREFIGHTING LEAD PLANES				\$42,525,000
TOTAL: FOREST SERVICE		2			\$42,525,000
<b>GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION</b>					
300990001SF 2003/11/07	MANAGEMENT AND SECURITY OF INFORMATION TECHNOLOGY RESOURCES AT GIPSA				
TOTAL: GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION		1			
<b>MULTIAGENCY</b>					
500210006SF 2003/12/18	QUALITY CONTROL REVIEW – MADERA COUNTY, CALIFORNIA, FYE 6/30/01				
500220004KC 2004/02/09	A-133 AUDIT – BERTIE COUNTY, NORTH CAROLINA (FYE 2002)				
500990013KC 2004/02/23	HOMELAND SECURITY ISSUES FOR USDA GRAIN AND COMMODITIES INVENTORIES				
504010051FM 2004/01/26	USDA CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2003				
506010006TE 2004/03/04	CONTROLS OVER PLANT VARIETY PROTECTION AND GERMPLASM STORAGE				
506010007CH 2004/03/31	ALLOCATION AND USE OF HOMELAND SECURITY FUNDS				\$1,123,106
506010009AT 2004/03/24	CONTROLS OVER CHEMICALS AND RADIOACTIVE MATERIALS AT USDA FACILITIES				
506010010AT 2004/03/08	FOLLOWUP REVIEW ON THE SECURITY OF BIOHAZARDOUS MATERIAL AT USDA LABORATORIES				
TOTAL: MULTIAGENCY		8			\$1,123,106
<b>OFFICE OF BUDGET AND PROGRAM ANALYSIS</b>					
390990001AT 2004/01/12	FY 2003 OBPA INFORMATION TECHNOLOGY SECURITY REVIEW				
TOTAL: OFFICE OF BUDGET AND PROGRAM ANALYSIS		1			

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**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
FROM OCTOBER 1, 2003, THROUGH MARCH 31, 2004**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>OFFICE OF THE CHIEF FINANCIAL OFFICER</b>				
114010015FM 2003/11/19	FISCAL YEAR 2003 NATIONAL FINANCE CENTER INTERNAL CONTROL STRUCTURE REVIEW			
114010019FM 2003/11/03	AGREED UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS CONTRIBUTION AND SUPPLEMENTAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		2		
<b>OFFICE OF CHIEF ECONOMIST</b>				
120990001AT 2004/01/23	FISCAL YEAR 2003 OCE INFORMATION TECHNOLOGY SECURITY REVIEW			
TOTAL: OFFICE OF CHIEF ECONOMIST		1		
<b>RISK MANAGEMENT AGENCY</b>				
050990007SF 2004/03/31	INDEMNITY PAYMENTS TO PRUNE PRODUCERS IN CALIFORNIA - PRODUCER D	\$386,772		
050990017KC 2004/03/31	RISK MANAGEMENT AGENCY ESTABLISHED MAX PRICES			
054010012FM 2003/11/07	FISCAL YEAR 2003 FCIC FINANCIAL STATEMENTS			
056010011TE 2003/12/30	REVIEW OF WRITTEN AGREEMENTS			\$7,600,000
TOTAL: RISK MANAGEMENT AGENCY		4	\$386,772	\$7,600,000
<b>RURAL DEVELOPMENT</b>				
850990001HY 2004/02/03	SURVEY OF HOMELAND SECURITY ISSUES AT RURAL DEVELOPMENT			
850990004FM 2004/03/31	REVIEW OF RURAL DEVELOPMENT'S INFORMATION TECHNOLOGY RESOURCES SECURITY			
854010009FM 2003/11/07	FISCAL YEAR 2003 RD FINANCIAL STATEMENTS			
TOTAL: RURAL DEVELOPMENT		3		
<b>RURAL HOUSING SERVICE</b>				
040100001AT 2004/01/09	AUDIT OF LOCAL GOVERNMENT MANAGEMENT OF MULTI-FAMILY HOUSING			
046010008CH 2004/02/02	RURAL DEVELOPMENT'S ESCROW PROCESS FOR SINGLE FAMILY HOUSING BORROWERS			
TOTAL: RURAL HOUSING SERVICE		2		
<b>RURAL TELEPHONE BANK</b>				
154010004FM 2003/11/07	MONITORING FISCAL YEAR 2003 RTB FINANCIAL STATEMENTS			
TOTAL: RURAL TELEPHONE BANK		1		
<b>GRAND TOTAL:</b>		<b>46</b>	<b>\$1,566,497</b>	<b>\$1,893</b> <b>\$51,269,334</b>

# Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CR	Office of Civil Rights
CSREES	Cooperative State Research, Education, and Extension Service
DCIS	Defense Criminal Investigative Service
ERS	Economic Research Service
FAS	Foreign Agricultural Service
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GAO	U.S. General Accounting Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OALJ	Office of Administrative Law Judges
OBPA	Office of Budget and Program Analysis
OCE	Office of the Chief Economist
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPPM	Office of Procurement and Property Management
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
USDA	U.S. Department of Agriculture
WAOB	World Agricultural Outlook Board

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