



**United States
Department of
Agriculture**

Office of
Inspector
General

Semiannual Report Office of Inspector General

April 1, 1981- September 30, 1981

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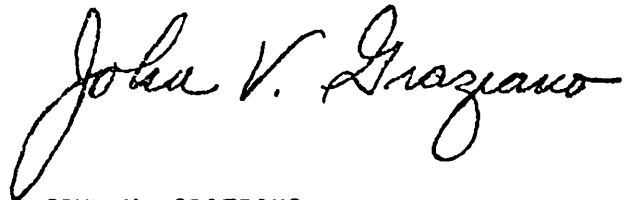
PREFACE

This is the sixth semiannual report of the U.S. Department of Agriculture's Office of Inspector General, submitted pursuant to the requirements of the Inspector General Act of 1978. The report covers the period April 1, 1981, through September 30, 1981. It describes the most significant problems and achievements in our auditing and investigative activities as well as our recommendations for corrective action in those areas where fraud, waste, and abuse have the greatest proven potential.

During the reporting period we issued 1010 investigative and 159 audit reports. Our audits identified approximately \$425 million in questioned costs and in questioned loans and loan guarantees. Our investigative work resulted in 670 indictments, 329 convictions, and related fines, recoveries and collections totaling about \$1.7 million. Claims were established for approximately \$13.3 million.

The reporting period ending September 30, 1981, saw the most concerted and successful attempt at audit resolution in the history of the Department. This methodical and highly structured effort reduced a backlog of unresolved audits from 598 to 18 as of October 27, 1981. Resolution of these last 18 audits is delayed pending the issuance of legal opinions, the completion of ongoing investigations, or some other critical action.

I am pleased to report that we were able to arrive at audit resolutions that complied with applicable laws and that did not compromise or sacrifice regulatory standards. As a result of the exceptions taken in these previously unresolved audits, a total of over \$50 million in claims was established since the beginning of the calendar year.



JOHN V. GRAZIANO
Inspector General

TABLE OF CONTENTS

	<u>Page</u>
PREFACE	i
SUMMARY	1
STATISTICAL DATA	8
SECTION I - REVIEW OF LEGISLATION AND REGULATIONS	10
SECTION II - DESCRIPTION OF SIGNIFICANT PROBLEMS AND ACHIEVEMENTS. . . .	17
A. AUDIT FOLLOWUP.	17
B. DOMESTIC FOOD ASSISTANCE PROGRAMS	22
Food Stamp Program.	23
School Food Programs.	38
Child Care Food Program	42
C. FARM PROGRAMS AND COMMODITY CREDIT CORPORATION ACTIVITIES	47
Monitoring of USSR Grain Suspension	48
Commodity Loan and Grain Reserve Program	56
GFA Peanut Association.	57
Emergency Feed Program.	59
Tobacco Marketing and Loan Program.	60
D. RURAL DEVELOPMENT PROGRAMS OF FARMERS HOME ADMINISTRATION	64
Business and Industrial Loan Program (General).	65
Business and Industrial Alcohol Fuel Loans.	67
Farm Operating Loans.	69
Rural Housing Loans - Interest Credit Provisions.	71
E. SIGNIFICANT PROBLEMS AND ACHIEVEMENTS IN OTHER PROGRAMS	75
Food Safety and Inspection Service.	75
Federal Crop Insurance Corporation.	77
Rural Electrification Administration.	79
Federal Grain Inspection Service.	80
Compliance with Civil Rights Laws in State-Administered Cooperative Extension Service Programs.	80
F. DEPARTMENTAL ADMINISTRATION	83
Procurement Management.	83
Multi-Agency Survey of Administrative Operations and Personnel Activities.	89
Debt Management	90
Internal Controls	93
USDA Travel Management.	95

	<u>Page</u>
G. OTHER SIGNIFICANT AUDIT FUNCTIONS	97
Implementation of the Single Audit Concept (OMB Circular A-102)	97
Audits of In-House Cost Estimates Prepared in Accordance with the Requirements of OMB Circular No. A-76.	102
Contract Audit Activity	104
SECTION III - COOPERATIVE EFFORTS WITH OTHER FEDERAL AND STATE AGENCIES.	105
SECTION IV - WHISTLEBLOWER COMPLAINTS	113
SECTION V - DEPARTMENTAL DEBT COLLECTION.	118

APPENDIX: LISTING OF AUDIT REPORTS ISSUED DURING THE REPORTING PERIOD

SUMMARY

Under a mandate from Congress and the Secretary of Agriculture, the Office of Inspector General reduced its backlog of unresolved audits from 598 to 18 as of October 27, 1981. As a result of exceptions taken in these hitherto unresolved audits, USDA agencies established claims of over \$50 million since the beginning of the calendar year.

The effort to resolve outstanding audits this reporting period was in response to the deadline established by Congress in July 1980, in PL 36-304, Supplemental Appropriations and Rescission Act, 1980. Section 305 of the Act requires that:

"All unresolved audits currently pending . . . shall be resolved no later than September 30, 1981. Any new audits involving questioned costs, . . . shall be resolved within six months."

The Secretary of Agriculture designated the Deputy Secretary to ensure that all Inspector General and General Accounting Office recommendations were resolved. The Deputy Secretary met with key IG staff members and representatives of the USDA agencies that had the largest number of unresolved audits. He communicated to them his and the Secretary's determination to bring the Department into full compliance with the legislative and regulatory requirements of audit followup. He further directed that he be given the details of every audit falling under the PL 36-304 deadline which was not fully resolved as of September 21, 1981.

In other developments during this reporting period, OIG continued to allocate audit and investigative resources to those programs that demonstrated the greatest vulnerability to fraud, abuse, and waste. Those areas of emphasized enforcement were the Food Stamp Program and Farmers Home Administration loan practices. Other areas in which OIG worked with the agencies within the Department to improve program administration were procurement management, and debt management and cash collections. Our major legislative initiatives this period involved food assistance programs, for which we recommended:

- o that all State agencies be required to make a computer match of wage files provided by employers and income data provided by applicants.
- o that all school districts be required to use a standardized application for free and reduced-price meals. (These applications will be used in computer matches against wage files.)
- o that all first endorsers be required to assume liability at food stamp issuance points.

Within these and other areas of concentration, we achieved some solid accomplishments that will strengthen Departmental programs and curtail fraud, abuse, and waste. The following is a synopsis of these accomplishments and of persisting problems. The synopsis is not intended to encompass all our audit and investigative activities, but to highlight those areas which were of primary importance.

In the Food Stamp Program, publicity highlighted problems that generally have been reported in our audits and investigations. Noteworthy developments in this area indicate the direction in which our enforcement of the program is going:

- o In New York City, the replacement of Authorization to Participate cards (ATP's) reported lost, stolen, or not received has been significantly reduced. Problems persist, as about 3,000 replacement ATP's valued at about \$300,000 per month are still cashed along with the original ATP's.
- o Our investigative effort for FY 1981 resulted in 799 indictments for violations in the Food Stamp Program. This is about twice the number of indictments returned in this program than in the preceding year.
- o As a result of our audit in Tennessee, the State has established \$1.3 million in claims against 934 households for food stamp losses, and about \$406,000 in claims for about 337 households participating in the Aid to Families with Dependent Children (AFDC) Program. Additionally, 89 persons have been indicted in Federal court and 114 in State courts for violations detected through our computer matches of wage information and income data provided by AFDC and Food Stamp Program applicants.
- o In Chicago, our computer match of recipients with the same first names and birthdays resulted in indictments of ten individuals who, collectively, had fraudulently obtained food stamp and other welfare benefits in excess of \$550,000.

- o FNS has strengthened regulations on replacing ATP's and now requires the use of a photo identification card at locations with 100,000 or more food stamp recipients. Recipients who report two consecutive losses of their ATP cards must be placed on an alternative delivery system, and such replacements are limited to two during a 6-month period.
- o OIG and FNS agree that a food stamp mail loss tolerance should be established wherein the State or project area would have the option of changing from the direct mail delivery system to another, or paying the amount of excess loss. FNS currently bears the entire cost of the losses in the mail. These losses were \$10.5 million in FY 1980 and increased to \$12.5 million in the first 7 months of FY 1981.

Our audit and investigative activities involving other food assistance programs have also achieved significant results. These results are in terms of both legislative changes and criminal prosecutions.

- o A 2-year joint FBI/OIG undercover investigation into fraudulent claims and kickbacks by sponsors and vendors participating in the Summer Feeding Program in the greater New York metropolitan area resulted in the indictment and conviction of 18 persons. Approximately \$200,000 in fraudulent claims were uncovered. This equals about 25 percent of all dollar amounts claimed by the sponsors.

Recommendations in our FY 1981 report on the School Food Programs have led to legislative requirements in the Omnibus Reconciliation Act of 1981 calling for social security numbers of all adult household members when applying for free or reduced-price meals. In response to legislation that also mandated a pilot study on income verification and quality control, FNS awarded a contract for a two-phase study extending over two years; however, the Office of Inspector General has recommended that a one-phase, 1-year project would suffice and would result in faster implementation of urgently needed remedial measures.

During this 6-month period a new top management team assumed control of FmHA. They were faced with a variety of budgetary constraints which necessitated realignment of priorities and changes in direction. We are encouraged by the emphasis now being placed on improved management, particularly in such areas as loan servicing and internal controls. Also, efforts were made to correct some of the more critical problems at the St. Louis Finance Office, and although there is still a serious backlog of unprocessed transactions, other problems at the Finance Office have been stabilized.

Our major achievements in the area of farm programs concern the Tobacco Marketing Order and the suspension of grain shipments to the Soviet Union. o

A tobacco marketing undercover "sting" operation in North Carolina and Kentucky during the 1980-81 marketing season resulted in the indictment of 10 warehousemen and 2 producers for selling excess

tobacco. More indictments are expected. ASCS is assessing penalties and reducing allotments of those indicted.

OIG monitored the suspension of grain shipments to the Soviet Union for the 16 months the suspension was in effect (January 1980-April 1981). As a result of OIG's early involvement in the Department's actions to stabilize the market, USDA saved over \$11 million. We believe an additional \$5 million could have been saved had the Commodity Credit Corporation (CCC) accepted our recommendation and required exporters, whose contracts with the USSR had been assumed by the CCC, to apply the licensed shipments to the earliest delivery months.

An audit of procurement management and year-end spending disclosed a need for improved advance procurement planning. In 97 of 213 procurements reviewed, we found that agencies did not document their needs before funds became available and did not follow required procurement steps to meet year-end deadlines. We also found \$36 million in FY 1980 procurements that were not entered into the Department's procurement reporting system for inclusion in the Governmentwide Federal Procurement Data System.

Actions recommended by the Department's debt management task force studies were not taken by all agencies to promote prompt and aggressive collection. Further, a tracking system was not in place to maintain a current status on debts referred for legal action. A Departmentwide survey identified about 10,000 such claims totaling \$600 million.

Total monies owed to the Department, as of September 30, 1981, amounted to about \$94 billion, an increase of \$8 billion, or 9 percent, over the total outstanding debts reported as of March 31st.

STATISTICAL DATA

Audits

During the period April 1, 1981, through September 30, 1981, the Office of Inspector General issued 159 audit reports, 103 of which had monetary values associated with them. At the time of the reports' issuance, these monetary values amounted to:

1. Questioned Costs	
a. Collection Recommended	\$ 2,135,542
b. Collection Conditional	\$ 165,155
c. Projected for Program Impact Purposes, Collection Not Intended	\$348,329,448
SUBTOTAL	\$350,630,147
2. Questioned Loans	
a. Collection/Cancellation Recommended	\$ 6,945,662
b. Collection/Cancellation Conditional	\$ 35,952,595
c. Projected for Program Impact Purposes, Collection/Cancellation not intended	\$ 31,932,597
SUBTOTAL	\$ 74,830,854

QUESTIONED COSTS AND LOANS	TOTAL	\$425,461,001
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See appendix for detailed listing of reports issued during the period.

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During the same period, we closed 664 reports, 374 of which contained monetary findings. At the time of resolution, the monetary value of these findings was:

1. Questioned Costs	
a. Disallowances	\$ 92,209,694
b. Projections agreed; no recovery	\$ 84,534,198
SUBTOTAL	\$176,743,892
2. Questioned Loans	
a. Collection/Cancellation agreed to	\$ 16,145,708
b. Projections agreed, no collection/cancellation	\$ 58,556,506
SUBTOTAL	\$ 74,702,214
3. Savings, Cost Avoidances, & Management Improvements	\$253,048,385
4. Sanctions	134,465
QUESTIONED COSTS AND LOANS	TOTAL
	\$504,628,956

During the period April 1, 1981, through September 30, 1981, claims collections arising from audit reports amounted to \$2,466,000 and agencies waived or compromised \$1,131,000.

Investigations

Between April 1, 1981, and September 30, 1981, we completed 1,010 investigations, 785 of which involved possible criminal violations. We referred 487 cases to the Department of Justice.

During the 6-month period, our investigations led to 670 indictments and 329 convictions. Fines, recoveries, and collections resulting from our investigations during this same period totaled about \$1.7 million and claims were established for approximately \$13.3 million.

The following is a breakdown by agency of indictments and convictions for the period:

<u>AGENCY</u>	<u>April-September 1981</u>		<u>Total for FY 1981</u>	
	<u>Indict- ments</u>	<u>Convic- tions</u>	<u>Indict- ments</u>	<u>Convic- tions</u>
Agricultural Marketing Service	4	1	4	2
Agricultural Stabilization and Conservation Service	33	16	55	42
Animal and Plant Health Inspection Service	3	7	9	7
Economics Statistics Service	1	1	1	1
Farmers Home Administration	32	15	51	31
Federal Crop Insurance Corporation	1	1	1	1
Federal Grain Inspection Service	2	3	3	3
Food and Nutrition Service	571	257	867	435
Food Safety and Quality Service	15	17	48	29
Forest Service	0	1	1	1
Office of Operations & Finance	1	1	1	1
Rural Electrification Administration	2	2	2	2
Science and Education Administration	0	2	0	2
Soil Conservation Service	0	0	1	1
Multiple Agencies (two or more USDA Agencies)	5	5	7	6
TOTALS	<u>670</u>	<u>329</u>	<u>1051</u>	<u>564</u>
	<u>April-September 1981</u>		<u>Total for FY 1981</u>	
IG Subpoenas Issued	6		10	

Note: Since the period of time to get court action on indictments varies widely, the convictions are not necessarily related directly to the indictments.

SECTION I - REVIEW OF LEGISLATION AND REGULATIONS

During the current reporting period, our office reviewed many proposed legislative bills and agency regulations as required by Public Law 95-452. Where appropriate, we made recommendations or offered comments. Set forth below are noteworthy examples of recommendations which, we believe, would improve economy and efficiency of program administration in the referenced areas.

Wage Matching

The 1980 amendments to the Food Stamp Act gave the Secretary discretionary authority to require States to utilize computer matching techniques to compare wages and income as reported on the food stamp application to official wage files.

Presently, the Secretary is authorized to pay 75 percent of the costs for States to install new computer hardware and software packages to improve their computer capabilities.

We strongly urge that computer matching of wage data information by States be made mandatory and that States avail themselves of the increased funding for computer operations to improve their present capabilities and use of computer systems.

First Endorser Liability

A provision, which has not yet been required but which we have advocated, is the use of first endorser liability for food stamp issuance points. This would enable FNS to establish financial liability against a food stamp issuer who negotiates a fraudulent Authorization to Participate (ATP) card. This will help control misuse of the ATP's.

Photo ID's

Another 1980 amendment which we strongly supported was the requirement that photo ID cards be used in certain project areas. The final regulation requires photo ID's in project areas with 100,000 or more participants and in other project areas where the Secretary, in consultation with the Office of Inspector General, determines their use is justified.

Prorating Initial Month's Benefits

The Food Stamp Program Amendment of the 1981 Omnibus Reconciliation Act required the prorating of the initial month's food stamp benefits according to the date of application. We had recommended a similar provision in response to a Congressional inquiry on changes needed in the Food Stamp Program.

Child Nutrition Programs

In the National School Lunch Program, we recommended that:

- o FNS clarify the method to be used in determining family size and annual household income;
- o School food authorities be required to use standard nationwide or statewide free and reduced-price meal application forms requiring all adult members of a household to furnish sources of their income and social security numbers; and
- o State agencies or school food authorities be required to routinely verify family income on free and reduced-price meal applications.

The Senate Committee on Agriculture, Nutrition, and Forestry, under the chairmanship of Senator Helms, concurred with our recommendations. The Omnibus Reconciliation Act of 1981 (P.L. 97-35) requires parents or guardians of children eligible for free or reduced-price lunches to furnish the current income and social security numbers of all adult household members on meal application forms.

OIG recommends that FNS require all school districts which have not yet used the standardized application and parent letter to use them for the 1981-82 school year. This view is consistent with the Omnibus Reconciliation Act of 1981.

CCC Grain Reserve Program

On February 6, 1981, OIG issued a memorandum to the Secretary recommending the elimination or modification of the "interest free" provisions of the 1980 and 1981 Farmer-Owned Reserve Commodity Credit Corporation Loan Program. In general, this provision allowed producers to place grain in the Reserve and receive Government loans on which no interest was charged for the first year.

In March 1981, a bill was introduced and subsequently signed into law which eliminated the interest waiver and allowed the Secretary to charge interest for the first year of the reserve period. The Secretary estimated that this legislation will result in additional interest income of \$83 million in FY 1981 and \$167 million in FY 1982.

Business and Industrial Loan Program

FmHA recently changed B&I regulations involving monitoring of the lender's servicing activities and FmHA's overall responsibility for loans once they are closed and in operation. This was in response to our recommendations in the 1981 nationwide audit of B&I loans. After a very thorough review of internal administrative procedures, the agency made the following changes:

- (1) The percentage of loan guarantee will be adjusted to assure that the lender does not bring its previously existing unguaranteed exposure under the guarantee.
- (2) Any special servicing requirements will be identified and included in the Conditional Commitment for Guarantee.

- (3) The B&I State chief or his loan specialist will conduct a pre-guarantee audit to assure that all requirements are met.
- (4) While the lender is responsible for loan servicing, FmHA will monitor that servicing to assure that it is accomplished by taking specific action outlined in the procedure.
- (5) Protective advances will be made only to protect the loan collateral where preserving collateral for maximum recovery is of vital importance.

Farm Operating Loans

We conducted a nationwide audit to determine if FmHA's security property for farm operating loans was obtained and serviced in accordance with relevant laws and regulations. We found that borrowers had disposed of loan security without FmHA's knowledge, which involved about \$1.4 billion in loan principal (according to our projections on the basis of our sampling plan), and that borrowers did not have long-term debt repayment plans or adequate repayment ability.

We recommended that FmHA require an annual inspection of crops and chattels securing all farm operating loans, and that lists of borrowers be furnished to business firms that normally buy or sell chattels. We also recommended that FmHA vigorously pursue civil or criminal action against borrowers who dispose of chattel security and against third party converters. FmHA was asked to emphasize to the borrower his responsibility in obtaining FmHA approval before disposing of loan security property.

Federal Crop Insurance Corporation (FCIC)

FCIC has undergone a major reorganization as a result of the Federal Crop Insurance Act of 1980. Among other changes, the Act changed the delivery system by authorizing the use of private sector agents to market, service, and adjust losses.

Based on an audit of marketing activities, we recommended that FCIC enhance its applications processing procedures to handle the increased volume of applications and errors. FCIC agreed to replace contract numbers with the insured's social security number to facilitate processing and returned to a multi-crop application rather than a single crop application to reduce the number of documents to be processed. They also agreed to create an error suspense file to assure that errors are corrected and to provide for increased error tracking and reporting features. We further recommended that FCIC use the error reporting system as a tool in supervising contract agents and as a control in maintaining the quality of their work.

Procurement Management - Yearend Spending

We have recommended that the Department require agencies to develop advance procurement plans and that program, budget, funds management, and procurement officials participate in this process. Managers should document and justify the need for procurements not included in the procurement plan or requested after established requisition cutoff dates. In addition, the Office of Operations and Finance, with delegated oversight responsibility in the

Department, should utilize the data contained in the Federal Procurement Data System and the results of our audit to identify questionable procurement actions for inclusion in its procurement management field reviews.

Debt Collection Procedures

We provided comments on the proposed Debt Collection Act of 1981 (S. 1249). This legislation includes many key provisions which, through amendment of the Privacy Act, would greatly expand agencies' capability to exchange and disclose information on debtors. Our comments supported the proposed provisions and suggested other steps to strengthen the debt collection process.

SECTION II - DESCRIPTION OF SIGNIFICANT PROBLEMS AND ACHIEVEMENTS

A. AUDIT FOLLOWUP

The most significant undertaking during this period was a Departmentwide effort to resolve audits that had been issued for six or more months. This effort was in response to the Supplemental Appropriations and Rescission Act of 1980 which mandated responsibilities and requirements for all agencies responding to audit reports. Specifically, all audits issued before July 8, 1980, had to be resolved by September 30, 1981, and all audits issued after July 4, 1980, were to be resolved within 6 months of release. In response to this legislative mandate, the Secretary issued supplementary guidelines which changed the previous Departmental regulations to conform with the Act by adding clarity and a stricter definition of the audit followup actions required.

The Deputy Secretary was appointed as the top management official responsible for the enforcement of policies and requirements for effective audit followup. The Deputy Secretary immediately met with the heads and audit liaison representatives of those agencies with the greatest number of unresolved reports to express the Department's policies and direct the agencies to work closely with OIG to resolve all outstanding audits.

As of April 1, 1981, there were 598 audits which required resolution by September 30, 1981. The majority of these audits involved three Departmental agencies: Food and Nutrition Service, Farmers Home Administration, and Agricultural Stabilization and Conservation Service. We accelerated followup activities to identify areas potentially impeding resolution. We also elevated audits for which resolution efforts were not successful at the operating level. Audit Review Committees were formed and co-chaired by the affected Assistant Secretary and the Inspector General to promote understanding and concurrence on the unresolved issues according to the mandate established by the President and the Secretary of Agriculture.

The single most critical factor delaying resolution was the need for agencies to establish claims arising out of audits. Some agencies' systems were not structured to accept and track claims arising from audits. We worked closely with FNS over a continued period as the agency constructed a viable accounting system. During this reporting period, our audits of FmHA and ASCS disclosed similar weaknesses in their billing/claims procedures.

As an example of the impact of the audit resolution process, FNS posted over \$36 million of receivables resulting from costs questioned by audit. The remaining claims established in all agencies within USDA brought the total to over \$50 million during the calendar year.

There are currently 18 audits which are in some stage of resolution but are being delayed pending, for example, the issuance of legal opinions, regulatory reforms, or the completion of ongoing investigations. The age, dollar amounts, and status of these audits follow:

			Costs Recommended For Collection or	
			Collection	
<u>Agency</u>	<u>Date</u> <u>Issued</u>	<u>Title</u>	<u>Conditional</u>	<u>Status</u>
FmHA	2-27-81	Virgin Island B&I	-0-	Awaiting more complete response from FmHA
FmHA	10-5-79	Illinois FmHA State Office	-0-	Lacks adequate corrective action plan
FmHA	11-6-80	Georgia B&I Loan Program	-0-	Issues under investigation
FmHA	2-6-81	Emergency Livestock Loan, Wood Co., N.M.	-0-	Issues under investigations
FmHA	2-19-81	B&I Loan to Cheaha Poultry Inc.	\$ 623,000	The extent of the claim is being determined by FmHA in consultation with OGC.
FmHA	7-23-80	B&I Loan to Cox Paving, Inc.	-0-	The extent of the claim is being determined by FmHA in consultation with OGC.

<u>Agency</u>	<u>Date Issued</u>	<u>Title</u>	<u>Costs Recommended For Collection or Collection Conditional</u>	<u>Status</u>
FNS	2-27-81	NSLP - Verification of Free and Reduced-Price Application Information	-0-	Requires regulatory reform
FNS	11-14-80	New York City Food Stamp Program	-0-	The FNS regional office has recently received the State agency's corrective action plan and is evaluating it.
FNS	11-13-80	Food Stamp Procurement	\$ 284,000	The audit found that one shipment of food stamps valued at \$284,000 was miss- ing. The Postal Service, the shipper, has not provided FNS with the results of their investigation of the loss.
FNS	11-11-79	Washington, D.C. Food Stamp Program	\$ 201,741	The audit report questioned costs and recommended recovery of \$201,741. FNS records show that a claim was establish- ed for \$13,534 and the amount has been offset from the Letter of Credit. FNS reports that the remainder was also offset. We are awaiting evidence that the offset did occur.
FNS	2-20-81	Georgia, WIC	-0-	Awaiting documenta- tion of compliance with A-102 procure- ment standards

<u>Agency</u>	<u>Date Issued</u>	<u>Title</u>	<u>Costs Recommended For Collection or Collection Conditional</u>	<u>Status</u>
FNS	12-7-79	Scheps Cheese Co., Patterson, New Jersey	\$ 118,000	Additional docu- mentation needed
FNS	12-7-79	Virgas Pizza Crust, Portsmouth, Virginia	\$ 137,000	Additional docu- mentation needed
ASCS	2-3-81	Sale of Farmer Stock Peanuts	-0-	Awaiting policy letter from the Under Secretary
ASCS	3-28-80	Controls Over 1977 & 1978 Program Payments and Collection	\$1,058,151	Awaiting more complete county office reply
ASCS	10-30-79	Flue-Cured Tobacco Dealer	-0-	Issues under inves- tigation.
SEA	11-28-79	Tennessee Cooperative Extension Service	-0-	The State agency dis- puted some of the audit findings and declined to take the corrective action recommended.
FCIC	3-23-81	Insured Crop Interest Columbia, Missouri	\$ 14,000	Awaiting policy determination on limits for Burley Tobacco Insurance

B. DOMESTIC FOOD ASSISTANCE PROGRAMS

The food assistance programs administered by the Food and Nutrition Service (FNS) obligated \$16.2 billion in FY 1981. Appropriations for FY 1982 are not yet final, but present estimates are that the programs will be funded at about \$14 billion. Because of the large sums spent for these programs and their high vulnerability to fraud, abuse and waste, OIG expends significant audit and investigative resources on them.

During this 6-month reporting period, FNS undertook a significant effort to resolve outstanding audit reports and to develop a system to assure that future audit reports are dealt with in a timely manner. Many of the audits required intensive coordination with State agencies to develop the needed corrective actions. The effort demonstrated the commitment of the new management team at FNS to achieve better program accountability while dealing fairly and equitably with State agencies.

FNS is now faced with a variety of budget constraints in both administrative and program funding. The new administration has moved swiftly to implement regulations for instituting a number of significant program changes. The timely implementation of these changes is critical to the successful operation of the program within the present budget constraints. We are encouraged by the actions of FNS to implement these changes and are working with FNS to monitor the efforts of State agencies to implement the changes.

FOOD STAMP PROGRAM

Expenditures for the Food Stamp Program in FY 1981 amounted to \$11.5 billion. The general purposes of the program have remained the same for the past 20 years. Then, as now, the program is designed to supplement the diet of the poor, increase food consumption, and use up excess food production. For the past several years, we have conducted numerous audits and investigations of the program. Indeed, the Food Stamp Program receives more OIG attention than any other single program in the Department.

Recent national publicity highlighted some of the weaknesses in the Food Stamp Program which OIG previously identified in audits and investigations. Over the past few years Congress and the Administration have taken action to strengthen program administration and prevent fraud through changes in legislation and regulations. Some of those changes resulted directly from OIG recommendations. We believe that further action is needed to reduce program losses, particularly in the areas of recipient fraud and issuance losses.

Direct Mail Issuance

In some States and project areas, food stamps are mailed directly to the household. This is convenient to recipients and cost effective unless losses are excessive. In rural areas, losses are usually minimal. However, in more urban areas, as a rule, the losses are greater. FNS bears the cost of the

The sheer size of the Food Stamp Program in both number of participants and amount of benefits has made food stamps a common medium of exchange throughout the United States. We have no way of measuring the extent of illegally used food stamps, but our investigations have shown that it is

Trafficking

to consider the additional costs they might have to bear. State and project areas opt for direct mail issuance. This would permit them loss. We believe these changes should be implemented quickly before more the option of changing delivery systems or paying the amount of the excess has losses in excess of the tolerance over a specified period, it would have legislation is currently pending in Congress. If the State or project area there is a need for the establishment of a mail loss tolerance rate, and such food stamps to two losses by a recipient during a 6-month period. We believe burdensome for the Postal Service. FNS has also limited the replacement of recipients. This does control recipient abuse, but is costly, and also certified mail is used to prove receipt and eliminate false reporting by linking a household member to that particular issuance. In some areas food stamps because, unlike ATP's, there is no signature or other evidence it is not possible to determine whether a recipient has received his or her losses that occur in the mail. For FY 1980 these losses were about \$10.5 million and for the first 7 months of FY 1981 increased to \$12.5 million.

ATP Redemption

Although OIG and the FNS Compliance Branch have devoted a heavy concentration of resources to trafficking activities, there is no indication that this form of abuse is any less prevalent. OIG and FNS can only scratch the surface of this illegal activity. In our opinion, preventing trafficking by lessening the opportunities to obtain coupons is a better solution. Recent requirements for photo ID's and for holding FSP issuers liable for improperly redeemed ATP's, as discussed in the following subsection, should help in this regard.

OIG has repeatedly identified weaknesses in the food stamp issuance system which permit individuals to redeem stolen Authorization to Participate cards (ATPs) and recipients to report losses falsely in order to obtain an ATP possible to buy just about anything with food stamps anywhere in the country. In just the last 2 months, 32 individuals were indicted in Navasville, TN, 39 in the Tidewater area, VA, 21 in Clarksdale, MS, 42 in Albuquerque, NM, and 11 in Broward County, FL, all for accepting food stamps from undercover agents for cash, guns, drugs, cars, stolen items, and many other objects. Many of the individuals we have investigated have had extensive prior criminal records for such offenses as homicide, assault, burglary, theft, narcotic violations and weapons violations. Some have been identified as having ties to organized crime. Others, however, are owners of small retail grocery stores, doctors, lawyers, or policemen.

OIG has repeatedly identified weaknesses in the food stamp issuance system which permit individuals to redeem stolen Authorization to Participate cards (ATPs) and recipients to report losses falsely in order to obtain an ATP

The key factors in making financial liability work are reconciliation and a good identification process. The photo identification requirement for large urban areas, included in the 1980 amendments to the Food Stamp Act, may meet amendment be passed.

considering such a first endorser liability and OIG strongly urges that this coupon issuer would be held liable for the overissuance. Congress is claim may be established. If the number does not match the household, the potential fraud case would exist against the household and, at a minimum, a number matched against that of the household. If the match was positive, a during reconciliation as redeemed, the ATP would be pulled and the I.D. of the ATP. If the ATP was reported stolen or not received, but identified the person presenting an ATP and write the identification number on the back Federal checks, the coupon issuer would have to examine the identification of through financial liability to the coupon issuer. For example, as with the most cost effective and least burdensome way to control ATP misuse is to be successful. We believe that, except in areas with special problems, demonstration projects in previous semiannual reports and to date they appear Pittsburgh, which are designed to reduce ATP abuse. We have described these system. FNS has demonstration projects in New York City, Philadelphia, and who report two consecutive losses must be changed to an alternate delivery original and replacement ATP's. Regulations now also require that recipients State agencies perform reconciliations which identify the redemption of both replacement. In response to this, FNS has instituted a requirement that

New York City

In past semiannual reports, we have discussed the continuing problems leading to large dollar losses in the New York City Food Stamp Program. The problems we have identified during audits performed since 1978 have cost the Federal government millions of dollars. While much of the dollar loss was directly attributable to recipient fraud, New York City did not have systems in place to detect and prevent such fraud.

Since the issuance of our audit reports, New York City officials have made a concerted effort to improve program management and computer operations to reduce program losses as well as fraud. Many of these improvements are relatively new and their impact not yet fully determined. However, with the implementation of New York City's Rapid Access System, one major problem, replacement of ATP's, appears to be significantly reduced. Prior to the Rapid Access System, the city replaced about 25,000 ATP cards each month, and, in about 70 percent of the cases, both the original and replacement ATP were cashed. This alone cost the Federal government more than \$1 million

the need for acceptable identification in the areas covered by the regulations. In those areas not covered by a requirement for photo identification, we think that FNS should require that the type of identification card used be traceable by number to the household, thus providing an accountable document difficult to alter or forge.

each month. Since Rapid Access, the replacement rate has been cut to about 10,000 ATP's monthly, and about 3,000 cases, valued at approximately \$300,000, involve the cashing of both the initial and replacement ATP.

While this reduction is significant, the ATP replacement rate of 10,000 per month shows that additional improvement is needed. We recently made a limited on-site review of the system and identified several weaknesses which we believe defeat the purpose of Rapid Access and should be addressed. They include:

o Rapid Access is based on a short (8-day) ATP redemption period which allows the city to determine if a recipient has redeemed the original ATP. The city does not hold the issuing agent responsible for cashing the ATP after the 8-day negotiation period has expired. It is possible for a recipient to hold the original ATP beyond the 8-day negotiation period, leading the city to believe that the original has not been negotiated, then cash both the original and replacement. These duplicate issuances will be detected by the city's fraud unit but could be prevented if issuing agents were held liable for accepting an expired ATP.

o The city as well as all New York counties will accept an ATP issued anywhere in the State. Further, a New York City ATP negotiated in a neighboring county will not be returned to the city until after the close of the month in which it was issued. If the recipient

requested a replacement ATP stating that the original was not received, it would be issued, since the original would not show up on the city's records as redeemed until after the close of the month.

- o The city, when implementing Rapid Access, also initiated a routing system whereby an ATP was sent to a specific location for direct pick-up by the recipient when nonreceipt of the mailed ATP was reported in two successive months. The city recently discontinued the routing practice because of a reduction of forgery and fraud cases. We believe the routing and direct pick-up system should be reinstituted any time a recipient reports non-receipt of mailed ATP's in two successive months.

In addition to the Rapid Access System, New York City has implemented, or plans to have implemented, a number of other reforms which include matching the active caseload against the:

- o New York City death records.
- o State and city earnings records.
- o Unemployment Compensation records.
- o State Department of Taxation wage records.

The city also expects to have computer terminals in each office which will allow them to verify employment with the State Department of Taxation at the time food stamp applications are made.

Our audit work in New York City continues and we plan to actively monitor proposed changes for program improvement. In a forthcoming report that we have discussed with New York officials, we report on four conditions noted in our last audit issued in November 1980. In that audit, we reported on management problems so the city could take corrective action on such conditions as duplicate benefits; continuation of benefits beyond the certification period; claims against recipients; and undelivered ATP cards. In our forthcoming audit, we will report on the dollar impact these conditions had on program operations. A brief explanation of each of the problem areas noted in the city follows.

Duplicate Benefits

A computer edit was not in place to stop a household from receiving duplicate benefits under one case number. Households were entitled to redeem only one ATP during a 30-day period. During the period October 1979 through June 1980, there were about 10,000 instances of households redeeming two or more ATP cards in a given 30-day period. Duplicate benefits of \$493,668 were paid because of this error.

Continuation of Benefits Beyond the Certification Period

A redetermination of eligibility for continued benefits was not always made when a household's certification period expired. This was caused in large part by: (1) the elimination of an automatic computer edit to drop households that failed to appear for recertification; (2) the New York

Transit strike in April 1980; and (3) an arbitrary decision by New York City officials to extend benefits beyond the certification periods because of reported personnel shortages to make recertifications. Our review showed that 8,509 households received about \$1.9 million in food stamp benefits even though their certifications had expired and the need for continued benefits was not demonstrated. City personnel have recently reimplemented the computer edit to identify cases due for recertification, and they plan to make the necessary recertifications as required.

Recipient Claims

New York City had not implemented Food Stamp Program regulations pertaining to the establishment and collection of claims against recipients who were not entitled to food stamp benefits. City officials decided not to establish claim procedures because they believed other work was more urgent.

Undelivered Authorization to Participate Cards

Each month in New York City about 15,000 "undeliverable" ATP's were returned by the U.S. Postal Service. City officials had not been able to determine why so many ATP's were returned. Returned ATP's are negotiable and could lead to fraudulent food stamp issuances if not properly controlled. A system to identify returned ATP's mailed to the same address in two successive months has been implemented by the city, and identified cases are terminated.

Our current audit report contains appropriate recommendations to address these conditions.

New York City also will begin a demonstration project in parts of Manhattan on November 1, 1981, which will eliminate ATP cards and their susceptibility to fraud and theft by providing benefits through electronic terminals located at banks. The system shows promise in eliminating many of the problems we previously reported and we will be monitoring the operation.

Our audits in other States have also disclosed significant problems in the Food Stamp Program. Examples follow.

Florida

State agency personnel failed to follow prescribed data entry controls which allowed fraudulent computer records to be created and go undetected. We found fraudulent terminal entries by sampling terminal messages made before or after regular office hours. We were unable to find supporting case records for issuances or confirm household existence for issuances for 10 recipients in our sample in Dade County. We referred these to the Florida Auditor General who is continuing the investigation of a fraud ring in Miami. At least seven employees and about \$175,000 in food stamps are involved. On the basis of our recommendations, State employees completed reconciliations of computer records and certification documents in 3 of the 13 Dade County Food Stamp Offices and found that about 4,000 certification records could not be located. The missing records may be misfiled and eventually located, but past audit experience has shown that many of these could be fraudulent cases. The State is continuing the reconciliation and identification of fraudulent computer records.

South Carolina

As in the above audit, we found that computer-based system controls were either inadequate or not implemented. We also noted that although computer costs exceeded \$86,000 per quarter, the system did little more than print ATP cards. The State took adequate action to implement our recommended controls over the present system and is planning to design a more effective system.

North Carolina

Our audit of the Wake County Food Stamp Program used statistical sampling techniques to evaluate the accuracy of earned income reported by program participants and projected the error rate and the amount of overissuance resulting from understated income. Our random sample of 250 of 6,486 households participating in the program in December 1979 found that 42 had been overissued \$3,171 in food coupons. Projected statistically at a 95 percent confidence level, 16.8 percent, or 1,089 of the 6,486 households, were overissued \$82,268 (plus or minus 29 percent). This amounted to 14.6 percent of the total food coupons issued in December 1979. The primary causes of the overissuances were: (1) understatement of income by participants, (2) understaffing of the certification unit, (3) inadequate verification of income, and (4) certification of households for longer periods than warranted by household circumstances.

Administrative Cost-Sharing and Quality Control

The Food Stamp Act of 1977, as amended, authorizes the Secretary to adjust a State agency's Federally funded share of administrative costs from 50 up to 65 percent if a State agency has a cumulative allotment error rate of less than 8 percent with respect to eligibility, overissuance, and underissuance, as calculated in the quality control program. The 1980 amendments required the Secretary to institute an error liability program under which each State agency whose error rate was high or had not met a targeted reduction rate would be held accountable for the dollar losses.

These programs, designed by Congress to encourage States to lower their error rates, have not yet been applied. FNS is presently analyzing quality control data from the first base period, October 1979 through March 1980, with payment error rates for October 1980 through March 1981, to determine each State's liability for sanctions or eligibility for enhanced funding. When analyzed, FNS intends to award increased funding to those States which have reduced their error rates, and to impose fiscal sanctions on those States with high error rates.

We recently completed an audit of the FNS Quality Control System. Our review, which covered the base period October 1979 through March 1980, concluded that the FNS reported error rate (nationwide 12.6 percent) was in fact fairly presented. However, we believe that the sampling techniques need to be strengthened. For example, the quality control system which

establishes sanctions against States is designed to measure the number of dollars lost due to inefficiency or fraud, waste, and abuse in program operations. However, FNS regulations require States to determine quality control sample sizes based on caseload size or attribute sampling which measures the number of cases in error, not the number of dollars in error.

Additionally, FNS does not determine States' sampling precision of the determined error rate. In scientific statistical sampling procedures, error rates are normally expressed in terms of a plus or minus factor from the mean, or midpoint, projection of loss. For example, a midpoint error rate of 20 percent would normally be presented by saying that we are 95 percent certain that the error rate is 20 percent, plus or minus, say, 2 percent. In other words, we are 95 percent certain that the error rate is no lower than 18 percent and no higher than 22 percent, and that our best estimate is that the error rate is 20 percent.

We have made recommendations to FNS regarding sampling procedures that we feel should be considered in future quality control programs.

Computer Matching

We have reported in prior semiannual reports on the benefits of computer matching to detect fraud, waste, and abuse in the Food Stamp Program. We specifically discussed our review in Memphis and Nashville, Tennessee, where we identified about 1,600 instances when recipients fraudulently underreported their income. Since our last report, the State of Tennessee

has established claims against 934 households totaling \$1,384,411 for Food Stamp Program losses. Of the 934 food stamp households, 337 were also receiving benefits under the Aid to Families with Dependent Children (AFDC) Program. AFDC losses on these 337 cases totaled \$406,834. As of September 30, 1981, 89 persons have been indicted in Federal court, the result of OIG investigations, and 114 persons have been indicted in State court, the result of State investigations of the above cases. More indictments are expected.

We presently have a number of audits in progress that utilize the same computer matching techniques as those used in Tennessee. For example, to detect "highly suspect" transactions in the Chicago Food Stamp Program, we developed a match of recipients who had the same first name and birthdate. Our audit and investigative work resulted in ten indictments of individuals who fraudulently obtained food stamp and other welfare benefits under two or more names. These households received in excess of \$550,000 in food stamps, AFDC, and Medicaid. We are in the process of expanding and refining this and related type matches to identify other suspect transactions and cases.

Preliminary results show that large numbers of households are fraudulently receiving food stamps by underreporting their income. This is in agreement with the FNS quality control data that historically shows that misreporting and mishandling of income is the single largest source of dollar losses to the Food Stamp Program.

OIG has consistently urged that computer matching of wage data information be made a mandatory responsibility of State agencies in their administration of the Food Stamp Program. We believe that the benefits are clearly demonstrated for this type matching effort, especially since States have been required to perform such matching for their AFDC cases since October 1, 1979. This type matching is facilitated because the food stamp legislation now requires recipients to provide social security numbers to participate in the program.

Food Stamp Caseworker Fraud Model

The integrity of the food stamp certification worker (caseworker) can be a weak link in the FSP. Recently, a computerized statistical model was developed to help target caseworkers that have a high potential for committing program fraud. This model examines caseload, dollars issued per case, the distribution of household size and problem cases, and identifies those workers statistically different than the average for their office and project. Our expectations are that this method will be very effective at identifying the caseworker with fraudulent activity. More experience will be needed to determine how auditors and investigators can zero in on only the "bad cases" the worker is handling. The caseworker fraud model uses the food stamp program computer files and no secondary computerized files. The cases handled by a caseworker may also involve fraud by other individuals such as recipients, computer operators, mailmen, and so forth, but are not specifically identified by this model.

The benefits of computer matching to detect fraud and abuse in the Food Stamp Program are clearly demonstrated. Presently, the Secretary is authorized to pay 75 percent of the costs for States to install new computer hardware and software packages to improve their computer capabilities. Again, we would strongly urge that computer matching of wage data information by States be made mandatory and that States avail themselves of the increased funding for computer operations to improve their present capabilities and use of computer systems.

SCHOOL FOOD PROGRAMS

The National School Lunch Program is by far the oldest and largest of the child nutrition programs. Authorized under the National School Lunch Act, the program provides Federal assistance to States to serve nutritious lunches to children in participating schools. Assistance is provided on a "performance funding basis," that is, States are reimbursed for the number of lunches served to children in each of the three legislatively defined income categories. Currently, all lunches receive a basic Federal rate of support of between 10.5 cents and 12.5 cents per meal. A reduced-price reimbursement of 58.75 cents per meal is provided for children from families with incomes between 130 percent and 185 percent of the income poverty guidelines prescribed by the Secretary for reduced-price meals. Children from families with incomes below 130 percent of the income poverty guidelines receive Federal payments to cover the entire cost of the meal, up to a maximum reimbursement rate of 98.75¢ per meal.

In FY 1981, an estimated 25 million lunches per day were served during the peak month of October 1980. Expenditures for the Program are expected to total more than \$2.3 billion in FY 1981.

In our last semiannual report, we summarized the results of a school food service audit conducted in 220 statistically selected schools across the country in May 1980. Among the findings we reported were:

- o Approximately 7 percent of the children in the sample were incorrectly authorized free and reduced-price meals; and
- o Approximately 30 percent of the applications reviewed contained incorrect household data. About 94 percent of these applications resulted in children receiving a greater benefit than that to which they were entitled.

We recommended that:

- o FNS clarify the method to be used in determining family size and annual household income;
- o School food authorities be required to use standard nationwide or statewide free and reduced-price meal application forms requiring all adult members of a household to furnish sources of their income and social security numbers; and
- o State agencies or school food authorities be required to routinely verify family income on free and reduced-price applications.

The Senate Committee on Agriculture, Nutrition, and Forestry, under the chairmanship of Senator Helms, concurred with our recommendations. The Omnibus Reconciliation Act of 1981 (P.L. 97-35) requires parents or guardians of children eligible for free or reduced-price lunches to furnish the current income and social security numbers of all adult household members on meal application forms.

In their May 1981 reply to our audit, FNS advised that they would issue a standard nationwide free and reduced-price meal application form for State adoption or modification. During July and August of 1981, FNS provided States with a revised sample application form which would require households to: (a) list, in addition to their school-age children, all related and unrelated persons who live under the same roof and share living expenses or meals; (b) provide social security numbers of all adult household members; and (c) provide current monthly household income by source. A letter that accompanied the form advised parents that schools may verify data submitted on free and reduced-price applications, and that changes in family size or income should be reported to school officials. OIG agrees that use of this application and the accompanying parent letter will be effective in reducing fraud and waste in the School Lunch Program and a reasonable first step towards establishing more formal procedures for the 1982-83 school year. However, because both applications and letters were not provided to the States until July or August 1981, and because their use is optional, State

and school food authorities may decide not to use them. OIG recommends that FNS require all school districts which have not yet used the standardized application and parent letter to use them for the 1981-82 school year. This view is consistent with the Omnibus Reconciliation Act of 1981.

Also, with regard to their May 1981 response, FNS stated that it planned to conduct a 2-year study of income verification which would examine the feasibility and cost effectiveness of implementing alternative quality control procedures designed to reduce applicant misreporting and fraud.

FNS awarded the contract for the aforementioned study on September 30, 1981 at a cost of \$1.5 million. The study is to be conducted in two phases.

phase I, scheduled for the 1981-82 school year, will identify and evaluate existing quality control procedures and develop error prone profiles of those segments of the population most likely to misreport income. The contractor will visit school districts and interview about 15 families per school having free or reduced-price meal applications on file. The impact of requiring social security numbers on the accuracy of data submitted on free and reduced-price applications will be compared to the impact of informing parents or guardians that data submitted on the application may be verified through random "home" visits. Alternative quality control procedures for income verification will also be developed during this phase and tested during phase II at approximately 90 demonstration sites. Phase II is scheduled for the 1982-83 school year.

Given that phase I is scheduled for the 1981-82 school year and phase II is scheduled for the 1982-83 school year, verification requirements set forth in the Omnibus Reconciliation Act of 1981 are not likely to be implemented before the start of the 1983-84 school year. While we do not disagree with FNS that a study which identifies the most cost effective quality control procedures is needed, we strongly believe that an extensive 2-year study of legislatively mandated requirements, such as the use of social security numbers, is neither necessary nor cost beneficial. OIG advised FNS prior to their September 30th award of the contract that a 1-year study, conducted during the 1981-82 school year and focusing on alternative income verification techniques and cost implementation, would be more practical and cost effective, and result in more timely implementation of the 1981 legislation.

CHILD CARE FOOD PROGRAM

The Child Care Food Program (CCFP) provides grants to States to initiate, maintain and/or expand food service programs for children in nonresidential public or private nonprofit child care centers and day care homes. Both food and food service equipment assistance payments are provided. The program is administered nationally by the Food and Nutrition Service and within States by State educational agencies or FNS regional offices. Prior to FY 1981, States were able to turn the administration of the program over to the Department. The FY 1981 Agriculture Appropriations Act, however, precluded

additional States from turning the administration of the program back to the Federal Government for that year. The Omnibus Reconciliation Act of 1981 amended Section 10 of the National School Lunch Act to preclude further State "turnbacks".

An estimated 550 million meals were served under the Program in FY 1981. Daily attendance averaged 850,000 during this period, and program expenditures are expected to total more than \$294 million.

In our last semiannual report, we summarized the findings of a May 1979 nationwide audit of the Child Care Food Program and outlined our recommendations. Among the findings we reported were:

- o Program costs could be expected to increase by more than 9 percent, with little, if any, additional benefit under the tiering method of reimbursement, legislated under Public Law 95-627; and
- o Multiple funding of child care food service costs by USDA and the Department of Health and Human Services (HHS), and dual funding of food service labor costs by USDA, the Department of Labor (DOL) and the Community Services Administration (CSA) resulted in total Federal funds exceeding actual food service costs by more than \$104,000 in 30 audited child care institutions for the month of May, 1979.

We recommended that the "tiering" method of reimbursement be removed from Public Law 95-627 and that institutions receiving non-USDA Federal funds be required to identify those funds for food service program use.

Although FNS did not concur with our recommendation on tiering, the Senate Committee on Agriculture, Nutrition, and Forestry did, and recommended that the tiering method of reimbursement be deleted from P.L. 95-627. As a result, "tiering" is not included in the Omnibus Reconciliation Act of 1981; reimbursement is now based strictly upon the eligibility of each individual attending a child care center. The tiering method of reimbursement permitted participating child care institutions to claim free, reduced price or paid reimbursement for all children, depending on the percentage eligible for free and reduced-price meals. Tier 1 institutions (those in which at least two-thirds of the children qualified for free and reduced-price meals) could claim free rate reimbursement for all children. Similarly, institutions in which between one-third and two-thirds of the children qualified for free and reduced-price meals were classified as tier 2 and could claim reduced-price reimbursement for all children. If less than one-third of an institution's enrollment qualified for free and reduced-price meals, the institution was classified as tier 3, and all meals claimed were reimbursed at the paid rate.

Multiple funding of child care food service costs by USDA, HHS, DOL, and CSA, noted in the aforementioned audit, prompted our office to suggest and initiate a Joint Inspectors General audit survey of a Community Action Agency (CAA) that received funding from several Federal agencies. Our review included an audit of the CAA's financial records and a review of the

effectiveness with which Federal and State agencies, responsible for Federal funds program administration, carried out legislative mandates. We also analyzed USDA, GAO, and certified public accountant (CPA) audit reports issued within the last 2 program years pertaining to other child care institutions.

The Department of Agriculture reimburses eligible child care facilities for net food service costs under the administration of the Food and Nutrition Service. FNS contends it is the primary funder of food service operations at participating child care facilities, and recovery of Federal excess reimbursements is subsequently considered the responsibility of other Federal agencies. The Department of Health and Human Services provides funds for food in child care institutions through Head Start and Title XX programs. Prior to its dissolution, the Community Services Administration provided funding for administrative costs which often encompassed costs for food service. The Department of Labor funds labor costs of CETA recipients employed in food service jobs.

The audit survey found that Federal agencies had no effective way to determine whether recipient agencies had budgeted and/or submitted claims to more than one Federal program for identical costs. Controls for the detection of dual funding of the same costs were either ineffective or nonexistent. For example, we found that the audited recipient agency had submitted claims totaling more than \$152,000 to the Child Care Food Program

in FY 1980 for costs that had been fully funded under other Federal programs. Only \$8,700 of the claimed costs, however, were actually reimbursed by USDA due to reimbursement limitations imposed by CCFR regulations. We also found that the recipient agency had budgeted the salaries and fringe benefits of three individuals employed in child care facilities to both CSA and CETA in FY 1980. This resulted in the recipient agency receiving excess Federal funds of about \$49,000. Administrative controls over unexpended funds were found to be inadequate in the Head Start, CSA, and CETA grant programs. The recipient agency had carried forward approximately \$700,000 in unexpended funds from previous years into FY 1980, without stated need or budget justification. While discussions between the Inspectors General of USDA, DOL and HHS continue, we believe that there is a need for grantees to submit uniform grant applications to either a cognizant agency or to all agencies to which the grantee applied. The application should detail requested Federal funds budgeted by program, cost allocation methods to be employed, and sources of non-Federal contributions. The same operating (fiscal) period should be used for all programs. Finally, there is a need for better enforcement of the requirement to return unexpended funds to the grant agency at the end of the year.

C. FARM PROGRAMS AND COMMODITY CREDIT CORPORATION ACTIVITIES

The Agricultural Stabilization and Conservation Service (ASCS) administers specific commodity and related land-use programs designed for voluntary production adjustment; resource protection; and price, market, and farm income stabilization. ASCS personnel administer the various programs of the Commodity Credit Corporation (CCC). CCC is a wholly owned Government corporation that has programs for price support, supply, storage facility, and commodity export activities. FY 1981 program levels for ASCS are estimated at about \$621 million and for CCC about \$6.4 billion.

In this period, we completed audit work on contracts CCC purchased as a result of the Presidential suspension on grain sales to the Soviet Union. In addition, we placed audit emphasis on operations of the ASCS Commodity Office and Management Field Office in Kansas City. With respect to commodities financed by CCC, we reviewed various aspects of the handling, storage, and disposition of grain under terms of the Uniform Grain Storage Agreement. In support of the Department's effort to identify the causes of the increasing trend in warehouse bankruptcies, we focused on the lack of deterrents to prevent shortages and fraudulent claims from producers and from warehousemen with over obligated (short) positions. We addressed this problem by examining warehouse functions as well as actually identifying shortages of collateral among producers in the regular and reserve loan programs.

On January 4, 1980, the President announced that he was suspending delivery of all U.S. grain (in excess of the 8 million metric tons provided for under the terms of the 1975 US-USSR Grain Supply Agreement) to the Soviet

MONITORING OF USSR GRAIN SUSPENSION

Some highlights of our overall audit efforts are as follows:

We continue to monitor various aspects of the automated accounting system. In this period, we reported that the system does not accurately show the disposition of overpayments to producers identified in audits. ASCS acted to secure the necessary information from the counties concerned and, as part of its overall debt management initiative, is working to improve the system.

cost survey.

current Offer Rate System, ASCS will again request OMB authority to make a in the report are insufficient to determine the cost effectiveness of the moved due to excessive rates in a particular area. In the event the findings be prepared based on these reviews to ascertain if any CCC grain should be reviewing all rates submitted for the 1981-82 contract year. A report will pricing situation. The Under Secretary informed us that ASCS was currently and recommended that the Department perform an economic analysis of the service. We were concerned that the CCC may not always get the lowest rate offered do not exceed the rates charged other customers for the same and handle CCC-owned grain. Each facility must warrant that the rates Under the agreement, warehousemen offer 1-year rates at which they will store

Union. The President subsequently directed the USDA to purchase qualified contractual sales obligations for corn, wheat, soybeans, soybean meal and soybean oil of qualified U.S. based exporters. Thus, for the first time in its history, CCC assumed the undelivered sales contracts which exporters had with the USSR. The dollar value of contracts assumed by CCC was about \$2.4 billion. In its efforts to stabilize the commodity markets, USDA initiated actions in addition to assuming Exporters' contracts, including the purchasing of substantial quantities of wheat and corn valued at about \$985 million directly from farmers and others. The suspension was lifted on April 24, 1981.

We have substantially completed our audit of USDA's involvement in the January 4, 1980, to April 24, 1981, suspension of agricultural exports to the USSR. Two aspects of the audit that remain to be completed include:

- (1) Commodity Credit Corporation (CCC) has not accumulated, systematically filed, and cross-referenced documentation supporting its settlement payments to U.S.-based exporters, which provides a reasonable audit trail. We have informed CCC management of this situation and appropriate corrective actions are in process to enable us to complete this phase of our audit.
- (2) Proposed adjustments totaling \$4,708,745 recommended by audit have been disputed by the exporters. CCC has decided that the disputes should be submitted for arbitration in which we will be a participant.

basis.

As a result of OIG's early involvement and subsequent audits of USDA and exporters' records, USDA saved over \$10.5 million. During the course of our review, CCC took action to correct errors, recalculate settlements, and collect overpayments. We believe USDA could have saved an additional \$5 million had CCC accepted our recommendation that exporters be required to apply licensed shipments against contracts assumed on a first-in, first-out basis.

and USDA.

Our audit work included participation in USDA top management meetings where we offered comments and recommendations on proposed USDA actions, particularly the development of provisions in the agreement to be executed with exporters. We also attended most initial meetings between the exporters and USDA.

The week after the suspension was announced in January 1980, we formed an audit task force to monitor USDA's activities. Since that time, we have issued comments in three semiannual reports to Congress, 50 memoranda to USDA, principally CCC, covering specific aspects of our audit, and 12 audit reports of exporters' claims for USDA assistance under the provisions of the suspension. Additionally, 12 State audit reports and two overall audit reports were issued concerning CCC's handling of offsetting purchases. Our draft report, which details the summary audit results, is currently under review by the Department.

The known measurable outlays to USDA resulting from the suspension are estimated by OIG and CCC to be about \$2 billion which includes the net cost of contracts assumed, costs of purchased grain, storage, handling and related costs, carrying cost of purchased grain, and farmer-owned reserve costs.

The following constitutes a summary of the key conclusions and findings resulting from the audit.

- o Considering the urgency of the market situation created by the suspension and the untried assumption of exporters' contracts by CCC, we concluded that USDA's actions overall were reasonably well implemented and successful. However, we could not conclude that USDA's actions with respect to all areas of its involvement in the suspension of agricultural exports to the USSR were well conceived because of a general lack of adequate documentation supporting or explaining all decisions made.
- o We proposed adjustments to increase the exporters' profit margin deductions by \$8 million, which would result in like reductions of the cost of contracts assumed by CCC. Of the total adjustments we proposed, \$3.3 million was agreed to by the exporters, while \$4.7 million was disputed by exporters and is still pending arbitration. Accepted adjustments were 126 percent of profit-margin deductions originally submitted by exporters; total proposed adjustments were 302 percent of profit-margin deductions originally submitted.

- o The CCC-Exporter Agreement and the CCC Soybean Meal and Oil Agreement require that profit margin deductions be determined based on each exporter's historical profits from grain or soybean product merchandising activities which were very narrowly defined by the Board of Accountants. These "historical profits" would not necessarily bear any relationship to actual profits, if any, earned by exporters on contracts sold to CCC pursuant to the agreements. It is evident from the results of our audits that using the historical profit approach resulted in a very small profit deduction in relation to the value of Exporters' contracts assumed by CCC. Moreover, if CCC's position is not upheld on OIG's proposed adjustments (disputed by exporters) the profit margin deductions will be much smaller. Although we proposed adjustments to increase the profit margin deductions originally submitted by the exporters, our audits disclosed no evidence of exporters reporting false information.
- o The Board of Accountants' definition of grain merchandising activities excluded from determinations of pre-tax profit margins such activities as originating, storing, and transporting grain. We questioned this definition because of the difficulty in segregating these activities, unless this was done as a normal part of an exporter's accounting system using clearly defined profit centers.

However, the definition was upheld and allowed one exporter with substantial company-wide profits to reflect no profit margin deduction.

- o The CCC-Exporter Agreement required that a deduction be made from the contract value to eliminate any potential "windfall" profit that the exporter would receive if the exporter was in a net short position on a commodity included in the contracts assumed by the CCC on the date the suspension was announced. However, the agreement allowed the exporters to determine their short position at a date other than January 4, 1980, which reduced the deductions by \$1,052,000. Additionally, the agreement allowed the exporters to include unpriced contracts in their total sales commitments at January 4, 1980, which further reduced the deduction by \$230,000.
- o Approximately 30 percent (5 million metric tons) of the total contracts assumed by CCC were entered into the USDA Export Sales Reporting System as "destination USSR" (shifted from "unknown destination") in the 2 days preceeding the grain suspension. We were unable to determine if the USSR had authorized these designations although both CCC and the exporters' records sufficiently documented the change.
- o The decision to assume export contractual obligations was made in a relatively short time frame (2 days) with little "front-end" analysis of options to offset the impact of the suspension.

- o There was little or no documentation of actions taken by CCC to prepare for negotiations of contract terms with exporters, i.e., what discount would sellers offer to exporters if USSR terms were removed from purchase contracts, what value is placed on individual USSR terms, etc.
- o CCC erroneously computed the payment due one exporter for "SWAP" transactions, resulting in an overpayment of \$891,828. The overpayment, plus \$37,999 in interest, was recovered from the exporter.
- o Although the agreement contained provisions allowing CCC to make 100 percent provisional payments upon receiving a letter of credit from exporters, only two exporters initially requested such payments and neither was consummated. As a result, CCC paid exporters 97 percent of provisional payments and over \$7.5 million in interest on the 3 percent withheld.
- o Even though the USDA made commitments in early January to isolate quantities of wheat and corn from the marketplace through CCC purchases, CCC did not announce plans for such purchases until early March 1980. As a result, there was concern and confusion as to the intentions of CCC.

- o CCC purchased substantial quantities of grain under its "in-store" purchase program from the same exporters (and/or their domestic affiliates) whose contracts CCC had assumed as a result of the suspension. Although the administration of the direct wheat purchase program was acceptable considering the time constraints under which the program was developed and implemented, it was our opinion that purchase prices could have eliminated costs for handling, storage and transportation had the grain been purchased on a competitive bid "in-store" basis.
- o USDA's approach to monitoring grain movement was reasonably effective. However, USDA experienced some problems and confusion in its monitoring efforts caused primarily by the absence of definitive guidelines setting forth the functions and responsibilities of each of the interdepartmental agencies and the absence of formal commitments obtained from other grain exporting countries. Notwithstanding the efforts of USDA, other department agencies, and other governments, the complete prevention and/or detection of illegal grain movements to the USSR proved to be a difficult task with questionable results.

The impact of the sales suspension on the USSR has been discussed extensively and debated in the U.S. and other countries. There was no unanimity of opinion on the short or long term impact of the suspension. However, there

was unanimity of opinion that the USSR was forced to make adjustments in its grain supply management practices. The USSR was able to offset the suspension of grain shipments substantially by: (1) increasing grain and meat imports from other countries, and (2) drawing down on reserve stocks. Restraint by other grain exporting countries was less than anticipated.

Many lessons have been learned from the USSR grain suspension. These lessons should be used to guide the USDA in the future. We have recommended that USDA develop a set of general policy guidelines to provide direction to program officials in the event of future grain trade suspensions. While it may not be possible to foresee all potential peculiarities of a particular future grain trade suspension, if any, general policy statements would provide a framework for action and, as such, would direct USDA's future action in a manner that makes use of lessons learned from the January 1980, suspension of grain shipments to the USSR.

COMMODITY LOAN AND GRAIN RESERVE LOAN PROGRAM

The overall objective of these loan programs is to enable producers to withhold marketing their grain thereby enhancing their chances of obtaining increased market prices at a later time. To test the effectiveness of ASCS's controls over commodity loans and the extent of collateral shortages in selected States, we conducted a statistical sample of farm-stored corn and soybean loans for the period October 1979, through September 1980, in the States of Illinois, Iowa, Minnesota, Nebraska, South Dakota, and Wisconsin.

Listed below are problem areas relating to corn loans in the six States.

Because of highly variable results, we were unable to draw any statistically valid conclusions regarding the soybean loans. Our comments are limited to corn loans.

- o Collateral shortages of at least 10.5 million bushels (the lower confidence level) with loan values of \$21 million existed on regular and reserve corn loans. Shortages were found on about 10 percent of all loans reviewed.
- o Storage payments on the reserve corn loans were overpaid to producers by at least \$3.3 million.
- o ASCS Program spot checks were not always effective in detecting collateral shortages.
- o ASCS needs to strengthen the procedures it follows when a producer sells loan collateral. We found only a few cases where penalties were levied on producers.

ASCS agreed with the findings we disclosed and has started action to implement the recommendations contained in the report. The ASCS State offices have taken action to collect or have collected the amounts we identified in our audit reports as due the Government.

GFA PEANUT ASSOCIATION

We examined the operations of the 1978 and 1979 peanut price support program administered by the GFA Peanut Association, Camilla, Georgia. Our audit included the pooling and distributing of gains and losses as well as the

supervising of storage and handling of loan collateral peanuts.

We found that the Association made significant errors in the administration of price support program operations which resulted in program overpayments of \$406,812 and undercollections of \$28,195 to producers, warehouses and purchasers. Also, we found that no corrective action had been taken on our prior audit recommendation that the Producers Association Division (ASCS), assist GFA in developing an adequate system for allocating administrative costs between price support and nonprice support activities. Many administrative cost items that benefit GFA's nonprice support activities are charged entirely to the price support program and others are allocated using outdated formulas.

Unnecessary delays in collecting and depositing sale proceeds with the Federal Reserve Bank (FRB) have cost CCC \$83,868 in interest. The procedures need revision so that the sale proceeds are deposited directly to the FRB with a minimum of delay. Furthermore, GFA did not collect interest as required when purchasers failed to make prompt payments.

ASCS officials generally agreed with our findings. They submitted a corrective action plan that states the undercharges cited in the audit are being collected and the proceeds remitted to CCC and that other fiscal and administrative deficiencies will be corrected.

EMERGENCY FEED PROGRAM

This statistically sampled audit determined whether: (1) there was evidence of program abuse or potentials for large dollar losses, and (2) provisions of the law had been circumvented to allow payments of benefits that were not intended. We specifically evaluated three provisions of the law to determine if: (1) the producer suffered a substantial loss in feed normally produced on the farm, (2) the producer did not have sufficient feed on hand for the estimated period of the emergency, and (3) the producer was required to purchase feed during the period of emergency in quantities larger than normal.

For the 440 applications in our sample, we verified, to the extent possible, information relative to disaster losses, feed purchases, feed on hand, and livestock numbers. Our sampling universe was limited to program activity in nine States where about 87 percent of the payments were made in 1979.

Liberal methods used by ASCS to determine the extent of pasture losses, livestock feed requirements, and normal feed purchases allowed producers to obtain unrealistic benefits. We recomputed the amount of assistance for the 440 producers in our sample and compared our computation of the producers' benefits with that arrived at by ASCS. We statistically projected that \$21.7 million of the \$60.9 million paid producers in nine States could have been saved.

We believe ASCS's failure to exercise reasonable controls over pasture loss determinations resulted in higher costs to the program. We were unable to make a reasonable estimate of the additional program costs attributable to ASCS's unrealistic method of: (1) determining pasture losses due to drought (when nearby reporting stations recorded normal rainfall), and (2) crediting forage production when pastures were dormant.

Based on statistical projections, we estimated that producers in the nine States were overpaid about \$3.6 million because of computation errors and the following compliance problems: (1) inaccurate reporting of crop losses, (2) failure to report all feed on hand, (3) inaccurate reporting of livestock numbers or failure to inform ASCS of changes in livestock numbers, and (4) unsupported purchase of feed and payment for duplicate feed invoices.

ASCS officials commented on our draft report and contended that amendments to program procedures would improve the method of determining pasture losses because the system for setting the carrying capacity (stocking rate) and the extent (percentage) of disaster loss had been changed. Also, ASCS disagreed with our position on how purchased feed on hand should be considered and with our contention that the daily feed allowance was too high. These differences of opinion are reflected in our final report.

TOBACCO MARKETING AND LOAN PROGRAM

A significant investigation completed during the reporting period follows:

The Tobacco Marketing and Loan Program was started in the early 1930's to discourage overproduction of tobacco by imposing penalties on tobacco

marketed in excess of the quota established for each farm and by providing price support benefits on eligible tobacco.

ASCS annually issues tobacco farmers one or more tobacco marketing cards. The cards show the farm operator's name and address on the front. On the back is listed the farm's legal poundage allotment for the year. Every time the farmer sells tobacco, he presents the card to the warehouse where an ASCS representative deducts from the card the poundage sold. The farmer can sell 110 percent of his quota. Any tobacco sold over the 110 percent is considered excess tobacco and is subject to a penalty which is usually as much per pound as that received from the sale of the quota tobacco.

With this in mind, early in the 1980 marketing season, in an effort to preserve the integrity of the program, OIG initiated a tobacco marketing undercover "sting" operation in North Carolina and Kentucky.

OIG Special Agents, posing as tobacco farmers and using tobacco legally obtained and with the help of ASCS County committeemen and ASCS State officials, established fictitious farms and obtained marketing cards for these farms. The Special Agents hauled their tobacco to various warehouses where it was weighed, the poundage deducted from their marketing cards, placed on the warehouse floor, and graded along with the rest of the tobacco to be sold.

After the Special Agents' tobacco was sold, they made it known that they had not produced as much tobacco as they had expected, and that they had some

unused pounds on their marketing cards that could be bought for a bargain price. A few farmers and warehousemen illegally sold their excess tobacco, thus avoiding paying penalties.

So far, the "sting" operation has resulted in the indictments of 10 warehousemen and 2 producers, and more are expected. ASCS has also started assessing penalties and reducing allotments of those who sold excess tobacco on the undercover agents' marketing cards.

Other significant investigations in ASCS include:

- o In Missouri, a former ASCS County office employee pled guilty to two counts of a six count information charging her with embezzling money belonging to CCC, making false entries in CCC books, and receiving money directly from CCC when she processed two farm-stored grain loans. She was placed on probation for 3 years. The former employee admitted she began making fictitious loans in 1967. When the loans came due, she sometimes paid them off by creating larger loans. The procedure of issuing loans to repay previous loans occurred 13 times and involved 26 loans dating from 1967. (United States vs. Mary Dean Smith, Western District of Missouri)
- o The United States Court of Appeals for the Eighth Circuit filed a decision upholding the conviction for conversion of mortgaged property of a Minnesota farmer who sold over 20,000 bushels of corn mortgaged to CCC. The farmer admitted that without the knowledge or

consent of ASCS he removed the corn that was stored on his farm. He was sentenced to one year in prison. (United States vs. Vernon Charles Schwartz, District of Minnesota)

- o A former County Executive Director of an Agricultural Stabilization and Conservation Service Office in South Carolina was convicted of selling \$48,000 worth of mortgaged soybeans which he had pledged to the Farmers Home Administration as security for an emergency loan. Sentencing is pending. (United States vs. Carl O'Neil Hamrick, District of South Carolina)

D. RURAL DEVELOPMENT PROGRAMS OF THE FARMERS HOME ADMINISTRATION

The Farmers Home Administration (FmHA) is the credit agency for agricultural and rural development in USDA. FmHA provides credit and other resources to rural citizens, farmers, and rural communities when they cannot obtain assistance from other sources. As of September 30, 1981, the agency had about 1.4 million active borrowers and a loan portfolio of about \$52 billion. Because FmHA programs have proven to be highly vulnerable to fraud, abuse, and waste, OIG in recent years has devoted about 25 percent of its resources to audit and investigation of FmHA activity.

During this 6-month period a new top level management team took over in FmHA. The team was faced with a variety of budgetary constraints in both administrative and program funding which necessitated some realignment of priorities and change in direction. The impact of these changes is not yet evident, but we are encouraged with the emphasis now being placed on improved management within the organization, particularly in such areas as loan servicing and internal controls. Also, efforts were made to correct some of the more critical problems at the St. Louis Finance Office, and although the situation is still serious with respect to the backlog of unprocessed transactions, other adverse situations have been stabilized.

Some corrective actions should be deferred until an adequate financial management information system is developed in order to avoid duplication and

waste. FmHA is reexamining the system but no significant developments have been announced thus far. We are continuing to monitor the planning and operating aspects of the agency's accounting system.

FmHA has responded to Congressionally mandated deadlines for resolving open audit reports and dealt positively with several long-standing issues. Along with this effort has come stronger and more definitive replies to audit recommendations indicating planned or initiated corrective actions in a number of program areas. The actions on some audits featured in previous semiannual reports are as follows:

BUSINESS AND INDUSTRIAL LOAN PROGRAM (GENERAL)

The purpose of the Business and Industrial (B&I) loan program, authorized by the Rural Development Act of 1972, is to stimulate the rural economy by providing loan funds to acquire, construct, reorganize, or expand rural businesses providing new employment opportunities. It is primarily a guaranteed loan program. There were, in 1980, about 5,000 loan guarantees totaling just over \$4.6 billion. In FY 1980, FmHA approved 1,160 guarantees for just over \$1 billion.

We reviewed 30 statistically selected loans totaling more than \$97 million in our most recent audit of this program. Our review disclosed \$46 million of questionable loans to 17 borrowers and \$3.2 million of unauthorized disbursements for 7 borrowers. In general, we found: (1) loans guaranteed for marginal or unsound businesses, (2) guaranteed loans approved for questionable

purposes, (3) inadequate collateral and collateral appraisals, (4) insufficient equity, (5) inadequate monitoring of loan closing and lender servicing, and (6) overstatement of program accomplishments based on inaccurate job data.

We recommended that FmHA: (1) emphasize to program personnel the importance of adequate pre-loan analysis, (2) require applicants to submit audited financial statements, (3) refrain from using equity values that provide no real financial stability to the applicant, (4) obtain independent feasibility studies that adequately reflect the economic, market, and technical viability of projects to be financed, and (5) negotiate percentage of guarantee with lenders for B&I loans and establish procedures to reduce size of future loan guarantees.

In response to our audit, on June 3, 1981, FmHA issued a notice to its field staff to take appropriate action to correct deficiencies in pre-loan analysis as noted in the audit report. This notice also emphasized that feasibility studies should adequately reflect the economic, market and technical viability of projects under consideration for loan guarantee approval. On June 20, 1980, FmHA published in the Federal Register procedures to clarify and strengthen the Government's equity requirements. This change restricted the use of appraisal surplus and subordinated debt from the constitution of any more than one-half of the equity requirement. A Final Rule may not be published because of the proposed defunding of the B&I program.

On October 24, 1979, FmHA published 7 CFR 1980.452, which requires a negotiation of the percentage of guarantee offered. During FY 1980, 6 percent of all loans approved were for less than the full 90 percent guarantee; in FY 1981, 17 percent of all loans approved were for less than the full guarantee.

While the submission of audited statements has been and is currently a requirement for borrowers who already have B&I loan guarantees, our review found that some FmHA staff did not base their credit analyses for new loan applicants upon the most current financial data. This deficiency was discussed in the June 3, 1981, notice to the field, which required the most current financial data be used to determine whether an applicant is credit-worthy.

It appears that this loan program will be funded for the FY 1982 , and the servicing of these loans will be required for years to come. These corrective actions taken partially because of our audits should strengthen the servicing of these loans.

BUSINESS AND INDUSTRIAL ALCOHOL FUEL LOANS

In our previous semiannual report we cited our review of 13 loan guarantees totaling \$217.8 million which were improperly obligated. This occurred because FmHA had not completed the proper steps in the decision making process prior to the end of the fiscal year. Consequently, FY 1980 funds could not properly be used for the projects.

Our audits of the FmHA Business and Industrial loan program have continually disclosed weaknesses in the decision making process, inadequate pre-loan analyses and feasibility studies, and questionable loan purposes. These weaknesses were also disclosed during our audit of the processing of 15 alcohol fuel loan guarantees. Accordingly, the Secretary stopped the processing of alcohol fuel loan guarantees and ordered a reevaluation of the applications and supporting documents.

An independent review committee was established to review the 15 applications and related files to determine if the applications could be further processed. It recommended that 12 applications be returned to the State offices for additional processing because of major defects and that three projects be processed after a review by the State directors and issuance of revised Conditional Commitments of Guarantee. FmHA eventually deobligated funds for 13 loan guarantees totalling \$217.8 million which had been obligated from FY 1980 B&I authorization.

Because of the magnitude of the weaknesses disclosed in our review of alcohol fuel loan guarantees, FmHA has undertaken major corrective actions. For example, the Secretariat level was removed from the approval process and all decisions involving B&I loan projects are now being handled directly by the agency. A new Loan Committee has been established within FmHA. Additionally, an Administrative Notice was sent to the field to remind the field staff of the need to follow FmHA's procedures closely for obligating loans. FmHA

issued instructions to State directors to deobligate all but 2 loans out of FY 1980 funding authority and a contingent reserve was set aside by the National Office to cover the loans which were reobligated in FY 1981.

FARM OPERATING LOANS

Evaluation of Loan Security

We conducted a nationwide audit to determine if FmHA's security property for farm operating loans was obtained and serviced in accordance with relevant laws and regulations. The loans comprised about 73 percent of all farm program loans made by the agency with an unpaid balance totaling \$12.3 billion. We found that borrowers had disposed of loan security without FmHA's knowledge which involved about \$1.4 billion in loan principal (according to our projections on the basis of our sampling plan) and that borrowers did not have long-term debt repayment plans or adequate repayment ability.

We recommended that FmHA require an annual inspection of crops and chattels securing all farm operating loans, and that lists of borrowers be furnished to business firms that normally buy or sell chattels. We asked FmHA to emphasize to the borrower his responsibility in obtaining FmHA approval before disposing of loan security property. We also recommended that FmHA vigorously pursue civil or criminal action against borrowers who dispose of chattel security and against third party converters.

In response, FmHA revised its instruction to require annual site checks for all chattel and crop secured loans. Procedures have also been revised to require that the County supervisor notify all purchasers of agricultural crops and livestock and commission firms within the local trade area that FmHA will furnish on request a list of borrowers who have operating loans.

FmHA is in the process of developing a document entitled "Farmer Program Applicant Interview." This document will be signed by the borrower and the County supervisor, and will clearly spell out the borrowers responsibility in safeguarding the crops and chattels which have been taken as security for the loan, the methods and procedures for obtaining approval from FmHA before disposing of security property, and the procedure for handling the proceeds from the sale of crops and other security. This document should aid the agency in apprising the borrower of his responsibilities for accounting for loan security property.

FmHA has instructed its State offices to vigorously pursue civil or criminal action against borrowers and third party converters. FmHA officials point out, that in their opinion, the real problem is that cases referred to OGC and to U.S. Attorneys are not being processed as recommended.

Agency officials advise that regulations will soon be amended to require the scheduling of loan repayments for annual recurring expenses at the time when the principal income from the years' operations is normally received. This will make it much easier to collect proceeds from crops mortgaged to the Government.

We have expressed concern since 1976 that some low income rural housing borrowers received more subsidized interest credit than they were entitled to because they were not required to report changes in their incomes. The Housing Act of 1968 gave FmHA authority to charge low-income housing borrowers as little as one percent interest, with the Government absorbing the difference between the subsidized interest rate and the true interest cost. These interest credit agreements are for a 2-year period and are reviewed biannually to determine the need for continued assistance. There are no requirements for the borrower to report changes in income nor does FmHA monitor income changes during the agreement period. Since 1968, FmHA has granted approximately \$1.7 billion in interest credit assistance and had over 300,000 such agreements in effect at the start of FY 1980. The error rate found in our 1979 statistically selected audit of interest credit agreements projected a dollar loss of \$190.7 million. These errors were caused mainly by improper income reporting or income changes not being reported.

FmHA officials generally concurred with the audit issues but stated the agency had insufficient staff to review interest credit agreements annually or to make retroactive adjustments for excessive interest credit. We realize these retroactive adjustments would create an administrative burden, but strongly feel the potential payback of \$190 million is cost beneficial. It is also

interesting to note that this audit closely parallels an audit we performed in 1976 which disclosed a projected loss of \$50 million; yet the agency at that time did not act to correct the situation.

An acceptable corrective action plan was developed by FmHA which requires:

- o Interest credit agreements to be renewed annually rather than biannually.
- o Borrowers to provide significant changes to income during the agreement, at which time FmHA will make appropriate adjustments.

A synopsis of significant investigative activity in FmHA follows:

- o A builder in Illinois was indicted for bribery after he offered a Farmers Home Administration County supervisor \$400 for each loan approval for sales of three of the builders' houses and made a \$300 bribe downpayment. The builder pled guilty and was fined \$10,000 and placed on probation for five years. (United States vs. Engle Ben Palmer, Central District of Illinois)
- o A farmer in Tennessee provided false information to the Small Business Administration and the Farmers Home Administration and obtained disaster loans totalling \$246,000. Through reporting the false information, the farmer was able to obtain larger loans and to divert loan funds intended for debt payments. He also forged the endorsement of one of his purported creditors on a U.S. Treasury check for \$20,000. He was indicted on 6 counts of making false statements and

1 count of forgery. He pled guilty to forgery and 1 count of false statement. He was sentenced to 5 months and 29 days in jail and 3 years on probation. (United States vs. Nicholas R. Smith, Middle District of Tennessee)

- o A builder, 5 members of his family, 1 member's employer, and a Farmers Home Administration County supervisor were named in a 9 count conspiracy indictment for defrauding the U.S. Government. The object of the conspiracy was to obtain interest credit home mortgage loans to which they were not entitled from the Farmers Home Administration for the builder's sons and their wives. The builder built the houses, his wife packaged the 2 sons' loan applications, the employer understated 1 son's income on an employment verification form, the builder understated the income of the other son whom he employed, the sons and their wives signed loan documents containing false information, and the County supervisor processed the false documents. Legal proceedings are pending. (United States vs. Chester L. Sinclair, Monroe Graham, Wilborn Johnson, et al, Eastern District of Texas)
- o A South Dakota stockman mortgaged his livestock, crops and machinery to the Farmers Home Administration as security for a farm operating loan. Over a period of several months, the stockman sold \$37,000 worth of mortgaged cattle without reporting the sales or returning the

proceeds to FmHA. He was named in a 25-count indictment charging sales of mortgaged property. The stockman pled guilty to superseding information. Sentence is pending. (United States vs. Robert C. Vaughn, District of South Dakota)

- o A Florida cattle rancher and three of his sons were convicted of conspiracy to defraud the Government by furnishing the Farmers Home Administration with fraudulent documents. The family members obtained \$200,000 from an escrow account established for cattle purchases by presenting for payment bills of sale for nonexistent cattle. In addition, the rancher and 1 of his sons were convicted of false testimony before the Federal Grand Jury about the cattle transfers. Sentencing is pending. A fifth conspirator will be tried in a separate trial at a later date. (United States vs. Woodrow W. Tilton, Sr., and Daniel V. and John V. Tilton, Middle District of Florida)

E. SIGNIFICANT PROBLEMS AND ACHIEVEMENTS IN OTHER PROGRAMS

FOOD SAFETY AND INSPECTION SERVICE

In July 1981, a food processing inspector in San Diego, California, discovered horsemeat in "boneless beef" shipments from Australia. The shipment in question had already been inspected and passed by U.S. Import Food inspectors upon entering the United States; however, the food processing inspector who made the discovery, noticed that the product from three boxes of this shipment appeared darker and stringier than the rest and, therefore, sampled the product for species testing at an FSIS Laboratory. The samples were tested positive for equine.

There are 5 additional ongoing investigations related to this matter now being conducted by OIG. The Australian Federal Police (AFP) investigated 1 Australian exporter who was interjecting uninspected horsemeat and kangaroo meat into the federally inspected boneless beef lots destined for export. This was accomplished somewhere between the final Australian inspection point and the port of embarkation. The exporter in question was recently arrested by the AFP. Two additional persons have also been arrested in this case by the AFP for conspiracy in the meat substitution operation.

While the criminal investigative aspects of this matter are intriguing, the discovery of large quantities of horsemeat and kangaroo meat in these boneless beef shipments points to a much greater problem. One has to examine the obvious breakdown in the system being used by FSIS to inspect imported meats.

According to FSIS officials, until this incident occurred, the import inspectors did not routinely sample imported meat for species determination. In approximately 1975, after many years of experiencing no problems in this area, routine species testing was discontinued. Until the discovery of horsemeat in the Australian boneless beef shipments, samples were taken for species determination only in those instances where the import inspector had reason to believe that a violation had occurred. As an interim measure, FSIS has instituted a policy of randomly sampling all Australian boneless beef for species determination when the product enters the United States.

Additionally, Australia has implemented a system for monitoring all boneless beef exported to the United States, which includes an increase in the inspection force, better security measures for the storage and transportation of boneless beef bound for export, and a stepped-up species testing program. Eventually, all countries exporting boneless beef to the United States will be required to have similar monitoring systems and FSIS will also randomly sample these shipments for species testing.

FSIS management has expressed grave concern about the entire problem and has established a formal Board of Inquiry. This Board has been given the responsibility of examining all aspects of the import inspection system, which will include defining the strengths/weaknesses of the program, and to recommend changes, where needed, to the Administrator, FSIS. OIG has been asked to provide a representative to serve on the Board in an advisory capacity.

Because of the rapid growth anticipated as a result of the Federal Crop Insurance Act of 1980, we have increased our audit coverage of the Federal Crop Insurance Corporation (FCIC) programs. The Act provides for elimination of the crop disaster provisions of the Agricultural Stabilization and Conservation Service (ASCS) programs by 1982, and authorizes expansion of the number of crops insured and counties where insurance coverage would be offered. Additionally, the Act changed the FCIC delivery system by authorizing the use of private sector agents to market, service, and adjust losses, and directed FCIC to provide reinsurance to private insurance companies to write multi-peril crop insurance policies.

The anticipated growth of the crop insurance program is evident from 1981 participation. About 45.6 million acres are insured for 1981. This represents an increase of about 18.8 million acres over 1980. Sales by 17 reinsured companies for 1981 are expected to reach \$12 million. It is expected that, with the addition of other reinsured companies, 1982 crop year sales may reach \$180 million.

In concert with the changes incorporated in the 1980 Act, we have initiated a series of audits with the expectation that major problems and unanticipated weaknesses, which would allow program abuse or fraudulent acts to go undetected, can be identified and corrected prior to full program

We noted that the number of errors on applications prepared by contract agents was high and had an adverse impact on application processing. The error rate for applications increased to 20 percent from 7 percent, primarily contract agent performance.

agent supervision and the systems/reports used to monitor and improve applications. Our audit showed that marketing activities were generally satisfactory. However, improvements were needed in the areas of contract detailed review of the computerized system used to support the processing of We have conducted audits of the 1981 marketing activities, including a

Marketing Activities

adjusters and reinsured companies. In the near future, we plan audits of the National Service Office, Actuarial Division, and a nationwide audit based on statistically selected samples of program transactions performed by contract sales agents, contract loss

- o Marketing activities
- o Premium billings, collections, and debt management
- o Contract service operations
- o Reinsurance program

So far, we have completed or are in the process of completing audits of:

corporate funds and costly investigative or recovery actions. Corporation's management, the Government may avoid unnecessary outlays of implementation. Thus, by bringing these problems to the attention of the

The President and Vice President (father and son) of a telephone company unlawfully converted at least \$195,730 in company funds to their personal use. Restitution was negotiated in the amount of \$82,475. The President was sentenced to 6 months in jail (suspended) and a \$500 fine. The Vice President was sentenced to 3 years in jail (suspended) and a \$1,500 fine. He also was ordered to serve 2 years on probation with a special condition that he receive regular outpatient mental therapy. (United States vs. Blue Ridge Telephone Company, Inc., et al, Northern District of Georgia)

RURAL ELECTRIFICATION ADMINISTRATION

due to the inexperience of the new control agents. Of the 165 completed applications we reviewed, 44 contained errors. Many of the errors would have an effect on the amount of premium collected and/or the level of insurance coverage. We recommended that FCIC enhance its applications processing procedures to handle the increased volume of applications and errors. FCIC agreed to replace contract numbers with the insured's social security number to facilitate processing. Also, based on our recommendation, FCIC returned to a multi-crop application rather than a single crop application to reduce the number of documents to be processed. They also agreed to create an error suspense file to assure that errors are corrected and to provide for increased error tracking and reporting features. We also recommended that FCIC use the error reporting system as a tool in supervising contract agents and as a control in maintaining the quality of their work.

A former employee of a grain elevator company reported that while he was employed by the company, his boss instructed him to make a false statement to an OIG Special Agent concerning the firm's sampling irregularities. An

investigation into this allegation revealed that the former manager of the elevator had instructed several of his employees to clean samples drawn on the warehouseman's Sample-Lab Inspection Service Contract (WSLISC), thereby altering the sample. Consequently, a higher percentage of damaged corn was loaded into the railcar than was reflected by the WSLISC samples. The former manager was convicted of violating the U.S. Grain Standards Act, was fined \$5,000, and placed on probation for 6 months. The company was also charged with violating the Act and fined \$9,000. (United States vs. Laverly Elevator - United States vs. John Robert Horten, Southern, Inc., District of Iowa, Des Moines, Iowa)

COMPLIANCE WITH CIVIL RIGHTS LAWS IN STATE ADMINISTERED COOPERATIVE EXTENSION

SERVICE PROGRAMS

Our semiannual report for April-September 1979, noted that the Virginia Cooperative Extension Service (VCES) was in noncompliance with Title VI of the Civil Rights Act of 1964, and Title IX of the education amendments of 1972. A recent followup review disclosed that the VCES Plan for Compliance, developed to correct the deficiencies reported in the 1979 audit and accepted as meeting our resolution criteria, had not been fully implemented. Our

review emphasized implementation of the Plan by 4-H and Homemakers clubs, including State policies and instructions which impacted upon the implementation of the plan at the unit level.

The current followup review reported that VCES adopted policies and procedures which conflicted with the Plan for Compliance. Specifically, the State agency decided to continue providing services to 227 4-H clubs (about 24 percent) and 362 Extension Homemakers clubs (approximately 29 percent) which were not in compliance with the plan. However, on-site reviews in 4 counties or cities, and desk reviews of records from 5 other local offices, showed that the majority of the clubs in those units had only limited or no documentation of efforts to comply with the plan. The State agency also authorized local staff members to grant exceptions to the plan, although the plan does not authorize VCES officials at any level to make exceptions to the requirements.

We also questioned some actions that were intended as support for compliance with the plan. For example, 57 percent of the Extension Homemakers clubs considered integrated in the 4 cities/counties we visited were comprised of 1 or 2 other minority (Hispanic, American Indian, or Asian) members while all other members were white or black. These clubs were located in communities with substantial black and white, but minimal other minority, populations. In other instances, Extension agents were continuing to provide services to individual clubs which they had reported as merged with other clubs, or terminated in accordance with provisions of the plan.

VCES officials advised that they had notified USDA of their policy revisions and exception procedures, and the State agency believed they had concurrence from USDA.

The report on the followup review has been furnished to appropriate Department officials for consideration of action to effect full compliance by VCES, under means authorized by USDA rules and regulations.

Our November 1979 audit disclosed that the Tennessee Cooperative Extension Service (TCES) had also not complied with many Civil Rights and EEO requirements, had not substantially increased minority employment and participation, and had not integrated clubs and activities. While the Science and Education Administration agreed with the audit findings and developed a corrective action plan, TCES disputed many important issues and declined to take action. Consultation with the Department of Justice and USDA's Office of General Counsel resulted in a delay in audit resolution pending the outcome of the noncompliance issues in Virginia.

F. DEPARTMENTAL ADMINISTRATION

During the past 6 months we have continued to intensify our reviews of the Department's administrative systems and operations. We directed a great deal of attention to the major Financial Priorities Program areas and ADP systems development work. We believe (based on audit surveys completed to date) changes are needed to improve financial management within the Department. In all of these efforts, we have worked closely with the Office of Operations and Finance, the agency responsible for oversight and guidance of USDA financial and administrative matters.

PROCUREMENT MANAGEMENT

Yearend Spending

An audit of procurement management emphasizing yearend spending, was made in response to an August 4, 1980, recommendation from the Senate Subcommittee on Oversight and Government Management. The Subcommittee recommended that Inspectors General thoroughly audit yearend contracts to determine whether agencies complied with laws and regulations, whether such expenditures were made as a result of sufficient competition, and whether expenditures were for bona fide current needs.

The General Accounting Office reported that continued high yearend spending by some agencies indicated a need for strengthened management controls, especially since proper procurement procedures were bypassed at yearend in a haste to expend funds. The Office of Management and Budget has issued

several directives to executive departments and agencies cautioning against unnecessary yearend buying and requiring implementation of better procurement management and practices. Recently, in responding to continued Congressional criticisms of needless and wasteful yearend contracting, the Office of Federal Procurement Policy issued Policy Letter 81-1, effective August 28, 1981, requiring the establishment of various procurement management controls. These controls included an advance procurement planning system beginning concurrently with agency budget processes. The Department is in the process of implementing this directive.

We analyzed data obtained from the Federal Data Reporting System and selected 13 procurement offices in 6 Departmental agencies for review. These offices spent an average of 37 percent of their procurement dollars in the fourth quarter of FY 1980. The objectives of our audit were to determine whether: (1) adequate overall procurement planning existed, (2) purchases satisfied a bona fide need of the current fiscal year, (3) goods and services were purchased at reasonable and competitive prices, and (4) the procurement functions were managed in an efficient and effective manner.

We selected 148 contracts and 65 purchase orders (transacted primarily in September 1980) totaling over \$50 million for review. The following were major factors considered: (1) noncompetitive awards, (2) contract modifications, and (3) procurements having a short time frame between receipt of the procurement request and the award. Factors considered in evaluating

o Thirty-seven procurements totaling approximately \$8 million were awarded through an abbreviated procurement process at yearend in order to obligate available funds. One contract, highlighted in our

o Evidence of a current bona fide need did not exist prior to the availability of funds for 32 procurements totaling about \$3 million. In most cases, program managers were not imprudently expending funds on unneeded items. However, there was no documentation to show that the procurements satisfied a bona fide need for the year from which the obligation was made.

procurement actions reviewed:

functions. We found the following types of problems in 97 of the 213 coordination among agency program planning, budget, and procurement need for a more effective advance procurement planning process and volume of procurement activity at yearend. However, our review disclosed a processing procurements. These processes contribute, in part, to the large agency, serve to shorten the amount of time available for requesting and supplements, and the resulting process of allocating funds within the We recognize that delays in Congressional approval of appropriations and starting in the subsequent fiscal year.

whether a procurement satisfied a bona fide current need were: (1) evidence of procurement planning, (2) use of the product purchased, especially when the procurement was justified as an urgent need, and (3) reason for work

We have recommended that the Department require agencies to develop advance procurement plans and that program, budget, funds management, and procurement officials participate in this process. Managers should document and justify the need for procurements not included in the procurement plan or requested

and purchase orders, especially those executed at yearend. system of procurement controls would better ensure propriety of all contracts effect at the Departmental level and in the 6 agencies reviewed. A strong attributable to the inadequate internal administrative control procedures in In addition to a lack of planning, we believe the conditions noted were

payment.

documents, and inadequate monitoring of contractor performance and without liquidated damages assessed, untimely execution of contract yearend. These problems concerned untimely delivery of end products procedural problems not attributed to the large volume of activity at maximum competition. We also found 28 additional cases with various (c) cost or price analyses and/or audits, and (d) attainment of (a) preaward planning, (b) development of proper work statements, the following procurement steps were either cut short or eliminated: contract at a savings of approximately \$3.7 million. We found that contract was directed to significantly reduce the scope of the reported to the Secretary. As a result, the agency administering the total and, because of the significance of the problems noted, was previous semiannual report, represents about \$4.5 million of this

after established requisition cutoff dates. In addition, the Office of Operations and Finance, with delegated oversight responsibility in the Department, should utilize the data contained in the Federal Procurement Data System and the results of our audit to identify questionable procurement actions for inclusion in its procurement management field reviews.

Federal Procurement Data System

The audit also assessed the accuracy and completeness of data contained in the USDA Procurement Reporting System (PRS).

Under PRS, agencies are required to report all procurement actions over \$10,000 which obligate or deobligate expenditures of appropriated funds to sources outside the Federal Government. This information is then consolidated by the Office of Operations and Finance and reported to the Governmentwide Federal Procurement Data System which is monitored by the Office of Federal Procurement Policy within OMB.

Our comparison of reporting agencies' procurement log books to PRS computer printouts found that, for 5 of 6 agencies reviewed, 355 of 1,794 PRS reportable procurement actions (20 percent) in FY 1980, totaling over \$36 million, were not reported to the Federal system. As a result, the system was ineffective as a management tool and misleading as a source of information to those who rely on it to monitor and evaluate Governmentwide contracting.

We recommended that O&F establish internal controls and procedures to identify and follow up on information incorrectly submitted by procuring agencies.

Consultant Services--Followup

The improved controls over consultant service contracts which were proposed in the Department's Management Control System for Consulting Service Contracts and Improvement of Agency Procurement Practices were implemented July 15, 1981. We plan to evaluate the system's effectiveness in the near future. Meanwhile, the Office of Operations and Finance, which has responsibility for monitoring and controlling procurement activities within the Department, has been including consultant service contracts in its administrative reviews of procurement offices.

However, 3 aspects of the management control system to improve overall procurement practices have not been implemented. The proposed Departmental policies and procedures relating to legal reviews of proposed contract actions, the use of contract review boards, and sole-source procurements, have not received Departmental approval. Officials of the Office of Operations and Finance stated that the above mentioned policies and procedures should be implemented in the near future.

As mentioned in the previous semiannual report, one of the major problems found in our audit of consultant service contracts was the need for a clear understanding of what constituted consultant services. Many of the problems

described in our report dealt with procurements that did not meet the strict OMB definition of consultant services. Since OMB was in the process of revising requirements of the management control system to include related areas such as management, professional services, special studies, and analyses, the Department elected to withhold internal action until the revisions were received. To date, OMB has not issued revised requirements.

MULTI-AGENCY SURVEY OF ADMINISTRATIVE OPERATIONS AND PERSONNEL ACTIVITIES

It is important for Government employees to maintain high standards of honesty, integrity and conduct. One of the responsibilities of the Office of Inspector General under the Inspector General Act of 1978 is to conduct reviews with the purpose of preventing and detecting fraud and abuse in agency programs and operations (in effect the integrity of both programs and employees). To help accomplish this responsibility, we initiated a survey which will aid us in identifying existing or potential problems involving employee integrity in the Department. This survey is part of an Inter-IG project initiated by the President's Council on Integrity and Efficiency.

We have utilized over 20 computer matching techniques to isolate potential problem areas. The following are some of the techniques that we have employed:

- o Validation of social security numbers of USDA Employees
- o Match of USDA Employees Against a State's Master File For Real Estate Brokers and Sales Persons

- o USDA Employee Participation in FmHA Programs and USDA Employees
Delinquent on Government Loans

In addition, we have performed computer matches to identify continually high travel and overtime claims by employees. Field work will be needed to determine whether these employees filed improper claims. The result of this effort could provide us a basis to recommend that the Department implement controls to identify similar problems on a continuing basis if it is determined that this is warranted.

DEBT MANAGEMENT

As noted in our previous semiannual report, we initiated an audit which, among other objectives, was structured to followup on the recommendations of a 1980 Departmental task force study of debt management. As a result of the task force study, the Department developed a plan for implementing the recommendations to more effectively manage accounts receivable. The task force found the majority of the agencies' accounting systems did not routinely produce timely, accurate, and informative debt management information reports. It also questioned the accuracy of reports to the Department, Treasury, Congress, and other agencies concerning debts. While the agencies generally agreed to implement the task force recommendations, our audit found that many recommendations were not implemented.

Examples are provided below.

- o Agencies' accounting systems still do not contain the necessary internal accounting and administrative controls to provide accurate and timely information. Our audits found that the FmHA Finance Office could not provide timely and accurate data on loan account transactions and delinquencies to its loan servicing personnel to help identify delinquent borrowers. Conversely, while ASCS/CCC field office personnel were aware of the status of loans, the agency's computerized accounting system could not provide accurate or timely data on loan transactions and delinquencies to its managers. Further, the Department's central accounting system, maintained by the National Finance Center, did not provide for bad debt writeoffs or interest charges on past-due accounts, and it did not accurately record accounts receivable. The NFC system is currently under revision.
- o Instructions do not provide the guidance necessary for uniform and effective debt management. Debt management terms were not standardized and responsibilities for debt collection were not always identified and assigned. Thus, required demand letters were not always used, procedures for offset from other payments due debtors were not fully effective, and interest charges were not always applied to past due amounts.

- o While the headquarters offices of the agencies have placed a high level of emphasis on resolving debt management problems, field operating personnel have not overcome the deficiencies of the accounting systems and operating instructions.
- o Agencies frequently use annual, semiannual, and quarterly billing terms for services performed throughout the period. Interest costs could be reduced if agencies went to a monthly billing cycle.
- o Past due amounts of \$1.1 million in ASCS farm storage and drying equipment loan repayments were not being offset from other payments due the borrowers.
- o FCIC did not use its information system to identify delinquent premiums that could be offset from other ASCS and FCIC payments due the debtors. We identified \$110,000 that could have been offset from payments and an additional potential for offset of \$510,000.
- o FCIC did not bill premiums until harvest time, even though insurance coverage was in effect at the time the crop was planted. Also, the premiums were not considered delinquent until about 4 to 6 months after billing. The Department estimates that about \$18 million in Treasury Interest savings could be realized annually if the premiums are billed and collected earlier.

- o Neither OGC nor the agencies have tracking systems which readily provide information on claims referred for legal action. Currently, about 10,000 claims totaling in excess of \$550 million have been referred to OGC. Over \$10 million of these claims were referred to OGC in 1976 or earlier.

Based on these preliminary findings, O&F has initiated a joint Agriculture, Justice and OMB project to improve legal collection processes and procedures to expedite the collection of delinquent USDA receivables which have been referred for legal action.

INTERNAL CONTROLS

Recently, additional emphasis has been placed on internal controls by both the Congress and the OMB. OMB has a proposed circular requiring that each Department head issue an internal control directive and that as part of the annual report on financial management, the Department head will inform OMB on the progress of that Department's internal control system reviews. The circular further states that the IG's should review internal control directives, systems, regulations, and compliance, and provide advice to the Department head.

The Department's Office of Operations and Finance has taken several initiatives to determine the status of internal control systems within the Department. For example, O&F conducted a review in one agency to determine how well its internal control systems were functioning and to test a guide

developed by O&F entitled, "ADP Internal Control Systems." O&F plans to send this guide to each agency requesting that the agency use it in evaluating ADP controls. In addition, O&F proposes to establish a branch that will review internal control procedures within the various agencies and issue reports of needed corrective action to the agency head.

As mentioned in our previous semiannual report, we initiated a survey to determine the actions taken or needed by the Department to comply with OMB guidelines. Our work is being coordinated with O&F. The following describes one audit we recently issued:

Farmers Home Administration - Control and Accounting Over Disbursements

FmHA loan disbursements are processed through its Finance Office (FO) computer system located in St. Louis, Missouri. Encoded computer tapes are sent to a Treasury Disbursing office which issues the checks.

The audit concluded that more effective controls were needed over disbursements and recommended:

- o Increasing the physical security over disbursements.
- o Applying payments directly to delinquent loan accounts before checks are issued to borrowers.
- o Verifying obligations before disbursements are made.
- o Balancing the deposit fund to unprocessed cash transactions.

In recent months, the FmHA has taken steps to improve physical security throughout the FO, including the controls recommended in our audit.

USDA TRAVEL MANAGEMENT

In early FY 1981, we conducted a survey of travel management within USDA to assess the overall management of expenditures, and to evaluate the effectiveness of Departmental efforts to reduce travel expenditures during FY 1979-80. We concluded that the Department needed to establish more specific priorities for the allocation of travel funds, and that USDA financial management systems, internal controls, and management accountability were not adequate to insure that required travel reductions or efficiencies were accomplished. Consequently, USDA overspent the FY 1979-80 travel budgets by about 7 percent each year.

The Departmental response to our report noted various actions including the establishment of formal travel ceilings, improved monitoring of agency travel by the Office of Operations and Finance, revision of travel voucher forms to identify travel purpose, increased use of written travel authorizations, increased use of government-owned or leased vehicles, and increased use of travel information intended to assure use of lowest cost transportation and lodging.

In a related audit, we evaluated the Department's Government Transportation Request system which is centralized at the National Finance Center (NFC).

USDA travelers use Government Transportation Requests (GTR's) to obtain common carrier transportation and other charter services. The carriers send their billings for these services directly to NFC for payment processing.

NFC pays the carriers and issues monthly reports to the agencies showing the amounts paid. Agency personnel are to use the monthly reports to ensure that the payments listed are valid. From July 1979 through June 1980, USDA spent approximately \$36 million for common carrier services.

We audited the NFC operations and reviewed GTR's used in 24 agency locations. We statistically selected a sample of the GTR's used at these locations during the period July 1, 1979, through June 30, 1980.

Our audit concluded that minimal losses were attributable to misuse of the GTR system. However, we found that travelers did not always report to NFC that they had not used, or had only used a portion of, the ticket purchased with a GTR. Further, NFC did not always bill the carriers for unused tickets when they were notified by the traveler. Thus, we estimated that USDA had not collected \$118,600 due from refunds.

We further noted that some travelers had used GTR's for personal travel and did not reimburse USDA for the additional expenses incurred. This was due mainly to travelers not making cost comparisons to determine if the personal travel was of greater cost than the authorized travel. We estimated that USDA paid \$25,200 for unauthorized personal travel during the review period.

Many of the cases found in our review could have been noted by agency personnel if they had properly used the GTR accountability reports which NFC generates to show the payments made. Personnel in 14 of 17 locations either did not receive, or did not use, these reports.

6. OTHER SIGNIFICANT AUDIT FUNCTIONS

IMPLEMENTATION OF THE SINGLE AUDIT CONCEPT (OMB CIRCULAR A-102)

Attachment P to OMB Circular A-102, issued in October 1979, requires State and local governments and Indian Tribal governments that receive Federal assistance to arrange for organization-wide financial and compliance audits and that these audits be performed by independent State and local government auditors or independent public accountants at least once every 2 years. The purpose of these audits is to determine whether financial operations are conducted properly, the financial statements are presented fairly, the organization has complied with laws and regulations affecting the expenditure of Federal funds, internal procedures have been established to meet the objectives of Federally assisted programs, and financial reports to the Federal government contain accurate information. It is OMB's intent that these single audits meet the needs of all parties concerned and that no additional audit requirements be placed upon the recipients except when specifically required by law or approved by OMB. These audits replace the former grant-by-grant audits and must be performed in accordance with GAO and American Institute of Certified Public Accountants (AICPA) standards, the GAO Guidelines for Financial and Compliance Audits, and approved OMB Compliance supplements.

Attachment P also establishes a cognizant audit agency structure. This means that each State department, local government, Indian Tribal government, or subdivision of such entities that receives Federal assistance, is assigned to a Federal audit agency which will act on behalf of all Federal audit agencies in dealing with audit matters concerning a specific recipient organization. The attachment does not limit authority of Federal agencies to make additional audits of recipient organizations as they deem necessary. The cognizant Federal audit agencies are responsible for assuring that satisfactory audit coverage is provided in a timely manner, in accordance with the Attachment P audit requirements. The agencies are also responsible for assessing the work of the non-Federal audit organizations, providing technical advice, and acting as liaison between Federal agencies, independent auditors, and recipient agencies. In addition, the cognizant audit agencies are responsible for reviewing and distributing audit reports to other Federal audit officials and their respective Federal funding agencies, and maintaining a followup system on the audit findings to assure proper resolution of the findings. We believe that the potential benefits of the single audit concept are immense, and we have committed significant resources to its implementation. We also believe that many obstacles will have to be overcome before this new concept will operate smoothly.

Our first step towards implementing the single audit concept was to conduct a nationwide survey to obtain profile data on agencies that were administering major USDA programs. Our next step was to analyze the available documents (Attachment P, GAO Guidelines for Financial and Compliance Audits, GAO and AICPA Standards, and OMB Compliance Supplements) and identify the guidance that we believed was needed to promote a uniform understanding of the requirements of Attachment P within OIG as well as State and local governments, independent auditors and Federal program officials.

As a result of the above actions, we developed the following:

- o Departmental audit regulations which implement the requirements of Attachment P for USDA.

- o An overview of OMB Circular A-102, Attachment P Audit Requirements. This pamphlet was developed to facilitate a clear understanding of the responsibilities placed on State and local governments, Indian Tribal governments, and the Federal Government by Attachment P.

- o Quality control guidelines. The purpose of these guidelines is to provide a consistent basis for evaluating the quality of the organization-wide audits.

- o Guidelines for contracting for Audit services. These guidelines are designed to assist State and local governments and Indian Tribal governments in arranging for the audits required by Attachment P. The guidelines are not mandatory, but it is anticipated that the guidelines will receive widespread acceptance.

o A-102 training program. This program was developed to familiarize OIG personnel and other interested persons with the audit requirements of OMB Circular A-102, Attachment P. This training program contains a narrative and supporting viewgraphs describing the Attachment P requirements. It also contains copies of the OMB and GAO single audit documents as well as copies of the above OIG single audit documents. The value of this training program is that it can easily be tailored to meet the needs of a wide variety of audiences. In addition to the above actions, we have provided leadership in developing basic instructions for cognizant audit agencies to follow in carrying out their Attachment P responsibilities. These instructions have been adopted, for the most part, by the Inspectors General Task Force and will be issued in the near future as the "Guidelines for Cognizant Audit Agencies." We have also worked with the Inspectors General Task Force in developing criteria for assigning audit cognizance and have had extensive meetings with OMB, the other Inspectors General, and our regional counterparts to resolve common implementation problems. In a number of instances, these meetings resulted in the establishment of cognizant audit agency coordinating committees which will provide oversight of organization-wide audits performed by State audit organizations.

Because of the complex nature of the "single audit concept," we have periodically held seminars for OIG personnel to resolve issues and assess our progress towards implementing the concept. In addition, we have met with the officials of most of the 81 State organizations over which we have been assigned cognizance, to: (1) explain our responsibilities as a cognizant audit agency, (2) discuss the single audit requirements, and (3) establish appropriate working relationships.

Our contacts with State officials and USDA program agency officials have revealed a number of major concerns. First, a number of State audit organizations have expressed concern regarding the funding of the single audits and are reluctant to perform the audits without direct Federal reimbursement. Second, other State officials have expressed major concerns regarding the overall funding for the audits (particularly when private audit groups are to be utilized); the extent of required audit coverage; audit frequency (particularly in those States in which the State audit groups perform audits of State agencies every 3 years rather than every 2 years as required by Attachment P); and the possibility of Federal funding being withdrawn for not conforming with the audit requirements of OMB Circular A-102. Third, one USDA program agency, the Food and Nutrition Service, expressed concern about coverage of the funds they have provided to

State and local agencies because the auditors would not be familiar with the compliance requirements for USDA programs. They also questioned the amount of training that would be needed by State and local auditors and independent public accountants in order for them to provide proper audit coverage of Federal funds.

Although these concerns present serious obstacles to the implementation of the "single audit concept," we believe that all of them can be overcome by establishing good working relationships with each of these agencies.

AUDITS OF IN-HOUSE COST ESTIMATES PREPARED IN ACCORDANCE WITH THE

REQUIREMENTS OF OMB CIRCULAR NO. A-76

Since 1955, the executive branch has maintained a general policy that, with certain exceptions, the Government will rely on private enterprise to supply its needs. In 1966, OMB Circular A-76 prescribed policy and implementing guidelines in a permanent directive. The policy stressed reliance on the private sector to provide commercial or industrial goods and services except: (1) functions considered inherently governmental in nature, (2) those where no satisfactory commercial source is available, and (3) those justified for in-house performance for national defense reasons.

The Circular was revised in 1967, 1976, and 1979. The 1979 revision was supplemented by a comprehensive Cost Comparison Handbook providing detailed instructions for developing cost comparisons of estimated in-house and contract costs.

In principle, the procedures provide for solicitation of binding offers from contractors. The offers, adjusted to reflect the total Government cost of contracting, are compared to estimated costs for performing the function in-house. Under these circumstances, the in-house activity is treated as a bidder for the function. OMB Circular A-76 and the Cost Comparison Handbook require an independent review of each in-house cost analysis preparation.

Our reviews resulted in substantially decreasing the in-house estimates at 3 facilities and slightly increasing them at 3 other facilities. Upon completion of each review, we met with agency officials who agreed with our recommendations and changed in-house estimates accordingly. Since the final in-house estimates were in accordance with our recommendations, our reports contained no exceptions.

IG Audit Responsibility and Objectives

As the independent audit group within USDA, OIG is responsible for performing or contracting for performance of the independent reviews. The reviews should be confined to those cost factors that could be determined prior to bid opening.

In the latter part of 1979 and the first half of 1980, the Science and Education Administration (SEA) identified commercial- and industrial-type activities at seven of its larger research facilities. Statements of work and in-house estimates have been prepared at 6 of the facilities and are in process at the seventh. OIG has reviewed the in-house estimates at 6 of these 7 facilities.

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CONTRACT AUDIT ACTIVITY

In FY 1980, audits were performed of 50 pricing proposals, cost reimbursement contracts, and claims totaling \$31,148,902. Two audits totaling \$7,805,664 have not been completed, and 48 completed audits resulted in estimated savings of \$4,849,205. OIG auditors reviewed 21 actions totaling \$11,593,921, resulting in estimated savings of \$4,187,399. Other Federal cognizant agencies audited 27 actions totaling \$11,749,317, resulting in estimated savings of \$661,806.

In FY 1981, 45 audits were performed, or were in the process of being performed, of pricing proposals, cost reimbursement contracts, and claims totaling \$34,222,988. Audits of 22 actions totaling \$22,952,292 resulted in estimated savings of \$2,484,354.

SECTION III - COOPERATIVE EFFORTS WITH OTHER FEDERAL AND STATE AGENCIES

Virgin Islands - Administration of Federal Programs

During 1980 and 1981, OIG performed two major audits of FNS programs in the Virgin Islands: one covered the Food Stamp Program, the other, the National School Lunch Program (NSLP). In our 1980 audit of the FSP, we found that food coupon issuances were often not supported by or traceable to valid certifications or issuance records, or were duplicate issuances. In our 1981 audit of the NSLP we found that due to insufficient staffing and an ineffective organizational structure, the State agency could not effectively supervise, monitor, and control school lunchroom operations. Also, fiscal tests disclosed questionable expenditures and/or obligations approximating \$250,000, and inefficient use of available equipment. Further, the State agency had never determined actual meal costs; thus, a determination as to whether free or reduced-price lunch reimbursements were proper could not be adequately made.

The above conditions tend to parallel serious findings of financial and procurement mismanagement contained in a recent Department of Commerce audit survey report about the Virgin Islands. Similar adverse conditions were also found during recent audits of the Virgin Islands by other Federal Departments including the U.S. Comptroller and the U.S. Environmental Protection Agency (EPA).

As a result of the above conditions, a Joint IG Task Force was established in October 1981 to survey major Federal programs within the Virgin Islands.

Operation Applecore

Another important cooperative undertaking of this period was an investigation in the Summer Food Service Program for Children.

This program was established in 1968 as the summer component of the National School Lunch Program. The program, which came to be known as the Summer

Feeding Program (SFP), is designed to provide children in poor economic areas with the same nutritious meals during the summer months as those provided for them by the NSLP during the school year. The SFP currently costs

approximately \$120 million annually, and during 1980 over 1.7 million

children benefited from this program nationwide.

Administrative responsibility for the SFP is given to the FNS. FNS in turn contracts with the State Departments of Education to administer the SFP on a local level. In instances where a State cannot, or will not, administer the SFP, FNS administers the program directly. For example, during 1979 and 1980, the SFP in New York was administered directly by FNS and involved approximately 50 sponsors and 15 vendors. Sponsors are nonprofit

community-based groups such as day care centers, churches and civic associations. The sponsor is responsible for setting up meal sites (points from which unitized meals are distributed), and for insuring that meals are distributed only to eligible individuals. Vendors are private firms such as

individual unitized meals. The vendor delivers these unitized meals to the various meal distribution sites. Both vendors and sponsors must be approved by FNS and the States in order to participate in the SFP.

Operation Applecote (an investigative code name) was initiated in 1979 based upon information received from a SFP food vendor in upstate New York. Representatives of 2 sponsor organizations, both of which had SFP contracts with this vendor, approached the firm's president and demanded a 3 cents per meal kickback in order for him to continue doing business with their sponsors. The president contacted the Federal Bureau of Investigation, and an FBI undercover agent was introduced as the employee who would be handling the kickbacks. As the investigation progressed, it was disclosed that 4 of the 6 sponsors under contract with the vendor were involved in a pattern of fraudulent billings for food that was never delivered, and that 3 of these 4 sponsors were also involved in the 3 cents per meal kickback scheme. The fourth sponsor was involved only in a fraudulent billing scheme.

Additionally, this investigation disclosed that a Brooklyn, New York-based firm, under contract with the vendor to deliver unitized meals, was instrumental in assisting the various sponsors in setting up kickback and fraudulent billing schemes. This Brooklyn vendor also demanded and received a 6.5¢ per meal distribution charge (as specified in the contract for

legitimate meal deliveries) for all fraudulent meals of which they were aware. About \$6,534 was paid by the cooperating vendor in connection with this fraudulent billing scheme. By the time the 1979 SFP was concluded and all of the aforementioned sponsor claims had been paid by FNS, a total of \$116,001 in kickbacks had been demanded and paid in this undercover operation.

Operation Applecore remained covert throughout the winter of 1979 and spring of 1980.

In February 1980, an additional undercover operation was established. The cooperating vendor had elected not to bid on any 1980 SFP contracts; however, its president agreed to assist the Government by allowing the FBI and OIG to set up their own vending company as a division of his firm. Funding for this firm was provided by the Office of Inspector General, USDA. An additional FBI undercover agent joined the operation and personnel from OIG-USDA acted as consultants and provided support services. Although the firm bid on a number of sponsor contracts for the 1980 SLP, none were awarded to it.

Through contacts made the previous summer, the undercover agents were introduced to another vendor. This vendor obtained 6 SFP contracts and began vending operations out of a Bronx plant. Shortly after the start of the 1980 program, the firm ran into financial difficulties and lost the use of its plant facilities. Since this firm had SFP contracts and no plant and OIG had a plant and no contracts, a partnership was formed.

As the undercover operation progressed, we found that the principals of the firm indicated that they had already made payoffs totaling \$1,500 to 2 of the sponsors under contract with the firm and anticipated making payoffs to the remaining sponsors. In return for payoffs the sponsors agreed to submit fraudulent claims for reimbursement to the USDA. Additionally, the undercover agents delivered on behalf of the firm a total of \$8,000 in payoffs to representatives of 1 of the sponsors. The undercover agents further learned that of the three remaining sponsors under contract with the firm, 1 had demanded a 4 cents per lunch kickback, which was never paid; 1 had been promised trips to Paris and the Bahamas for its directors; and 1 made no demands for kickbacks or gratuities.

Two of the principals in the firm had been doing business as a sponsor in the USDA-funded After School Food Program for several years. In January 1981, these principals requested that the OIG firm supply food for the After School Food Program and overbill them. These overbillings would then be submitted to USDA-FNS for reimbursement and the sponsor would share a percentage of the money with the OIG firm.

Operation Applecore was made public in February 1981. In March 1981, 6 individuals entered guilty pleas in the U.S. District Court for the Eastern District of New York to felony informations charging them with various counts of fraud and conspiracy. The Grand Jury in the Eastern District of New York returned indictments also charging various counts of fraud and conspiracy against an additional 12 individuals who had been caught in Operation Applecore's net.

Operation Applecore was the first long-term undercover investigation conducted jointly by the FBI and the Office of Inspector General. To date, approximately \$200,000 in fraudulent claims have been uncovered over the 2-year duration of Applecore. This equates to about 25 percent of all amounts claimed by the sponsors included in this operation. Additionally, all 18 of the defendants have either pled guilty or were found guilty after jury trials.

As a direct consequence of this operation, FNS, assisted by OIG and using the intelligence gained regarding the various schemes employed to defraud the Department, changed and strengthened the regulations governing the SFP. The immediate results noted in New York City were a reduction of sponsors-vendors in the program from 68 in 1980 to 55 in 1981. Additionally, the number of feeding sites dropped from 1,625 to 1,284, and the number of meals served from 235,000 to 210,000. A monetary comparison is not appropriate because the allowable program rates were increased in 1981. It is interesting to note the New York City Board of Education, which is classified in this program as a sponsor, picked up the slack caused by the decrease in community sponsors-vendors by increasing the number of meals it served from 100,000 in 1980 to 110,000 in 1981. From all indications, the 1981 New York City program ran smoothly and it appears that in future years the Board of Education will increase its service in this program and eventually eliminate the community sponsor-vendor delivery system.

While the above indicates positive action towards reducing the susceptibility of fraud in this program, we are still concerned that the program is highly vulnerable to fraud. Our primary concern is that the backup receipts and other documentation in support of claims are not routinely validated.

In addition to the Applecore operation, we issued 18 individual investigation reports in this program, 2 of which are synopsisized hereinafter. Currently, we have 14 additional cases under active investigation in this program.

Examples of these follow.

Lower Eastside Community Corporation

This investigation was conducted to ascertain the identities of persons who were responsible for submitting false documents to substantiate a claim for reimbursement by a sponsor in the 1975 Summer Food Service Program. The investigation disclosed that the additional documentation provided to FNS was composed of numerous forged, false and otherwise fraudulent documents. If the defendant had been successful in this fraudulent scheme, the Government would have lost about \$130,000. The defendant was found guilty of violating Title 18 USC 1001 and 1002. Sentence is pending. (United States vs. Gary Lee Zambito, Southern District of New York)

Union Grove M.B. Church

A director of a church, which was approved in the 1979 program year to operate four summer feeding sites, was indicted by a Federal Grand Jury on a four count indictment for violation of Title 42 USC 1761 and Title 18 USC 2.

This sponsor submitted fraudulent milk claims totaling over \$2,000. The defendant also inflated meal counts, which resulted in claims for reimbursement of over 24,000 meals which were not served, totaling over \$15,000.

The defendant was found guilty and was placed on 3 years supervised probation. (United States vs. Mary Lee Thomas, Northern District of Mississippi, Oxford).

Mission Independent Consolidated School District

A joint investigation conducted by the FBI and OIG in a school district resulted in 13 district employees and a dairy being indicted and charged with conspiracy to defraud the U.S. Department of Agriculture. The defendants submitted false claims amounting to more than \$511,000. Five individuals and the dairy have pleaded guilty. Trials of the remaining defendants are pending. (United States vs. Robert H. Wicks, et al, Southern District of Texas).

SECTION IV - WHISTLEBLOWER COMPLAINTS

During FY 1981, our Complaint Analysis and Investigation Staff (CAIS) established 291 complaint files predicated on information and complaints received from USDA employees, the public, the General Accounting Office (GAO), and the Office of Management and Budget (OMB). This number does not include telephone inquiries concerning matters resolved over the telephone, or those individuals calling for information on or clarification of specific USDA programs.

Sources of these complaints are as follows:

<u>Source</u>	<u>Reported in last Semiannual</u>	<u>From 4/1/81 Through 9/30/81</u>	<u>Total FY 81</u>
Mail	31	34	65
Telephone	47	79	126
GAO	25	48	73
OMB	0	26	26
Walk-in	<u>1</u>	<u>0</u>	<u>1</u>
Totals	104	187	291

A breakdown of the 291 FY 1981 complaints received, according to major complaint category, is shown below:

<u>Alleged Violation</u>	<u>Number</u>
Program Mismanagement/Waste	98
Minor Misconduct/Conflict	61
Personnel Irregularities	17
Program Violations	35
Fraud (mostly Food Stamp Recipient and School Lunch). . .	68
Safety/Health	3
Other (opinions, suggestions, information, etc.)	<u>9</u>
Total	291

Of the 291 complaint files established during FY 1981, initial CAIS action was as follows:

<u>Action*</u>	<u>Last Semiannual</u>	<u>4/1/81 - 9/30/81</u>	<u>Total FY 81</u>
Referred to OIG Audit/Investigations	25	21	46
Referred to Agency Officials	79	164	243
Other (pending formal review and referral)	<u>0</u>	<u>2</u>	<u>2</u>
Totals	104	187	291

*Refers only to initial action on complaint. Some changed after preliminary review, for example, Investigations referred to agency, Audit to Investigations, and so forth.

During FY 1981, 282 Whistleblower Complaint case files were closed after appropriate action had been completed. A schedule of these cases is as follows:

<u>Date Received</u>	<u>Complaints Substantiated</u>	<u>Complaints Unsupported</u>	<u>Cases Closed</u>
FY-79	7	10	17
FY-80	28	71	99
FY-81	<u>26</u>	<u>140</u>	<u>166</u>
Totals	61	221	282

Of those cases closed during FY 81, the rate of complaints which have been found to have some validity continues to remain near the 20 percent level, with 16 percent being supported to some degree. Most cases continue to be of a non-criminal nature requiring various administrative actions to correct; however, 46 complaints were forwarded to OIG (Audit 6 and Investigations 40) during FY 1981 for preliminary action. Of these, 21 have been closed and 25 remain open. Only 2 of the 21 closed cases were substantiated. One case concerned a Veterinary Medical Officer who utilized the services of plant employees for personal use for which he was counseled on proper conduct and conflict of interest. The other involved a store selling ineligibles for food stamps for which the store's authorization to participate has been withdrawn for 1 year.

Action taken on the 61 substantiated cases closed during FY 1981 has ranged from counseling of the subject, removal from program benefits, collection of overissued food stamps, and the need for new regulations recognized, to an indictment and/or information filed against 3 individuals.

Examples of some substantiated cases closed during FY 1981 are as follows:

- o A woman was fraudulently collecting food stamps for herself and infant son over an extended period of time. A County compliance investigation determined an overpayment of \$3,780 was made to the woman and collection has been instituted.
- o Foreclosure action and acceleration of a \$3.8 million FmHA Emergency Loan has been initiated after an audit of the loan approval determined the alleged owner of the farm was not eligible for emergency assistance.
- o A Forest Service employee was commended for his reporting on minor wasteful procurement practices, which resulted in corrective action by the Forest Service to eliminate future waste.
- o Based on information furnished to CAIS, a former school principal was indicted and convicted for misapplying assets and property received under the National School Lunch Program and received a fine of \$4,000. Two others, a former teacher-coach and a former lunchroom manager, received a \$1,000 fine and a 2-year suspended sentence, respectively.
- o In another FmHA loan matter, OIG-Audit used information provided by a whistleblower to recommend to FmHA the transfer and assumption of a \$950,000 loan from an ineligible borrower to one who was eligible.

- o During June 1981, we received an anonymous whistleblower complaint alleging that FNS was attempting to award a Child Care Food Program (CCFP) training contract for \$189,000 although the work could be performed "in-house" at less cost. We found that FNS had not adequately determined the "in-house" capability for completing the task, and had not adequately evaluated whether a CCFP training package previously developed by one of its regional offices could be modified to meet the proposed training needs. Therefore, we recommended that the contract not be awarded. During September 1981, the FNS Administrator informed us that the proposed contract had been cancelled.

SECTION V - DEPARTMENTAL DEBT COLLECTION

Senate Report No. 96-829 on the Supplemental Appropriations and Rescissions Act of 1980, Senate Committee on Appropriations, requires the Inspectors General to report periodically on agency actions to improve debt collections, and to reduce the amounts of debts written off as uncollectable. Included in these reports is to be a summary of the total amount due their departments, as well as amounts overdue, and amounts written off as uncollectable during the reporting period.

MONIES OWED TO THE DEPARTMENT OF AGRICULTURE (AS OF SEPTEMBER 30, 1981)

<u>AGENCIES</u>	<u>ESTIMATED AMOUNTS (In Thousands)</u>		
	<u>OWED</u>	<u>OVERDUE</u>	<u>WRITTEN OFF</u>
Farmers Home Administration (FmHA)	\$56,089,489	\$1,695,936	\$ 20.153
Rural Electrification Administration (REA)	23,106,455	- -	- -
Agricultural Stabilization and Conserva- tion Service (ASCS) (includes CCC)	14,242,833	123,600	2,446
Federal Crop Insurance Corporation (FCIC)	187,900	7,300	(25)
Food and Nutrition Service (FNS)	169,625	105,600	111,181
Forest Service (FS)	61,451	28,258	11,858
Food Safety and Quality Service (FSQS)	16,300	10,626	- -
Soil Conservation Service (SCS)	6,134	2,000	97
Federal Grain Inspection Service (FGIS)	3,974	708	50
Animal & Plant Health Inspection Service (APHIS)	1,305	920	9
Science and Education Administration (SEA)	617	377	3
Agricultural Marketing Service (AMS)	205	24	- -
Office of International Cooperation and Development (OICD)	190	90	- -
Economics and Statistics Service (ESS)	145	78	- -
Office of Secretary (OS)	130	128	- -
Office of Inspector General (OIG)	5	4	- -
Office of Transportation (OT)	2	- -	- -
Foreign Agricultural Service (FAS)	2	2	- -
	<u>\$93,886,762</u>	<u>\$1,975,651</u>	<u>\$145,772</u>

Note: Total monies owed to the Department increased by \$8 billion, or 9 percent, over the total outstanding debts of March 31, 1981.