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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20250

April 30, 1996

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

Dear Mr. Secretary:


I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period ended March 31, 1996.

During this period, our audits and investigations produced approximately \$41.4 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional \$235.7 million to better use. We also identified \$643.5 million in questioned costs that cannot be recovered. Our investigations yielded 424 indictments and 355 convictions.

This report presents results that were made possible through the combined efforts of everyone in OIG, along with management and staff throughout the Department. I would especially like to thank you and the Deputy Secretary for your cooperation and regular meetings. Your accessibility and candid discussions concerning the Department and agriculture community have been invaluable.

I look forward to continuing our mutual efforts to improve the efficiency and effectiveness of the Department of Agriculture's programs and operations.

Sincerely,


ROGER C. VIADERO
Inspector General

Enclosure

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Executive Summary

This is the 35th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended. This report covers the period October 1, 1995, through March 31, 1996.

Monetary Results

During this period, we issued 151 audit reports and reached management decisions on 137 audits. Based on this work, management officials agreed to recover \$6 million and to put an additional \$235.7 million to better use.

We also issued 524 reports of investigation during this period. Our investigative efforts resulted in 424 indictments, 355 convictions, and approximately \$35.4 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Investigative Efforts

During this period, several of our food safety investigations resulted in convictions. Three individuals connected to a California sausage company are awaiting sentencing after they pled guilty to charges that they conspired to violate the Federal Meat Inspection Act. They purchased "4D" (dead, dying, diseased, or disabled) cattle and slaughtered and/or processed them in unsanitary conditions. The uninspected and adulterated meat was then mixed with previously inspected meat, which was then added to other meat products, some of which were sold to the military under Government contracts. In South Dakota, three officers of a mail-order specialty meat company are also awaiting sentencing after being convicted on various counts, including misbranding violations, after a 3-week jury trial. They untruthfully represented their meat product as genetically lean, superior, and free of any additives. Sentencing is also pending for three individuals in North Carolina who were convicted of selling rotten pork products out of a processing plant. One was a Federal food inspector.

We continued to address fraud in the Food Stamp Program (FSP). For example, a second-time offender in Georgia pled guilty and was sentenced to 4-1/4 years in Federal prison and fined \$240,000 for redeeming, with two accomplices, over \$2.1 million in food stamps. The principal owner of a New York restaurant supply business was sentenced to 18 months in prison and

ordered to pay \$750,000 in restitution for defrauding FSP of \$3.5 million over 3 years. In Atlanta, Georgia, the father and son owners of a "rolling store" retail grocery operation were each sentenced to serve 3 years in prison and ordered to pay \$750,000 in restitution for their part in a conspiracy to illegally purchase \$2.7 million in food stamps. At the end of this investigation, all rolling stores in the Atlanta area were disqualified from participating in FSP. An Ohio grocer remains a fugitive while his manager and vice president of a corporation were sentenced to 57 and 27 months in prison, respectively, for trafficking and illegally redeeming \$2 million in food stamps over a 4-1/2-year period. An undercover operation resulted in the arrest and indictment of 52 people in a rural Georgia town for trading illegal drugs for food stamps and cash. To date, 15 of the 52 people indicted have entered guilty pleas and have received prison sentences ranging from 15 to 20 years each.

In rural housing investigations, a wealthy Tennessee woman is awaiting sentencing after being found guilty by a Florida jury of several counts of false claims and false statements pertaining to applications she submitted to obtain rental assistance for two apartments in Florida. She and her spouse owned a cattle farm; their house was valued at \$225,000 and their income exceeded \$100,000 annually at times. She referred to the rural rental apartments as her "Florida Condos" and sometimes stopped by them in her \$47,000 34-foot motor home en route to Disney World. In California, a rural rental housing borrower was sentenced to 41 months in prison and ordered to pay \$76,000 in restitution after he pled guilty to mail fraud and conversion of Government collateral to his own use. He defrauded investors in three limited partnerships, causing losses of \$2.5 to \$5 million to the investors and USDA.

A fruit exporting firm, one of its officials, and another individual in Washington State were sentenced to \$1.2 million in fines and \$300,000 in penalties after they pled guilty to making false statements and trafficking in counterfeit goods. They had smuggled uninspected New Zealand-grown apples into Taiwan after importing them into the United States and reboxing them in Washington State apple boxes.

In the farm credit area, a Mississippi cotton farmer was sentenced to 34 months in prison, fined, and ordered to pay restitution in connection with a fraudulent scheme

to relieve him from indebtedness of nearly \$1 million. A program assistant was sentenced to 18 months in prison and a Louisiana farmer 10 months, after each pled guilty to felony charges of theft of Government funds in connection with false disaster assistance claims. Also, two Oklahoma brothers were sentenced to prison after their convictions on charges of making false statements on disaster payment and crop insurance claims. One brother was sentenced to 21 months, and the other received an 18-month sentence.

Some of our other investigations related to fraud in various loan and payment programs, conversion of property mortgaged to the Government, violation of the "Buy America Act," watering down milk, smuggling plant and animal products, and defrauding rural development projects.

Audit Efforts

During this reporting period, we responded to complaints received on our Whistleblower Hotline and found that Texas State Farm Service Agency (FSA) officials improperly handled loans and loan servicing. Despite the objections of operating personnel, State office management officials approved eight borrower groups for \$2.6 million in unauthorized assistance. In a separate investigation and evaluation, we found that the Texas Agricultural Mediation (TAM) Program was mismanaged. Some borrowers received improper loan and servicing actions based on farm and home plans prepared with the assistance of TAM personnel. We also identified a potential conflict of interest for three of the four full-time mediation program employees, as well as a number of other irregularities.

Also during this reporting period, we reported that the Loan Resolution Task Force, which was established to resolve the FSA's delinquent Farmer Program direct loan accounts within 2 years, needs better guidance and direction. FSA has taken some actions as a result of our recommendations, and we are working with the agency to implement the others. In the area of farm programs, our review indicated that dairy producers in Texas and New Mexico did not report all milk marketings. Additional audit fieldwork is ongoing in four other States.

In our last semiannual report, we reported on our nationwide sweep of food stores authorized by the Food and Consumer Service (FCS) to accept food stamps.

This reporting period, we participated with FCS, at its request, to make a similar review in Los Angeles County, California. Teams of OIG auditors/investigators and FCS reviewers visited 2,138 authorized retailers in the county. As a result of the review, FCS has taken action to withdraw 683 stores, with combined annual food stamp redemptions of over \$11.7 million, from FSP. Many of those removed were stores with marginal food supplies, including liquor stores and video outlets. Additional stores were selected for further evaluation or were referred for investigation.

Last reporting period, we described the progress made on introducing the electronic benefit transfer (EBT) system to deliver food stamp benefits to recipients. This period, we reviewed the EBT system in South Carolina. We found that while the State implemented a reliable system that meets the needs of recipients and retailers, some controls need strengthening. FCS officials agreed with our findings and generally agreed with our recommendations. Also during this reporting period, we found that, nationwide, FSP overpayments and underpayments amounted to approximately \$2.4 billion in FY 1993.

In two separate evaluations, we found that Emergency Food Stamp Program (EFSP) Operations worked well in the U.S. Virgin Islands and in the Pacific Northwest after recent natural disasters. We found that, after Hurricane Marilyn, FCS personnel achieved the objectives of EFSP while working under difficult circumstances. After flooding in Oregon, Washington, and Idaho, FCS and State personnel did an excellent job overall of administering the program. This period, we also continued our audit efforts to identify school districts whose procurement practices violated Federal standards. When we found problems in Michigan, resulting in \$662,000 in unnecessary costs, the State required that the contracts with the applicable food service management company be terminated and rebid.

During this period, we completed Phase II of our evaluation of the Food Safety and Inspection Service's (FSIS) Meat and Poultry Inspection Program. Our evaluation found numerous initiatives underway for implementing changes in the inspection program. Until the changes occur, however, FSIS staff continue to rely largely on 87-year-old inspection methods. FSIS published proposed regulations in February 1995, but full implementation will take at least 5 years. Our

current evaluation identified several areas needing improvement; FSIS management generally agreed and is developing corrective action.

Over the past 3 years, we have worked closely with Agricultural Marketing Service (AMS) officials to improve marketing order compliance, which included the development of compliance plans and a review guide. During this reporting period, we developed two additional review guides, one for auditors and one for nonauditors, containing uniform procedures for conducting quality control reviews of marketing order committees' compliance activities. During this period, an Oregon handler of hazelnuts agreed to pay civil penalties of \$222,750 and delinquent marketing order assessments of \$14,000 to settle an action. The handler had been charged with violating the Federal marketing order for hazelnuts from 1991 through 1994. AMS advised us that the settlement was reached as a direct result of the improved compliance procedures we developed with agency management to enhance marketing order operations.

Regarding natural resources and the environment, our review of Forest Service (FS) land purchases identified a public safety issue on some recently acquired land in West Virginia. The Dolly Sods North property was formerly an artillery range and still contains unexploded mortar and howitzer shells which are a potential risk to the public. We recommended that access to the property be restricted until decontamination is completed. In a separate matter, we found that FS needs to strengthen timber theft prevention practices.

In the Rural Economic and Community Development (RECD) programs, we found that controls are needed to ensure Empowerment Zones/Enterprise Communities program objectives are met. In the Rural Rental Housing (RRH) program, legislation is needed to solve many systemic problems we reported in numerous audits over the past several years. With passage of the legislation we have recommended, we believe RRH program integrity will be enhanced, and rental rates to tenants and rental assistance payments by the Government will be reduced.

We completed audits of the FY 1995 financial statements of the RECD mission area, the Federal Crop Insurance Corporation (FCIC), and the Rural Telephone Bank (RTB). FCIC and RTB received an unqualified opinion. RECD received a qualified opinion because we were unable to assess the reasonableness of the credit program receivables and the estimated losses on loan guarantees. In the area of departmental administration, we evaluated FS' progress in cleaning up hazardous waste at abandoned mines and in monitoring active mines. At the time of our review, only 16 of the 335 sites FS had assessed for contamination had been cleaned up. FS agreed with, or proposed alternative actions to, our recommendations which would foster better long-range strategic planning and would have FS reassess its rates for bonding operators and bill them for the costs of environmental assessments. From 1991 to 1994, the agency spent \$6.7 million to give prospective miners the environmental assurances they needed to access and work on public land.

Summary of Audit Activities

Audit Reports Issued		151
Audits Performed by OIG	96	
Audits Performed Under Single Audit Act	41	
Audits Performed by Others	14	
Management Decisions Made		
Number of Reports		137
Number of Recommendations		873
Dollar Impact (Millions)		
Questioned/Unsupported Costs	\$649.5 ^{ab}	
Recommended for Recovery	\$6.0	
Not Recommended for Recovery	\$643.5	
Funds To Be Put to Better Use	\$235.7	
Total		\$885.2

^aThese were the amounts the auditees agreed to at the time of management decision.

^bThe recoveries realized could change as the auditees implement the agreed-upon corrective action plans and seek recovery of amounts recorded as debts due the Department.

Summary of Investigative Activities

Reports Issued		524
Cases Opened		615
Cases Closed		499
Cases Referred for Prosecution		413
Impact of Investigations		
Indictments		424
Convictions		355
Searches		55
Arrests		205 ^a
Total Dollar Impact (Millions)		\$35.4
Recoveries/Collections	6.9 ^b	
Restitutions	23.5 ^c	
Fines	2.5 ^d	
Claims Established	1.6 ^e	
Administrative Penalties	0.7 ^f	
Cost Avoidance	0.2	
Administrative Sanctions		
Employees		29
Businesses/Persons		942

^aIncludes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 355 convictions do not necessarily relate to the 424 indictments.

^bIncludes money received by USDA or other Government agencies as a result of OIG investigations.

^cRestitutions are court-ordered repayments of money lost through a crime or program abuse.

^dFines are court-ordered penalties.

^eClaims established are agency demands for repayment of USDA benefits.

^fThis category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

Farm and Foreign Agricultural Services

Farm Service Agency (FSA)

FSA administers domestic commodity price and income support programs; crop insurance and other risk management programs; farm ownership, operating, emergency, and disaster loan programs; and certain conservation programs such as the Conservation Reserve Program. Financing for the FSA domestic commodity programs comes through the Commodity Credit Corporation (CCC), a Government corporation.

For fiscal year (FY) 1996, FSA estimates expenditures of \$2 billion for conservation programs, \$2.1 billion for risk management, \$187 million for farm credit programs, and \$1 billion for salaries and expenses. CCC funds all other program operations, with estimated outlays of \$18.2 billion. As of September 30, 1995, approximately 194,000 borrowers owed FSA \$11.5 billion for farm program loans. In addition, FSA guaranteed more than \$5.9 billion in farm program loans made by private lenders to more than 46,000 borrowers as of September 30, 1995.

Farm Credit

State Office Officials Improperly Handled Loans and Loan Servicing

During the summer and fall of 1994, our Whistleblower Hotline received complaints that high-level Texas FSA officials disregarded regulations and procedures and approved improper loans and loan servicing actions for borrowers who did not meet program requirements. We investigated 2 cases, the FSA National Office reviewed 25 cases, and the Rural Economic and Community Development (RECD) National Office reviewed 2 cases. We then examined the adequacy of the agency national office reviews.

Our work and the agency reviews confirmed that State office officials violated agency procedures and regulations and approved improper loans and loan servicing actions. Despite the objections of operating personnel, State office management officials approved eight borrower groups for \$2.6 million in unauthorized assistance. Four other cases of State office officials not following regulations were also identified by the national office reviews; however, final actions and the determination of some monetary effects were still pending.

The investigations and reviews identified significant problems and concluded that borrowers were improperly approved for loan assistance by Texas State officials. However, no action was taken by the agency program official to follow up or fix responsibility for the improper loans and servicing actions. The responsible official told us that the FSA review did not support the allegations. However, we disagreed with this conclusion and recommended that the FSA Administrator (1) establish and hold the applicable State officials accountable for not following regulations and procedures in approving loans and providing servicing to individuals who did not meet program requirements, (2) determine whether the national office official properly fixed responsibility and reported State office management's actions that led to the improper loans and servicing, and (3) ensure that future national office reviews address causes and establish responsibility for errors or mismanagement. The agency is reviewing files and related documents to develop the best course of corrective action. The primary State officials involved have separated from the agency.

State Mediation Program Mismanaged

During FY's 1989 through 1995, USDA provided Texas Tech University (TTU) with grant funds totaling \$2.5 million to administer the Texas Agricultural Mediation (TAM) Program under which TAM personnel mediated credit problems of FSA borrowers, including assisting them with the preparation of the farm and home plans that serve as the basis and support for credit decisions concerning their operations.

During investigations and an evaluation of Texas Farm Program loans, we found that some borrowers received improper loan and servicing actions based on farm and home plans prepared with the assistance of TAM personnel. For example, a farm and home plan prepared with the assistance of TAM was used as the basis to write down over \$200,000 in debt because it showed the borrower could produce only five pigs per sow. A few weeks later he was given a new emergency loan of over \$190,000 based on a new plan prepared with the assistance of TAM showing the borrower could produce 16 pigs per sow. Since FSA was relying on unrealistic farm and home plans to make improper loans and servicing actions, we initiated an evaluation of the TAM Program.

However, the Texas attorney general instructed TTU officials to deny OIG access to mediation program records, asserting that such records were confidential under Texas law. We have issued IG subpoenas to obtain the records, and litigation in this matter is pending.

We also identified a potential conflict of interest for three of the four full-time mediation program employees.

- A TAM official, who is a licensed attorney, had a private law practice specializing in farm matters such as delinquent loans, appeals, bankruptcy, and reorganization. This official confirmed that he sometimes represented USDA borrowers in his law practice. This official and a family member also operated another business in which they advertised as financial consultants specializing in USDA agency appeals, farm and home plans, delinquent loan problems, and bankruptcy and reorganization. This TAM official managed the mediation program out of his private law office with little or no oversight from TTU officials.
- An employee of the Farm Program Mediation Division (the TAM division created to mediate USDA agency programs other than farmer program loans) was also an attorney with a private law practice.
- In addition, an employee of the Texas Tech Agricultural Financial Analysis Project (a division under TAM that assists borrowers in preparing farm and home plans) had outstanding USDA farmer program loans totaling about \$475,000 and had not taken any action in over 10 years to repay or otherwise resolve the delinquency.

To meet the 50 percent matching fund requirement during FY's 1989 through 1993, TTU claimed a portion (usually 25 percent) of the salaries paid to nine university professors and a department chairperson as part of the cost to operate the mediation program. Since these individuals did not work with the mediation program, TTU received excessive grant reimbursements totaling over \$485,000 during this period. This is enough money to pay salaries for approximately five Federal professional employees.

TTU also claimed the TAM official as a full-time employee of the mediation program. However, this official routinely taught courses at the university, was allowed

10 to 12 hours per week by TTU for personal business purposes, and routinely served during normal work hours as an active member of various professional organizations. We therefore concluded that this official did not work full-time on the mediation program. If his salary, benefits, and related indirect costs are disallowed as a result of the improper reporting, TTU received excessive grant funds totaling over \$479,000 during FY's 1989 through 1995.

A requirement for recertification of a State mediation program is to provide training to mediators. TTU mediation program accounting records showed \$347,500 charged to the "Mediation Training" account during FY 1993 through the third quarter of FY 1995; however, we could not identify any formal training provided to TTU or other mediators. Instead, the funds were used primarily to pay a TAM official's salary and benefits.

The FY 1994 average cost per case for the 18 State-administered mediation programs was \$1,072, which was substantially less than the Texas average cost per case of \$8,066. Annual mediation program performance reports issued to USDA showed estimated benefits to creditors (primarily USDA) and a benefits/cost ratio for cases settled in mediation. For example, the FY 1995 annual report showed that for every \$1 spent by the Texas mediation program, creditors received \$3.76 in benefits. Our review of the methodology used to compute these benefits revealed that the methodology was significantly flawed. For example, new loans resulting from mediation were not considered as either a benefit or a cost, losses to the Government in debt writedown situations were not considered, and third-party creditors were assumed to benefit in cases where there were no unsecured third-party debts. As a result, the program benefits reported by TTU are not a reliable indication of benefits derived from the Texas mediation program.

We recommended that the FSA Administrator cancel the certification of the agricultural mediation program administered by TTU and instruct the FSA Texas State Executive Director to implement an alternative mediation program (regulations already provide for such a program) for Texas borrowers. We also recommended that FSA recover the excessive grant funds, clarify the extent and type of mediation training required to meet the mediation program certification requirement, and evaluate the effectiveness of the agricultural loan

mediation program by determining whether grant funds are being used effectively.

Farmer Pleads Guilty to Defrauding Farm Loan Program

A Washington State farmer pled guilty to making false statements in order to obtain a \$93,000 loan to purchase dairy cows and equipment. Seven months after obtaining the loan, he went out of business and sold part of his mortgaged herd and equipment in order to purchase investment property in another part of the State. He then hid the sales proceeds with the assistance of a cattle broker and relatives.

Sentencing is pending.

Farmer Sentenced to Prison in Fraud Scheme

A Mississippi cotton farmer was sentenced to 34 months in prison in connection with a fraudulent scheme that relieved him from RECD indebtedness of nearly \$1 million. He was also fined \$10,000 and ordered to pay restitution of \$965,600 to RECD and \$148,000 to a federally insured bank.

The farmer filed false petitions in his Chapter 7 bankruptcy, concealing his assets and transfers of real estate and income. The farmer transferred two dwellings to a third person just before filing his bankruptcy petition, with an agreement to regain title to the properties after the bankruptcy discharge, and concealed farm-related income of \$116,000 from the court. The farmer also purchased real estate and automobiles in the name of his wife while under the protection of the bankruptcy court and concealed these purchases from the court.

Loan Resolution Task Force Needs Guidance and Direction

The Loan Resolution Task Force (LRTF) was established in June 1994 to resolve FSA's Farmer Program direct loan account delinquencies within 2 years. The 2-year period, which began in October 1994 when the loans were transferred to the task force, expires September 30, 1996. Approximately 150 national, State, and county office loan specialists were transferred to the task force for the 2-year period to resolve over 7,000 delinquent Farmer Program accounts. Departmental officials requested that we review management controls over LRTF operations and assess the

propriety and effectiveness of the loan resolution process.

Initially, the task force chairperson operated "outside the loop" of a coordinated team approach advocated by departmental managers. We reported this to the applicable Under Secretaries during the audit and LRTF was assigned to the FSA Administrator. We found that LRTF had not adequately assessed the cost-effectiveness of a loan tracking system that was being developed specifically for LRTF. LRTF let a \$500,000 contract to a contractor to develop a system that was not coordinated with departmental automated data processing (ADP) systems.

Also, the task force had not categorized the approximately 7,000 delinquent accounts by age, status, and amount of outstanding indebtedness; established priorities for resolution of the accounts; or developed specific strategies for resolving the delinquent accounts. As of July 1995, there were 6,115 delinquent accounts of which 776 were delinquent \$1 million or more.

Further, task force personnel had no assurance that all assets were factored into the debt settlement decisions. Debt settlement procedures did not require the verification of cash on hand and other investments during asset investigations or require applicants to submit supporting financial data or authorizations to contact financial institutions with which the applicants did business. In addition, debt chargeoff and deficiency judgments were not factored into the debt settlement process, and debt settlement instructions did not provide for good-faith determinations for debt settlement applicants. Compromise offers were approved and remittances accepted without proper disposition of questionable matters pertaining to the availability of borrower assets.

We reviewed 25 delinquent accounts with outstanding indebtedness totaling \$28 million which were resolved by the task force. We found that the accounts were resolved through debt settlement (15 by cancellation and 10 by compromise) and that \$621,000 was recovered (2.2 percent of the outstanding indebtedness).

We recommended that FSA computer systems personnel evaluate the task force computer system to determine if the proposed system is cost effective. We also recommended that the task force national and field staffs be required to give top priority to the resolution of accounts that are delinquent \$1 million or more, including new accounts reaching that amount, and that FSA

State Executive Directors be required to establish priorities and target dates for the resolution of delinquent accounts with outstanding indebtedness of less than \$1 million.

In addition, to maximize recovery for the Government during the debt settlement process, we recommended that debt settlement instructions and procedures be revised to define "good faith" and to request borrowers to list all their assets. We also recommended that borrowers be required to demonstrate "good faith" throughout the debt settlement process and that borrowers be required to grant FSA personnel authority to access financial institutions to verify financial information. In addition, we recommended that persons involved in the debt settlement process be required to verify the information on the application for debt settlement and to resolve questionable items and issues.

FSA took action to assign the management of the LRTF computer system to the agency's information and technology systems division; establish priorities for delinquent borrower accounts, with top priority given to accounts in excess of \$1 million; and seek deficiency judgments for borrowers with repayment ability. We are continuing to work with the agency to implement the other recommendations.

Farm Programs

Further Problems Noted With the Ad Hoc Disaster Assistance Program

The Disaster Assistance Program provides financial assistance to farmers who suffer from reduced crop yields as a result of severe weather. In our last two Semiannual Reports to Congress, we reported problems with the 1993 Ad Hoc Disaster Assistance Program. As a result, legislative changes were made and implemented by FSA to improve the program for 1994. Ad hoc disaster programs have now been replaced by the noninsured crop assistance program (NAP) with passage of the Crop Insurance Reform Act of 1994, which is effective for 1995 and subsequent years. It is too early for us to provide audit results related to NAP.

For the 1994 ad hoc program, we continue to find problems with the reporting of production and farming practices and the establishment of yields and rates.

However, the number and monetary value of claims in 1994 have been substantially reduced. Also, questioned costs and abuse were down from the 1993 program. In the past two semiannual reports, we reported questioned payments of over \$16 million for the 1993 and prior crop years. Questioned payments for the current reporting period are \$2.8 million for 1993 and prior years and \$2.3 million for 1994.

During the current reporting period, we issued 17 reports covering disaster claims made under the 1993 and 1994 ad hoc programs. Of the 17 reports, 2 covered 1993 and prior years, 4 covered both 1993 and 1994, and 11 covered only 1994. We continue to find significant fraud and abuse under the 1993 program. Examples follow.

- In two south Texas counties, we found that 27 producers received questioned payments of \$2.4 million because the producers lacked or falsified information to support their loss claims. Most of the producers made claims for crops such as watermelon and cantaloupe that were never planted. Some of the cases reviewed contained fabricated information falsely indicating that the prior county executive director had performed field inspections to verify the disaster losses.

For example, the application of a producer who was paid over \$87,000 for 245 acres of watermelons contained a statement by the prior county executive director that a spot check was made on the farm and that crop evidence was present at the time of the spot check. When we asked the producer to provide us with copies of sales receipts or canceled checks to show evidence of seed and fertilizer purchases used in planting the watermelon crop, he admitted that he did not plant the watermelon crop for which a loss was claimed.

- Another producer was paid over \$53,000 for 150 acres of watermelons that included 51 acres for which another producer had received 1993 cost-share payments under the Agricultural Conservation Program to plant coastal grass. When confronted with this information, this producer, in addition, admitted he did not plant the watermelon crop. We also obtained or attempted to obtain evidence of planting from other producers. The lack of verifiable evidence, together with the involvement of the prior county executive director who retired in December

1993, indicated possible collusion. Therefore, we are investigating these 27 cases for possible criminal prosecution. To date, six producers have pled guilty to criminal charges relating to their false claims. (See "Six Plead Guilty to Defrauding USDA" on page 10 for more on these cases.)

An example of the conditions we found in the 1994 ad hoc program is contained in our coverage of raisin losses in Fresno County, California. We determined that in the Fresno County office errors were made in computing disaster benefits for 60 percent of the total 191 raisin farming operations in the county. These errors resulted in overpayments of \$589,000.

Most of the errors occurred when the county determined that the State-established yield of 2.5 tons per acre was too high for part of the county. In attempting to adjust some farm yields downward to 1.7 tons per acre, the county applied the adjustment inequitably, assigning the higher yield to some farms that were in a lower yield area.

We also questioned \$73,000 in payments to 10 producers who provided incomplete or inaccurate production information to the county. Eight of the ten producers materially understated their production and appeared to have concealed information by omitting sales receipts or assigning production to another farm. The matter is under investigation.

Because the Ad Hoc Disaster Assistance Program is being replaced by NAP, most of our recommendations were specific to cases identified in our audits. We recommended that FSA collect the overpayments that were identified in the individual reports. In the one report involving 27 referrals for investigation, we recommended that FSA coordinate with us before initiating any corrective action. FSA has initiated action to collect most of the overpayments where relief has not been granted.

Two Sentenced for Defrauding USDA

An FSA program assistant was sentenced to 18 months in prison and a Louisiana farmer 10 months, after each pled guilty in U.S. district court to felony charges of theft of Government funds. They also were ordered to pay full restitution and serve 3 years' supervised release after their prison time.

They conspired to pay the farmer \$60,200 for false disaster claims, and the farmer kicked back a portion of the money to the employee. Additionally, the employee independently embezzled \$6,200 in another farmer's genuine disaster payments.

Farmer Convicted of Defrauding Price Support Program

An Arizona farmer was sentenced to 4 months in prison and 4 months in home confinement and ordered to pay \$65,000 in restitution after he pled guilty to making false statements to obtain payments under the 1990 Price Support and Production Adjustment Program. Our investigation disclosed that the farmer had misrepresented several relatives as purported farming partners on his applications for the program when, in fact, they were not actively participating in his farming operation. Other relatives were misrepresented as having contributed capital, land, equipment, management, or labor to their supposed partnership when, in fact, they received a salary for their labor. In addition, the farmer forged the signature of one of the supposed partners on a Government subsidy check.

\$800,000 Settlement in Emergency Loan Program Claim

A Mississippi farmer, who was also chief executive officer of a farm implement manufacturing company, paid an \$800,000 civil settlement in connection with \$1.1 million in FSA emergency loans he owed going back to 1983. The farmer originally offered \$30,000 as a compromise to settle his loan, which was rejected by the Government when an OIG investigation revealed that he had failed to disclose the full amount of over \$2 million in assets previously transferred to his spouse. A month before his offer to settle the debt, the farmer transferred from his business over \$970,000 of his personal salary payments to his spouse.

Defendant To Repay Over \$320,000 for Converting Mortgaged Property

A Kentucky farmer who admitted to converting crop sales proceeds mortgaged to FSA has repaid \$224,500 in cash. Over the next 18 months, he is scheduled to repay an additional \$97,000, which represents the remaining 10 percent of the original loan balance and accrued interest.

From September 1990 through September 1991, the farmer borrowed \$225,000 in operating expenses from a private lender, which was secured by an FSA 90-percent loan guarantee. After harvesting his grain, the farmer converted the sales proceeds and failed to repay the private lender. The farmer then defaulted on the loan, which at the time of the default totaled \$277,600 with accrued interest. FSA paid \$249,900 to the lender, which was 90 percent of the loss.

Six Plead Guilty to Defrauding USDA

Six Texans pled guilty in Federal court to defrauding FSA under the disaster assistance program. They submitted bogus seed receipts and land leases in support of their various loss claims for 1989 through 1993 watermelon crops and received nearly \$363,000 in disaster payments. Five of the six charged never planted a watermelon crop, and the sixth planted a crop for only 1 of 3 years claimed. One farmer was sentenced to 13 months' imprisonment and was ordered to pay \$50,000 restitution to USDA. Another subject awaiting sentencing has already paid \$92,000 restitution.

Sentencing is pending for five of the six subjects.

Farmer Agrees To Pay \$412,500 for False Claims

A farmer in New Jersey signed a civil consent judgment in which he agreed to pay USDA \$275,000 on behalf of his corporation and \$137,500 on his own behalf. He had submitted false crop insurance claims regarding the sale of apple and peach production that he reported was damaged by hail. An OIG audit of Federal crop insurance claims detected the fraudulent activity of the farmer, and the matter was referred for investigation.

Large Landlords Used Combination Leases To Circumvent Payment Limits

Each farm "person" (individual, corporation, partner, etc.) is limited to \$50,000 in Acreage Reserve Program deficiency payments and to \$75,000 in loan deficiency payments or market gains each year. Large farm operators whose payments would exceed these limits often either reorganize to create more "persons" or lease their farmland to others who receive the payments.

If large landowners lease their land for a share of the crop, Government payments and benefits up to the limitation are attributed to them for their pro rata share of the crop. If they lease their cropland to others for cash, all Government payments and benefits are attributed to the tenants or lessees. However, FSA also authorizes combination cash and share leases where the landlord receives a specified cash minimum together with a share of the crop when a share of the crop or the revenue generated from the crop exceeds the minimum cash amount. These combination leases are considered cash leases, and all Government benefits are attributed to the tenants or lessees if the minimum cash payment specified in the lease is at least the normal rental rate for the area as determined by the local FSA county committee. If not, the combination lease is considered a share lease.

We reviewed the operations of large landowners in two States to determine whether combination leases were being used to circumvent payment limitation provisions. We found that the combination lease arrangements approved for use by one FSA State office contained provisions establishing lease payments at the greater of a cash minimum or a specified share of the total crop revenues or proceeds. The total crop revenues or proceeds included FSA deficiency payments and price support benefits. In effect, some tenants in this State were required by an FSA-approved lease arrangement to pay landlords a pro rata share of Government payments and benefits that the tenants received from FSA. Using these combination leases, two large landlords received over \$1 million in Government benefits indirectly from tenants which they would not otherwise have been eligible to receive because of payment limitation provisions. These arrangements also violate FSA regulations which state that no program payment shall be approved if any lease required by the landlord causes tenants to pay the landlord any Government payment. In contrast, FSA officials in the other State under review would not approve combination leases that required tenants to pay any portion of their Government payments to landlords.

During our evaluation, we also found 12 corporations for which foreign persons did not report or did not timely report purchases and sales of agricultural land as required by the 1978 Agricultural Foreign Investment Disclosure Act. Since foreign persons are not eligible for certain Government payments, the information is needed to help assure such payments are not made.

We did not identify any ineligible payments. However, USDA reports to Congress on foreign ownership were incorrect due to the failure of foreign persons to properly report changes in land ownership. The act provides penalties for failing to file required reports or filing them late. One foreign landowner was penalized \$19,000 during our audit. Penalties against the others are in process.

We recommended that FSA determine whether the FSA-approved combination leases permitted two landlords in one State to circumvent payment limitation provisions and, if so, to either recover or waive recovery of over \$1 million in payments and benefits provided to tenants which were given to landlords. We also recommended that FSA officials clarify and consistently apply regulations prohibiting landlords from using combination leases or other agreements requiring tenants to pay them any Government payments or price support benefits earned by the tenants under FSA programs. Specifically, FSA needs to inform State officials that tenants are not to be provided price support benefits for production that, according to combination lease terms, is under the control of the landlord. Further, we recommended that penalties be assessed against foreign landowners for failure to report purchases and sale of agricultural land.

FSA will not take action to recover the \$1 million in questioned payments because the producers provided sufficient information for the county committees to make determinations, but the county committees read and misinterpreted the leases. However, FSA staff agreed to clarify lease provisions and provide training if the new farm bill provides for payments based on leases. FSA officials are also evaluating the need for penalties on foreign landowners.

Dairy Producers in Texas and New Mexico Did Not Report All Milk Marketings

The Agriculture Act of 1949, as amended by the Omnibus Reconciliation Act of 1990 and the Omnibus Reconciliation Act of 1995, requires the Secretary of Agriculture to reduce the milk price received by producers for all milk produced in the United States and marketed for commercial use during calendar years 1991 through 1997. Producers can obtain a refund payment for the entire amount of the reduction if they can prove that they did not increase milk marketings from 1 calendar year to the next when a price reduction

went into effect. This includes milk marketings from all dairies owned by the applying producer and each entity that does business with that producer.

We made a review in three States to determine whether the producers were eligible for the refund payments they received. FSA, which has responsibility for refund payments, disbursed over \$3 million in such payments for 1993 and over \$2.5 million for 1994 in these three States. Nationwide, FSA disbursed over \$80 million for 1993 and over \$72 million for 1994.

We found that eight producers in two of the States (Texas and New Mexico) did not report all milk marketings from the dairies for which refunds were claimed or they did not report marketings from related persons' dairies. Because of the unreported marketings, the six New Mexico producers and two Texas producers were not eligible to receive over \$309,000 and are subject to maximum civil penalties of over \$35 million.

For example, one New Mexico producer received a 1994 payment of \$46,000 from the FSA county office based on production evidence submitted for only one dairy. However, we determined through a review of records at the milk buyer's office and an interview with two partners of the dairy that production from five other dairies should have been reported as related persons' milk marketings. These five other dairies were owned directly by three of the partners who each had a 20-percent interest in the dairy that was the subject of the refund application. We also determined that the county office made 1992 payments totaling \$69,000 to two of the related persons and these producers did not report all related persons' milk marketings in 1992 either. When milk marketings are added for the applying producers and related persons, the net increase in 1992 and 1993 made the applying producers ineligible for the 1992 and 1993 payments.

Additional audit fieldwork is ongoing in four other States: California, Washington, Florida, and Maryland.

We recommended that FSA recover all ineligible payments and assess applicable penalties. We also recommended that the New Mexico State office review 1993 and 1994 payments to producers not included in the audited sample cases to determine if there are other cases where milk production was not properly reported. Further, we recommended that FSA clarify requirements

for reporting milk production from related persons' dairies and other dairies where an interest is held. Agency officials in Texas and New Mexico have initiated action to collect ineligible payments.

Commodity Credit Corporation Loans Were Not Always Fully Secured

When there is an excess supply of feed grains and wheat, the Food and Agricultural Act of 1977 authorizes USDA to provide an alternative marketing vehicle through the Farmer Owned Reserve (FOR) Program. This program can provide incentives to producers, such as waiver of all or part of the interest charges accrued on loans during the reserve period and payments for storage. As of April 1995, Iowa had approximately 2,500 outstanding 1992 FOR corn loans, with principal balances totaling \$42 million. We reviewed 60 of 165 outstanding FOR loans and 67 of 1,522 regular loans in Clarke, Kossuth, and Warren Counties, Iowa, with a principal balance of \$3.3 million.

For the 127 loans, we identified 5 collateral shortages of approximately \$37,000 before producers obtained releases from the local FSA county office to dispose of the collateral. Also, collateral valued at \$60,200 was going out of condition because of high moisture and insects. County office employees did not always initiate the appropriate corrective action when collateral shortages were discovered during routine spot checks.

We recommended that FSA State officials ensure that county staff be required to take corrective action to ensure CCC's interests were fully protected and assess appropriate penalties. We also recommended that the State office instruct county offices to take appropriate action when shortages are found during spot checks and collect the unearned interest waiver and storage payments.

State officials directed the applicable county office staffs to review the cited loans and determine if each producer acted in good faith. The county officials determined the producers acted in good faith, required the shortages to be repaid, and took appropriate administrative action. They also required the producers to recondition grain and determined that the commodities were eligible to remain in the reserve program. The State office directed county offices to ensure that appropriate action was taken when shortages were found during spot checks. The county committee determined that the

producers would not be required to refund waived interest or unearned storage payments because of the 90-day rule.

Corporation Violates "Buy America Act"

A Colorado corporation paid \$80,000 in criminal and civil penalties after it pled guilty to conspiracy to defraud the United States. The company falsely certified that foreign-made polypropylene bags were of domestic origin, in violation of the Buy America Act and contract provisions. It sold the lower priced bags to CCC, which used them to ship CCC-donated commodities. The company sold 795,000 bags to CCC under 5 contracts totaling \$515,000.

This investigation was conducted jointly with the Anti-Trust Division of the U.S. Department of Justice.

Claims for Emergency Conservation Program Cost Shares Not Supported

The Agricultural Act of 1978, as amended, authorizes the Emergency Conservation Program (ECP) to provide financial assistance to producers who do not have sufficient financial resources to rehabilitate farmland damaged by natural disasters. Producers can receive cost shares of up to 64 percent of the cost to repair damage. Congress authorized expenditures of up to \$55 million for repair of damage caused by the 1993 Midwest flood and other natural disasters.

ECP was implemented in Iowa and Missouri to help repair damage resulting from the flood of 1993. We reported that participants did not pay vendors and contractors the full amount claimed for cost shares. One producer in Missouri received cost shares of \$79,000 but did not pay the contractor the full amount owed; therefore, the producer was overpaid \$26,000. Also, one producer received cost shares greater than the established agricultural market value of the land, which resulted in an overpayment of \$1,040.

We recommended that county office personnel review the cited cases, determine the cost shares earned, and collect the overpayments from the producers. The State office agreed to take action as appropriate.

Eligibility of Agricultural Conservation Program Cost Shares Questioned

The Soil Conservation and Domestic Allotment Act, enacted in 1935, recognized that the loss of soil and moisture on farm, grazing, and forest lands resulting from soil erosion was a detriment to the national welfare. The act authorized the Secretary of Agriculture to coordinate and direct all activities related to soil erosion. The act stated the Secretary could help producers financially by sharing the costs of technical assistance for establishing conservation practices and that portion of costs for installing conservation and environmental enhancement measures which the Secretary deemed necessary. The Secretary designated FSA as the agency which could make cost shares available for the Agricultural Conservation Program (ACP). To receive cost-share payments under ACP, producers must request approval of conservation practices, meet eligibility requirements, submit receipts for materials and services involved in the installation, and be subject to verification. Cost shares are paid as a percentage of actual costs or at a preestablished flat rate.

The audit focused on ACP payments made in FY 1994. In Missouri, we performed audit work in two counties that disbursed \$354,000 of a State total of \$8.4 million in FY 1994. We reviewed 18 of 165 ACP applications totaling \$31,000 (9 percent of the distributions in the 2 counties). In Kansas, we performed audit work in two counties that disbursed a total of \$71,000 of a State total of \$7.1 million in FY 1994. We reviewed 17 of 76 ACP applications totaling \$25,500 (36 percent of the distributions in the 2 counties).

We reported that FSA personnel had not always verified producer and land eligibility before approving cost shares. Additionally, cost shares were paid on practices or components that did not meet eligibility criteria. In a review of 35 practices in 2 States, we noted 7 where either the land or producer were ineligible to receive cost shares or cost shares were paid on ineligible components. Ineligible cost shares for these practices totaled \$8,300.

We recommended that State officials require the county committees to recover cost shares paid for practices where not all eligibility requirements were met. We also recommended that they remind the county staff to verify all eligibility requirements before disbursing cost shares.

The State officials concurred with the findings and recommendations and are taking corrective action.

Risk Management

Inconsistent Producer Information Impacts Program and Crop Insurance Payments

We found that FSA staff did not use available data, including insurance information, to identify and follow up on significant differences reported by producers between their crop acreage and crop share data. We found that producers were continuing to abuse the payment limit by manipulating information on program benefits to which they were not entitled or providing insurance information that was inconsistent with program benefit information.

- One producer in Wisconsin obtained excessive 1993 and 1994 program benefits of approximately \$110,000, in part by reporting his spouse as a joint operator even though he was divorced at the time. Also, a deceptive custom farming arrangement was used to enable another individual to obtain the program benefits of \$54,000 due on another farm although the producer insured the crop with the Federal Crop Insurance Corporation (FCIC) and received a \$36,000 payment on his reported 100-percent interest in the crop.
- Two joint ventures and three corporations consisting of family members located in Kansas were formed only to obtain \$354,000 in program payments that could not have otherwise been paid to these corporations.
- A family partnership located in Minnesota incorrectly received \$84,000 without completing a successor-in-interest agreement that transferred the program benefits to the newly formed corporation.
- A joint venture in Louisiana received 1993 crop insurance payments of \$207,000 on losses sustained on two farms although this venture's rice yield was reduced to zero for program payment purposes by the county committee for failure to follow good farming practices. Insurance company officials agreed to reimburse the Government for the payments disbursed to this venture.

We recommended that FSA compare acreage and share data reported for production adjustment and crop insurance to identify and follow up on significant differences. Also, we recommended that crop insurance personnel review the applicable crop insurance policies and loss claims to determine whether they were properly prepared and adjusted, and recover any excess crop insurance payments.

Four Family Members Get Jail Time for Fraud

Four members of a northeast Louisiana family were sentenced to from 6 to 21 months in prison for crop insurance and disaster payment fraud. They pled guilty in Federal court to charges of mail fraud and making false statements in connection with their 1989 to 1991 claims. The four, along with a fifth family member who received pretrial diversion, were ordered to pay restitution of \$640,000.

This investigation was conducted jointly with the Federal Bureau of Investigation (FBI) and FSA Risk Management Compliance personnel.

Sentencings Conclude 4-Year Probe

An insurance agent in south Louisiana was sentenced to 12 months and 1 day in prison for coaching local farmers on how to file false loss claims on the crop insurance policies he sold them. One farmer received 36 months' probation after pleading guilty to mail fraud, and a second paid \$13,000 restitution in connection with false crop insurance claims.

Since 1992, our investigations have resulted in 14 persons placed in the U.S. attorney's pretrial diversion program and 39 others indicted and convicted. These 53 individuals were ordered to pay more than \$1.3 million in restitution on \$3.7 million in false claims.

This series of investigations, now concluded, was conducted with FSA Risk Management Compliance personnel.

Brothers Sentenced to Prison for Crop Insurance Fraud

Two Oklahoma brothers were sentenced to prison after their convictions in Federal court on charges of making false statements on their 1990, 1992, and 1993 wheat FSA disaster payment and crop insurance claims. One

brother was sentenced to 21 months, and the other received an 18-month sentence. After they complete their sentences, each is to serve 2 years of "supervised release" and perform 208 hours of community service.

Better Service to Producers Needed Under CAT Program

The Federal Crop Insurance Act of 1994 (Public Law 103-354) supplements Federal crop insurance with catastrophic crop insurance (CAT) for a nominal fee. CAT compensates for crop yield losses greater than 50 percent of the actual production history (APH) yield at 60 percent of the expected market price. CAT is the minimum crop insurance coverage available. We evaluated CAT because it was a new program and only a few FSA county offices had sold and serviced crop insurance.

FSA officials did a commendable job of implementing CAT considering that local staffs had no crop insurance experience, received minimal CAT training, worked under short timeframes, and experienced increased workloads without additional staff. As can be expected with any new program, errors were made and additional training is warranted in some areas. Improvements are needed in canceling and transferring policies, determining APH's, preparing acreage reports, and coding eligibility. Errors in these areas can delay processing and affect the accuracy of claims.

To evaluate the implementation of the CAT program, we performed reviews in 18 counties in 4 States. We reviewed, to some degree, 392 of 8,779 active applications. Applications were in varying stages of completion; only 40 had gotten to the loss reporting or calculation stage.

Of those 40 claims, 55 percent were not paid within the 30-day goal period. This occurred because local employees were not provided timely loss adjustment training and were not given complete control over the loss adjustment process. Moreover, FSA did not have a process to manage the flow of claims and did not have enough trained loss adjusters. Thus, backlogs developed, delaying indemnity payments to FSA insurers. Beginning in November 1995, the loss adjustment process, except for check issuance, was delegated to the local offices. This should reduce future backlogs and delays. However, FSA still needs a management system to track the loss adjustment process from

receipt of loss notices to issuance of indemnity checks so that, if need be, staff may be reassigned to accomplish timely delivery.

We recommended that FSA notify State and county employees of the problems and/or cover them in training. We also recommended that FSA modify the Loss Adjustment Claim Number Register to allow entry of the dates loss notices are received and that key information on the form be computerized so FSA management officials can efficiently and timely track the loss adjustment process from receipt of loss notices to payment of checks. Further, we recommended that procedures be implemented so management officials can access and use the data. The agency agreed to implement all OIG recommendations.

Inaccurate Loss Adjustments Caused Crop Insurance Overpayments

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (Public Law 103-354) incorporated FCIC and other farm service-oriented agencies into the Consolidated Farm Service Agency (now the Farm Service Agency, or FSA), but retained FCIC as a Government-held crop insurance corporation. Our evaluation of crop insurance began as a joint monitoring effort with FCIC and the Agricultural Stabilization and Conservation Service (ASCS). Information provided by FCIC led to our evaluation of FCIC's handling of crop insurance claims filed by certain producers for 3 consecutive years.

In a joint effort with FCIC compliance investigators, we reviewed 1994 crop production documentation for 19 of approximately 1,500 farmers in Missouri whom FCIC identified as a high risk for insurance. We also visited their farms, and based on available physical evidence, reassessed or reappraised the producers' 1994 crop production. We found that 13 of the 19 filed loss claims for 1994. We determined that two of these producers obtained more in FCIC insurance benefits than was supported by available crop production evidence. We concluded that the reinsured company (sells insurance on behalf of the Government) understated the production for these two producers and approved disbursement of overstated indemnity payments totaling \$6,200.

We recommended that FSA collect the overpaid indemnities and make appropriate adjustments to the insured producers' disaster and deficiency payments.

Foreign Agricultural Service (FAS)

The USDA international agricultural trade mission is to open, expand, and maintain global market opportunities through international trade, cooperation, and sustainable development activities. The activities will secure the long-term economic vitality and global competitiveness of America's rural communities and related food and agricultural enterprises. FAS program areas include international trade policy, foreign agricultural affairs, commodity and marketing programs, international cooperation and development, and export credit programs.

USDA Effectively Implemented Faculty Exchange Program

FAS effectively implemented the requirements of the memorandum of agreement signed in September 1994 between USDA and the U.S. Agency for International Development (USAID). Under this agreement, USAID transferred \$1 million in FY 1994 funding under section 632(a) of the Foreign Assistance Act of 1961 to USDA to carry out a long-term training program with Russia and other Newly Independent States (NIS) of the former Soviet Union.

The International Cooperation and Development (ICD) division of FAS agreed to establish a training program for approximately 20 persons for up to 1 year. The program focused on faculty members and administrators of institutions of higher learning who wished to change their educational programs to foster a free market economy with an emphasis on agricultural economics, agribusiness, and agricultural law. This program, commonly referred to as the "faculty exchange," was implemented in Russia, Ukraine, and Kazakhstan.

To provide the training, USDA contracted with five land-grant universities (University of Arkansas, Colorado State University, University of Missouri, University of Nebraska, and Purdue University). These universities were selected for their expertise in agricultural economics, agribusiness, and agricultural law. The training program took place from July to December 1995. Although the program has been well received and appears to be having a positive impact on the participants, the actual results of the program cannot be measured now and will depend greatly on how well the

participants implement their new knowledge at their own institutions.

Our review determined that the program is operating in accordance with the agreement between USAID and USDA and that \$157,000 had been expended in accordance with applicable law, as of August 31, 1995. Of the \$1 million transferred from USAID, \$707,000 was obligated as of December 31, 1995, leaving an unobligated balance of \$293,000. ICD officials estimate that the training program can be completed for approximately \$840,000 because it has been reduced from 1 year to 5 months. The report contained no recommendations for corrective actions.

Legislation requires that the report be provided to the NIS coordinator's office at the U.S. Department of State.

Shipping Company Pays \$600,000 to CCC in Civil Settlement

A California-based shipping company paid \$600,000 to CCC as a result of a civil settlement reached with the U.S. Department of Justice. Our investigation disclosed that the company falsely certified to CCC that it would make 86 transshipments of Cargo Preference Program commodities on U.S. flag vessels. The company, in fact, used foreign flag vessels to transport the commodities. By so doing, the company was overcompensated by CCC for its shipping services.

Food, Nutrition, and Consumer Services

Food and Consumer Service (FCS)

FCS administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs; the Special Supplemental Food Program for Women, Infants, and Children (WIC); and the food donation programs. These programs are designed to provide people in need with a more nutritious diet, improve the eating habits of the Nation's children, and stabilize farm prices through the purchase and distribution of surplus food.

FCS' funding for FY 1996 is \$40 billion. Three FCS programs receive the bulk of this funding: The Food Stamp Program (\$27 billion), the child nutrition programs (\$8 billion), and the WIC Program (\$4 billion).

Food Stamp Program (FSP)

Guilty Plea for Second-Time Offender

The owner of two stores in Columbus, Georgia, pled guilty and was sentenced to 4-1/4 years in Federal prison for participating in a scheme to illegally traffic and redeem over \$2.1 million in food stamps through the two store accounts. He was also fined \$240,000. Two accomplices in the scheme cooperated with the Government and are scheduled to enter guilty pleas.

The store owner, who was on probation from a previous trafficking conviction and was barred from the program, devised a scheme to continue participating in the program by placing the ownership of the two stores in the names of his accomplices. On numerous occasions during the investigation, the accomplices bought food stamps for cash from undercover agents and operatives.

Restaurant Suppliers Sentenced in \$3.5 Million Food Stamp Fraud

The two owners of a restaurant supply business in New York were sentenced for defrauding the food stamp program of \$3.5 million over a 3-year period. As previously reported, the restaurant suppliers illegally acquired the food stamps from unauthorized businesses and laundered them through their own authorized supply business. The principal owner was sentenced to 18 months in prison and ordered to pay \$750,000 in

restitution. The second owner was sentenced to 6 months' home detention and ordered to pay \$350,000 in restitution.

Suspects Nabbed in Million Dollar Food Stamp "Buy-Bust"

Two businessmen from Cleveland pled guilty to money laundering and food stamp trafficking charges arising from a million dollar food stamp "buy-bust." (A "buy-bust" is an arrest made by agents immediately after an undercover agent posing as a trafficker sells food stamps to a buyer.) The two businessmen and two others were arrested in Buffalo, New York, after they exchanged a luxury automobile, cash, money orders, and property with a total value of \$700,000 for the \$1 million worth of food stamps. The other two individuals were convicted after a jury trial. Sentencing for all subjects is pending.

This investigation was conducted jointly with the FBI.

Father, Son Sentenced in "Rolling Store" Trafficking Scheme

In Atlanta, Georgia, the father and son owners of a "rolling store" retail grocery operation were each sentenced to serve 3 years in prison and ordered to pay \$750,000 in restitution for their part in a conspiracy to illegally purchase \$2.7 million in food stamps. "Rolling stores" are converted vans or trucks that travel from place to place selling a variety of merchandise. Such stores are more apt to be used to defraud FSP because of the mobility of their operations and the ease with which they can get into the program.

Four other individuals involved in the conspiracy received sentences ranging from 3 months of probation to 21 months in prison. They were also required to pay a total of \$150,000 in restitution. At the end of this investigation, FCS disqualified all "rolling stores" in the Atlanta area from participating in the FSP.

Grocer Remains Fugitive While Coconspirators Are Sentenced

A Canton, Ohio, grocer remains a fugitive while his manager and the vice president of a corporation were sentenced for their roles in trafficking and illegally redeeming \$2 million in food stamps over a 4-1/2-year period. The grocery store manager was sentenced to

57 months in prison and ordered to pay \$500,000 in restitution and \$50,000 in fines. The corporation vice president was sentenced to 27 months in prison and ordered to perform 300 hours of community service. The corporation was fined \$500,000 for its part in laundering the proceeds of the fraud scheme.

The fugitive grocer had previously been disqualified from FSP for trafficking at a store he owned outside Canton. To get FCS to authorize the Canton store to accept food stamps, the grocer concealed his ownership of the store through a "paper" transfer to the corporation. He and the store manager then took \$1.5 million in illegally obtained food stamps to two unrelated stores for redemption in order to conceal the amount of stamps going through the Canton store.

This case was worked jointly with the IRS, the Ohio Department of Liquor Control, and the Canton Police Department.

Seized Assets Pay for Food Stamp, Money Laundering Scheme

A grocery store owner in Dover, Delaware, and his wife were sentenced to forfeit \$490,000 in personal property to the Government for money laundering and food stamp fraud. Assets seized to date include a \$30,000 certificate of deposit, \$82,000 in cash, a 1995 Toyota Tercel, \$19,000 in food stamp coupons, and a Dover residence valued at approximately \$94,000.

In addition to the forfeitures, the grocer was sentenced to 46 months in prison, and his wife to 4-1/4 years. The grocer's wife drew a stiffer sentence because she had previously been convicted of food stamp trafficking in 1993. The current scheme was possible because, in spite of the earlier conviction, the grocer's wife had not lost her FCS authorization to redeem food stamps. The couple began accepting food stamps at a restaurant they owned which was not authorized to accept food stamps, then used the still-authorized grocery store to redeem the stamps. FCS records disclosed that over a 2-year period, the couple redeemed about \$490,000 in food stamps.

Another accomplice, who had fled to China, voluntarily returned to the United States and is awaiting prosecution.



Food stamps and cash were seized at the residence of a Dover, Delaware, grocery store owner during execution of a search warrant. OIG photo.



Assets seized to date in the Dover, Delaware, case include \$82,000 in cash and \$19,000 in food stamp coupons. OIG photo.

The investigation in this case was carried out in cooperation with the FBI, the U.S. Secret Service (USSS), and the Dover Police Department.

12 Guilty of Trafficking in New York Case

As a result of a 6-month investigation conducted by OIG, Immigration and Naturalization Service, and New York law enforcement officers, 12 people from 11 different businesses pled guilty to food stamp trafficking charges. Nine of the businesses were authorized retailers. All 12 people were sentenced to probation, fined, and ordered to pay restitution. FCS has permanently disqualified seven of the authorized retailers, and administrative action is pending against the two remaining retailers.

Seven Arrested in Tulsa, Oklahoma

Seven persons were arrested for food stamp trafficking in Tulsa, Oklahoma, after a joint investigation by OIG and the Oklahoma Department of Human Services disclosed the fraud. Five of those arrested were either owners or employees of three separate authorized retailers. To date, four of those arrested have been convicted, sentenced to terms of probation, and fined from \$1,000 to \$5,000 each.

18 Charged in Orange County, California

In the Santa Ana, California, area, 18 business owners and residents were arrested and charged with trafficking in food stamps. Cash and food stamps worth over \$19,000 were seized. The six FCS authorized food stores identified as having trafficked food stamps had redeemed \$816,000 in food stamps during the previous year.

This operation resulted from complaints received by various law enforcement agencies and the OIG Hotline. OIG agents worked jointly with investigators from the California Alcohol Beverage Control office, Santa Ana Police Department, Orange County Sheriff's office, and U.S. Drug Enforcement Administration.

Similar joint investigations are being conducted in other southern California counties.

52 Indicted in Rural Georgia on Food Stamp and Drug Charges

An undercover operation carried out jointly by OIG and the Georgia Bureau of Investigation resulted in the arrest and indictment of 52 people in Ocilla, Georgia, a small, closely knit, rural town. During a 6-month period, suspects traded drugs for food stamps and cash. Altogether, \$36,000 in food stamps and \$22,500 in cash were exchanged for crack cocaine and marijuana.

To date, 15 of the 52 people indicted have entered guilty pleas and have received prison sentences ranging from 15 to 20 years each. Others arrested are in the process of negotiating and entering pleas.

During the investigation, 59 people were found to be involved in the illegal transactions, but charges against 6 were dropped because they had already been sentenced to prison on other drug-related charges before the investigation was over. Charges against the remaining suspect were dropped because he was a juvenile.

Food Stamps Traded for Drugs in Rhode Island

As a result of a 5-month investigation conducted by OIG and State and local law enforcement agencies in Middletown, Rhode Island, 10 people were arrested for food stamp and narcotics violations. All 10 pled guilty to the charges and received jail terms from 8 to 15 years. During the investigation, 11 other people were arrested solely on narcotics charges.

Store Owner Pleads Guilty to \$350,000 in Food Stamp and Mail Fraud

The owner of three liquor stores and two nightclubs in the East St. Louis, Illinois, area pled guilty to illegally redeeming over \$190,000 worth of food stamps over a 5-year period. Two of the liquor stores were authorized to participate in FSP based on their eligible food sales.

The amount of food stamp fraud in this case was calculated by an examination of the store owner's business records, obtained through the execution of search warrants and judicial subpoenas. The investigation also disclosed that the store owner submitted over \$150,000 worth of false sales tax returns to the Illinois

Department of Revenue. The store owner's sentencing is pending.

Three other coconspirators from this scheme had previously pled guilty to food stamp and narcotics trafficking. The investigation was conducted jointly with the Illinois Department of Revenue.

Joint Efforts To Stop Food Stamp Trafficking at Issuance Sites Get Results

In an effort to combat trafficking at food stamp issuance sites, we engaged in a 12-month undercover operation in Philadelphia, Pennsylvania, where we joined with the U.S. attorney's office, the Philadelphia district attorney's office, and Pennsylvania's office of inspector general to crack down on people known as "runners" in the food stamp trafficking trade. "Runners" buy food stamps at a discount from food stamp recipients as they leave issuance sites with their monthly allotments. The runners then sell the stamps at a markup to food vendors who redeem the stamps at full face value.

This operation resulted in the indictment or arrest of 40 Philadelphia-area residents, and the seizure of \$50,000 in cash and food stamps and 9 vehicles used in the trafficking transactions. Seventeen of those indicted have already been convicted.



This gas station was involved in food stamp fraud activities in East St. Louis, Illinois. OIG photo.

Ineligible Stores Removed From Food Stamp Program in Los Angeles County

Six months ago, we reported on our nationwide sweep of food stores authorized by FCS to accept food stamps. The sweep was to determine, through unannounced visits, if the stores carried the proper food inventory and were otherwise eligible to participate in FSP. This reporting period, we participated with FCS, at its request, to make a similar review in Los Angeles County, California.

At the time of the review, 5,399 authorized retailers operated in Los Angeles County. We selected 2,138 of these for onsite visits by teams of OIG auditors/investigators and FCS reviewers.

As a result of the review, FCS has taken action to withdraw 683 stores from the program. Most of these stores were ineligible because they failed to meet the food inventory requirements (521 stores). In other cases, the stores were out of business (63 stores), had not reported changes in ownership (68 stores), had been closed by local health officials (4 stores), or were withdrawn for other reasons (9 stores). Eighteen stores voluntarily withdrew from the program rather than undergo the review.



The East St. Louis, Illinois, liquor store and nightclub owner who pled guilty to food stamp fraud owned this facility, as well as several others. OIG photo.

Many of the stores being removed from the program were stores with marginal food supplies, including liquor stores and video outlets. For example, one liquor store visited had only a few half-gallon containers of milk and a limited supply of canned goods with expiration dates long passed. The cans had been undisturbed for so long they left ring marks on the shelves when lifted. Another store visited was a video outlet whose food stocks consisted only of snack items such as crackers and cheese.

The 683 stores that FCS has taken action to remove from the program have combined annual food stamp redemptions of over \$11.7 million.

As a result of their observations and their analysis of food stamp redemption data, the reviewers selected 100 stores for further evaluation. Sixty-two of these stores were referred for investigation by OIG or FCS because they appeared to have redeemed an excessive amount of food stamps. The 38 remaining stores are still undergoing evaluation.

Controls Over the South Carolina Food Stamp Program EBT System Need Strengthening

Last reporting period, we described the progress made on introducing the electronic benefit transfer (EBT) system to deliver food stamp benefits to recipients. This period, we reviewed the EBT system in South Carolina. South Carolina completed the statewide implementation of its EBT system in December 1995. The EBT system will serve an average of 136,000 households and issue \$297 million in benefits annually through 3,400 food retailers in the State.

The EBT system uses existing debit card technology developed by financial institutions and credit card companies. Each FSP household is given a plastic, magnetic-stripe benefit card that contains the information needed to make food purchases. At the store, the recipient runs the card through a terminal that reads the account number. The recipient then enters a unique personal identification number into the terminal, and the terminal communicates with a central data base that contains recipient account balance information. The host computer's data base verifies the personal identification number, the retailer, and the retailer's terminal before checking transactions against the recipient's account. Retailers are reimbursed by the EBT contractor who operates the central data base. Contractors

draw funds from FCS' letter of credit at Treasury to reimburse themselves for the funds they have distributed to retailers' bank accounts.

We evaluated the development of the South Carolina EBT system to ensure that adequate internal controls were in place. We found that the State implemented a reliable system that serves the needs of recipients and retailers. However, we found some controls that need improvement.

- FCS had not reconciled the EBT contractor's Treasury withdrawals with retailer transaction data recorded in its store tracking and redemption subsystem (STARS). At the time of our review, the contractor's drawdowns exceeded the retailer redemption amounts in STARS by \$5.3 million. The STARS data was unreliable because it did not include transactions made by three large chain retailers that used subcontractors to process their transactions to the prime EBT contractor.
- Although we observed only one unauthorized retailer who redeemed food stamp benefits, the State's procedures for notifying the contractor about retailers who lost their authorization did not ensure that these retailers were denied access to the system.
- The State did not ensure that losses caused by EBT issuance errors were identified and reported to FCS. We found that the contractor issued the wrong EBT cards to FSP recipients, allowing the recipients to use more benefits than they were entitled to. The State did not identify the overpayments and did not pay FCS for the losses.
- Recipients' accounts were vulnerable to unauthorized access at major chain retailers that used subcontractors to process EBT transactions. EBT sales receipts at these stores include the recipients' full account numbers. Store employees could watch a recipient enter his or her personal identification number; the employee could then later access the benefits manually using this number and the card account number printed on the sales receipt.

We recommended that FCS reconcile contractor drawdowns with STARS data and collect any unreconcilable differences. We also recommended that the State ensure that (1) only authorized retailers redeem benefits, (2) EBT issuance errors are identified

and reported to FCS, and (3) recipients' account numbers are protected at stores that use subcontractors to operate the EBT system.

FCS officials agreed with the findings and generally agreed with the recommendations.

Grocer Traffics in EBT Benefits

FCS can detect fraudulent transactions faster with the EBT system than with paper food stamps, and because the EBT transactions are automated, the names of both card holders and vendors are recorded. This period, our investigations focused on Baltimore, Maryland, where Federal charges of trafficking in EBT benefits were filed against a grocer, while State charges of abetting a theft were filed against her father, husband, and 10 food stamp recipients. The grocer pled guilty to trafficking in over \$250,000 in EBT benefits in 1994 and 1995. She was sentenced to 10 months in prison and ordered to pay \$4,000 in restitution. Her father and husband pled guilty in State court and were sentenced to probation and \$2,600 in fines and restitution. Five of the recipients pled guilty to State charges and were sentenced to probation for 1 year and 100 to 200 hours of community service. The remaining five recipients are awaiting trial.

Food Stamp Program Overpayments and Underpayments Amount to Approximately \$2.4 Billion in FY 1993

Under provisions of the Food Stamp Act, FCS may assess penalties against States with high error rates in

certifying households to participate in the program, and award additional administrative funds to States with low error rates. With escalating caseloads over the past few years, the amount of erroneously issued benefits increased. The combined value of FSP overpayments and underpayments jumped from \$1.1 billion in FY 1989 to approximately \$2.4 billion in FY 1993. Error rates fell in FY 1994, but the dollar value of combined errors still totaled \$2.3 billion (see table 1).

In FY 1993, an average of 1.8 million households were overpaid \$152 million each month (291,000 of these households were ineligible to participate in the program). Another 940,000 households should have received an additional \$46.3 million in benefits each month. Overpayments and underpayments for the year totaled \$1.8 billion and \$559 million, respectively.

In FY 1995, FCS developed an error reduction plan which called for FCS to help States implement error rate reduction strategies. FCS concluded that some States had not committed enough resources to reduce the error rates. Our review corroborates that more FCS involvement with States was definitely needed. Past actions had not led to reduced error rates. Although error rates fell in FY 1994, our review identified several deficient areas that FCS should address.

- *FSP error rate reduction incentives have not led to sustained reductions.* States that were sanctioned for high error rates have not paid penalties, and States that reduced their error rates did not reduce them enough to qualify for enhanced funding. Over the last 14 years, States were liable for \$939 million

Table 1: Food Stamp Issuance vs. Payment Errors for FY 1989 Through FY 1994

FY	Households and Dollars in Millions					
	1989	1990	1991	1992	1993	1994
Households ¹	7.2	7.8	8.9	10.1	10.8	10.6
Issuance	\$11,682	\$14,108	\$17,339	\$20,902	\$22,004	\$22,746
Combined Payment Errors	\$1,147	\$1,384	\$1,613	\$2,234	\$2,381	\$2,347
Combined Error Rate (Percent)	8.82	9.81	9.30	10.69	10.82	10.32

¹A food stamp household contains an average of 2.4 recipients.

in sanctions but paid only \$6 million because legislation and settlement actions allowed the States to eliminate or reduce their liabilities. For example, Ohio, with the fifth highest food stamp caseload in the Nation, consistently had error rates in excess of the national average but has not had to pay the \$48.3 million penalty FCS imposed on it.

- *States' corrective action plans to reduce errors did not adequately address deficiencies and were not always implemented.* In spite of the plans, States continued making errors when verifying income, processing changes reported by recipients, and establishing certification periods. Corrective actions also did not affect staffing levels or backlogs in processing claims. FCS generally has not been successful in coordinating error rate reduction initiatives with the U.S. Department of Health and Human Services (HHS). Coordination with HHS would benefit both agencies because many States operate integrated welfare delivery systems that determine benefits both for FSP and HHS programs.
- *Caseworker staffing levels did not keep pace with caseload growth.* We found that workers' caseloads increased 36 percent over the last 5 years and that substantial disparities in workers' caseloads existed between the States. Over half of all issuance errors were caused by worker errors. High worker turnover hampered error rate initiatives, and staffing problems actually increased error rates in some States. Information reported by households was not properly entered in the casefiles, and overly long certification periods were improperly assigned.

Caseworkers' failure to act on information reported by the households accounted for 46 percent of the total worker errors of \$1.1 billion. The workers either did not enter the information or entered it late in the certification period. For example, at 6 certification offices in Texas, we reviewed 4,597 reported changes and found 65 percent were either not processed or were processed in an untimely manner. At one of the offices, a unit processed less than 10 percent of 987 reported changes.

Excessive certification periods also increased error rates. For example, in West Virginia, about 82 percent of the total caseload of 124,050 households had certification periods of 12 months or longer, and these cases accounted for almost 85 percent of the State's error rate.

- *Caseworkers did not always use the Income Eligibility Verification System (IEVS), and the States did not effectively monitor IEVS usage.* IEVS helps workers identify unreported income and verify the accuracy of reported income. Income errors accounted for \$1.8 billion of the \$2.4 billion of food stamps improperly issued in FY 1993. About 70 percent of these errors occurred because households failed to properly report their incomes.
- *State automated systems did not automatically add Government benefit payments to households' food stamp budgets.* Online technology is now available to link FCS with the Social Security Administration and other Government agencies that pay benefits. Such a link should enable agencies to share income and benefit data. In FY 1993, food stamp benefits of \$278.1 million were improperly issued to an average of 329,000 households each month because Government benefit payments were incorrectly entered into casefiles (see table 2).

Most of the errors occurred when caseworkers failed to add the correct amount of Government benefits to household food stamp budgets. For example, 72,341 FSP households received \$42.1 million in excess food stamps because their budgets did not reflect their correct Aid to Families With Dependent Children (AFDC) benefits. The greater share (98.1 percent) resulted from caseworkers' failure to add the proper income to the casefiles.

We recommended that FCS (1) pursue penalties against States with histories of high error rates, (2) coordinate with HHS to develop common error rate reduction strategies, (3) perform onsite reviews of States' corrective actions, (4) evaluate States' worker staffing levels, (5) review States' use of IEVS, and (6) evaluate the feasibility of automatically adding Government benefit payments to food stamp casefiles.

FCS agreed with or proposed alternative actions for the recommendations.

Transient Gets Prison for Fraudulently Obtaining Food Stamps in 16 States

A food stamp recipient living in a homeless shelter in San Francisco, California, pled guilty to illegally receiving food stamps in Richmond, Virginia, while

Table 2: Improper FSP Issuances That Resulted When Amounts From Other Government Benefits Were Omitted From Household Budgets (Monthly Amounts)

Government Benefit	Total Improper FSP Issuances (Resulting From Household and Caseworker Error)		Improper FSP Issurances Resulting From Caseworker Error	
	No. of Households	Improper FSP Issuances (Millions)	No. of Households	Improper FSP Issuance (Millions)
Social Security	106,898	\$ 83.7	73,291	\$ 43.9
Supplemental Security Income	81,835	63.9	55,253	40.6
Unemployment Compensation	68,164	88.4	40,063	43.8
AFDC	72,341	42.1	71,582	41.3
Total	329,238	\$278.1	240,189	\$169.6

concurrently getting them from 15 other States. Our investigation disclosed that over a 3-1/2-year period, the transient applied for and received \$21,000 in food stamps in his name and the name of another person whose identity he assumed.

The transient stated he traveled a few weeks each month via bus from coast to coast to various cities, where he applied for food stamps. He would wait the required length of time for the applications to be approved and then travel back the same route to pick up the stamps. Although the scheme kept him on the road a great deal, he said he did it because getting the stamps was easy.

The transient was sentenced to 2-1/2 years in Federal prison, to be followed by 3 years of supervised release. USSS and the Danville, Virginia, Police Department jointly worked this investigation.

System To Track Disqualified Recipients Has Not Been Fully Implemented in 26 States

In 1983, FCS developed the Disqualified Recipient Information Program System to track individuals who had been disqualified from FSP because of intentional program violations. An OIG audit disclosed that the system was unreliable, and FCS suspended its use in

1989. FCS later redesigned the system (now called the Disqualified Recipient System (DRS)) and requested that all States implement it by April 1994.

DRS is designed to provide information to caseworkers when they are certifying individuals to participate in the program. To be fully effective, all States should (1) submit data on all disqualifications, (2) match any recipients about to be disqualified to check for prior disqualifications, and (3) match applicants or recipient data bases to DRS to identify pending disqualifications.

To determine the effectiveness of the revised system, we reviewed one FCS region (Midwest) and evaluated operations in one State in that region. Our review of 62 recipients in that State who had been disqualified in another State disclosed that 14 of them had been disqualified for intentionally violating the program. The recipients had not been removed from the food stamp rolls at the time of our review, because information had not been forwarded to the appropriate county offices. The 14 recipients had received about \$7,300 in ineligible benefits.

We also found that only one State in the Midwest region had fully implemented DRS to meet the disqualification mandates of the Food Stamp Act of 1977.

Because of our concerns over the limited use of DRS in the Midwest region, we contacted the other six FCS regional offices. Only two of these offices had ensured that the States in their regions had fully implemented DRS. Twenty-six States were not comparing data between the national data base and their own State data bases. These States interpreted existing procedures to require them only to transmit disqualified recipient data to the national data base; they did not use this data during the certification process. Thus, disqualified participants could apply for benefits in another county or State.

We recommended that FCS' national office develop procedures that require all States to compare their data bases of recipients with the national data base of individuals who have committed intentional program violations and to use this information to determine eligibility.

FCS officials generally agreed with our findings and recommendations.

Duplicate Participation in the Texas Food Stamp Program Could Have Been Prevented

In the State of Texas, we analyzed a 1994 computer tape that contained the Social Security numbers (SSN's) of 2,746,896 individuals participating in FSP. We identified 2,426 duplicate SSN's on the tape. This analysis disclosed that Texas did not have an automated system to prevent duplicate participation. From a sample of 160 of the duplicate SSN's, we identified 123 people who received unauthorized benefits totaling \$66,340 over a 1-year period.

We recommended that FCS direct Texas to establish a computerized control to prevent the same SSN from being entered and accepted into the computer system more than one time.

FCS officials agreed and stated they would follow up to ensure Texas implemented the recommendation.

Emergency Food Stamp Operations Work Well in the U.S. Virgin Islands

As a result of the widespread damage that occurred when Hurricane Marilyn struck the U.S. Virgin Islands in the fall of 1995, FCS authorized Emergency Food Stamp Program (EFSP) operations on the Islands. EFSP is designed to provide immediate but short-term

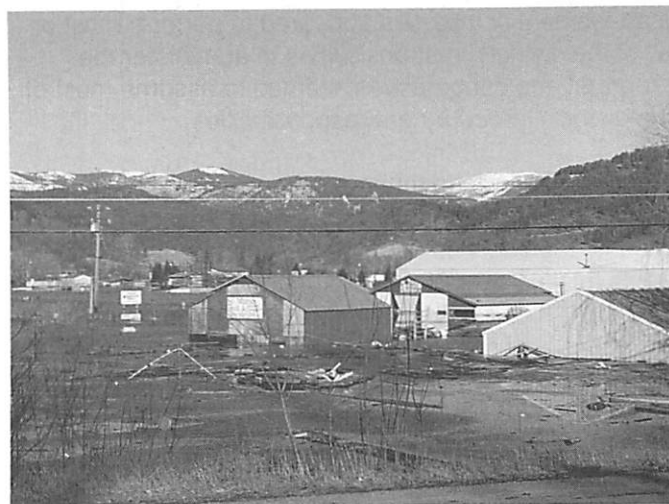
food assistance to eligible people in designated disaster areas.

At FCS officials' request, we evaluated EFSP activities on the Virgin Islands. Our evaluation disclosed that FCS had achieved the objectives of the program while working under difficult circumstances. FCS had developed adequate controls over certification operations, provided adequate physical security at certification and issuance facilities, and developed computerized controls to disclose duplicate participation.

FCS Well Prepared for Flood Disaster in the Pacific Northwest

FCS also authorized EFSP operations in February 1996 in Oregon, Washington, and Idaho after heavy winter rains caused flooding in those States. Because of recent experiences handling emergency food stamp relief in California, FCS was well prepared to implement the program in the flooded areas.

OIG provided staff to assist FCS officials in monitoring the program. In each State, teams of OIG and FCS personnel visited sites during the first few days of food stamp issuance. The teams visited sites that were likely to have high participation, as well as sites highly affected by the flooding. Some sites were in remote areas where food stamps were issued from local banks or credit unions. In these cases, OIG investigators escorted the food stamp deliveries.



Farmland in St. Maries, Idaho, was flooded when the St. Joe River overflowed. OIG photo.

Because the program began quickly on the heels of the flood, there was little time to publicize the availability of the benefits; however, local FCS staff members were resourceful in getting the word out through local merchants and community leaders. Overall, we found that FCS and State personnel did an excellent job of administering the program. Participation was confined only to those eligible for the emergency benefits.

Child Nutrition Programs (CNP)

Contracts Awarded for the National School Lunch Program in One State Resulted in \$662,000 in Unnecessary Costs

Previously, we reported on procurement practices by school districts that violated Federal standards. This period, we continued our audit efforts in this area.

The National School Lunch Program authorizes school districts to purchase food, supplies, and services for the programs in their districts. FCS also permits the districts to sign agreements with cooperatives that can locate appropriate vendors, and to contract with food service management companies to manage their school lunch programs. However, the contracts and the contractors must follow Federal guidelines.

Michigan officials asked us to review procurement practices at local school districts that had contracted out some of their responsibilities to food service management companies and cooperatives. Food service management companies appeared to perform most or all of the districts' responsibilities to administer the program, and cooperatives seemed to assume most of the districts' procurement responsibilities.

Our audits disclosed that the school districts did not adhere to Federal requirements when they contracted with the food service management companies. Contracts totaling over \$6.6 million had not been competitively bid. The school districts solicited and received bids from food service companies but awarded contracts to only one company. This company, in writing the contract for the districts, changed the contract terms from those contained in the bid solicitations. The changes resulted in higher costs. The districts also reimbursed the company for \$354,000 of expenses which were in excess of contract requirements. (This company also refused to show us any support for \$74,000 of expenses we reviewed.)

School districts also did not adhere to procurement standards when they purchased foods and services through cooperative agreements. Four districts did not use competitive bids themselves but relied on a cooperative to obtain the bids, assuming that it was complying with Federal standards. The cooperative, however, did not ensure adequate competition; it merely provided the districts with the name of a vendor. Because food purchases were not competitively bid, the districts we reviewed could have paid approximately \$234,000 more for food products during the 1993/1994 school year.

We recommended that the school districts (1) terminate existing contracts and award new ones that were consistent with the terms of the bid proposals and (2) collect all overpayments and unsupported charges paid to the food service management company. We also recommended that Michigan develop a system to monitor bid proposals and ensure that Federal requirements are met when school districts procure products and services through food service management companies and cooperatives.

The State generally agreed with the findings and recommendations and has required that the contracts with the food service management company be terminated and rebid. Other corrective actions are also underway.

More Problems Found With Nonprofit Sponsors Participating in SFSP

The Summer Food Service Program (SFSP) allows children who receive meals during the school year under the National School Lunch and School Breakfast Programs to continue receiving comparable meals during summer vacation.

The program is operated locally by State-approved public or private, nonprofit sponsors who receive Federal reimbursement to cover the cost of serving the meals. Our audit concentrated on private, nonprofit sponsors because of past problems associated with them. A large number of these sponsors operate in California and Washington, so we selected these States for review.

We questioned the eligibility of at least \$186,000 in meals claimed by three sponsors. One of the sponsors was the largest private, nonprofit sponsor operating in Los Angeles County. This sponsor claimed meals that

were probably never prepared or served to children, and it served meals that were nutritionally deficient. Because this sponsor also participated in the Child and Adult Care Food Program, we referred the matter to the California Department of Education, which took immediate steps to remove the sponsor from that program.

The two other sponsors we reviewed were in Washington State. These sponsors served meals at ineligible sites and claimed meals for reimbursement even though their records did not adequately support the claim.

We recommended that FCS collect the payments made for the ineligible meals and review the eligibility of the sponsors if they apply for 1996. We also recommended that FCS cap the number of meals that a sponsor could claim at any feeding site if FCS finds the site to be serving fewer meals than are shown on previous claims.

FCS agreed with these recommendations and implemented the corrective actions.

Food Distribution Program (FDP)

FDP on Indian Reservations in One Region Shows Dual Participation and Inventory Problems

FCS administers FDP on Indian reservations, using Indian tribal organizations and State agencies to deliver the program at local sites. The primary objective of FDP is to improve the diet of needy households on or near Indian reservations. FCS funds the administration of the program and buys the food to be distributed.

We examined 1994 program activities and food storage facilities in the FCS Mountain Plains Region. For 1994, this region oversaw \$17.6 million in FDP funds and commodities. Of this amount, \$6.6 million was food maintained in State and local warehouses. We reviewed participant eligibility and inventories at food storage sites.

Our analysis disclosed that FDP participation sites did not always verify household incomes or prevent dual participation in FDP and FSP. We also found that \$2.3 million in commodity inventories were unnecessarily at risk at three of eight warehouses visited due to poorly maintained or unsecure facilities.

We recommended that FCS ensure that State and local agencies implement more effective controls to protect food inventories and prevent recurrence of the eligibility and participation deficiencies noted. We also recommended that FCS recover benefits disbursed to households that did not comply with program requirements.

FCS regional officials did not agree with all our conclusions. They have taken action to correct dual participation and inventory control deficiencies. We have recommended the use of Social Security numbers for income verification. FCS has indicated to us that the Office of the General Counsel has determined that collection of the numbers without legislative modification would be illegal. We are pursuing this issue at FCS headquarters.

Special Supplemental Food Program for Women, Infants, and Children (WIC)

Failure To Issue New Regulations Encourages Continued Vendor Fraud

Through the WIC program, FCS provides Federal grants to States for supplemental foods, health care, and nutrition education for low-income pregnant, breastfeeding and nonbreastfeeding postpartum women, and to infants and children who are found to be at nutritional risk. Program participants receive WIC vouchers, which may be redeemed for authorized foods at State-authorized retail vendors, most commonly grocery stores. Congress appropriated \$3.5 billion to the WIC Program for FY 1995, for an estimated 7 million participants.

We audited the WIC program in 1988 and, at that time, found serious deficiencies in the procedures used by FCS and States to monitor vendors. Efforts to prevent program abuse varied greatly from State to State, each using its own criteria to identify abusive vendors because FCS had no standardized criteria. Procedures also varied greatly; some States conducted covert investigations while others performed only routine store visits. Of the 107 high-risk vendors visited during our audit, three-quarters overcharged the program by inflating WIC vouchers by an average of 28.5 percent of the amounts redeemed.

We recommended that FCS strengthen its regulations governing monitoring of WIC vendors and enforcement of program requirements. In September 1988, FCS agreed to issue new regulations. However, after more than 7 years, revised regulations have not been issued.

As a followup on the 1988 audit, we began reviews in 1990 and again in 1993 but canceled both because the agreed-upon regulations had not been issued. Recent surveys have shown that vendor monitoring by FCS and the States has changed little since 1988, while the size of the program itself has almost doubled. Because the regulations still have not been issued, we notified FCS that we might be required to reopen the recommendations from our 1988 audit.

FCS still agrees with the need to issue new regulations. It published revised regulations in the *Federal Register* in December 1990 but subsequently withdrew them because of numerous negative comments. The regulations have since been redrafted, reviewed by the Office of the General Counsel, and are now at the Office of Budget and Program Analysis for review.

Two States Overcharged for WIC Administrative Costs

During this reporting period, we reviewed WIC administrative costs activities in Colorado and Missouri in the FCS Mountain Plains Region. This region administers \$261 million in WIC Program funds, including \$58 million in administrative costs.

- In Colorado, the WIC administrative costs and certifications we tested generally complied with Federal requirements. Costs totaling approximately \$438,000 claimed in FY's 1994 and 1995 did not comply because two local agencies did not use a current, approved indirect rate to determine these costs. One local agency did not allocate facilities and insurance expense equitably to WIC. Another local agency claimed unsupported costs for reimbursement to the State.

We recommended FCS recover the overclaimed amounts. We also recommended that the State verify support for administrative costs claimed and ensure facility expenses are properly allocated.

Agency officials generally concurred with our findings and recommendations and have initiated appropriate corrective action.

- At FCS' request, we evaluated the charges made by the State of Missouri for the Health Agency Network Data System (HANDS) to determine if these charges were supported and allowed.

An FCS review had indicated that the State was overreimbursed for the HANDS project and for local personal service costs which were inappropriately considered HANDS costs rather than normal WIC administrative costs. Our review determined the amounts of overreimbursement to be \$197,000 for the HANDS project and \$106,000 for service costs. In addition, FCS inappropriately approved \$312,000 as deferred costs.

We recommended recovery of amounts paid to the State agency for the unapproved HANDS expenses, unsupported service costs, and inappropriate deferred costs. We also recommended that the FCS regional office ensure that States are not reimbursed for amounts in excess of their ADP budgets and that States support all expenditures charged on ADP projects.

Arkansas Grocer Barred From WIC Program

An Arkansas grocer received pretrial diversion and entered into a civil settlement agreement with the U.S. attorney's office as a result of an OIG investigation into false claims submitted to the Arkansas Department of Health under the WIC program. The grocer agreed to a lifetime ban from participating in the WIC program and further agreed to reimburse the Government \$130,000 for questioned claims.

Food Safety

Food Safety and Inspection Service (FSIS)

Through its inspection activities, FSIS ensures that the Nation's supply of meat and poultry products is safe, wholesome, and correctly labeled. FSIS' appropriations for FY 1996 totaled approximately \$545 million.

Changes Needed To Meet Future Challenges

During this period, we completed Phase II of our evaluation of FSIS' Meat and Poultry Inspection Program. This evaluation, a continuation of the work discussed in our May 1995 report, identified alternative methods for, and needed improvements to, the program.

Our evaluation found numerous initiatives underway for implementing changes in the Meat and Poultry Inspection Program. Until the changes occur, however, FSIS staff continue to rely largely on 87-year-old inspection methods. FSIS published its farm-to-table strategy and proposed regulations in February 1995 to move the Hazard Analysis Critical Control Point Pathogen Reduction System closer to realization; however, full implementation will not occur for at least 5 years.

Our current evaluation identified five areas needing improvement.

- *FSIS should continue to pursue authority to assess, collect, and retain user fees for some inspection program functions.* FSIS spends approximately \$400 million annually to provide in-plant inspection services. We believe fees are justified because these services provide special benefits to the industry: broadening sales to interstate and export markets, and providing the stamp of inspection for use as a "marketing tool." The collection of user fees should also be considered for import-export inspection, prereview of labels, and laboratory testing. With this authority, some inspection functions could become self-sufficient, reducing the need for appropriated funds and shifting inspection costs to the users of the system.
- *FSIS needs to expand the capabilities and use of the Performance Based Inspection System (PBIS).* FSIS depends on the information captured in PBIS and the deficiencies documented by the inspectors to identify plant compliance levels. However, inspectors do not always report all deficiencies, and the system is limited to recording only one deficiency per inspection task even though more may have been noted. Expanding the capabilities of PBIS will help FSIS officials make accurate analyses of a plant's performance, assign a plant compliance rating, and provide supporting documentation for placing a plant under progressive enforcement.
- *FSIS needs to improve its progressive enforcement.* The progressive enforcement system is intended to provide an effective control in bringing plants up to an acceptable level of compliance. However, the system burdens FSIS personnel with excessive documentation demands, permits plants to continue operations without mandatory timeframes for completing corrective action, and requires the use of resources that could be better used to advance FSIS' farm-to-table initiatives. The concept of those initiatives is to develop systems at all stages—from the field to the consumer—to ensure wholesomeness of the product.
- *FSIS needs to revise and expand its approach to conducting independent Review and Assessment (R&A) in-plant inspections.* Because the reviews lack depth, FSIS officials and plant management often give little credence to the issues identified. More indepth coverage would increase the credibility of review results and improve chances that R&A recommendations will be accepted. FSIS needs to maintain an independent review and evaluation function to provide the Administrator and other management officials with unbiased, credible reports on the effectiveness of food safety policy and operations.
- *FSIS needs to reinforce application of Occupational Safety and Health Administration (OSHA) safety regulations in plants to ensure the safety of FSIS employees.* The specific areas needing improvement involved lockout and tagout procedures to verify plant equipment has been shut off, in order to ensure the safety of inspectors.

We recommended that FSIS (1) seek statutory authority to collect user fees for in-plant inspection and related activities, (2) expand PBIS capabilities and use, (3) develop a progressive enforcement control system with specific timeframes and followup procedures, (4) maintain an independent review and evaluation function and expand its approach to reviews, and (5) reinforce OSHA safety regulations.

FSIS management agreed with the reported findings and is addressing the recommendations to implement corrective actions.

Three Individuals and Company Convicted of Operating "4D" Operation

A cattle buyer, an individual who operated a custom slaughter business, and an Oakland, California, sausage company and its owner all pled guilty in Federal court in San Francisco to charges that they conspired to violate the Federal Meat Inspection Act. The owner agreed to pay a consent judgment of \$500,000 on behalf of the company and personal restitution of \$258,000.

Our investigation found that the conspirators purchased "4D" (dead, dying, diseased, or disabled) cattle and slaughtered and/or processed them in unsanitary conditions. The uninspected and adulterated meat was then taken to the sausage company after normal working hours where it was mixed with previously inspected meat and included in a whole range of products produced by the sausage company, including meat products sold to the military under Government contracts. Our agents raided the plant after we observed a shipment of the adulterated meat being received and processed. Working with FSIS, we shut down the sausage company, and almost 900,000 pounds of potentially contaminated meat was destroyed.

Throughout the investigation, we coordinated our activity with the Defense Criminal Investigative Service (DCIS) and the Defense Personnel Support Center of the U.S. Department of Defense (DoD) in order to identify the recipients of the contaminated meat and to ensure the quick retrieval of any product shipped to military establishments. As a result of the investigation, DoD was able to initiate civil prosecution of the sausage company in order to recover losses which resulted from meat which was recalled and destroyed.

This investigation was conducted jointly with compliance officers of FSIS, DCIS, and the California Bureau of Narcotics Enforcement with assistance by technical experts of FSIS and the Agricultural Research Service (ARS). We also coordinated our investigation with agencies investigating the subjects for arson and other activities (the Bureau of Alcohol, Tobacco, and Firearms; the State of California Fire Marshal's Office; the Alameda County Arson Task Force; and the City of Oakland Police and Fire Departments).

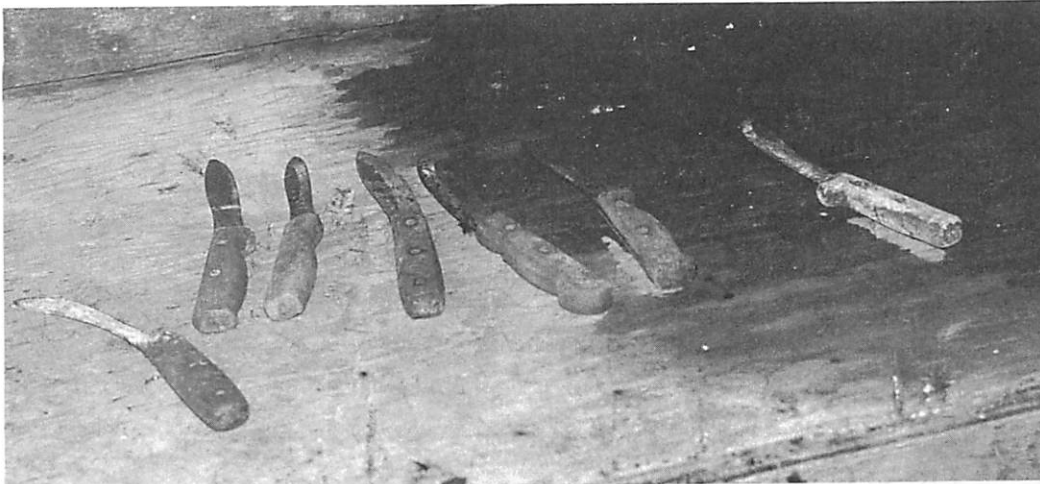
Sentencing is pending.



Dead cow outside the corral area on property owned by the cattle buyer implicated in the "4D" operation. OIG photo.



Slaughtering facility in a shed at the residence of the custom slaughterer involved in the "4D" operation. OIG photo.



Inside the meat cooler in the meat boning area owned by the custom slaughterer. OIG photo.



The sausage company's product inventory on the day the search warrant was executed. OIG photo.

Specialty Meat Company and Officers Convicted of Meat Inspection Violations

A South Dakota mail-order specialty meat company and three officers (a father, son, and daughter-in-law) were all found guilty of conspiracy, and were individually found guilty on various counts of mail fraud, wire fraud, and misbranding violations under the Federal Meat Inspection Act, after a 3-week jury trial.

The company advertised and solicited orders from customers throughout the country, and represented that the meat product was raised and selectively bred to produce genetically lean, consistently superior quality beef, free of additives, substitutes, antibiotics, or implant hormones to enhance growth, all of which was untrue.

Over a 5-year period, the defendants sold nearly 2 million pounds of misbranded meat product.

Sentencing is pending.



Animal unloading dock where dead animals were piled at a North Carolina pork processing plant. OIG photo.

Three Convicted of Selling Rotten Pork for Human Consumption

The owner, the owner's son-in-law (also the plant manager), and the Federal food inspector assigned to a North Carolina pork processing plant were convicted of offering rotten pork products for sale in commerce.

Our investigation disclosed that from 1990 through 1994 more than 50 adult hogs and an unknown number of pigs weighing from 30 to 40 pounds each which had arrived at the plant dead were processed and represented as having been inspected and passed under the Federal Meat Inspection Act; that over 15,000 pounds of spoiled and rotten pork trimmings, spare ribs, and pork loins were washed in a solution of water and bleach to mask the condition of the meat; and that between 13,000 and 17,000 pounds of spoiled pork product was either mixed with good product or reboxed in order to hide the true condition of the meat. In addition, during March 1994 over 19,000 pounds of pork trimmings were returned by one buyer because the meat was found to be contaminated with hide, hair, insects, and fecal material.

Our investigation also found that the FSIS meat inspector failed to perform required *ante mortem* inspections of all of the live animals prior to slaughter, participated in the washing of spoiled pork product in the solution of bleach and water, purchased pork products from the plant at discount prices, made unauthorized long-distance personal telephone calls from the plant, accepted cash from plant customers for pork products, and consumed alcohol on the plant premises.

Sentencing is pending.

Marketing and Regulatory Programs

Agricultural Marketing Service (AMS)

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1996 was approximately \$237 million.

Review Guides Will Improve Compliance With Marketing Orders

Marketing orders regulate the quantity and quality of certain fruits, vegetables, and specialty crops, and are authorized under the Agricultural Marketing Agreement Act of 1937. There are 34 active marketing orders and agreements covering a total of 32 commodities. Administrative committees (comprising growers, handlers, and sometimes nonindustry representatives) are responsible for administering marketing orders and ensuring compliance with the terms of the orders.



A grape grader at work grading good quality grapes. Providing grading services is part of the AMS mission. AMS photo.

Over the past 3 years, we have worked closely with AMS officials to improve marketing order compliance. Previously, we reported on a joint project with AMS to help marketing order committees establish effective compliance programs and help AMS develop methods to evaluate committees' compliance efforts.

Prior to this project, each committee independently determined its own compliance activities and the need for any audit work. As part of the special project, we collaborated with AMS personnel and committee representatives to establish minimum compliance requirements for various types of marketing orders. We also developed (1) compliance plans which describe specific strategies, resources, and activities for committees and (2) a review guide for auditors to examine handlers' operations in accordance with Government auditing standards.

During this reporting period, we developed two additional review guides containing uniform procedures for conducting quality control reviews of committees' compliance activities. One of these review guides was designed for auditors to review committees in accordance with Government auditing standards. The other review guide was designed for nonauditors (such as internal reviewers from AMS) to examine committees' operations. These review guides will provide AMS with increased flexibility for tailoring reviews of the various types of marketing orders.

The new review guides will:

- Evaluate whether committees have implemented specific compliance activities required for their marketing orders,
- verify that committees are consistent in their treatment of handlers and growers and provide assurance that the committees have a sound basis for determining marketing order violations, and
- assist AMS in assessing the overall effectiveness of committees' compliance efforts.

Hazelnut Handler Settles Alleged Marketing Order Violations

An Oregon handler of hazelnuts has agreed to pay civil penalties of \$222,750 and delinquent marketing order assessments of \$14,000 to settle an action brought by

USDA and the U.S. attorney's office for the district of Oregon. The handler had been charged with violating the Federal marketing order for hazelnuts from 1991 through 1994.

Using the review guide and evaluation process and techniques OIG developed in conjunction with AMS, the committee gathered and reviewed the receiving documents from known purchasers of hazelnuts. The third-party records were compared to handler reports submitted to the committee for assessment. These records indicated that the handler had shipped significantly more hazelnuts than reported to the hazelnut marketing committee. As a result of followup work by AMS, USDA's Office of the General Counsel, and the U.S. attorney's office, the handler agreed to the settlement.

AMS has advised us that this settlement is a direct result of the improved compliance procedures we developed with agency management to enhance marketing order operations.

Cotton Research and Promotion Program Controls Need Improvement

The Cotton Board is a quasi-governmental entity that administers the cotton research and promotion program. The Cotton Board establishes research and development projects, as well as studies to encourage, expand, or improve marketing and use of domestic and imported upland cotton. It collects and safeguards cotton producer and importer assessments, and contracts with Cotton Incorporated, a nonprofit trade organization, for research and promotion. AMS oversees the program's domestic activities, and FAS is responsible for foreign activities.

A mandatory assessment of \$1 per bale of domestic upland cotton is levied on cotton producers, as well as a supplemental assessment of 0.5 percent of the cotton's value. Similar assessments are levied on each imported cotton bale or bale equivalents of cotton-containing products imported into the country. The U.S. Customs Service (Customs) collects, transmits, and reports on import assessments to AMS. Assessments of \$59.2 million were collected in 1994 including \$13.9 million on cotton imports. Approximately \$50.5 million was expended on the program during the year, including \$2.5 million spent by the Cotton Board for program administration.

Our audit was conducted to assess how well the Cotton Board and AMS performed their responsibilities. AMS officials also had asked us to review specific Cotton Board activities and associated internal controls.

We determined that AMS and the Cotton Board generally performed their responsibilities in accordance with the Cotton Research and Promotion Act and order. However, Cotton Board financial controls over some expenditures and revenue need strengthening, and AMS needs to improve communication with Customs. Specifics are as follows.

- The Cotton Board paid unallowable travel and meeting expenses of at least \$12,400 in 1994. Similar deficiencies were previously identified in an OIG audit report issued in September 1993. The Cotton Board had revised its travel policies and improved monitoring, but these actions did not prevent further improper expenditures. These included unallowable costs for spouses' meals and related expenses, in-room movies, valet expenses, and alcohol expenses.
- Although the Cotton Board complied with AMS investment policy, it did not maximize the return on its investments. Approximately \$34,500 in potential revenue was lost because higher yielding investments were not made.
- Import assessment collections reported by Customs differed each month from amounts transmitted to AMS. For a 2-year period, collections exceeded payments by \$500,000. No reconciliation was made to determine why the differences occurred.
- Customs has not billed the Cotton Board for its services in FY 1994, and no negotiations had taken place regarding other years' billings. FY 1993 service costs were \$128,000. AMS had contacted Customs but was unsuccessful in resolving the problem.

We recommended that AMS require that the Cotton Board develop written policies and procedures to address unallowable travel and alcohol expenses and to maximize interest revenue on investments. We also recommended that AMS develop written policies for reconciling collections and payments from Customs. AMS agreed with the audit recommendations and has

initiated acceptable management decisions to address and correct all reported conditions.

Improved Controls Are Needed Over Butter Grading

AMS needs to strengthen its oversight over the grading of butter. We audited this area in 1991 and made recommendations that would have strengthened the program; however, some of the improvements agreed to have not been fully implemented.

The procedures AMS used to select butter samples to be graded were not adequate to protect the integrity of the samples. Prior to butter being graded, AMS sent processors a list of the samples of butter to be selected. The processors pulled the samples without an AMS official being present. AMS graders usually arrived at the processing plant and graded the butter samples the day after processor employees had gathered the samples. Since the processor had control of the butter and prenumbered containers, AMS could not be assured that the samples gathered by processor employees had not been tampered with.

We reported the weakness in the sample selection process in our 1991 audit report. AMS continued to use a "verification sample" to confirm the validity of the sample gathered by the processor. AMS graders would observe the selection of additional samples (20 percent of the amount of the original sample). AMS' position was that the results of the verification sample would ensure the validity of the sample selected by the processor and would detect any substitution of higher quality samples. Statisticians for both AMS and OIG agreed that the results from samples selected by processors would not result in a statistically valid sample. They also stated that the verification sample would not confirm the validity of samples selected by the processors.

AMS had not used the results of its own internal reviews to correct program weaknesses. The internal reviews showed that butter had not been graded accurately; however, little action was taken to determine why the inaccuracies had occurred or to correct the problems.

We recommended that AMS (1) develop a statistically valid sampling plan which includes the methodology for gathering butter samples, and (2) develop procedures to use the results of its internal reviews to identify

program weaknesses, determine their cause, and recommend corrective actions.

AMS officials agreed to develop and implement a sampling plan by October 1996 which will safeguard the validity and integrity of butter samples. They agreed that they could better use the results of their own internal reviews, and plan to broaden the internal review to include developing recommendations.

Dairyman Pleads Guilty to Watering Down Milk

An Oklahoma dairyman pled guilty in Federal court to conspiracy and mail fraud in connection with a scheme to water down raw milk from his dairy which he sold to a milk cooperative in Texas. Our investigation showed the dairyman added approximately 1.5 million pounds of water to his milk over a 38-month period. The dairyman admitted adding water to the milk in collusion with the cooperative's truck drivers, whom he paid as part of the scheme.

Sentencing of the dairyman is pending, as is prosecution of the involved truck drivers.

This investigation was conducted jointly with the Office of Criminal Investigations of the U.S. Food and Drug Administration (FDA) and AMS compliance staff.

Animal and Plant Health Inspection Service (APHIS)

Through its inspection of animals and plants, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for FY 1996 activities are estimated to total over \$462 million.

Export Firm Illegally Shipped Apples to Taiwan

A fruit exporting firm, one of its officials, and another individual in Washington State were sentenced to pay \$1.2 million in fines and \$300,000 in Perishable Agricultural Commodities Act (PACA) penalties after they pled guilty to making false statements and trafficking in counterfeit goods. They had smuggled uninspected New Zealand-grown apples into Taiwan after importing

them into the United States and reboxing them in Washington State apple boxes. They shipped the apples with fictitious USDA phytosanitary certificates and false commercial documentation.

The scheme circumvented both Taiwan's import quota on New Zealand apples and its requirement that a USDA inspection be conducted on all agricultural imports from the United States. The false documentation also reduced import duties for Taiwan on the higher valued New Zealand apples.

This investigation was conducted jointly with Customs, IRS, and APHIS.

Businessman Convicted of Smuggling Dangerous Plants and Endangered Species

An Oakland, California, businessman pled guilty to conspiracy, false statements, and violations of the Toxic Substances Control Act, Federal Noxious Weed Act, and Endangered Species Act after he was caught smuggling plant and animal products and prohibited "medicines" into the United States. USDA's Plant Protection and Quarantine inspectors detected the illegal imports, smuggled in conspiracy with Chinese exporters, concealed in shipments of "herbs."

The businessman was arrested after search warrants were executed on his warehouse by agents from OIG, Customs, FDA, and the U.S. Fish and Wildlife Service. OIG and APHIS, with the assistance of California State regulatory agency officials, seized materials that violated USDA's Citrus Canker Quarantine, the Noxious Weed Act, and the Convention on International Trade in Endangered Species (CITES) treaty.

Sentencing is pending.

Natural Resources and Environment

Forest Service (FS)

FS manages natural resources on over 191 million acres of the national forest system. It provides cooperative forestry assistance to States, communities, forest industries, and private forest landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and outdoor recreation areas. For FY 1996, the FS appropriation was \$3.2 billion, with timber sales and other receipts expected to be approximately \$1 billion.

State and Private Forestry Grantees Received Improper Cash Advances, Excess Reimbursements

FS State and Private Forestry (S&PF) programs provide assistance to States, local governments, and private owners of forest properties to promote the wise use of forest land. S&PF grants also help rural timber-dependent communities develop economic activity in nonforest-related industries.

We audited S&PF grants awarded by FS' Pacific Northwest region. We performed the review to determine whether the region's controls ensured that grant funds were spent properly and that grantees were meeting stated grant objectives.

We determined that grantees in the region were generally meeting their grant objectives. However, they did not always handle grant funds properly. They received improper cash advances from FS and, as a result, retained \$576,000 in grant funds and earned interest that could have been used to assist other eligible recipients. One grantee also received \$36,000 more than its agreed-upon reimbursement for administrative startup costs.

We also noted that the region did not ensure that required single audits were performed for recipients of Federal grant funds. Without this assurance, FS cannot rely on the single audits as a financial monitoring tool for funds awarded to eligible recipients.

We recommended that the FS region collect \$89,400 in interest earned from funds improperly advanced to recipients, require recipients to remit any remaining portion of improper advances, provide guidance to grantees on obtaining advances and remitting earned interest, collect the \$36,000 reimbursed for excess

administrative costs, and implement a system to track single audit reports.

FS generally agreed with the findings and recommendations and agreed to take corrective action.

FS Has Not Completed Cleanup of Unexploded Ordnance on Property in Region 9

FS routinely acquires land to add to its National Forest System. During FY's 1990 through 1993, FS purchased over 376,000 acres of open land for \$281 million.

Our review of FS land purchases identified a public safety issue on land acquired from The Nature Conservancy in West Virginia. The property, known as the Dolly Sods North, had been previously owned by the U.S. Army and was used as an artillery range during World War II.

The Army Corps of Engineers (COE) rated the area as posing an extreme risk. Unexploded mortar and howitzer shells are located on the surface and subsurface of the property. A recent study of an adjacent area found an average of one shell per 20 to 40 acres; more heavily concentrated areas showed one shell every 2 acres. Although the COE officials agreed to clean up the site, funding shortfalls delayed their efforts.

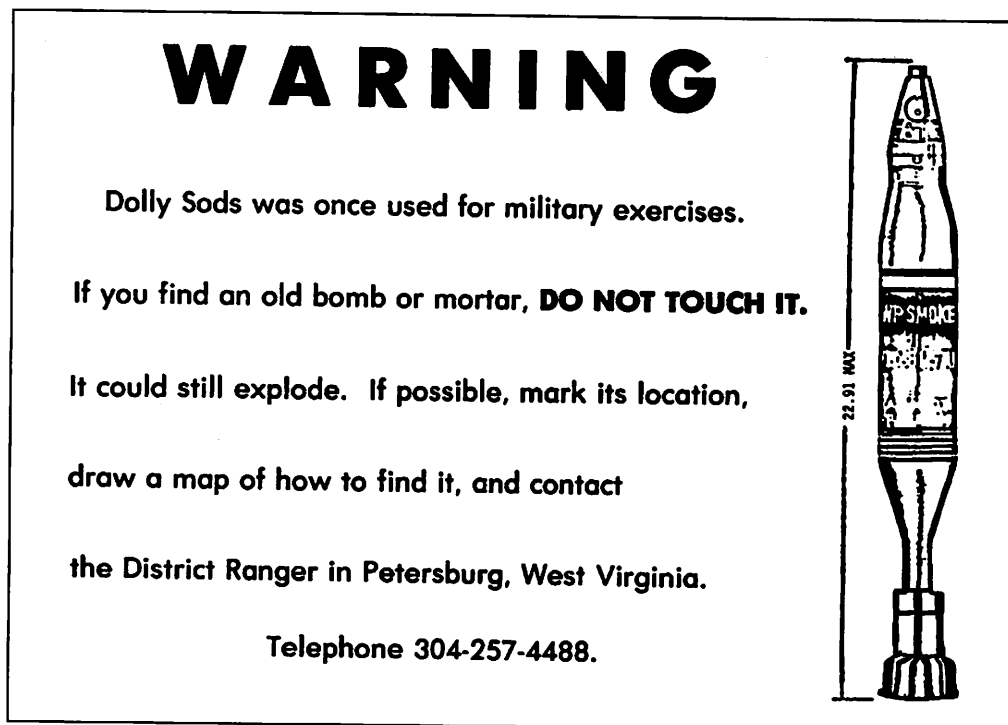
Despite concerns expressed by the Office of the General Counsel, FS officials did not restrict access to the area. They believed the risk of injury was limited. However, on 10 occasions in the last 15 years, hikers found unexploded mortar or howitzer shells. Although there have been no incidents, the shells are a potential risk to campers and hikers, and the Government could be liable for any injuries sustained by the public.

On January 5, 1995, we issued a Management Alert recommending that FS restrict access to the area until decontamination is completed. FS agreed to increase its efforts to protect the public and to coordinate with COE. However, 8 months later we were informed that access to the property had not been restricted. In addition, although an environmental assessment report was drafted for part of the property, a report will not be completed for the remainder until FY 1996.

We recommended that FS close or restrict access to the Dolly Sods North property until remediation is completed in accordance with environmental laws and improve the quality of warning and informational signs.

Figure 1

Warning sign at the Dolly Sods North property



Improvements Needed To Strengthen Timber Theft Prevention Practices

Timber sales from national forests accounted for over \$780 million in revenues for FS in FY 1994. Environmental restrictions have steadily reduced available timber supplies, resulting in increasing values for the remaining timber and making the theft of timber more lucrative. FS investigators in 7 regions had investigated 146 timber theft cases during FY's 1993 through 1995, with losses estimated at \$4.6 million.

Our audit evaluated FS procedures used to identify timber theft that had occurred and to assess the internal process for identifying and correcting weaknesses in timber theft prevention controls.

Our review determined that FS has established policies to protect the integrity of the timber sale program and to minimize losses resulting from timber theft. However, our audit disclosed the following areas where current practices did not comply with established policies or

where additional improvements to procedures were needed.

- *Internal reviews were not always performed when required, did not include all the elements needed for a complete assessment, and did not ensure that necessary corrective action was taken.*
- *Timber sale administrators did not always notify law enforcement personnel when timber not for sale was cut by timber purchasers. Continued tolerance of this practice could compromise future investigations of timber theft cases.*
- *Specially manufactured tracer paint was not adequately accounted for by timber staff. Tracer paint contains a specially formulated chemical marker that is not easily duplicated or counterfeited. FS uses this paint to mark the trees to be harvested. However, unless access to the paint is restricted, this control is not effective. If stolen, this paint can be used by unauthorized persons to improperly mark trees for cutting, a form of timber theft.*

- *FS did not review the controls that scaling bureaus exercised over log measurement data.* Scaling bureaus play a key role in determining the value of logs. As an independent third party, the bureaus measure timber and provide data to FS to bill timber purchasers.
- *Ranger districts did not perform the required number of checks on trucks hauling logs out of national forests.* Truck checks are sporadic, unannounced reviews to determine that Federal timber is properly marked and is en route to a scaling bureau, where it will be measured to determine the cost of each log. Markings on the log provide information about the species of tree, sale of origin, and destination and are important to ensure proper computation of amounts due FS.

We recommended that FS management evaluate each region's internal review process, direct timber staff to refer all incidents of damage to undesignated timber, require inventory tracking of tracer paint, develop truck check frequency standards, and direct regions to review scaling bureau controls.

FS officials said they thought our recommendations were reasonable and would be generally beneficial.

Unwarranted Advance of Grant Funds Costs the Government \$11 Million

The America the Beautiful Act of 1990 authorized FS to give the National Tree Trust Foundation a \$19.8 million grant to promote the planting and care of trees. FS advanced all funds to the foundation in one lump sum, even though Federal regulations require that grant funds be advanced only as needed. The decision to advance all funds at once cost the Government over \$7.8 million in interest on Treasury borrowing through the end of October 1995.

While the Government paid interest to the Treasury on the funds it borrowed to make the unnecessary advance, it also paid interest to the foundation, which had invested the grant funds in Government securities. This interest cost the Government another \$3.2 million. A provision in the law that created the grant allows the foundation to keep these funds and another \$1 million in interest the foundation earned from other grant money investments.

The purpose of the grant was to enable the foundation to make further grants to local organizations to plant and care for trees. However, during the 5 years the foundation has been operating, it has made only \$792,000 in grants, less than a fifth of the \$4.2 million it acquired solely by investing the Federal grant money. It has also incurred \$151,000 in unallowable costs for participant support, investment fees, and entertainment costs.

The grant required the foundation to match Federal funds with donations from the private sector. FS believed the foundation could use the grant money to leverage corporate dollars. We found that in spite of the multimillion-dollar Federal advance the foundation has been holding over its 5 years of operations, only two corporate donors have contributed to it in the amount of approximately \$400,000.

Recovering the advanced funds is critical at this point because, according to another provision in the law, the foundation's accountability to FS expires in September of this year. After September, the foundation will no longer be required to explain how it spends any of the remaining \$19.5 million in grant money.

We recommended that the \$19.5 million be recovered before September 30. We also recommend that the \$151,000 in unallowable costs be recovered. Agency officials believe they have properly administered the grant and have requested guidance from the Office of the General Counsel.

Natural Resources Conservation Service (NRCS)

NRCS provides technical assistance through local conservation districts on a voluntary basis to land users, communities, watershed groups, Federal and State agencies, and other cooperators. NRCS's work focuses on erosion reduction, water quality improvement, wetlands restoration and protection, fish and wildlife habitat improvement, range management, flood control, stream restoration, water management, and other natural resources problems. The FY 1996 NRCS appropriation was approximately \$1.1 billion.

Released Acreages Not Treated to Basic Conservation System Level

The Conservation Reserve Program (CRP) was authorized by the Food Security Act of 1985. Under the program, producers agree to take eligible land out of crop production for 10 years. In return, participants receive annual rental payments. In December 1994, USDA announced an intention to allow CRP participants to release all or part of their acreage under contract before the expiration date. The early release was intended to refocus CRP to allow for the enrollment of more environmentally sensitive acreage.

Our audit assessed whether adequate conservation plans were developed for and applied to acreages approved for early release from CRP. We examined the conservation plans developed for 52 acreages approved for early release and performed field inspections to evaluate producer compliance with planned conservation systems. These 52 acreages accounted for more than 3,100 acres of the 683,000 acres approved for the initial early release from CRP.

Our review disclosed that the conservation plans developed for released acreages were not always written to a basic conservation system level, as required. The ultimate goal of conservation is to reduce soil losses to the tolerance level—the maximum annual rate of soil erosion that can take place without causing a decline in productivity. The plans we reviewed did not reduce soil erosion to this level. We found that planned conservation systems developed by different States allowed for soil erosion which exceeded the established tolerance. In addition, we noted that field inspections were not performed by NRCS personnel to identify gully erosion.

Even though acreage has been released early from CRP, producers are still required by regulation to ensure that erosion has been reduced to the tolerance level by the normal expiration of the contract. NRCS has not ensured that producers took the necessary actions as agreed to in the conservation plan. As a result, critical erosion control practices may not have been applied, and excessive soil loss may have occurred.

We recommended that NRCS perform field inspections to identify gully treatment needs and require that all released acreages be planned and treated to a basic

conservation system level. We also recommended that producers be required to install all practices needed to achieve a basic conservation system before normal contract expiration and that NRCS perform a status review in the year of normal contract expiration to evaluate producer compliance.

NRCS agreed with our findings and recommendations, stating that the issues related to planning and application of basic conservation systems will be addressed in the next draft of the National Food Security Act Manual.

Excessive Cost Shares Disbursed for Salinity Control Program in Utah

The Colorado River Basin Salinity Control Act authorizes USDA to share with individuals and others the cost of reducing the amount of salt entering the Colorado River from agricultural irrigation. The Colorado River Salinity Control Program can finance up to 70 percent of the cost of implementing salinity control plans in salt source areas. Since 1987, over \$7.5 million has been disbursed in Duchesne County, Utah.

As part of our ongoing review of the Colorado River Salinity Control Program, we found one participant was overpaid approximately \$7,200 because the participant paid the contractor only \$32,250 rather than the \$42,500 shown on the billing submitted to NRCS for cost shares. In addition, a field visit disclosed that the participant did not maintain a structure. The dam had washed out; therefore, the structure did not hold water as intended for the wildlife area.

We recommended that NRCS recompute the cost shares earned by the participant and collect the cost-share overpayment. We also recommended that field office personnel direct the participant to restore and maintain the wildlife area and, if the restoration is not completed timely, terminate the contract and collect cost shares disbursed. The NRCS State conservationist agreed that the participant had not earned the full amount claimed for cost shares.

\$326,000 Civil Judgment in Surety Bond Fraud

Operators who receive NRCS contracts to carry out water conservation projects are required to guarantee their performance of the contracts by posting a bond. Such bonds are issued by insurance groups, corporations, or individuals who ensure NRCS that the

conservation work will be completed in the event the contractor defaults on the projects.

Previously, we reported on an investigation into a scheme by several individuals in Puerto Rico to defraud the Government by posting worthless surety bonds. The scheme came to light when several contractors defaulted and NRCS was unable to get the bondsmen to fulfill their obligations under the bonds. NRCS lost over \$109,000 as a result of the fraud.

This period, the Department of Justice, San Antonio, Texas, obtained a \$326,000 judgment against one of the bondsmen for his part in the scheme. Another had previously been sent to Federal prison. This investigation was conducted jointly with the FBI, Air Force Office of Special Investigations, Naval Criminal Investigative Service, National Aeronautics and Space Administration OIG, Department of the Interior (DOI) OIG, Veterans Affairs OIG, and U.S. Army Criminal Investigation Command (CID).

Rural Economic and Community Development

Rural Economic and Community Development (RECD) programs were administered, until January 30, 1996, through three rural development agencies: The Rural Housing and Community Development Service (rural housing and community facility loans), Rural Business and Cooperative Development Service (cooperative assistance and business industry loans), and Rural Utilities Service (electric distribution, telephone, and water and waste loans). Effective January 30, 1996, the Rural Housing and Community Development Service became the Rural Housing Service (RHS), and the Rural Business and Cooperative Development Service was renamed Rural Business - Cooperative Service (RBS).

County Supervisor and Contractor Indicted for Conspiracy

A former RECD county supervisor and a contractor were indicted for conspiring to defraud the Government and making false statements. The contractor received water and waste disposal grant contracts to install running water and sewer service to homes in an underdeveloped subdivision in south Texas, but did not complete the work on 22 of 25 contracts. Both the contractor and the county supervisor certified that the work was completed, and the RECD grant funds were released to the contractor. The contractor received the contracts in spite of earlier being debarred from working on any Federal contracts after a 1991 conviction for making false statements to another Federal agency. The county supervisor took an early retirement under the buyout program before the investigation. Prosecution is pending.

This investigation was conducted jointly with the FBI.

Individual Arrested and Convicted of Threatening OIG Special Agent

A person with an extensive criminal history and a history of assault and harassing others (particularly women) over the telephone was convicted of assault for threatening an OIG special agent over the telephone. The defendant was originally a complainant who alleged that his girlfriend fraudulently obtained a loan from RECD. He became upset when sufficient information could not be developed to prove his allegation. He then left 19 voice mail messages on the agent's pager voice mail box, with each message becoming more threatening. In

one message, the individual described in graphic detail an incident where a person is stabbed with an ice pick.

Sentencing is pending.

Controls Needed To Ensure Empowerment Zones/Enterprise Communities Program Objectives Are Met

The Empowerment Zones/Enterprise Communities (EZ/EC) program objectives are to revitalize and rebuild communities in America's poverty-stricken inner cities and rural heartland by empowering people and communities to work together to create jobs and opportunity.

In December 1994, the President announced the designation of 104 urban and rural EZ/EC's that received \$1 billion in flexible social services block grants (SSBG). While the U.S. Department of Housing and Urban Development (HUD) and USDA designate the zones and communities and manage the programmatic aspects of the initiative, the U.S. Department of Health and Human Services is the grantor of the SSBG awards for the designated localities. USDA designated 3 rural EZ's and 30 rural EC's that are to receive over \$208 million in SSBG funds.

USDA's EZ/EC National Office is responsible for coordinating the overall oversight and management for the rural zones and communities, and has overall responsibility for preparing and submitting the annual performance report to the President. RECD's State mission area offices are to provide daily oversight to ensure that program objectives are accomplished and delivery is effective and efficient.

The EZ/EC National Office officials effectively organized and managed the EZ/EC selection and approval processes. However, they needed to better define the RECD State mission area offices' responsibility for program monitoring and reporting. The RECD State mission area officials did not have a clear understanding of their field monitoring responsibilities. Therefore, the program's goals and objectives may not be timely and efficiently achieved.

The Deputy Administrator for Community Development concurred with the recommendation to provide clear delineation of mission area offices' responsibilities for monitoring and reporting the status of EZ/EC program implementation.

Rural Housing Service (RHS)

RHS makes loans for rural family housing, apartment complexes, and community facilities. As of the end of FY 1995, 594,000 borrowers owed RHS \$18.3 billion in single-family housing loans; 17,000 owed \$11.6 billion in multifamily housing loans; and about 2,000 borrowers owed more than \$1.1 billion in community facility loans. An additional 35,000 borrowers had obtained single-family housing loan guarantees through RHS, totaling \$2.1 billion.

Rural Rental Housing (RRH) projects are owned by limited profit or nonprofit entities that must manage the projects in accordance with various RHS regulations. These regulations require that project revenue be used solely for authorized purposes including the funding of reserve accounts to pay for repairs, taxes, and insurance, and they limit disbursements for management fees and the return on investment to owners.

During this reporting period, we continued to focus audit work in the area of RRH because of its history of problems, and the fact that this program is on the Office of Management and Budget's (OMB) "high-risk" list.

Legislation Needed for the RRH Program

Since FY 1990, we have performed 84 audits that reported approximately \$97 million in misused RRH funds. We found many systemic problems which impair the program and need to be addressed through legislation. During our audits of project construction and management operations, we have repeatedly encountered excessive and unsupported costs being charged to projects by "paper" companies owned by borrowers and management companies. These "paper" companies exist solely to generate excessive and unearned profits. Another effect of these bogus charges, however, is to increase both the rent due from low-income tenants and rental assistance subsidies provided by the Government.

During the past few years, we have worked with U.S. attorneys in an effort to take legal action against borrowers and management companies which misuse project funds. In several instances, the U.S. attorneys have concluded that prosecution was unlikely to yield a conviction on an RRH case despite overwhelming evidence of irregularities. A primary encumbrance to prosecutions has been U.S. attorneys' view that, without

additional statutory support, misuse of project funds constituted a crime against the *project* and not against the Government.

We recently evaluated the RRH program to identify areas where it could be improved through legislative changes. We undertook a comparative analysis of the various statutory requirements for both HUD and RHS to determine if differences existed and, if so, whether the RRH program could be strengthened if the HUD provision were in effect. We also compiled and analyzed our audits, General Accounting Office reviews, and RHS studies to identify additional potential legislative issues. We made several recommendations for legislative changes.

- *Enact provisions that authorize RHS to pursue, either by criminal or civil action, participants in the RRH program who misuse project assets or income.* HUD legislation currently provides that "equity skimming," the willful misuse of rents, assets, proceeds, income, or other funds derived from the property, is considered a criminal offense if the mortgage is in default or the project has no surplus cash. If the promissory note is current or the project's cash level is adequate, the misuse is subject to a double damages civil remedy. HUD has used both avenues successfully, and enactment for RHS would significantly reduce vulnerability to fraud, waste, and abuse.
- *Establish accounting system requirements.* RHS legislation does not require that RRH projects maintain a proper accounting system. RHS regulations are vague as to accounting requirements, and wide latitude is given to borrowers as to the type of accounting system that will be maintained. The Housing Act of 1937 requires HUD projects to establish a system of accounts for each project. A uniform and workable system would significantly improve controls and facilitate the agency's administration and monitoring of the program.
- *Enact civil penalty provisions where RRH project accounting records are not in a suitable condition for audit.* RHS statutes are silent regarding the condition of records for audits of RRH projects. On the other hand, HUD has a statute which provides for civil penalties when project records are not maintained in a reasonable condition for audit. Such a requirement for the RRH program would facilitate the audit process and strengthen program accountability.

- *Eliminate disincentives for RRH borrowers to generate interest income from the investment of project reserve account funds, through an amendment to the 1986 Tax Reform Act.* Increasing project income could reduce the need for increases in rental assistance and tenants' rent. Although reserve account funds belong to a project rather than a borrower, Federal tax law decrees that income generated from the investment of these funds is taxable to a borrower. Changes in tax law could provide incentive to invest a project's idle cash reserves and thus ultimately reduce project operating costs.
- *Transfer HUD section 8 subsidy budget authority to the RHS Rental Assistance Program.* RHS' rental assistance payments are limited to the level necessary to enable the project to meet its expenses and required payments. HUD employs two methods to compute its section 8 rental subsidy that are based upon rental data external to the project. Generally, the amount of HUD subsidy provided to the projects exceeds what would have been provided under the RHS method. In addition, for those RHS projects which began receiving HUD assistance prior to 1980, interest credit agreements cannot be canceled to reduce the extent of Government assistance provided because of binding contracts which do not expressly permit such action. As a result, duplicate Government assistance is conveyed. Transferring the HUD section 8 assistance and responsibility for the administration of the subsidy under USDA's requirements to RHS would decrease the amount of rental assistance to the level needed to cover project expenses.
- *Restrict the use of companies having an identity of interest with the borrower or management company from supplying goods or services to RRH projects.* OIG audits and investigations have disclosed continued program abuses by borrowers and management companies who use identity of interest entities to purchase goods and provide services for RRH projects. These transactions are subject to abuse because no independent monitoring, approval of payments, or other compensating controls provide any assurance of propriety. Without the use of identity of interest companies, project operating costs should be reduced, which will, in turn, reduce both rental payments paid by low-income tenants and rental assistance by the Government. USDA's Office

of the General Counsel has concluded that eliminating these identity of interest companies would benefit the program.

With passage of the legislation recommended above, we believe the RRH program's integrity will be enhanced, and rental rates to tenants and rental assistance payments by the Government will be reduced.

RRH Borrower Diverts \$2.4 Million in Project Funds for Personal Benefit

We reviewed a whistleblower complaint alleging that one RRH borrower, also acting as management agent of four projects, had diverted for his own use or benefit project funds of over \$2.4 million. Our audit disclosed that the borrower (1) expended \$938,000 from project accounts for nonproject purposes, (2) withdrew \$536,000 in excess of amounts authorized by RHS from the reserve accounts, (3) expended \$488,000 in management fees in excess of amounts authorized by RHS, (4) withdrew \$248,000 for returns on investment in excess of amounts authorized by RHS, (5) made improper accounting entries to remove accrued interest income due from the borrower to the RRH projects of \$147,000, and (6) made improper withdrawals from tenant security deposit accounts of \$19,200.

These findings were referred for investigation. We recommended that RHS initiate collection action from the borrower when the investigation is complete. We also recommended that RHS take administrative actions to remove the borrower as management agent to preclude him from continuing to divert project funds to his personal benefit, and to increase its monitoring of the management companies subsequently put into place. RHS agreed to implement our recommendations, and new management agents are being sought.

RRH Project Manager Diverts \$700,000 in Project Funds for Personal Benefit

RRH projects are owned by limited profit or nonprofit entities that are responsible for managing the projects in accordance with various RHS regulations. These regulations require that project revenue be used solely for project purposes including the funding of reserve accounts to pay for repairs, taxes, and insurance, and limited disbursements for management fees and the return on investment to owners.

A joint audit-investigation disclosed that a management agent removed \$700,000 from the accounts of eight RRH projects and used the funds for his personal benefit. The management agent (1) falsified confirmations of amounts retained in the projects' bank accounts to cover up a diversion of \$514,000, (2) deposited U.S. Government rental assistance checks payable to various projects into bank accounts controlled by him to divert \$45,000 from the projects, (3) transferred \$98,000 from projects' accounts to a bank account controlled by him for payment of the projects' expenses but then used funds for nonproject purposes, (4) deposited project checks payable to other project bank accounts totaling \$13,000 into bank accounts controlled by him, and (5) withdrew \$98,000 from projects' reserve accounts without RHS authorization.

In December 1995, the management agent pled guilty to diverting to his own use or benefit project funds of over \$700,000.

RRH Borrower Imprisoned for Fraud

In California, an RRH borrower was sentenced to 41 months in prison and ordered to pay \$76,000 in restitution after he pled guilty to mail fraud and conversion of Government collateral to his own use. Our investigation disclosed that the borrower defrauded investors in three limited partnerships that owned land in California by failing to record as promised the investors' security interests in the property owned by the partnerships. In addition, he used money pledged to FSA and RHS as security for loans on RRH projects and concealed that activity from the investors in those partnerships. In his plea agreement, he admitted to causing losses of \$2.5 to \$5 million to the investors and USDA.

This investigation was conducted jointly with the FBI.

Wealthy Tennessee Woman Convicted for Illegally Obtaining Rural Rental Assistance

A Panama City, Florida, jury found a Tennessee woman guilty on three counts of false claims and three counts of making false statements pertaining to applications she submitted to RHS to obtain rental assistance for two apartments she maintained in Panama City and Freeport, Florida, from 1991 through 1994. The defendant made false statements to RHS concerning her income, assets, and permanent place of residence in order to receive rental assistance in Florida while she was actually a resident of Tennessee.

The defendant certified in RHS documents that she had no assets and income apart from Social Security when, in fact, she lived with her spouse on a Tennessee cattle farm they owned. The couple's house was valued at \$225,000 and they had income which exceeded \$100,000 annually at times. Government witnesses testified that the defendant referred to her Florida rural rental apartments as her "Florida Condos." The defendant sometimes stopped by the rural rental apartments in her \$47,000 34-foot motor home en route to Disney World.

Sentencing is pending.

Multifamily Housing Borrower Repays \$3.7 Million

An owner of three Texas RRH complexes repaid over \$3.7 million in RHS loans to complete his sentence from a 1991 Federal conviction for defrauding the Government. The owner had created fictitious tenants and underreported these and real tenants' incomes to receive Government rental assistance payments. The owner had been ordered by a Federal judge to sell all of his then-Farmers Home Administration financed properties and repay his loans in full. The owner paid over \$120,000 in restitution at the time of sentencing and agreed not to participate in the RRH program for at least 2 years after the sale of his last housing complex.

RRH Management Agency Settles Civil Suit

The officials of a Washington State-based RRH project management firm, which managed more than 100 RHS and HUD projects nationwide, agreed to pay \$250,000 to settle a civil suit charging the firm with diverting money from the projects and loan security accounts. The management agency's two principals also agreed to refrain permanently from participating in Federal housing programs as management agents.

Rural Utilities Service (RUS)

RUS makes loans to cooperatives, companies, and public bodies to provide electric and telecommunications services in rural areas. RUS also makes loans and grants for water and waste disposal facilities. As of September 30, 1995, RUS had about 1,800 active telecommunications and electric borrowers with an outstanding loan portfolio of approximately \$40 billion. In addition, about 7,120 borrowers owed \$4.6 billion for water and waste disposal loans.

Former Program Director of Northeast Rural Water Association Sentenced

A former program director of the Northeast Rural Water Association was sentenced to serve a 6-month prison sentence and 4 months' home detention, and ordered to pay \$21,200 in restitution after he pled guilty to wire fraud and making false statements. The charges stemmed from his fraudulent use of Federal grant money during his tenure as manager, when he did not perform his duties as contracted but instead attended college full-time and used association funds to pay for his tuition and living expenses in excess of \$20,000.

The Northeast Rural Water Association is a not-for-profit corporation that provides training and technical assistance to rural communities in Vermont, New Hampshire, and Massachusetts in water treatment, safe drinking water, and waste water matters. It receives funding from several sources, including grant money from the Environmental Protection Agency (EPA) and RUS.

This investigation was worked jointly with the EPA OIG.

Research, Education, and Economics

Agricultural Research Service (ARS)

ARS is USDA's in-house research agency. It supports a nationwide infrastructure of laboratories that conduct research in agriculture and forestry, human nutrition and home economics, marketing, and rural development. It is also authorized to enter into grants with other institutions to obtain research it is not equipped to perform itself. Its FY 1996 appropriation is \$756 million.

Company Pays \$305,000 To Settle Overbilling Claims

A Baltimore, Maryland, company entered into an agreement with the U.S. Department of Justice to pay \$305,000 immediately and up to an additional \$200,000 over the next 4 years to settle claims in connection with federally funded contracts for engineering services it provided to Federal, State, and local governments that included ARS. The company received Federal monies to provide computer-aided drafting and design (CADD) services. The agreement settled government claims that, between January 1990 and December 1994, the company inflated overhead charges and provided fewer services than were called for in the contracts.

This investigation was worked jointly with the Defense Criminal Investigative Service, Naval Criminal Investigative Service, and Department of Transportation OIG.

Cooperative State Research, Education, and Extension Service (CSREES)

CSREES coordinates USDA's agricultural research and technology transfer efforts with the land-grant institutions that support them. CSREES is authorized to provide financial support for research, education, and construction projects related to food and agricultural sciences. Annually, CSREES distributes over \$520 million through statutory formulas, more than \$230 million to select project and designated recipients, and in excess of \$125 million as competitive awards.

Technology Transfer Partnership Did Not Achieve Grant Objectives

At the request of the CSREES Administrator, we evaluated the performance of the Oregon-Massachusetts Partnership, a project mandated by

Congress that joined research conducted by public institutions in Oregon with the technology transfer experience of the Commonwealth of Massachusetts. To carry out this work, CSREES established a grant relationship with the State Agricultural Experiment Station in Oregon and a nonprofit company in Massachusetts that specialized in the commercialization of biotechnology research. CSREES tried to create a model relationship between these entities that would demonstrate the benefits of public and private cooperation in technology transfer. Because of funding restrictions, CSREES funded the nonprofit company as a subgrantee to the Oregon institution.

CSREES had been unable to determine the progress made by the subgrantee when it asked OIG to evaluate the project. Our evaluation determined that in the first 3 years of the project, \$1.2 million had been expended on independent work by the two institutions. Without partnership, these activities did not provide substantive benefits to the overall grant objective. We also questioned almost \$400,000 of the expenses charged to the grant by the subgrantee, among which were costs apparently associated with lobbying for further funding. Our evaluation disclosed that CSREES had not assured, up front, adequate project performance. The agreements lacked measurable performance indicators, peer reviews making recommendations for improvement or questioning the project were ignored, and the agency imposed its design on the recipients without sufficiently considering factors which impeded them.

We recommended that CSREES strengthen its grants development and monitoring procedures by requiring that grant proposals reveal how the satisfactory completion of tasks and other critical performance requirements will be measured. We also recommended that grant budgets identify funds and schedules for the critical tasks so that technical and financial managers could reconcile performance against expenditures, and assess progress. The agency was asked to determine and collect questioned costs that should be repaid by the subgrantee; and, on the advice of the Office of the General Counsel, take appropriate action for any lobbying violations.

Financial, Administrative, and Information Resources Management

Financial Management

USDA is required by the Chief Financial Officers (CFO) Act and the Government Management Reform Act to prepare and audit financial statements for all departmental accounts and activities. USDA's FY 1995 financial statements were generated from seven accounting systems maintained by six separate agencies and USDA's National Finance Center (NFC).

Financial Statement Audits

We completed audits of the FY 1995 financial statements of the Rural Economic and Community Development (RECD) mission area, Federal Crop Insurance Corporation (FCIC), and Rural Telephone Bank (RTB). FCIC and RTB received an unqualified opinion. Their financial statements fairly presented, in all material respects, their financial position and the results of their operations. RECD received a qualified opinion because we were unable to assess the reasonableness of the credit program receivables and the estimated losses on loan guarantees. Stated at about \$55 billion and \$250 million, respectively, there was not sufficient, reliable documentation to support the amounts and it was not practicable to perform further alternative procedures to satisfy ourselves as to their value. We were also unable to assess the reasonableness of the related credit reform program subsidy and appropriated capital used. RECD has initiated actions to identify a methodology that can be used to document and support the amounts for future periods.

We reported that RECD had not completely documented its high and intermediate control objectives and techniques in an integrated framework to ensure that management's overall goals are uniformly achieved. Instead, reliance was placed on control objectives and techniques outlined by internal manuals and procedures specific to individual operations. Concerning conformity with laws and regulations, our audits reported three areas in which an agency was in material noncompliance. These were as follows.

- FCIC had not adequately recorded and pursued the collection of about \$31 million in State taxes imposed on a Federal program during 1991 through 1993. FCIC had reimbursed reinsured companies for premium taxes paid to State regulatory insurance

agencies. Even though the taxes were paid under protest during the period, and the reimbursements were subsequently discontinued, FCIC had not established claims under its assigned rights to recovery to recoup the payments.

- RECD's evaluation of internal control weaknesses was not in compliance with the Federal Managers' Financial Integrity Act (FMFIA). Known material weaknesses were omitted from section 2 of RECD's FMFIA report for FY 1995. Also, the effect of RECD's nonconformance with section 4 of FMFIA was not adequately considered while formulating its statement on adherence with section 2, pursuant to OMB Circular No. A-123. These two issues should have precluded RECD from concluding it was generally in compliance with section 2 of FMFIA.
- At the transaction level, RECD had not completed its implementation of the Standard General Ledger (SGL) as required by OMB Circular A-127. This condition was previously reported to RECD, and actions were taken to implement SGL for proprietary accounts; however, the agency was awaiting receipt of revised OMB Circular A-34 prior to completing implementation for its budgetary accounts.

NFC Needs To Continue Improvement of Management Controls

Our reviews of management controls at NFC for FY's 1992 through 1994 resulted in disclaimers of opinion because NFC had not documented its control objectives and techniques. Our FY 1995 audit resulted in a qualified opinion because deficiencies remain, even though NFC has made considerable effort to improve its control objectives and techniques. We found the following.

- Reconciliation procedures did not provide an effective control for followup on identified reconciling items, and system or design weaknesses prevented effective use of the reconciliation procedures.
- Policies and procedures did not provide reasonable assurance that adjustments to user agency accounts and to financial statements and reports were authorized and processed accurately.

- NFC's general ledger did not conform to SGL. Accounts were not always cross-walked to financial statements, the audit trail sometimes was nonexistent, and subsidiary ledger detail did not exist for some general ledger accounts.
- Certification and recertification reviews required by OMB Circular A-130 were not being performed timely.
- Many of NFC's older applications did not adhere to currently recognized processes.

We recommended NFC improve its controls over systems certification, security, and modifications. We also recommended NFC develop a comprehensive plan to identify and correct weaknesses in reconciliation processes and procedures.

NFC and WCF Need To Improve Their Accounting and Rate-Setting Practices

We evaluated NFC's cost allocation process to determine if the method used to develop user billing rates was appropriate and if amounts being charged to user agencies reflected the actual costs of the service. We also evaluated related financial reports and adjusting entries to determine if they accurately reflected the results of NFC and the Working Capital Fund (WCF) operations in accordance with generally accepted accounting principles.

We found that NFC needed to ensure that current year operations of WCF were accurately recorded, that users were equitably billed, and that profits were accurately accounted for. WCF operating statements, including those of NFC, did not accurately reflect operations because adjustments to the financial systems were not adequately controlled; financial reports were prepared from the budget cost system and not reconciled to the general ledger system; and the software program used to generate operating statements automatically adjusted revenue to match expenses on selected activities, which could result in overstatement or understatement of income if the expenses are not properly reviewed.

Although NFC stopped adjusting revenues to equal expenses in 1994, other WCF subscribers were still using this adjustment. We also found that the WCF staff was adjusting prior and current year income

without adequate research. The adjustments significantly altered the revenue shown in the operating statement for many of the WCF entities.

NFC needs better coordination between its accounting system and its budget-setting process; its rate estimates are inaccurate. Some cost categories are consistently overbudgeted while others are underbudgeted.

- *The common-use cost pools used for rate setting for the two types of user charges (processing and reimbursable) were different.* In FY 1995, the pool used for processing charges was about \$14.2 million larger than the pool used for reimbursable charges.
- *Users were overbilled about \$4 million in depreciation costs over a 4-year period.* NFC included the depreciation cost of computer hardware in the rate calculation, even though the computers had been sold. Also, NFC overcollected an estimated \$7.2 million in employee compensation in FY's 1991 and 1993 because of the method it used to record leave expense.
- *Costs included in the rate-setting process were not adequately documented.* For FY 1995, \$2.4 million was added to common-use costs to meet the targeted budget amount, but there was no support for how this figure was determined. Also, billing should be more timely. Some users were billed up to 6 months after the beginning of the new fiscal year.

WCF needs to ensure profits are handled consistently and are returned to users when appropriate. At the time of our review, NFC financial records were showing a substantial profit, but NFC personnel were unsure how to handle these funds.

We recommended that NFC and WCF improve their financial reporting and ensure that the results of their operations are accurately presented. We also recommended that NFC improve the coordination between its rate-setting, budgeting, and accounting processes; improve its billing; and document its rate-setting and allocation decisions.

We are attempting to reach management decision on the recommendations.

Information Resources Management (IRM)

Improvements Are Needed To Increase the Effectiveness of Internal Controls at the National Computer Center (NCC)

We reviewed the internal control structure at NCC, as of September 30, 1995, to determine whether it was operating effectively. We rendered a qualified opinion because of the ineffectiveness of some control objectives and techniques.

- Security over batch ID's needed to be strengthened to ensure that users were accessing and processing within approved boundaries.
- NCC did not sufficiently restrict access to system transactions that could be used by unauthorized individuals to access agency data bases.
- Access to agency datasets by NCC personnel was not sufficiently monitored when privileged ID's were used.
- Additional actions were needed to limit operating system libraries and system console commands to authorized personnel.

NCC officials agreed with the audit findings and recommendations.

Audits of Contracts

FSA Did Not Properly Plan and Administer a Section 8(a) Contract

Under section 8(a) of the Small Business Act, some Government contracts are set aside for small businesses. We evaluated a section 8(a) contract that was awarded by FSA to study participation by women and minority producers in FSA programs at the county office level. We initiated the evaluation because of adverse publicity concerning the cost of the contract and the usefulness and timeliness of the contractor's findings. Part of our objective was to determine if FSA should continue with the contract.

Our evaluation showed that FSA did not fully develop the basis for the contract study or properly plan and

coordinate the work to be performed. The agency initiated the study without establishing study procedures, ensuring the availability of needed data, or involving FSA program experts in the study's planning and execution. It also used an inappropriate type of contract that proved to be costly and difficult to control, and it relied on a contractor with little Federal Government experience to conduct a major study.

We also found that when the contract became operational, FSA did not properly supervise the performance of the contractor and did not support it by coordinating its contacts with other agency groups involved in the study. Also, contracting personnel were often pre-empted by management in monitoring performance of the contractor. Moreover, FSA did not seek to have the contract "definitized" in a timely manner. By "definitizing" the contract, FSA would limit the Government's liability to a fixed price.

These conditions diminished the benefits of this study. The contract deliverables were late, the results did not fully address study objectives, and contract costs will run at least \$359,000 more than original estimates.

We recommended that FSA adopt new procedures for awarding these types of contracts. We also recommended that FSA (1) perform a feasibility study of the proposed work to map out indepth studies and firm up contract costs, (2) involve program experts in planning the contract, (3) remind agency managers that contracting officers are the focal point for enforcing contract provisions, and (4) definitize letter contracts in a timely manner and modify the contract when major changes are made in contract objectives and work requirements.

FSA officials agreed with the findings and recommendations.

Proposed Rates Were Excessive for Integrated Systems Acquisition Project

Auditors from the Defense Contract Audit Agency (DCAA) reviewed the proposed costs of a contractor negotiating with APHIS to install an Integrated Systems Acquisition Project. APHIS had a delegation of procurement authority of \$454 million for the project.

The auditors concluded that the data submitted by the contractor for project costs was inadequate. The review of the support services section of the proposal disclosed

questioned, unsupported, and unresolved costs. The contractor's accounting system did not adequately accumulate and report costs under Government contracts. Data needed to support the proposed rates was either incorrect or completely omitted. For example, the contractor showed no support for a proposed travel cost of \$20 per hour plus a 10 percent markup.

DCAA issued a qualified opinion because the contractor had not supplied information regarding proposed subcontractor costs. DCAA recommended that APHIS consider additional information before concluding price negotiations.

APHIS officials advised us that they used the DCAA information to formulate their negotiation strategy. They took labor rates into account and negotiated changes in the contractor's proposal.

Departmental Administration

The Department's Hazardous Waste Management Program was established as a separate appropriation in FY 1988 to coordinate the activities of all USDA agencies in meeting environmental compliance requirements. The program provides overall guidance on compliance and interprets departmental policy for hazardous materials as it applies to agency facilities. The annual budget for these activities exceeds \$15 million.

Waste From Active and Abandoned Mines Needs Long-Range Strategic Planning

The General Mining Law Act of 1872 opened Federal lands to free prospecting. For as little as \$2.50 to \$5 per acre, companies can establish a claim to mine and sell minerals from these lands without paying royalties or holding fees to the Government. Operators abandon the mines when operations cease to be economical or when mineral deposits are exhausted. In many cases, the mines then become a source of environmental pollution through sediment, toxic chemicals, and the acidic properties they release into the air and natural waterways. As of August 1995, an estimated 38,500 inactive and abandoned mines have been identified on Forest Service (FS) lands. FS estimates it will need \$2.1 billion to clean up the 2,500 known pollution-producing sites and an additional \$2.3 billion to correct water quality problems at another 22,000 sites.



Abandoned mines often become a source of environmental pollution through sediment, toxic chemicals, and the acidic properties they release. OIG photo.

OIG evaluated FS' progress in cleaning up hazardous waste at abandoned mines and in monitoring active mines. We found that little actual cleanup had been accomplished. At the time of our review, only 16 of the 335 sites FS had assessed for contamination had been cleaned up. Because other Federal agencies; State, local, and tribal governments; and private owners may all own land within a watershed, cooperation will be required to ensure agreement on watershed priorities. To clean up and restore priority watersheds will require the cooperation of EPA, DOI, and State regulatory agencies to ensure that private landowners become involved in the process.

Bonds required of active mine operators to ensure against abandonment and operating violations were insufficient to cover the costs of cleanup and restoration. Monitoring at active mines was also insufficient to prevent them from becoming environmental problems; 60 percent of the mines we reviewed had not been inspected in over 3 years.

FS does not recover the cost of preparing and documenting the environmental assessments required to establish mining sites. Between 1991 and 1994, the agency spent \$6.7 million to give prospective miners the environmental assurances they needed to access and work on public lands.

We recommended FS (1) set goals for completing site assessments, identifying principal responsible parties, and beginning actual cleanup operations; (2) develop, in consultation with DOI and EPA, a long-range strategy that integrates all hazardous substances and water quality cleanup requirements into priorities, methodology, and funding needs of the watershed initiative; (3) increase its inspections and improve its monitoring of active mining operations; and (4) reassess its rates for bonding operators and bill them for the costs of the environmental assessments.

FS generally agreed with our recommendations or proposed alternative actions. We have concurred with two of the management decisions. Additional information has been requested from FS before we can accept management decisions on the remaining recommendations.

Oversight of Non-Federal Auditors

OIG monitors the work performed by non-Federal auditors for agencies of the Department and takes appropriate steps to ensure that their work complies with professional audit standards. For the audits of 12 State and local governments for which we have been assigned single audit cognizance under OMB Circular A-128, Audits of State and Local Governments, we work closely with both the auditee and the independent auditors, meeting with them frequently to monitor the progress of each audit and to provide technical assistance. For such audits, OIG reviews the work performed by non-Federal auditors to determine if it meets the requirements of OMB Circular A-128 and the Comptroller General standards. In addition, OIG commonly participates in quality control reviews, led by other assigned cognizant Federal audit organizations, of State agencies administering major USDA programs.

During this 6-month period, we issued three audit reports covering areas over which we have been assigned cognizance. Of these reports, two contained recommendations with questioned costs of \$1,741,000 in USDA assistance.

For example, the Auditor General of South Dakota questioned how funds were used under an agreement entered into in 1974 by FSA and the South Dakota Department of Agriculture. The agreement regulates how certain assets provided by the Federal Government are to be administered by the State. These assets were

to be deposited in the State's Rural Rehabilitation Fund and were to be used to fund the State's Agriculture Enterprise Fund. Although the agreement specified otherwise, the State issued a \$300,000 noninterest-bearing loan to a corporation (Black Hills Pack, now GFI America). As a result, the fund is projected to lose approximately \$220,000 of interest income over the 10-year life of the loan. The auditor general of South Dakota recommended that loans be limited to those eligible under the agreement.

In another example, the Missouri State Auditor found that the State had not billed infant formula manufacturers for rebates due in October 1993 under the WIC program. WIC program costs could have been offset by \$915,000 through the rebates.

The State agency changed infant formula manufacturers on October 1, 1993. Under the expiring contract, WIC vouchers issued in September 1993, and redeemable through the beginning of November 1993, could only be filled with the previous manufacturer's formula. However, in October, as vendors began to stock the new manufacturer's formula, the vendors ran out of the old product, whose name was still printed on the WIC vouchers. Vendors were instructed to fill the old vouchers with the new manufacturer's product, resulting in vouchers in October 1993 being redeemed for both manufacturers' products and neither being billed for the rebate.

The State auditor recommended that the State resolve the questioned costs with FCS and ensure that the program was operated at least cost to the State and Federal Government. We are working with FCS to resolve the recommendation.

During this 6-month period, we also received and distributed 25 audit reports furnished to us by other cognizant Federal agencies under OMB Circular A-128. Of these, 15 contained recommendations with an associated monetary value of approximately \$5,093,000 in USDA assistance.

For audit reports prepared by non-Federal auditors under the requirements of OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, we accepted general oversight and performed a desk review of four reports during the 6-month period. The reports contained recommendations with an associated monetary value totaling over \$151,000 in USDA assistance.

Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct, including conflicts of interest, misuse of official position for personal gain, allegations of bribery and extortion, and the misuse or theft of Government property and money. During the past 6 months, our investigations into these types of matters resulted in 8 convictions of current or former USDA employees and 29 personnel actions, including reprimands, removals, suspensions, and resignations.

Statistical Data

Audits Without Management Decision

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

Audits Pending Agency Action

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
FSA	09/30/93	1. Payment of Losses on Guaranteed Farmer Program Debt Writedowns (04600-14-Te)*	4,587,953	4,556,541
	07/01/94	2. Upland Cotton User Marketing Certificate Program (03099-35-FM)*	165,000,000	165,000,000
	07/12/94	3. Marketing Loan Program Objectives and Accomplishments (03600-16-At)*	1,227,700,000	1,227,700,000
	09/30/94	4. Servicing Delinquent Farmer Program Accounts (04600-25-Te)*	222,498,627	902,188
	10/11/94	5. Information Management Consultants Indirect Cost Rate (03545-23-Hy)*	99,141	99,141
	08/11/95	6. Evaluation of Administrative Payment Issues (03801-01-FM)	0	0
	09/06/95	7. Pecan Disaster Losses in Three Texas Counties (03006-03-Te)	973,404	973,404
	09/18/95	8. Management of Dade County, Florida, ASCS Office (03006-01-At)	75,175,410	909,437
	09/19/95	9. Payment Limitation in Oklahoma (03801-04-Te)	601,216	601,216

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
	09/29/95	10. Interest Assistance Program for Guaranteed Farmer Program Loans (03601-01-KC)	61,934,621	61,934,621
RHS	08/17/95	11. Rural Rental Housing Project Operations - Smith Management Co., Michigan (04010-0001-Ch)	259,899	259,899
	05/19/95	12. Rural Rental Housing Project Operations - Sunbury Heights, Ltd., Ohio (04010-0002-Ch)	7,759	7,759
	08/04/95	13. Rural Rental Housing Project Operations - Alliance Management Co., Michigan (04010-0004-Ch)	147,607	147,605
RUS	06/02/95	14. Issues Identified During Audit of RUS' FY 1994 Financial Statement Requiring Management Action (09401-1-HQ)	0	0
	09/27/95	15. Graduation of Community Program Loans (09099-0001-KC)	1,016,705,123	1,016,705,123

Audits Pending Judicial, Legal, or Investigative Proceeding

FSA	03/13/91	16. Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management (05600-3-Te)*	122,588	105,667
	09/30/93	17. Disaster Program, Nonprogram Crops, Mitchell County, Georgia (03097-2-At)*	5,273,795	1,482,759

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
	01/31/94	18. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia (05099-22-At)*	88,631	88,631
	04/07/94	19. Audit of Emergency Conservation Measures in Texas (03099-161-Te)*	152,941	124,022
	01/18/95	20. Disaster Assistance Program - Autauga County, Alabama (03099-153-At)*	628,570	628,570
	01/19/95	21. Disaster Assistance Program - Geneva County, Alabama (03099-157-At)*	1,667,814	229,828
	03/02/95	22. Disaster Assistance Program - Jackson County, Florida (03099-158-At)*	359,265	359,265
	03/31/95	23. Disaster Assistance Program - Yuba County, California (03600-26-SF)*	484,972	420,255
	06/09/95	24. Large Operator Compliance With Payment Limitation - Georgia (03099-05-Te)	491,680	491,680
	06/22/95	25. Disaster Assistance Program - 1993 Nonprogram Crops - Sutter County, California (03006-01-SF)	1,217,475	1,217,475
	09/07/95	26. A&B Professional Consulting (03004-01-At)	628,976	628,976
	09/07/95	27. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, Illinois, and Rock County, Wisconsin (03099-08-KC)	165,069	165,069

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
	09/08/95	28. Management of the Sumter County, Georgia, Office (03006-05-At)	4,479,035	4,479,035
	09/28/95	29. Disaster Assistance Program - Nonprogram Crops - Lauderdale County, Tennessee (03006-04-At)	1,805,828	1,805,828

*Reported in last semiannual report.

Audits Without Management Decision

1. Payment of Losses on Guaranteed Farmer Program Debt Writedowns, Issued September 30, 1993

FSA staff erroneously paid loss payments to 89 percent of the borrowers we reviewed because they did not have an effective system to preclude or detect errors in computing cash-flow projections, net recovery values, present value of the payments for restructured loans, and the loss amounts. We recommended the agency recover over \$4.5 million. We also recommended that program staff review loss payments from January 1, 1992, until the implementation of our recommendations, clarify regulations over the application of loss to principal before interest, and develop a loss report form for guaranteed loan writedowns. Agency management has completed its review of the cases, and indicated additional overpayments totaling \$2.5 million. However, after more than 2-1/2 years the agency has not yet initiated the collection process.

2. Upland Cotton User Marketing Certificate Program, Issued July 1, 1994

FSA officials have neither satisfactorily responded nor provided suitable alternatives to the recommendations in this report. The recommendations address program abuses occurring under the forward contracting and payment rate-setting provisions of this program. The IG briefed the Secretary on OIG's position, and it was decided to delay action pending deliberation on the new Farm Bill.

3. Marketing Loan Program Objectives and Accomplishments, Issued July 12, 1994

We recommended that FSA staff revise cotton program regulations to determine marketing loan redemption rates based on domestic rather than world cotton prices and seek a legislative change to do the same in the rice program. We also recommended that they revise regulations to stop automatically paying accrued storage on cotton and be consistent with the treatment of other crops. We have expressed our concerns to the Under Secretary for Farm and Foreign Agricultural Services, and the decision was made to delay further action pending deliberations on the new Farm Bill.

4. Servicing Delinquent Farmer Program Accounts, Issued September 30, 1994

We found that FSA staff made improper servicing decisions for borrowers who were approved for net recovery buyouts. As the result of these decisions, eight borrowers were approved for unauthorized benefits (excess writedowns and writeoffs) totaling \$902,188. We recommended that the agency review the borrowers cited in the report, and in consultation with OGC, take appropriate action to recover the unauthorized benefits. Program management agreed and its review is underway.

5. Information Management Consultants Indirect Cost Rate, Issued October 11, 1994

The audit questioned the contractor's accounting for State income tax and indirect employee salaries. The contractor's general and administrative cost pool was overstated and a 1.5-percent reduction was needed. Based on this determination, we recommended that FSA determine how this reduction affects its contract with information management consultants. The contracting officer has not responded as to whether or not the audit-determined rate will be used to close out the contract.

6. Evaluation of Administrative Payment Issues, Issued August 11, 1995

We recommended that FSA, in consultation with the Chief Financial Officer, determine whether the payroll and other administrative expense functions for the non-Federal employees of the new FSA field offices should be transferred from the county office administrative expense to the National Finance Center (NFC) administrative expense systems in New Orleans. OIG is participating on a task force with FSA and the Office of the Chief Financial Officer to determine the feasibility of transferring the payroll and other administrative expense functions to NFC. We will work with FSA to reach management decision after the task force completes its study.

7. Pecan Disaster Losses in Three Texas Counties, Issued September 6, 1995

The audit disclosed that (1) 39 producers falsely certified their production, gross income, acreage, and/or crop share to FSA to receive \$470,214 in excessive payments, (2) 40 producers received overpayments of \$262,282 because assigned yields were based on unacceptable production evidence, and (3) 25 producers received excessive payments of \$233,908 because yields were based on unacceptable production evidence or some producers falsely certified prior years' production. We recommended that FSA recover the overpayments and that county office personnel be given additional training on spot-check performance. FSA officials agreed with the findings and have either collected or are taking action to establish claims for most of the overpayments.

8. Management of Dade County, Florida, ASCS Office, Issued September 18, 1995

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

9. Payment Limitation in Oklahoma, Issued September 19, 1995

The audit identified three producers, including a State committee person, misrepresented to FSA the extent of their involvement in the farming operation of one of the producers. Further, once FSA selected the producer's farming operation for review, the three producers conspired to submit false information to the county committees, FSA end-of-year review team, and State FSA office to support one producer's "actively engaged" and "person" determination. We recommended FSA determine whether the producers engaged in a scheme or device, and recover \$531,834 in unauthorized program payments as well as withhold payments totaling \$69,382. The FSA State committee ruled the producers engaged in a scheme or device and has begun the process of recovering the overpayments.

10. Interest Assistance Program for Guaranteed Farmer Program Loans, Issued September 29, 1995

The audit found the use of cash-flow analyses to make eligibility determinations for interest assistance did not provide assurance that only eligible borrowers were approved and that the proper rate was used. Interest assistance was computed at the beginning of the year by estimating cash-flows from projected crop yields and expenses. However, interest assistance is paid to lenders at yearend or at the end of the production cycle; therefore, we recommended that interest assistance should be based on actual performance. Interest assistance would be obligated at loan approval and amounts would be deobligated and/or paid depending on need determined from actual performance. We are working with FSA officials to reach management decision.

11. Rural Rental Housing Project Operations - W.S. Smith Management Co., Mt. Pleasant, Michigan, Issued August 17, 1995

A company that managed 34 RRH projects improperly charged projects \$74,156 for expenses that should have been covered by management fees. In addition, the management company did not report to RHS an identity of interest relationship between one of the projects it managed and a supplier who provided materials to the project. Also, the district office staff allowed \$26,457 of improper returns on investments for seven projects managed by this company. State officials did not agree with these findings; therefore, the issues have been elevated to the RHS national office for management decision.

12. Rural Rental Housing Project Operations - Sunbury Heights Limited, Wooster, Ohio, Issued May 19, 1995

A management company and a vendor who had an identity of interest with an RRH project charged the project with excess and unallowable costs. These costs included bookkeeping and payroll costs, management fees, membership fees, and other unallowable charges. We recommended that the agency require the borrower to repay the project's funds. We have elevated these issues to the RHS national office for management decision.

13. Rural Rental Housing Project Operations - Alliance Management, Inc., East Lansing, Michigan, Issued August 4, 1995

A management company charged 34 Rural Rental Housing projects unearned management fees of \$113,546 in 1993 and 1994, representing 45 percent of the total management fees which the borrower-owned management company retained, despite the fact that it hired another company to manage the projects while it provided no services to the projects. The management company also improperly charged \$34,059 in unsupported and unallowable expenses to these projects. A second management company, with an identity of interest in a legal firm which had an agreement with the management company, was not disclosed to RHS. We have elevated this issue to the RHS national office for management decision.

14. Issues Identified During Audit of RUS' FY 1994 Financial Statement Requiring Management Action, Issued June 2, 1995

We previously recommended that RUS (formerly REA) officials review and raise, as appropriate, default subsidy rates used to calculate subsidy appropriations which cover the cost of below-market interest rate loans and loan losses in accordance with the Federal Credit Reform Act of 1990. We also recommended RUS track subsidy expense by component (interest, default, reestimate, etc.) for each program fund and suggested RUS eliminate the use of risk group accounts in its general ledger. We are working with the agencies to resolve these issues.

15. Graduation of Community Program Loans, Issued September 27, 1995

We found that RUS was supplanting and competing with credit available at reasonable rates and terms from other reliable commercial sources. During loan servicing, some State staff did not routinely contact private investment lenders who were interested in refinancing the loans we questioned. From a statistically selected sample of 37 loans, we projected that an estimated 4,672 loans, totaling over \$1 billion, met the criteria for refinancing without causing a substantial increase in user rates. We recommended that agency management require the 37 sample loans be refinanced. We are continuing to work with the agency officials to reach management decision.

16. Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management, Issued March 13, 1991

We questioned insurance payments to four entities because the adjuster did not properly adjust the claim or the insured failed to report crop sales. Management decision has been obtained for three cases. The fourth case has been referred to the U.S. attorney for prosecutive determination. Criminal action is completed and we are awaiting information from the agency as to whether further administrative action will be taken.

17. Disaster Program, Nonprogram Crops, Mitchell County, Georgia, Issued September 30, 1993

We found that disaster payments on nonprogram crops, primarily squash, were not proper because producers had reported incorrect (1) crop production, (2) acreages, (3) planting dates, and (4) ownership interest in the crops. Many producers also did not follow recommended farming practices. In 11 cases, the producers were allowed to submit revised acreage reports as much as 17 months after the established reporting dates and to significantly increase their reported acreages. In some instances, it was questionable if the total acreage was planted. County staff accepted the inaccurate information even though, in many cases, other data was readily available that would have shown inaccurate information was provided. FSA officials agreed with our recommendations. However, claims cannot be established until all investigation and/or court actions are completed.

18. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia, Issued January 31, 1994

We identified an individual actively selling Federal crop insurance without a State license. Additionally, one producer received an improper indemnity payment of \$88,631 as a result of incorrectly reporting his production. Several of these matters are under investigation by OIG. Management decision is pending completion of the investigation.

19. Audit of Emergency Conservation Measures in Texas, Issued April 7, 1994

We reported that four producers received ineligible cost shares of approximately \$123,000 because they used a

scheme or device to evade payment limitation provisions of the program. These sample producers also falsely reported the practice costs used to compute the cost-share payments and did not report contributions made by others. Three other producers were overpaid \$18,000 because cost shares were paid for restoration of a cattle corral and dikes along the river, both ineligible cost-share items. The false certification issues are being considered for civil action by the U.S. attorney. FSA plans additional administrative actions after completion of the civil action.

20. Disaster Assistance Program - Autauga County, Alabama, Issued January 18, 1995

We identified program payments of \$628,570 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

21. Disaster Assistance Program - Geneva County, Alabama, Issued January 19, 1995

We identified program payments of \$229,828 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

22. Disaster Assistance Program - Jackson County, Florida, Issued March 2, 1995

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

23. Disaster Assistance Program - Yuba County, California, Issued March 31, 1995

There are two recommendations without management decision, both dealing with the county committee determining whether producer applications for assistance were made in good faith. We recommended that the entire disaster assistance payments be collected if the producers acted in bad faith. Since we referred many of the producers to be investigated, FSA has suspended corrective action on the referred producers pending completion of the investigations.

24. Large Operator Compliance With Payment Limitation - Georgia, Issued June 9, 1995

We reported that a producer and five related producers provided false information to FSA regarding their share of a cotton operation in crop year 1993 to avoid payment limitation provisions. The individuals received \$491,680 in excessive program payments. FSA officials agreed with our recommendations, but claims cannot be established until investigative actions are completed.

25. Disaster Assistance Program - 1993 Nonprogram Crops - Sutter County, California, Issued June 22, 1995

We identified program payments of \$1,217,475 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations; however, claims cannot be established until investigative actions are completed.

26. A&B Professional Consulting, Issued September 7, 1995

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

27. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, Illinois, and Rock County, Wisconsin, Issued September 7, 1995

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

28. Management of the Sumter County, Georgia, Office, Issued September 8, 1995

The audit identified 11 producers who provided inaccurate information and received excessive disaster assistance payments of \$648,683. Also, 17 producers received overpayments of \$437,157, even though they were out of compliance by planting more acreage of certain crops than the maximum allowed. In addition,

21 producers avoided the maximum payment limitation provisions and received excessive payments totaling \$2,164,258. We recommend that FSA recover the excessive payments. FSA is withholding action on these cases pending a review by the U.S. attorney.

**29. Disaster Assistance Program - Nonprogram
Crops - Lauderdale County, Tennessee, Issued
September 28, 1995**

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

Indictments and Convictions

Between October 1, 1995, and March 31, 1996, OIG completed 524 investigations. We referred 413 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 424 indictments and 355 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 355 convictions do not necessarily relate to the 424 indictments. Fines, recoveries/collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled approximately \$35.4 million.

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

Indictments and Convictions October 1, 1995 - March 31, 1996

Agency	Indictments	Convictions*
AMS	2	1
APHIS	4	2
FAS	1	3
FCS	358	287
FS	1	2
FSA	33	31
FSIS	8	15
MULTI**	0	3
NRCS	3	1
OIG	1	1
OO***	1	0
RHS	12	9
Totals	424	355

*This category includes pretrial diversions.

**Multi-agency

***Office of Operations

The OIG Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 2,196 calls and letters. These contacts included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 2 displays the volume and type of the various calls and letters we received, and figure 3 displays the disposition of those complaints.

Figure 2

Hotline Complaints

October 1, 1995, to March 31, 1996
(Total = 2,196)

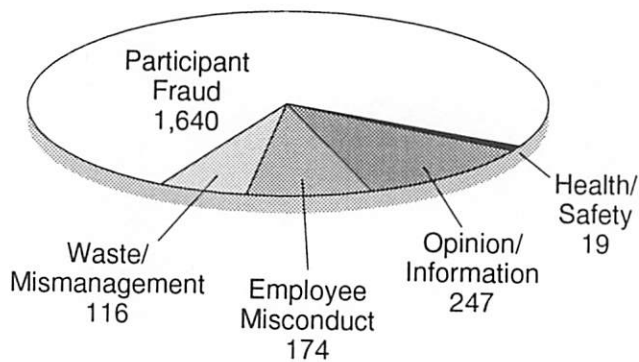
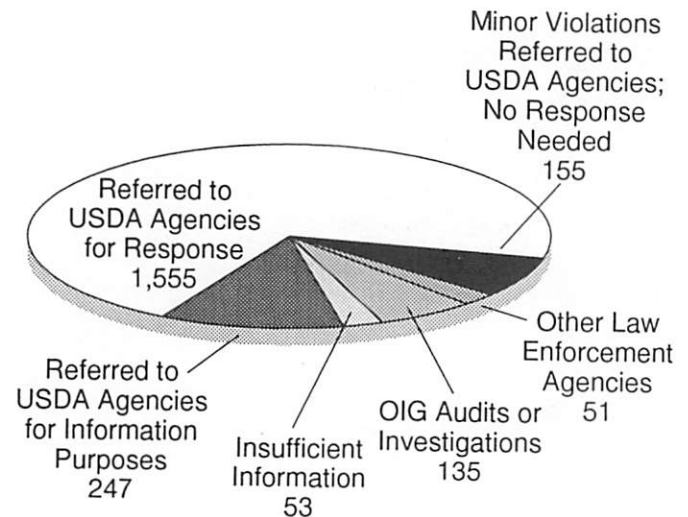


Figure 3

Disposition of Complaints

October 1, 1995, to March 31, 1996



**Freedom of Information Act (FOIA) and Privacy Act (PA) Requests
for the Period October 1, 1995, to March 31, 1996**

Number of FOIA/PA Requests Received 253

Number of FOIA/PA Requests Processed 261

Number of Requests Granted in Full 130

Number of Requests Granted in Part 81

Number of Requests Not Granted 50

Reasons for Denial:

No Records Available 20

Requests Denied in Full 24

Referrals to Other Agencies 6

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

Received 51

Processed 51

Appeals Processed 7

Appeals Granted 0

Appeals Denied in Full 7

Appeals Denied in Part 0

Number of OIG Reports Released 424
in Response to Requests

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

	<u>DOLLAR VALUES</u>		
	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED* COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1995	77	\$2,184,957,032	\$8,201,522
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	66	\$65,374,802	\$1,589,241
TOTALS	<u>143</u>	<u>\$2,250,331,834</u>	<u>\$9,790,763</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	70		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$6,020,377	\$1,226,176
NOT RECOMMENDED FOR RECOVERY		\$643,539,873	\$353,093
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$168,763,098	\$719,420
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	73	\$1,432,103,739	\$7,492,074
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	27	\$1,373,066,747	\$5,902,833

*Unsupported values are included in questioned values.

Appendix II

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

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1995	24	\$1,567,971,221
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	11	\$9,135,372
TOTALS	<u>35</u>	<u>\$1,577,106,593</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	17	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$235,662,243
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$10,384,344
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	18	\$1,331,060,006
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	9	\$1,322,711,515

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 1995, AND MARCH 31, 1996

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 1995, AND MARCH 31, 1996, THE OFFICE OF INSPECTOR GENERAL ISSUED 151 AUDIT REPORTS, INCLUDING 14 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	2			
AGRICULTURAL RESEARCH SERVICE	2			
FARM SERVICE AGENCY	49	\$12,957,637	\$598,706	\$184,746
RURAL HOUSING SERVICE	11	\$4,628,183		\$334,316
FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE	8	\$31,311,568		\$6,091,148
RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE	3	\$7,175		
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	1	\$395,981		\$1,216,513
OFFICE OF OPERATIONS	3			
FOOD AND CONSUMER SERVICE	17	\$7,241,077	\$197,748	\$113,361
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2			\$579,948
MULTI-AGENCY	48	\$8,833,181	\$792,787	\$615,340
OFFICE OF INFORMATION RESOURCES MANAGEMENT	1			
TOTALS	151	\$65,374,802	\$1,589,241	\$9,135,372
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	103			
MULTI-AGENCY	48			
TOTAL RELEASED NATIONWIDE	151			
TOTAL COMPLETED UNDER CONTRACT ^b	14			
TOTAL SINGLE AUDIT ISSUED ^c	41			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 1995, AND MARCH 31, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE				
01-016-0001-CH 96/01/29	DAIRY GRADING ACTIVITIES			
01-099-0001-AT 95/12/07	COTTON BOARD - COTTON RESEARCH AND PROMOTION	—	—	—
TOTAL: AGRICULTURAL MARKETING SERVICE		<u>2</u>		
AGRICULTURAL RESEARCH SERVICE				
02-017-0002-HY 96/03/04	INCURRED COST BURNS/ROE SVCS. CORP.(PLUM ISLAND) FY 91 AND 92			
02-801-0001-AT 95/12/05	THRIFTY FOOD PLAN CALCULATIONS	—	—	—
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>2</u>		
FARM SERVICE AGENCY				
03-004-0001-KC 96/02/06	1994 DISASTER ASSISTANCE PROGRAM IN MISSOURI	\$90,018		
03-004-0002-AT 96/03/20	DISASTER ASSISTANCE PAYMENTS, SC STATE OFFICE	\$231,262		
03-004-0002-KC 95/12/19	1994 DISASTER ASSISTANCE PROGRAM IN SOUTH DAKOTA	\$7,598		
03-006-0001-TE 96/01/02	1993 CROP DISASTER PAYMENTS - BROOKS/ JIM HOGG COS., TX	\$2,469,829		
03-006-0002-KC 96/01/08	DISASTER ASSISTANCE PROGRAM IN FOSTER COUNTY, ND			
03-006-0002-SF 96/03/29	DISASTER ASSISTANCE PROGRAM - 1994 - FRESNO COUNTY, CA	\$661,867		
03-006-0003-SF 96/02/23	DISASTER ASSISTANCE PROGRAM - 1994 - TEHAMA COUNTY, CA	\$41,812		
03-006-0004-TE 96/01/03	1994 DISASTER ASSISTANCE PROGRAM - UVALDE CO, TX	\$98,404		
03-006-0005-TE 96/03/15	1994 DISASTER ASSISTANCE PROGRAM - JEFFERSON COUNTY, OK	\$45,774	\$806	
03-006-0006-TE 96/01/04	1994 DISASTER ASSISTANCE PROGRAM - FRANKLIN PARISH, LA	\$155,280		
03-006-0007-TE 95/10/04	1994 DISASTER ASSISTANCE PROGRAM - ZAVALA CO, TX	\$77,508		
03-006-0008-AT 95/11/29	DISASTER ASSISTANCE PROGRAM, TELFAIR COUNTY, GA	\$44,148		
03-006-0009-TE 96/03/15	1994 DISASTER ASSISTANCE PROGRAM - MCINTOSH COUNTY, OK	\$82,207		
03-006-0010-TE 96/03/12	1994 DISASTER ASSISTANCE PROGRAM - CHAVES COUNTY, NM	\$15,641		
03-006-0011-TE 95/11/30	1994 DISASTER ASSISTANCE PROGRAM - TANGIPAHOA PARISH, LA			
03-006-0014-AT 96/03/26	1994 DISASTER ASSISTANCE PROGRAM/GRADY CO, GA	\$223,767		
03-006-0016-AT 96/03/27	DISASTER ASSISTANCE PROGRAM, 1994 - BROOKS COUNTY, GA	\$258,794		
03-017-0003-AT 95/12/14	LIGGETT GROUP INC., DOMESTIC TOBACCO - CONTENT OF U.S. MANUFACTURED CIGARETTES			
03-017-0005-AT 95/12/14	LORILLARD TOBACCO COMPANY, DOMESTIC TOBACCO CONTENT OF U.S. MANUFACTURED CIGARETTES			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 1995, AND MARCH 31, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
03-017-0007-AT 95/12/20	PEANUT PRICE SUPPORT PROGRAM, GFA PEANUT ASSOCIATION, CAMILLA, GA - CROP YEAR 1993			
03-099-0001-AT 96/02/05	DISASTER ASSISTANCE PAYMENTS - NONPROGRAM CROPS, GILCHRIST COUNTY, FL	\$382,062		\$184,746
03-099-0002-AT 95/12/14	DOMESTIC TOBACCO CONTENT OF U.S. MANUFACTURED CIGARETTES: R.J. REYNOLDS TOBACCO CO.			
03-099-0002-FM 96/02/20	EVALUATION OF SELECTED SECTION 8(A) CONTRACT AWARDS			
03-099-0002-KC 96/01/05	1994 AGRICULTURAL CONSERVATION PROGRAM ACTIVITIES IN MISSOURI	\$12,215		
03-099-0002-TE 96/03/15	WOOL AND MOHAIR PAYMENT LIMITATION, CONCHO COUNTY, TX	\$2,072,103	\$118,065	
03-099-0006-KC 96/02/06	EMERGENCY CONSERVATION PROGRAM IN IOWA	\$4,015		
03-099-0009-KC 95/10/12	LARGE OPERATORS COMPLIANCE WITH PAYMENT LIMITATION PROVISIONS IN GRAY COUNTY, KS	\$386,778		
03-099-0013-KC 95/12/19	FARMER OWNED RESERVE AND RELATED LOANS	\$262,374		
03-099-0017-KC 96/01/09	1994 AGRICULTURAL CONSERVATION PROGRAM ACTIVITIES IN KANSAS	\$4,990		
03-099-0018-KC 96/01/23	EMERGENCY CONSERVATION PROGRAM IN MISSOURI	\$37,364		
03-601-0001-AT 96/03/12	DAIRY REFUND PAYMENT PROGRAM			
03-601-0001-SF 96/02/09	DAIRY REFUND PAYMENT PROGRAM - 1993 AND 1994 PROGRAM YEARS - STATE OF CALIFORNIA			
03-601-0001-TE 95/10/25	FO AND OLS FOR SOCIALLY DISADVANTAGED PERSONS			
03-601-0002-KC 96/03/29	LARGE OPERATORS COMPLIANCE WITH PAYMENT ELIGIBILITY/LIMITATION PROVISIONS			
03-601-0003-KC 96/03/29	LARGE OPERATORS COMPLIANCE WITH CROP INSURANCE REQUIREMENTS	\$295,020		
03-601-0005-TE 96/01/18	DAIRY REFUND PAYMENT PROGRAM IN ARIZONA			
03-601-0006-TE 96/01/30	DAIRY REFUND PAYMENT PROGRAM IN NEW MEXICO	\$271,526		
03-801-0001-SF 96/03/28	CATASTROPHIC RISK PROTECTION PROGRAM - CALIFORNIA			
03-801-0002-AT 96/03/26	FCIC REFORM ACT OF 1994			
03-801-0002-KC 96/03/26	CATASTROPHIC RISK PROTECTION PROGRAM IN MISSOURI			
03-801-0002-TE 96/03/29	CASH/SHARE LEASE PROVISIONS FOR FARMS	\$1,076,557		
03-801-0005-TE 96/03/29	EVALUATION OF LOAN RESOLUTION TASK FORCE OPERATIONS			
03-801-0009-TE 96/01/29	DAIRY REFUND PAYMENT PROGRAM	\$37,665		
03-801-0011-TE 96/03/08	IMPLEMENTATION OF FCI REFORM ACT OF 1994 BY THE CFSA LOCAL OFFICES			
03-801-0013-TE 96/01/09	IMPLEMENTATION OF FEDERAL CROP INSURANCE REFORM ACT OF 1994 BY CFSA OFFICES IN TEXAS			
03-801-0015-TE 96/03/29	TEXAS AGRICULTURAL MEDIATION PROGRAM	\$964,878	\$479,835	
03-801-0016-TE 96/03/29	IMPROPER HANDLING OF LOANS IN TEXAS	\$2,646,181		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 1995, AND MARCH 31, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
06-401-0004-FM 96/03/01	FY 1995 FCIC FINANCIAL STATEMENT AUDIT			
06-401-0005-FM 96/03/15	MANAGEMENT ISSUES IDENTIFIED DURING AUDIT OF FY 1995 FCIC FINANCIAL STATEMENTS			
TOTAL: FARM SERVICE AGENCY		<u>49</u>	<u>\$12,957,637</u>	<u>\$598,706</u> <u>\$184,746</u>
RURAL HOUSING SERVICE				
04-004-0001-CH 95/10/23	RH - LOAN APPROVALS, MICHIGAN	\$2,000,000		\$206,933
04-005-0001-SF 96/03/28	PARKVIEW PROPERTIES, LTD - FY 95 FINANCIAL STATEMENTS			
04-005-0002-SF 96/03/25	CITRUS MANOR DEVELOPMENT - FY95 FINANCIAL STATEMENTS			
04-010-0005-CH 95/12/20	RRH PROJECT OPERATIONS - CROIX MANAGEMENT CO., MN	\$17,235		
04-010-0006-CH 95/10/23	RRH PROJECT OPERATIONS - LANSING MGMT. CO., MI	\$57,178		\$127,383
04-010-0008-CH 96/03/08	RRH PROJECT OPERATIONS - BROOKS/DIETZE DEVELOPMENT CO, MI	\$55,133		
04-010-0009-CH 96/03/14	RRH PROJECT MANAGEMENT - AJY MGMT. CO., MO \$42,477			
04-099-0001-HQ 96/02/01	LEGISLATIVE PROPOSAL ANALYSIS			
04-099-0001-HY 95/11/07	RURAL HOUSING PROGRAM	\$2,456,160		
04-099-0003-HY 95/11/03	RH&CDS, RURAL RENTAL HOUSING, SPECIAL REVIEW OF SUNNYSIDE MANOR			
04-801-0002-TE 96/03/28	EMPOWERMENT ZONES - ENTERPRISE COMMUNITIES			
TOTAL: RURAL HOUSING SERVICE		<u>11</u>	<u>\$4,628,183</u>	<u>\$334,316</u>
FOREIGN AGRICULTURAL SERVICE				
07-801-0002-TE 96/03/25	ACCOUNTABILITY FOR FUNDS TRANSFERRED FOR NIS PROGRAMS			
TOTAL: FOREIGN AGRICULTURAL SERVICE		<u>1</u>		
FOREST SERVICE				
08-017-0002-SF 96/02/14	SETTLEMENT PROPOSAL - PROWEST DIVERSIFIED, INC., BEND, OR			\$317,015
08-099-0004-TE 96/03/29	NATIONAL TREE TRUST, WASHINGTON, D.C.	\$30,699,995		\$2,396,000
08-601-0001-AT 96/03/29	MANAGEMENT OF HAZARDOUS WASTE AT ACTIVE AND ABANDONED MINES			\$1,950,000
08-601-0003-AT 96/03/27	STATE AND PRIVATE FORESTRY GRANTS			\$1,428,133
08-601-0008-SF 96/03/11	TIMBER THEFT PREVENTION CONTROLS			
08-601-0011-SF 95/11/22	FOREST SERVICE LAND PURCHASES			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
08-601-0012-SF 95/12/06	GRANTS FOR STATE AND PRIVATE FORESTRY - PACIFIC NORTHWEST REGION, PORTLAND, OR		\$611,573		
08-601-0014-SF 95/11/06	FEDERAL EXCESS PERSONAL PROPERTY				
TOTAL: FOREST SERVICE		<u>8</u>	<u>\$31,311,568</u>	<u> </u>	<u>\$6,091,148</u>
RURAL UTILITIES SERVICE					
09-001-0001-TE 96/03/22	RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAM				
TOTAL: RURAL UTILITIES SERVICE		<u>1</u>	<u> </u>	<u> </u>	<u> </u>
NATURAL RESOURCES CONSERVATION SERVICE					
10-004-0002-KC 95/12/05	COLORADO RIVER SALINITY CONTROL PROGRAM COST SHARE LIMITATION IN WYOMING				
10-004-0003-KC 96/01/12	COLORADO RIVER SALINITY CONTROL PROGRAM COST SHARE LIMITATION IN UTAH		\$7,175		
10-017-0002-KC 95/10/24	FOLLOWUP REVIEW OF MBI CORPORATION				
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		<u>3</u>	<u>\$7,175</u>	<u> </u>	<u> </u>
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-099-0001-FM 96/02/01	VERIFICATION OF DATA INPUT INTO NFC PAYROLL/ PERSONNEL SYSTEMS				
11-401-0001-FM 96/02/29	AUDIT OF FY 1995 NFC GENERAL CONTROLS				
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		<u>2</u>	<u> </u>	<u> </u>	<u> </u>
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE					
13-801-0001-HY 96/02/16	EVALUATION OF SPECIAL RESEARCH GRANT - OREGON-MASSACHUSETTS BIOTECH PARTNERSHIP		\$395,981		\$1,216,513
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE		<u>1</u>	<u>\$395,981</u>	<u> </u>	<u>\$1,216,513</u>
OFFICE OF OPERATIONS					
23-017-0001-HY 95/10/18	TERMINATION PROPOSAL FOR MACRO INTERNATIONAL				
23-017-0003-HY 95/10/02	TERMINATION PROPOSAL - THE PRUITT CORPORATION				
23-017-0005-HY 96/02/29	FU ASSOCIATES, LTD. - TERMINATION SETTLEMENT				
TOTAL: OFFICE OF OPERATIONS		<u>3</u>	<u> </u>	<u> </u>	<u> </u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FOOD AND CONSUMER SERVICE				
27-002-0001-CH 96/02/14	NATIONAL SCHOOL LUNCH PROGRAM PROCUREMENT THROUGH COOPERATIVES			
27-002-0001-KC 96/01/05	FOOD DISTRIBUTION PROGRAM AT INDIAN TRIBAL ORGANIZATIONS (ITO)	\$6,973		
27-002-0002-KC 96/03/25	WIC - ADP COSTS - JEFFERSON CITY, MO	\$614,744	\$106,197	
27-002-0002-SF 96/02/07	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	\$72,646		\$113,361
27-002-0003-KC 96/01/29	WIC CERTIFICATION PROCESS AND ADMINISTRATIVE COSTS - COLORADO	\$467,057	\$17,830	
27-004-0001-HY 95/11/06	CHILD NUTRITION PROGRAMS - STATE ADMINISTRATIVE EXPENSE FUNDS	\$238,397		
27-004-0003-TE 96/01/24	DATA BASE ANALYSIS IN TEXAS, AUSTIN, TX	\$72,146		
27-017-0001-HY 95/11/08	INCURRED COST FYS 91 AND 92 - ABT ASSOCIATES, INC.			
27-017-0002-HY 95/11/08	FY 1992-1993, INCURRED COST AUDIT OF POLICY RESEARCH, INC.			
27-017-0004-HY 96/03/01	FY 1994 INCURRED COST AUDIT OF MATHEMATICA POLICY RESEARCH			
27-017-0005-HY 96/03/19	PRE-AWARD AUDIT OF AMERICAN BANKNOTE CO.			
27-099-0001-CH 96/02/29	CNP - FOOD SERVICE MANAGEMENT COMPANIES	\$435,087	\$73,721	
27-099-0001-HY 95/12/07	EMERGENCY FOOD STAMP PROGRAM - U.S. VIRGIN ISLANDS			
27-401-0002-HY 95/12/07	FCS FY 1994 MANAGEMENT LETTER			
27-601-0001-AT 95/12/20	FSP - ERROR RATE REDUCTION ACTIVITIES			
27-601-0003-CH 96/03/22	DISQUALIFIED RECIPIENT SYSTEM			
27-801-0001-AT 96/03/08	STRATEGIC MONITORING OF EBT SYSTEM DEVELOPMENTS	\$5,334,027		
TOTAL: FOOD AND CONSUMER SERVICE		<u>17</u>	<u>\$7,241,077</u>	<u>\$197,748</u>
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-017-0001-HY 96/02/29	INCURRED COST AUDIT OF LANCON CONSTRUCTION CO			
33-017-0001-KC 95/10/25	PREAWARD AUDIT ON RFP NO. APHIS-OTB-001 FOR ISA PROJECT			\$579,948
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>2</u>		<u>\$579,948</u>
MULTI-AGENCY				
50-018-0001-SF 95/10/16	A-128 AUDIT OF STATE OF HAWAII - DEPT. OF AGRICULTURE - DESK REVIEW - FOR FYE 6/30/94			
50-018-0002-HY 96/02/12	PUERTO RICO DEPARTMENT OF AGRICULTURE, A-128 SFYE JUNE 30, 1993	\$1,740,566		

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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-018-0002-KC 95/10/16	A-128 WY DEPARTMENT OF AGRICULTURE (2 FY ENDED 6/94) CHEYENNE, WY	\$98		
50-018-0002-SF 95/11/13	A-128 AUDIT OF STATE OF IDAHO - DEPARTMENT OF LANDS - FOR FYE 6/30/92, 6/30/93, AND 6/30/94			
50-018-0003-SF 95/11/15	A-128 AUDIT OF STATE OF IDAHO - DEPARTMENT OF AGRICULTURE - DESK REVIEW - FOR FYE 6/30/94			
50-018-0004-SF 96/01/04	A-128 AUDIT OF CITY OF SAN JOSE, CA FOR FYE 6/30/95			
50-020-0004-AT 95/10/01	A-128, AUDIT OF THE COMMONWEALTH OF KENTUCKY, FOR FYE 6/30/93			
50-020-0006-KC 95/10/11	A-128 STATE OF MISSOURI (FY 6/94) JEFFERSON CITY, MO	\$932,377		
50-020-0007-KC 95/10/23	A-128 STATE OF SOUTH DAKOTA (6/94) PIERRE, SD	\$311,222		
50-020-0008-KC 96/02/06	A-128 - STATE OF COLORADO (FY 6/94) DENVER, CO			
50-020-0009-KC 96/03/04	A-128 WYOMING DEPARTMENT OF HEALTH (FY 6/95) CHEYENNE, WY			
50-020-0010-AT 95/10/02	A-128 AUDIT REPORTS OF STATE OF TN, FYE'S 6/30/94 AND 6/30/93			
50-020-0010-HY 95/11/22	STATE OF RHODE ISLAND & PROVIDENCE PLANTATION A-128, FYE 6/30/91	\$45,770		
50-020-0010-KC 96/03/04	A-128 STATE OF NORTH DAKOTA (2 FY'S 6/94) BISMARCK, ND	\$101,581		
50-020-0011-AT 95/10/04	A-128 AUDIT OF THE STATE OF SOUTH CAROLINA FOR FYE 6/30/94			
50-020-0011-HY 96/02/02	STATE OF MAINE, A-128, JUNE 30, 1992	\$46,200		
50-020-0012-AT 95/12/01	A-128 AUDIT OF FLORENCE COUNTY, SC, FOR FYE 6/30/94			
50-020-0012-HY 96/02/09	STATE OF MAINE, A-128, JUNE 30, 1993	\$79,585		
50-020-0013-AT 96/01/11	A-128 AUDIT OF THE STATE OF NORTH CAROLINA FOR FYE 6/30/94			
50-020-0013-HY 96/02/09	STATE OF MARYLAND, A-128 6/30/94			
50-020-0014-AT 96/02/13	A-128 AUDIT OF THE STATE OF ALABAMA, FOR 2 FYE'S 9/30/94			
50-020-0014-HY 96/03/21	STATE OF NEW YORK, A-128, 3/31/93			
50-020-0015-AT 96/03/06	A-128 AUDIT OF SC GOVERNOR'S OFFICE, FOR FYE 6/30/94			
50-020-0015-HY 96/03/21	COMMONWEALTH OF VIRGINIA, A-128, FYE 6/30/94	\$191,979	\$188,292	
50-020-0017-HY 96/03/27	STATE OF CONNECTICUT, A-128, 6/30/93	\$1,457,801	\$39,217	
50-020-0019-SF 95/10/03	A-128 AUDIT OF THE DEPARTMENT OF HUMAN SERVICES, STATE OF HAWAII - FYE 6/30/94			
50-020-0020-SF 95/10/03	A-128 AUDIT OF THE REPUBLIC OF PALAU NATIONAL GOVERNMENT - FOR FYE 9/30/94			
50-020-0021-SF 95/10/17	A-128 AUDIT OF THE STATE OF CALIFORNIA - STATEWIDE - FOR FYE 6/30/94	\$1,262		
50-020-0022-SF 95/10/18	A-128 AUDIT OF THE STATE OF ARIZONA - FYE 6/30/94	\$20,917		
50-020-0023-SF 95/10/20	A-128 AUDIT OF THE STATE OF ALASKA - STATEWIDE FOR FYE 6/30/94	\$9,911		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0024-SF 95/10/20	A-128 AUDIT - COMMONWEALTH OF NORTHERN MARIANAS - PUBLIC SCHOOL SYSTEM - FYE 9/30/93			
50-020-0025-SF 95/11/21	A-128 AUDIT OF LEUPP SCHOOLS, INC.	\$688,315		
50-020-0026-SF 96/01/23	A-128 AUDIT OF GOVERNMENT OF GUAM FOR FYE 9/30/91	\$154,454	\$150,114	\$615,340
50-020-0027-SF 96/02/28	A-128 AUDIT OF GOVERNMENT OF GUAM FOR FYE 9/30/92	\$435,908	\$415,164	
50-020-0028-SF 96/01/10	A-128 AUDIT OF HOOPA VALLEY TRIBE FOR FYE 9/30/94	\$336		
50-020-0029-SF 96/03/18	A-128 AUDIT OF THE FEDERATED STATES OF MICRO- NESIA NATIONAL GOVERNMENT FOR FYE 9/30/94			
50-023-0001-AT 95/12/04	A-133 AUDIT OF MISSISSIPPI STATE UNIVERSITY, FOR FYE 6/30/94			
50-023-0002-AT 96/02/23	A-133 AUDIT OF MARSHALL COUNTY WATER ASSOC., INC., MS, FYE 12/31/94			
50-023-0003-AT 96/02/23	A-133 AUDIT OF KENTUCKY STATE UNIVERSITY, FYE 6/30/95			
50-023-0003-SF 95/10/05	A-133 AUDIT OF THE UNIVERSITY OF HAWAII - FOR FYE 6/30/94	\$151,999		
50-023-0004-SF 95/11/24	A-133 AUDIT OF THE UNIVERSITY OF GUAM FOR THE FYE 9/30/94			
50-099-0001-AT 95/11/13	USE OF COOPERATIVE AGREEMENTS	\$2,462,900		
50-099-0001-FM 96/01/24	USDA MANAGEMENT DECISION AND FINAL ACTION PROCESS			
50-099-0002-AT 95/12/14	REQUIREMENTS OF PUBLIC LAW 101-121			
50-099-0002-FM 96/01/22	AUDIT OF NFC COST ALLOCATION AND BILLING			
50-099-0002-KC 96/03/29	EARLY RELEASE OF LAND FROM THE CONSERVATION RESERVE PROGRAM			
50-099-0004-AT 96/03/01	MEAT AND POULTRY INSPECTION TRACEBACK PROCEDURES			
50-401-0006-FM 96/03/01	FY 1995 RECD FINANCIAL STATEMENT AUDIT - FINANCE OFFICE			
TOTAL: MULTI-AGENCY		<u>48</u>	<u>\$8,833,181</u>	<u>\$792,787</u> <u>\$615,340</u>
OFFICE OF INFORMATION RESOURCES MANAGEMENT				
58-009-0001-FM 96/02/26	NCC GENERAL CONTROL REVIEW - FISCAL YEAR 1995			
TOTAL: OFFICE OF INFORMATION RESOURCES MANAGEMENT		<u>1</u>		
TOTAL: RELEASE - NATIONWIDE		<u>151</u>	<u>\$65,374,802</u>	<u>\$1,589,241</u> <u>\$9,135,372</u>