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FY 1998—First Half





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



April 30, 1998

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

Dear Mr. Secretary:


I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period which ended March 31, 1998.

During this period, our audits and investigations yielded approximately \$65.7 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional \$84.5 million to better use. We also identified \$36.5 million in questioned costs that cannot be recovered. Our investigations produced 289 indictments and 271 convictions.

This reporting period, we began three ongoing Presidential initiatives to root out abuse in three programs. One initiative, Operation Talon, is already resulting in the large-scale arrest of fugitive felons who are illegally receiving food stamps; a second is detecting significant fraud committed by a number of Child and Adult Care Food Program sponsors around the country; and we recently began a joint effort with the Rural Housing Service to uncover program fraud and hazardous living conditions in the Rural Rental Housing Program.

I extend my continuing appreciation to you and the Deputy Secretary for your support of our agency. In addition, I wish to thank all the members of the Senate and the House of Representatives with whom we have had discussions on a number of matters and who have offered their support.

Sincerely,

  
ROGER C. VIADERO  
Inspector General

Enclosure

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# Executive Summary

This is the 39th 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, 1997, through March 31, 1998.

## Monetary Results

During this reporting period, we issued 112 audit and evaluation reports and reached management decisions on 107. Based on this work, management officials agreed to recover \$27.4 million and to put an additional \$84.5 million to better use.

We also issued 394 reports of investigation during this period. Our investigative efforts resulted in 289 indictments, 271 convictions, and approximately \$38.3 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

## Presidential Initiatives

This reporting period, we began three ongoing Presidential initiatives to root out abuse in three programs. One initiative is already resulting in the large-scale arrest of fugitive felons who are illegally receiving food stamps; a second is detecting significant fraud committed by a number of Child and Adult Care Food Program (CACFP) sponsors around the country; and a third, being conducted jointly with the Rural Housing Service (RHS), is aimed at uncovering misuse of funds and hazardous living conditions in the Rural Rental Housing (RRH) Program.

Operation Talon was initiated by the Inspector General in response to the changes made by Welfare Reform and was designed to locate and apprehend fugitives who were receiving food stamps. As of March 30, 1998, a total of 2,446 fugitive felons had been arrested, most of whom were current or former food stamp recipients. The fugitives arrested during Operation Talon have included dangerous felons wanted for murder, child molestation, rape, and kidnapping, and over one-third of those arrested were sought in connection with violent crimes or illegal drug activity. At a White House press conference in December 1997, Vice President Al Gore announced the results of the first phase of Operation Talon to that time. Following the announcement, OIG and the Food and Nutrition Service (FNS) informed all States of the benefits of conducting similar matches.

Recent OIG audits of CACFP sponsors, some of whom were suspected of fraud and/or program mismanagement, have uncovered a widespread breakdown of controls over CACFP, and, as a result, OIG has launched a national initiative to identify the extent of abuse in the program. This period, one official of a California sponsoring organization was sentenced to 3 years in prison, and her husband, the second sponsor official, was sentenced to 2 years. The couple was also ordered to pay \$2.2 million in restitution. Two additional sponsor officials were sentenced to 7 months each in prison and ordered to pay a total of \$60,000 in restitution. A sponsor in Idaho pled guilty to submitting false claims totaling \$63,000, and is awaiting sentencing. The second phase of our initiative is yielding good results, and, in addition, a number of other cases have come to our attention independently of our "sweeps."

We recently began a joint effort with RHS to uncover program fraud and hazardous living conditions in the RRH Program. Spearheading this ongoing initiative are 24 teams—each consisting of an OIG auditor, an OIG investigator, and a State Rural Development representative—in 12 States. Over the past few years, OIG and RHS have identified numerous owners/managers and management companies who fraudulently charge expenses to their projects while allowing their projects to physically deteriorate. Recent passage of amendments to the Housing Act of 1949 enabled the Inspector General and the Under Secretary for Rural Development to take aggressive action to identify and refer for prosecution those who engage in this illegal activity.

## Investigative Efforts

During this period, a former employee of the Forest Service (FS) and a self-employed aircraft broker were found guilty of conspiracy to defraud FS of 28 aircraft. The former FS employee was sentenced to 2 years in prison and 3 years' probation, and the aircraft broker to 30 months in prison and 3 years' probation. The 28 aircraft had an estimated value of between \$22 million and \$28 million. The scheme involved the creation of an illegal Historic Aircraft Exchange Program, which was used to transfer surplus aircraft from the Department of Defense to airtanker companies with whom FS contracted to fight forest fires. The scheme was carried out by the airtanker companies exchanging non-flight-worthy aircraft for flight-worthy FS aircraft.

An individual in Oregon pled guilty to two homicides and is serving two life sentences after an investigation by OIG provided information critical to his prosecution. The OIG investigation verified that the individual, a regular freight train rider, had obtained food stamps and other benefits under the names of various fellow transients who were subsequently determined to have been murdered. The subject confessed to numerous homicides throughout the country and admitted that one of the reasons he killed his fellow freight train riders was to use their identities to collect food stamps and other welfare benefits. The subject is also under indictment in Florida and Kansas for homicide.

In Detroit, Michigan, a grocery store owner pled guilty to conspiracy to traffic in food stamps; he laundered \$13 million worth of food stamps through his store between 1990 and 1995. He and the owners of six other stores in the area purchased and routinely transferred between themselves unlawfully acquired food stamps totaling \$24 million. The store owner was sentenced to 2 years' confinement and ordered to pay \$13 million restitution to USDA.

Two separate meat inspection cases in Pennsylvania and New York resulted in guilty pleas this period. The owner of a Pennsylvania slaughterhouse pled guilty to conspiracy, while three employees pled guilty to violating the Federal Meat Inspection Act. They slaughtered 3-D (dying, down, or diseased) cattle during evening hours after the FSIS inspector had left the premises and then commingled the unwholesome meat with federally inspected meat and sold it as federally inspected product. In northern New York, the Food Safety and Inspection Service (FSIS) inspector assigned to a beef slaughter operation pled guilty to accepting bribes from the owner of the plant to permit the slaughter of livestock, including 3-D cows, without the benefit of inspection. The inspector has been terminated from his position with FSIS and was sentenced to confinement, probation, and community service, and fined \$17,000.

In some other significant cases, 16 people in New Jersey who owned or operated 10 stores involved in fraudulent electronic benefits transfer (EBT) transactions, estimated at \$6.5 million, entered guilty pleas, and a principal defendant was sentenced to 14 months' imprisonment. In an over \$2 million mohair fraud case in Texas, a father was sentenced to serve 40 months in jail and ordered to pay more than

\$1.5 million restitution, his son was sentenced to serve 24 months in jail and ordered to pay nearly \$1 million restitution, and another defendant has paid a total of more than \$368,400 restitution. In a continuing case, also in Texas, two more persons have been sentenced for defrauding the Farm Service Agency (FSA) under the disaster assistance program: One was sentenced to serve 18 months' imprisonment and ordered to pay \$152,400 restitution; the other farmer was sentenced to serve 2 months in jail and ordered to pay \$65,100 restitution.

In two separate "buy-bust" cases in Ohio, store owners and managers were arrested for having illegally purchased hundreds of cases of Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) formula and hundreds or thousands of cartons of untaxed cigarettes. The owner and the manager of the first "buy-bust" case pled guilty to racketeering and trafficking in WIC benefits and untaxed cigarettes. The owner and manager in the second case pled guilty to trafficking in WIC benefits and untaxed cigarettes.

In a San Diego, California, case related to the substitution of Mexican strawberries for U.S. domestic strawberries in the USDA School Lunch Program, the company and its president/owner have pled guilty to the submission of false claims to USDA.

In Washington State, a prominent local attorney is awaiting sentencing after he pled guilty to making false statements, receiving kickbacks, and filing a false Federal income tax return related to his role in building 65 apartment projects in 20 States under the RRH program. Our investigation disclosed that he diverted \$176,000 from four RHS loans, received kickbacks from the bank where loan funds were deposited, submitted fictitious invoices to conceal the kickbacks, and failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return. In a related case, a contractor was sentenced to home confinement and to make restitution of nearly \$22,400 after he pled guilty to filing false statements and filing a false Federal income tax return.

### **Audit Efforts**

We previously reported that National Resources Conservation Service (NRCS) activities for the 15th Conservation Reserve Program (CRP) signup exhibited significant control weaknesses. We identified

approximately 2,900 offers nationwide with annual rental payments totaling about \$13 million that were at risk of incorrect acceptance into CRP. We were unable to obtain a commitment from the two responsible Under Secretaries to require FSA and NRCS to conduct an in-depth assessment of the policies of five States identified with a large number of offers that were at risk of incorrect acceptance. FSA did indicate that all offices were surveyed and reported that all known cases of offers initially considered acceptable, but later determined unacceptable, totaled 943. NRCS took action to address some but not all the conditions identified in the management alerts issued to date.

In the spring of 1997, a Member of Congress from the State of Washington expressed deep concern over the wide discrepancy in the 15th signup acceptance rates for Washington compared to surrounding States. As a result, we initiated a review and found that Environmental Benefits Index (EBI) variances, coupled with soil erodibility differences, caused the acceptance rate in Washington (21 percent of acres offered) to be much less than the acceptance rate in Oregon (82 percent of acres offered). For the 16th signup, NRCS conducted reviews of the scoring matrices for cover and threatened and endangered species submitted by each State. Early results of the 16th signup show that the acceptance rate significantly improved for Washington offers.

We previously reported that during reviews of four certified State programs, OIG was denied records even though the mediation grant agreements give USDA officials full access to mediation records. After the release of our report, USDA's Office of the General Counsel (OGC) issued an opinion that USDA and any of its authorized representatives shall have the right of access to pertinent records. FSA notified all certified State programs of OGC's determination and made arrangements for the States to provide the names and addresses of mediation participants and the purpose and results of mediation. Our subsequent review of county office files of borrowers and producers who participated in mediation revealed that State mediation programs were an effective tool to help resolve USDA-related issues in dispute; however, the agricultural mediation program continues to need strengthening in some areas. FSA is in the process of issuing revised mediation regulations that will clearly require States to provide USDA representatives access to records and clarify the types of mediation services eligible for reimbursement.

During the spring of 1996, the Coastal Bend area in south Texas experienced a severe drought that impacted the three primary crops in the area: corn, cotton, and grain sorghum. We received complaints that insurance agents were using a loophole in the standard crop insurance policy to give insureds in this area an unfair advantage. A review noted that improper seed viability determinations were made by loss adjusters (resulting in questioned costs of about \$5 million), producers did not plant the original insured crop (bringing into question payments of nearly \$1 million), and crops were destroyed without the consent of reinsurance companies (resulting in overpayments of \$164,000). The Risk Management Agency (RMA) has issued initial findings to the applicable insurance companies, requesting refunds of all payments made.

During this period, it was reported that the State of Washington claimed Federal reimbursement of \$5.6 million, of which almost \$1.8 million related to the Food Stamp Program (FSP), for unallowable costs relating to training contracts. The State used unallowable third-party "contributions" to meet matching requirements, which, in this case, were services that the State said were undervalued, claiming the higher amount for matching. The State also claimed other unallowable costs. We recommended that FNS recover the approximately \$1.8 million in questioned costs, the FNS regional office agreed, and it billed the State agency. The State agency has appealed the FNS billing to the State Food Stamp Appeals Board, and the claim is currently pending an administrative review decision.

In Illinois and Wisconsin, better controls are needed to protect the quality of USDA-donated commodities used for the National School Lunch and School Breakfast Programs. Illinois did not provide the oversight necessary to identify improper storage practices and temperatures, and to correct sanitation deficiencies at the State-contracted warehouse, thereby jeopardizing the quality and potentially the wholesomeness of 3.4 million pounds of frozen commodities valued at \$3.2 million. Illinois also did not ensure that the oldest commodities in storage were used first and that commodities were not ordered in excessive quantities. Wisconsin did not adequately monitor commodity usage and maintain accurate records of commodities in storage. FNS generally agreed with our recommendations for monitoring the States' oversight of USDA-donated commodities.



Almost 7 years after passage of the National Forest Foundation (NFF) Act, and expenditures of over \$4.1 million in Federal funds, private financial support for the foundation has declined and reliance on funding from FS for its administrative costs has increased. We are concerned that if NFF continues to operate in this manner, the benefits of the relationship between FS and NFF will be outweighed by the existing and potential costs of the relationship. Also, because FS did not manage the agreements with NFF in accordance with laws and regulations, \$1.2 million in Federal funds was not matched by NFF, and NFF has not implemented a financial management system that meets assistance agreement standards. FS officials did not agree with our recommendation to recover the \$1.2 million or to withhold funding to NFF until its financial system had been modified to adequately track expenditures of Federal and private funds. FS generally concurred with the remainder of our recommendations.

In another matter, FS entered into an improper agreement with NFF and Subaru of America. Terms of the agreement required NFF to arrange for donated leased vehicles to be used by FS at prominent locations, and Smokey Bear would attend major auto shows and distribute literature about fire prevention bearing "Subaru branding." The agreement was improper because it had product promotion as a key purpose of the partnership; Departmental and agency policies and regulations prohibit the endorsement and promotion of commercial activities. In addition, Smokey Bear is the property of the Federal Government and, by words or illustrations, is not to endorse a commercial product or service. FS agreed to cancel its memorandum of understanding with NFF and to initiate discussions to renegotiate the agreement with Subaru.

A former university official at Langston (Oklahoma) University misused over \$1.2 million in Cooperative State Research, Education, and Extension (CSREES) grant funds, and accounting practices jeopardized over \$209,000 in research project revenues. We recommended that CSREES require the university to replace the more than \$1.2 million in misused grant funds. In addition, we recommended that the university be required to follow Federal and State rules governing travel and procurements and maintain separate accounts for all revenue sources. We also recommended that the CSREES Administrator ensure that CSREES procedures for monitoring facilities expenditures are adequate, and modify grantee

reporting requirements to show total estimated building costs and anticipated funding by source. CSREES agreed with the recommendations and initiated corrective action.

Last reporting period, we reported the results of our review of the Department's system for processing civil rights complaints and its fairness in dealing with disadvantaged and minority farmers. We have reached management decision on 16 of the 44 recommendations. The Office of Civil Rights (OCR) has measurably improved its system for processing civil rights complaints. It has developed a more reliable data base of complaints, hired additional staff, and informed all complainants of the status of their cases. FSA has also put in place several new procedures that should improve relations with the minority farm community. However, FSA has not completed its task of reengineering its farm program operations, and OCR has not corrected all deficiencies in its complaints system. Two areas in particular are critical: OCR needs to formally institute a process to reconcile the outstanding complaints it has on file with those listed by the individual Departmental agencies, and it needs to publish regulations describing how discrimination complaints should be processed.

Our review of the Department's payroll and personnel systems found that additional controls were needed to fully protect the systems from errors, irregularities, or abuse. The payroll and personnel systems do not have sufficient controls to preclude clerks with update authority from changing their own records; documentation was not always maintained to support salary or salary-related changes to the payroll and personnel data base; a system that processed 2,288 "special salary payments," totaling nearly \$1.2 million during 1996, did not have sufficient controls to preclude or detect errors and irregularities; and access security is weak. We recommended that the Department institute appropriate internal controls to eliminate the cited weaknesses, including automated controls to prevent employees from changing their own records and to control/validate accesses to the payroll and personnel systems.

Our FY 1997 audit at the National Finance Center (NFC) found that the deficiencies disclosed during the earlier reviews continued to exist. We found that required certification reviews and accompanying access control reviews were not always performed timely; many

of NFC's older applications do not adhere to currently recognized development and documentation processes; reconciliation procedures do not always provide effective controls for following up on unreconciled differences and resolving them; control procedures do not provide reasonable assurance that adjustments to user agency accounts, financial statements, and financial reports are authorized and processed accurately; and the general ledger at NFC does not conform to the U.S. Standard General Ledger. The Office of the Chief Financial Officer, which administers NFC, generally agreed with the audit recommendations.

Our reviews at five selected USDA agencies and two service centers confirmed the concerns expressed about the Department's progress in converting its systems in order to properly address the "Year 2000" crisis. Some agencies had developed plans and had

inventoried and prioritized their systems; other agencies were just initiating the process. We recommended that the Office of the Chief Information Officer (OCIO) monitor and coordinate the efforts to ensure that sufficient resources and funds are available to USDA agencies to correct "Year 2000" problems, coordinate efforts taken by different agencies to establish test facilities, and track conversion efforts by agencies that are using similar software and equipment. Also, we recommended that OCIO monitor the status of test plans, evaluate the adequacy of test teams, and ensure that contingency plans are in place for each agency's critical systems. OCIO officials agreed with our findings and recommendations and are implementing corrective actions. The Department is making progress, as evidenced by improved "grades" from an oversight committee and the Office of Management and Budget.

## Summary of Audit Activities

<b>Reports Issued</b> .....		112
Audits Performed by OIG .....	49	
Evaluations Performed by OIG .....	22	
Audits Performed Under the Single Audit Act .....	33	
Audits Performed by Others .....	8	
<b>Management Decisions Made</b> .....		
Number of Reports .....		107
Number of Recommendations .....		611
<b>Total Dollar Impact (Millions)</b> .....		\$148.4
Questioned/Unsupported Costs .....	\$63.9 <sup>ab</sup>	
Recommended for Recovery .....	\$27.4	
Not Recommended for Recovery .....	\$36.5	
Funds To Be Put to Better Use .....	\$84.5	

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

<sup>b</sup>The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

## Summary of Investigative Activities

<b>Reports Issued</b> .....		394
<b>Cases Opened</b> .....		327
<b>Cases Closed</b> .....		483
<b>Cases Referred for Prosecution</b> .....		276
<b>Impact of Investigations</b> .....		
Indictments .....		289
Convictions .....		271 <sup>a</sup>
Searches .....		73
Arrests .....		2,628 <sup>b</sup>
Warrants Cleared .....		2,636 <sup>c</sup>
<b>Total Dollar Impact (Millions)</b> .....		\$38.3
Recoveries/Collections .....	8.3 <sup>d</sup>	
Restitutions .....	22.8 <sup>e</sup>	
Fines .....	3.4 <sup>f</sup>	
Claims Established .....	1.7 <sup>g</sup>	
Administrative Penalties .....	0.3 <sup>h</sup>	
Cost Avoidance .....	1.8 <sup>i</sup>	

### Administrative Sanctions

Employees .....	44
Businesses/Persons .....	1,731

<sup>a</sup>Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 271 convictions do not necessarily relate to the 289 indictments.

<sup>b</sup>Includes 2,446 Operation Talon arrests and 182 arrests not related to Operation Talon.

<sup>c</sup>Arrest warrants of another agency which were cleared/closed as a result of an OIG investigation.

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

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

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

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

<sup>h</sup>This category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

<sup>i</sup>This category consists of loans or benefits not granted as the result of an OIG investigation.



# Presidential Initiatives

This reporting period, we began three operations whose scope was large enough to demand a major effort by our agency and require the better portion of our resources. To ensure the success of these three broad undertakings, we presented them as initiatives to the Secretary of Agriculture, who in turn sought and received for them the endorsement of the President of the United States. These initiatives, which will be continuing through the next reporting period, are designed to root out abuse in three programs. One initiative is already resulting in the large-scale arrest of fugitive felons who are illegally receiving food stamps; a second is detecting significant fraud committed by a number of Child and Adult Care Food Program sponsors around the country; and a third, being conducted jointly with the Rural Housing Service, is aimed at uncovering misuse of funds and hazardous living conditions in the Rural Rental Housing Program.

## FOOD STAMP PROGRAM

### Operation Talon Shows Early Success Apprehending Fugitives From Justice

Prior to 1996, no law barred fugitives from receiving food stamps. A person could apply for Government assistance while eluding the law from a felony charge. The risk to the fugitive of being located because of his or her participation in the Food Stamp Program was minimal because law enforcement agencies were forbidden from matching their fugitive files against the food stamp recipient records kept by social service agencies. The fugitive could remain at large and claim an entitlement from the same community whose system of justice he was seeking to escape.

All that changed with passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, known as Welfare Reform. Welfare Reform not only made fugitive felons ineligible to receive food stamps, but permitted State social service agencies to share information with law enforcement officials. Fugitives who applied for food stamps were now giving the authorities their addresses.

Operation Talon was initiated by the Inspector General in response to the changes made by Welfare Reform. The initiative was designed to locate and apprehend fugitives who were receiving food stamps. The initiative evolved into a nationwide effort that employed a large

force of special agents from OIG and was carried out in conjunction with other law enforcement officers and State social service agencies.

Efforts during the first phase of the initiative and beyond have shown considerable success. As of March 30, 1998, a total of 2,446 fugitive felons had been arrested, most of whom were current or former food stamp recipients.

Operation Talon began in early 1997 as a pilot program in Louisville and Lexington, Kentucky, where matches between lists of wanted felons and food stamp recipients uncovered 207 fugitives who had received an estimated \$300,000 in food stamp benefits. Over a 3-week period, 85 felons were taken into custody. Because of this success, we expanded our efforts to an additional 23 metropolitan areas in 18 States. Figure 1 shows the number of arrests made during Operation Talon, as of March 30, 1998.

The fugitives arrested during Operation Talon have included dangerous felons wanted for murder, child molestation, rape, and kidnapping. Over one-third of the 2,446 arrested were sought in connection with violent crimes or illegal drug activity, as shown in figure 2.

The largest number of arrests were made in the Chicago area, where a "sting" operation proved highly effective. In this operation, fugitives who were food stamp recipients were notified by mail that a determination would be made as to their continued benefit level. The letter directed the recipients to go to a consulting firm that handled USDA's food stamp accounts, Tsera & Marant (a variation of "arrest warrant"). When the fugitives arrived, they were arrested. A total of 117 fugitives were taken into custody through this sting operation.

One of the fugitives arrested at Tsera & Marant was wanted for selling marijuana in large quantities. When confronted by a sheriff's deputy, he struck the deputy and attempted to flee. An OIG agent and a local police officer tackled and subdued him. He later threatened to burn down the county detention facility where he was jailed, and to kill the police officers and OIG agents. When arrested, the fugitive was carrying 8 knives, 11 pieces of steel pipe, and material (bottles, wicks, and candles) used to make Molotov cocktails.

Figure 1

**Arrests Made During Operation Talon (as of March 30, 1998)**

Location	Arrests	Location	Arrests	Location	Arrests
Alameda County, CA	374	Indiana, All Locations	59	Oklahoma City, OK	19
Atlanta, GA	153	Jackson, MS	30	Pennsylvania, All Locations	101
Baltimore, MD	112	Louisville/ Lexington, KY	85	Phoenix, AZ	80
Chicago, IL	470	Milwaukee, WI	65	St. Louis, MO/ E. St. Louis, IL	23
Cincinnati, OH	131	Minneapolis/ St. Paul, MN	16	Tacoma/Seattle, WA	59
Columbus, OH	49	New Castle, DE	15	Topeka/Shawnee County, KS	6
Dallas, TX	208	New Jersey, All Locations	240	Washington, DC	5
Ft. Worth, TX	82	New York City, NY	64		
<b>OPERATION TALON-TOTAL ARRESTS: 2,446</b>					

Figure 2

**Crimes Committed by Felons Apprehended in Operation Talon**

Offense	Total Arrests	Offense	Total Arrests
Murder	12	Kidnapping	6
Attempted Murder	10	Assault	127
Child Molestation	12	Robbery	91
Rape	7	Drugs	700
Attempted Rape	2	Other	1,479



The "Tsera & Marant" (i.e., "arrest warrant") sting site in Chicago, which attracted 117 fugitives who were arrested. Cook County (Illinois) Sheriff's Police Department photo.



A search of one fugitive after his arrest revealed an array of weapons. Cook County Sheriff's Police Department photo.



Vice President Al Gore (right) announces the results to that time of the first phase of "Operation Talon" at a White House press conference. To his right are Secretary of Agriculture Dan Glickman and Inspector General Roger Viadero. In the background are local law enforcement officers who participated in Operation Talon. USDA photo.

Arrests have been continuing to take place in some of the 18 States involved in the initiative's first phase, which ended January 13, 1998. When Operation Talon entered its next phase, arrest operations were expanded to other States.

At a White House press conference in December 1997, Vice President Al Gore announced the results of the first phase of Operation Talon to that time. Following the announcement, OIG and FNS informed all States of the benefits of conducting similar matches.

### **CHILD AND ADULT CARE FOOD PROGRAM (CACFP)**

#### **Audits Are Uncovering a Widespread Breakdown of Controls Over CACFP**

In previous reporting periods, we reported on ongoing reviews of sponsors administering CACFP. Recent OIG audits of CACFP sponsors, some of whom were suspected of fraud and/or program mismanagement, have uncovered a widespread breakdown of controls over CACFP. As a result of the problems found, OIG has launched a national initiative to identify the extent of abuse in the program. The initiative has focused on the work of "sponsors" who administer the program in day care homes and centers and disburse Government payments to those child care facilities. Our recent audits have found problems both in sponsors' reimbursement payments for food service to the providers and in the sponsors' costs to administer the program.

The objective of CACFP is to ensure that children and adults being cared for in participating day care homes and centers receive nutritious meals. To accomplish this, FNS provides reimbursement for the meals served and sets nutritional requirements for the meals. Program funding for FY 1997 was estimated at about \$1.6 billion.

The program is administered by State agencies through sponsors and independent centers, who are generally public or private nonprofit organizations. Sponsors act as the link between the State agency and day care centers and providers. Sponsors have the responsibility to carry out the provisions of CACFP, and as such they are the primary internal control to ensure the integrity of the program.



More than 14,000 sponsors administer the program to over 225,000 day care homes and centers nationwide. About 1,200 of these sponsors administer CACFP in multiple day care homes and some day care centers. Our audits have concentrated on private, nonprofit sponsors in this group of 1,200 sponsors.

Under OIG's national initiative, and with the assistance of FNS and State agency personnel, OIG auditors and investigators have conducted unannounced visits, or "sweeps," to selected sponsors and day care providers across the country. A new audit technique advanced by the Inspector General, a "sweep" concentrates audit resources on an enterprise for a short, unguarded moment in time, to gain an accurate picture of the enterprise's operation.

For the first phase of this initiative, we concentrated on 12 sponsors in 10 States, predominantly because of identified problems. As reported in our last semiannual report, we found 11 of these sponsors seriously deficient in their administration of the program. Four of the eleven sponsors are either under investigation or have pled guilty to program fraud, and five (including the four investigated) have been terminated from participating in CACFP. The type of fraud found to date includes payroll checks made to fictitious employees, and claims made for meals served by day care homes that did not exist.

One of the four sponsors investigated and subsequently terminated from the program had been charged with mail fraud in connection with CACFP and had pled guilty to that charge. This period, sentences were handed down in a California court. One official of the sponsoring organization, who had been a State employee in the division that oversaw the program, was sentenced to 3 years in prison. Her husband, the second sponsor official, was sentenced to 2 years. The couple was also ordered to pay \$2.2 million in restitution. They had previously forfeited four residential properties they had bought with their illegal income, including a mansion in Palos Verdes, California. Two additional sponsor officials were sentenced to 7 months each in prison and ordered to pay a total of \$60,000 in restitution.

A fifth sponsor, not one of the original 12 reviewed, was also investigated because her activities raised the suspicions of a State official in Idaho. The investigation disclosed that the sponsor, a director of two child care



This mansion in Palos Verdes, California, is one of four residential properties forfeited by a couple who were convicted of charges related to illegal activities they carried out as officials of a CACFP sponsoring organization. OIG photo.

centers, inflated the number of meals she had served in 1996 and 1997. The director pled guilty to submitting false claims totaling \$63,000, and is to be sentenced in Federal district court in Idaho in June. As part of her plea agreement, the director relinquished her day care license, which will prohibit her from participating in any Federal or State-funded child care program.

Other serious deficiencies we found in the 11 sponsors in the original sample included cases in which the sponsors (1) did not keep adequate records, (2) claimed administrative costs that were ineligible and unsupported, (3) did not adequately train and monitor providers to make sure they served only nutritious meals to eligible children, (4) did not reimburse providers for their food costs or paid reimbursements late, and (5) did not adequately report serious health and safety issues to the proper authorities, thereby putting children at risk. Sponsors found to be seriously deficient must correct the deficiencies in a reasonable period of time or be terminated from the program.

The five terminated sponsors had been receiving approximately \$10 million annually in program funds to reimburse the food costs of the homes and centers under their sponsorships and for the sponsors' costs to administer the program. These funds will now be available to feed other children.

The second phase of our initiative is continuing and is concentrating on 12 sponsors in 8 States—California, Pennsylvania, Illinois, Missouri, Louisiana, Florida, North Carolina, and New York. Already 6 of

the 12 sponsors are under investigation for program fraud. All but 1 of the 12 appear to be seriously deficient.

Other cases have come to our attention independently of our "sweeps." As of March 30, 1998, 19 of these cases have been reviewed in 12 States, and 16 of the sponsors and providers have been investigated for program fraud. In one case alone (in Michigan), the fraud exceeds \$25 million for the period 1980 through 1993.

To date, 10 sponsors have been terminated from the program. These 10 had been receiving \$23 million in program funds annually to administer the program and to reimburse the food costs of the homes and centers under their sponsorship. These funds may now go to legitimate sponsors to feed needy children.

Figure 3 shows the status of our investigations of sponsors and providers.

Figure 3  
**Status of Investigations of Sponsors and Providers**

State	Investigations in Progress	Entities Terminated from the CACFP	Individuals Indicted or Named in Criminal Information	Individuals Who Pled Guilty or Were Convicted	Individuals Sentenced
Arizona	1				
California	6	4	7	4	4 <sup>1</sup>
Florida	2				
Idaho	1	1	1		
Louisiana	2				
Michigan	1	1	2		
New Mexico	2		1	1	
New York	2				
Ohio	1	1			
Pennsylvania	3	1			
Tennessee	2		1		
Utah	1	1	1	1	
Washington	2				
<b>TOTALS</b>	<b>26</b>	<b>9<sup>2</sup></b>	<b>13</b>	<b>6</b>	<b>4</b>

<sup>1</sup>The sentence handed down on these four individuals included \$2.2 million in restitution.

<sup>2</sup>A tenth sponsor in Oregon was terminated from the program but not investigated for fraud.

## **RURAL RENTAL HOUSING (RRH) PROGRAM**

### **Joint Initiative Works To Uncover Fraud and Hazardous Conditions in Rural Rental Housing**

We recently began a joint effort with RHS to uncover program fraud and hazardous living conditions in the RRH Program. Spearheading this ongoing initiative are 24 teams—each consisting of an OIG auditor, an OIG investigator, and a State Rural Development representative—in 12 States.

The RRH Program provides moderately priced multiunit housing to low-income and elderly persons in rural areas. RHS has more than 18,000 RRH projects nationwide and provides interest credit and rental assistance subsidies, totaling about \$1.3 billion, to keep the housing affordable. Over the past few years, OIG and RHS have identified numerous owners/managers and management companies who fraudulently charge expenses to their projects while, in many instances, allowing their projects to physically deteriorate. Because of this, the Office of Management and Budget

(OMB) has consistently identified the RRH Program as having among the highest level of vulnerability to fraud and abuse in the Federal Government.

As previously reported, we had recommended that RHS put forth to Congress legislative proposals to combat misuse of project funds, commonly known as “equity skimming.” RHS did so, and recent passage of amendments to the Housing Act of 1949 enabled the Inspector General and the Under Secretary for Rural Development to take aggressive action to identify and refer for prosecution those who engage in this illegal activity.

Regulations permit owners of RRH projects to use independent management companies or to form management companies (identity-of-interest companies) to manage and provide services to their own projects. We are focusing our continuing reviews on projects where an identity-of-interest exists between a project's owner and manager or between the management company and its wholly owned maintenance company.



# Farm and Foreign Agricultural Services

## FARM SERVICE AGENCY (FSA)

Farm programs have undergone major changes with the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill). The 1996 Farm Bill replaced target prices, deficiency payments, and acreage reduction programs with fixed but declining payments to producers. The 1996 Farm Bill also diminishes the role of the Government in farm and conservation programs, as well as in rural development, credit and trade, and food aid. Federal outlays to the farm sector are set to decline over the 7-year term of the act.

For FY 1998, FSA estimates expenditures of approximately \$1 billion in salaries and expenses, including \$58 million from other USDA agency appropriations and \$21 million in miscellaneous fees (non-Federal funds). Additionally, FSA has budget authority in FY 1998 of \$102.4 million for the Agricultural Credit Insurance Fund Program Account, and \$2 million for State mediation grants. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations, with estimated FY 1998 net outlays of \$8.6 billion. CCC also made \$5.3 billion in commodity loans during FY 1997. As of September 30, 1997, approximately 173,000 borrowers owed FSA \$10.1 billion in farm program loans, and FSA had guaranteed more than \$6.5 billion in farm program loans made by private lenders to more than 49,000 borrowers.

### Controls Over Environmental Benefits Index Scores Could Be Improved

Under the Conservation Reserve Program (CRP), producers receive annual payments from FSA to take highly erodible cropland out of production and establish and maintain a vegetative cover on it. During signup, producers designate tracts of land determined to be environmentally sensitive, which are reviewed and scored according to values on the Environmental Benefits Index (EBI). One subpart of the index identifies the environmental benefits of the land (e.g., providing cover beneficial to wildlife). It also specifies what numerical scores may be given for the different kinds of conservation practices (e.g., planting mixed grasses, legumes, etc.) that the producer established to enhance each benefit. Tracts that have been awarded higher scores are regarded as more worthy of conserving and qualify for CRP consideration ahead of tracts with lower

scores. Tracts that fall below a minimum score are excluded from the program.

FSA, with assistance from the Natural Resources Conservation Service (NRCS), had overall responsibility for the 15th CRP signup in March 1997. FSA personnel determined producer and land eligibility, maintained the CRP offer data, and developed the cost score used to rank offers. With about 252,000 offers totaling about 23.3 million acres received in conjunction with the 15th signup, about 16.1 million acres were accepted for enrollment in CRP.

NRCS played a critical role in the 15th signup and was primarily responsible for determining the point scores for the six environmental factors used to rank offers. Those point scores and the cost score represented the EBI.

We previously reported that NRCS activities for the 15th signup exhibited significant control weaknesses. For example, the agency was not aware that some States had improperly modified the point scores for various environmental ranking factors and subfactors. In addition, producers in some States received high scores for preserving cover beneficial to wildlife or for protecting threatened and endangered species even though the required cover or endangered species were not present on the tract of land. Also, FSA and NRCS headquarters personnel did not take a leadership role in the development and testing of software used to facilitate the EBI scoring process. As a result, we found that the software programs developed by several States did not properly determine the point scores for certain factors and subfactors. Such inconsistencies can result in greater CRP consideration for cropland in one State, even though its environmental benefits are no greater than those of its neighbors.

For instance, point scores awarded in Kansas for two subfactors were not adequately supported. Our analysis of data in the CRP offer file disclosed that the conditions identified in Kansas could also exist in other States and counties. As a result, we identified approximately 2,900 offers nationwide with annual rental payments totaling about \$13 million that were at risk of incorrect acceptance into CRP.

We were unable to obtain a commitment from the two responsible Under Secretaries to require FSA and NRCS to conduct an indepth assessment of the policies of five States identified with a large number of offers

that were at risk of incorrect acceptance. FSA did indicate that all offices were surveyed and reported that all known cases of offers initially considered acceptable, but later determined unacceptable, totaled 943. Of this number, 438 had errors on cover or threatened or endangered species points.

NRCS took action to address some but not all the conditions identified in the management alerts issued to date. Actions included notifying field personnel that point values associated with the various ranking factors could not be modified without an approved State ranking plan and providing assurance that existing software packages would be adequately tested before the next signup. In addition, NRCS' Oversight and Evaluation Team conducted a nationwide review of offer worksheets received during the 15th signup. Further, the agency agreed to correct offers from Kansas producers where applicable subfactor scores were not properly supported. One-time payments were to be made to those producers who were incorrectly accepted in the 15th signup and are not accepted in the 16th signup.

### **The 15th Signup in Oregon and Washington Shows Discrepancies and Improvements**

In the spring of 1997, a Member of Congress from the State of Washington expressed deep concern over the wide discrepancy in the 15th signup acceptance rates for Washington compared to surrounding States. As a result, we initiated a review to determine whether the EBI scores in Washington and Oregon were consistent with program guidelines. The audit disclosed that the 50-point cover requirement for an existing CRP cover in Washington required 5 percent shrubs and was more stringent than that used in Oregon. Similarly, the scoring requirements for threatened and endangered species in Washington were more restrictive than those in Oregon. Those variances, coupled with soil erodibility differences, caused the acceptance rate in Washington (21 percent of acres offered) to be much less than the acceptance rate in Oregon (82 percent of acres offered). For the 16th signup, NRCS conducted reviews of the scoring matrices for cover and threatened and endangered species submitted by each State. Early results of the 16th signup show that the acceptance rate significantly improved for Washington offers.

Similar conditions were noted during our nationwide audit of 15th signup activities. Since recommendations to address those issues are included in the overall summary report, we did not recommend any additional corrective actions in conjunction with this review.

### **Complexity of Environmental Benefits Index Continues To Cause Scoring Problems**

About 126,000 offers totaling about 9.5 million acres were received for the 16th CRP signup, with about 5.9 million acres accepted for enrollment. The 16th signup included improvements in the scoring criteria for wildlife cover benefits and air quality benefits from reduced wind erosion. Other minor changes were made for clarity and to facilitate administration of the EBI process. In an effort to improve communication and provide clear policy direction for the 16th signup, FSA and NRCS program procedures were combined into one handbook.

NRCS personnel continued to make various errors that affected the EBI scores. Specifically, we found errors that affected the EBI on 46 percent of the offers we reviewed (41 of the 90). This compared with a 47-percent error rate noted during our review of 15th signup activities. We concluded that the complexity and extent of the EBI computations contributed to the error rate. FSA and NRCS agreed and required all NRCS field offices to conduct a secondary review of all offers and target the four most prevalent types of errors.

Also, in our prior audit of 15th signup activities, NRCS agreed to review matrices developed for the cover and endangered species subfactors. This review was performed but was not entirely effective. We again reported that NRCS personnel did not receive the technical support needed to accurately and efficiently compute the EBI scores.

We also questioned the rationale for awarding points to producers who were able to offer acreage equal to or greater than the average contract size in their respective States. Awarding points based on the number of acres offered could be perceived as a barrier to Departmental programs. We recommended that FSA analyze and carefully reconsider such policies.

The joint agency response to our draft management alert showed that NRCS had completed a final review and approval of the matrices pertaining to wildlife habitat submitted by each State.

## **Producers Provided False and Inaccurate Information To Gain Duplicate Benefits for Crop Losses**

The Emergency Disaster Loan Program authorizes FSA to provide assistance through emergency loans for crop and physical losses caused by a natural disaster. Emergency loans enable producers to return to normal farming operations after sustaining substantial losses as a result of a declared or designated disaster. Also, the Noninsured Crop Disaster Assistance Program (NAP) provides grants, and catastrophic risk protection (CAT) provides indemnity payments, but the 1996 Farm Bill restricts the assistance a producer may receive. Producers who are eligible for both emergency loans and NAP and/or CAT payments must elect whether to receive the loans or the NAP and/or CAT payments; they may not receive both. Emergency loans can cover losses up to \$500,000; NAP payments may not exceed 20 percent of those losses. Nationwide, FSA closed new emergency loans totaling about \$93.6 million from October 1, 1996, through June 1, 1997.

During this reporting period, we completed three audits of FSA's emergency loan program.

- Our audit in 3 California counties—Monterey, Santa Cruz, and Tulare—reviewed 29 producers who had received emergency loans in 1996 and 1997 totaling \$4.4 million. We found that over half of these producers also received NAP payments for the same disaster-related crop loss. The 15 producers received \$2.6 million in emergency loans and another \$620,000 in NAP payments. The agricultural credit offices granting the loans were following procedures outlined in FSA regulations, which had not been revised to incorporate the duplication policies and requirements stated in the 1996 Farm Bill.

For example, the Monterey County office determined that one producer suffered a \$2.5 million loss on his strawberry crop in 1995, for which the county gave the producer a \$189,000 NAP payment in January 1996 and a \$500,000 emergency loan in October 1996. To ensure that a duplicate benefit was not issued, the county office reduced the producer's gross dollar loss by the NAP payment, in accordance with pre-1996 Farm Bill procedures. It did not require the producer to elect between the emergency loan and the NAP payment, as now required.

We also found that the counties used incorrect yields to determine maximum loss loans and an incorrect unit price to calculate loans on raspberries. The unit price of raspberries, \$7.29 a crate, was based on the assumption that each crate weighed 6 pounds. The county subsequently found the crates each weighed only 4.5 pounds (each was worth \$1.82 less), but the county continued to use the incorrect unit price in order to be consistent. As a result of yield and unit price errors, 13 loans were overfunded by over \$121,000, and 1 loan was underfunded by \$2,140.

- As a result of our review of emergency loans in 4 Oklahoma counties, totaling over \$700,000 to 13 borrowers, we found that all 13 borrowers provided false or inaccurate information to FSA, and FSA personnel did not issue the emergency loans in accordance with law and program regulations.

Contrary to law, 11 borrowers received Catastrophic Risk Protection Plan indemnity payments or NAP benefits and emergency loan assistance for the same crop losses, because FSA State and county personnel were unaware that such duplicate benefits were prohibited. As a result, FSA personnel overloaned about \$459,000 to 10 of these borrowers who also received over \$98,000 in CAT and NAP benefits. We notified the FSA national office officials of this condition, which we noted also existed in other States, through a management alert, and they responded promptly by issuing a notice to all State and county offices clarifying this issue.

All 13 borrowers in our review provided false or inaccurate information on their certifications of disaster loss. Eleven inflated production losses, and two understated production losses. Three also understated crop insurance payments received for production losses, and two overstated crop insurance proceeds. Also, FSA county office personnel made errors computing six borrowers' emergency loans, did not complete the data verification form for five borrowers, and did not document overstated or understated disaster-year acreage for four borrowers. Two borrowers were overloaned almost \$117,000 as a result of providing false information on their certifications of disaster losses.

- During FY 1997, FSA made 49 emergency loans in Mississippi. The loans, totaling about \$4 million, were for 1995 crop-year losses caused by weather

and insect infestation. Our review of a sample of 17 of the 49 loans showed that 4 of the borrowers received excess loan amounts totaling over \$52,000. The excess loan amounts were disbursed because FSA loanmaking personnel did not use reliable information available to them to verify data (acreage planted, yields, etc.) and miscalculated losses. In addition, three borrowers were ineligible to receive either emergency loans totaling almost \$299,000 or CAT indemnity payments of over \$58,000 on the same crops.

We recommended that producers who received both NAP or CAT and emergency loan benefits for the same loss be provided the option to repay the unauthorized emergency loan funds or to repay the NAP or CAT benefits received for the same production losses included in the emergency loan loss calculations. In addition, we recommended that FSA (1) identify all borrowers who received duplicate emergency loan and insurance benefits, notify them of the unauthorized benefits, and recover the unauthorized assistance and (2) require loan officials to verify borrowers' losses using information from FSA and the Risk Management Agency to ensure that loans are accurately calculated and duplicate benefits are not being paid. The FSA national office is revising its procedures to make them conform to the 1996 Farm Bill and the 1994 Federal Crop Insurance Reform Act. However, the State officials believe that requiring producers to return their NAP or CAT payments would impose an undue hardship. We are working with FSA national office officials to ensure that the questioned overpayments are resolved in accordance with law and Departmental regulation.

#### **Payment Limitation Problems Found in Hidalgo County, Texas**

A limitation on the total annual payments that a "person" may receive under agricultural programs has been in effect since the enactment of the Agricultural Act of 1970. Subsequent legislation modified the provisions that define a "person" and the rules for payment limitation and payment eligibility. Most recently the Agriculture Market Transition Act (AMTA) was initiated under the 1996 Farm Bill. One of the main purposes of AMTA was to authorize the use of binding 7-year Production Flexibility Contracts (PFC) between the Government and agricultural producers to support

farming certainty and flexibility while ensuring continued compliance with farm conservation and wetland protection requirements. OIG initiated an audit to determine the validity of allegations contained in a whistleblower complaint that payment limitation provisions had been violated by seven family farming groups in Hidalgo County, Texas, and to determine whether FSA properly administered the payment limitation provisions relating to these seven family groups.

We found that FSA had properly administered the payment limitation and payment eligibility provisions for the seven cases we reviewed. However, one family farming group needs additional followup by FSA to determine whether the producers in the family group exercised separate financial responsibility for their respective interests as part of FSA's normal yearend review process.

For another group, we found that six family members (a father, former county committee member; two sons, one of whom is a current county committee member; and three daughters) did not operate as seven separate producer entities for the 1996 crop-year. The father and two sons operated as six producers—three individuals and three entities (two corporations and one limited liability company). The three daughters operated as one producer—a partnership. These family members reported to FSA that they operated as separate and distinct operations during 1996 and, based on this information, the family operation was approved as nine separate "persons" for payment limitation purposes. We found that not all family member entities were required to pay their proportionate shares of 1996 farming expenses. The father obtained the majority of the operating funds and either paid the crop-related expenses for the family farming operation or loaned funds to the individual family member entities for payment of these expenses. This resulted in the father assuming the major portion of the financial responsibility for the family farming operation; therefore, the family member entities did not meet the separate "person" requirements of the program for payment limitation purposes. We concluded the family members participated in a scheme or device to evade payment limitation provisions by concealing and submitting erroneous information that would have affected FSA's "person" determinations.

We also found that two of the family member entities did not meet the cash-rent tenant provisions to qualify as “actively engaged in farming.” This occurred because both members failed to pay their total equipment leases for crop-year 1996, and, as a result, the equipment did not qualify as a significant contribution for payment limitation purposes.

We recommended that FSA determine whether the family members adopted a scheme or device for 1996 and 1997. If such determinations are made, FSA should collect about \$543,000 in PFC payments, as well as any other payments subject to payment limitation provisions for those years and 1998. If adverse scheme or device determinations are not made, FSA should determine whether the nine entities created for payment purposes should be considered one “person,” and whether two of the family member entities were “actively engaged in farming” for 1996 and 1997. If adverse “person” and “actively engaged in farming” determinations are made, FSA should collect about \$413,000 in 1996 and 1997 PFC payments.

### **Agricultural Mediation Program Continues To Need Strengthening**

The Secretary of Agriculture has the authority to certify State mediation programs as eligible to receive funds from the Department’s mediation grant program. These programs make a trained, impartial person available as a mediator to reconcile agriculture-related disputes between farmers and the other disputing party, whether it be FSA or a local lender. At the local level, mediation programs may be administered directly by the State. We previously reported that during reviews of four certified State programs, OIG was denied records even though the mediation grant agreements give USDA officials full access to mediation records. State mediation officials withheld records that would identify mediation participants, as well as the purpose and final results of mediation. As a result, we were unable to fully evaluate the use of Federal funds and the accomplishments of the State programs.

We also reported that our review of the limited records that were provided identified \$2.1 million in excessive or questionable reimbursements for activities that did not appear to involve mediation. These activities included financial analysis, credit counseling, and other assistance such as completing farm-operating plans and loan applications for individuals not in mediation.

After the release of our report, USDA’s Office of the General Counsel (OGC) issued an opinion that USDA and any of its authorized representatives shall have the right of access to any records which are pertinent in a specific USDA award in order to make audit, examination, excerpts, and transcripts. The General Counsel concluded that FSA should notify the States of the regulatory requirements and that continued failure to grant access in accordance with the regulations will be considered a material violation of the grant award.

FSA notified all certified State programs of OGC’s determination and made arrangements for the States to provide the names and addresses of mediation participants and the purpose and results of mediation. We used this information to select borrower and producer files for review at FSA county offices in six States (two of the four States previously visited and four additional States).

Our subsequent review of county office files of borrowers and producers who participated in mediation revealed that State mediation programs were an effective tool to help resolve USDA-related issues in dispute. We found that four of the six States visited either limited their programs to mediation services or provided mediation and other nonmediation services, but claimed reimbursement only for the mediation services. We also confirmed that the two States previously visited continued to provide nonmediation services and claim reimbursement for such services. We continue to believe that FSA should reimburse States only for agriculture-related mediation services. We are working with FSA to reach agreement on what types of services are reimbursable under the mediation grant program.

We continue to work with the agency to reach management decisions on the recommendations not yet resolved. They include access to records, revised regulations, reimbursement of nonmediation services, recovery of questioned and unsupported costs, allocation of grant funds, and carryover of obligated but undisbursed funds from one fiscal year to the next.

FSA is in the process of issuing revised mediation regulations that will clearly require States to provide USDA representatives access to records and clarify the types of mediation services eligible for reimbursement.



## **Beginning Farmer Loan Funds Did Not Always Reach the Targeted Group**

The Consolidated Farm and Rural Development Act was amended by the Agricultural Credit Act of 1992 (Act) to provide for a loan program to aid beginning farmers and ranchers. The intention of the program was to encourage and assist a larger number of qualified beginning farmers and ranchers to become established in farming or ranching. There was growing concern regarding the pending retirement of large numbers of farmers and ranchers, with fears there may be insufficient numbers of new farmers and ranchers to take their place. The Act defined beginning farmers, in part, as individuals who had not operated a farm or ranch over 10 years and did not own land in excess of 15 percent of the median acreage of the farms or ranches in the county in which the applicants operated. The Act also provided that applicants must participate in training programs in production and financial management, if determined necessary by the FSA county committee.

Our audit evaluated whether the objectives of the Beginning Farmer Loan Program (BFLP) were being met and if targeted funds were disbursed according to program guidelines. We also reviewed training records to determine if training was made available to borrowers and if borrowers attended required training courses. We reviewed the loan records for a random sample of 30 borrowers with beginning farmer loans totaling about \$5.3 million, statistically selected from an audit universe of 20 States with BFLP loans totaling \$607.1 million. In FY 1996, these 20 States accounted for about 78 percent of the total BFLP loans nationwide.

The audit showed a significant portion of the BFLP loans were made to borrowers who did not meet the definition of a beginning farmer, because the FSA national office had not prescribed applicable internal controls. Projections showed that of the 5,601 borrowers in the universe about 900 borrowers received over \$127 million in loans in the 20-State universe and did not qualify as beginning farmers, although they may have been eligible for assistance under the regular loan programs. When other errors we found on loans (improper repayment terms) are included in the projections, an estimated 1,065 of the 5,601 borrowers were not eligible for BFLP loans totaling over \$142 million. The misclassification of the borrowers and other errors occurred primarily because of an oversight.

We also found that training could be more effectively used to assist BFLP borrowers to achieve greater efficiency and profitability in their farming operations and in reaching the goal of graduating to commercial credit. Projections showed that, of the 5,601 borrowers in the universe, about 3,500 had not completed required training at the time of our review. Officials cited several reasons for the lack of prompt completion of training requirements, including unavailability of training vendors and absence of monitoring controls to ensure borrowers attended training.

We recommended that FSA consider making additional funds available to BFLP applicants who may have been denied assistance because of lack of funding caused by the loanmaking errors identified in the audit. We also recommended that FSA develop internal controls to help ensure loan applicants meet the definition of a beginning farmer. In addition, we recommended FSA instruct field offices to ensure training is made a requirement for all applicants and borrowers in need of training and to ensure, to the extent practicable, that training covering all relevant topics is available for all FSA districts.

FSA officials commented that the problem has been addressed through the transfer of surplus budget authority from the guaranteed operating loan program to the beginning farmer farm ownership loan program, as authorized by the 1996 Farm Bill. In FY 1997, \$9.8 million of budget authority was transferred, resulting in \$47 million more than the original program level in beginning farmer farm ownership loans, and by the end of FY 1997 all pending approved loan requests had been funded. As a result of the extensive use of the statutory transfer authority, no beginning farmer applicants were denied funding as a result of unauthorized loans.

## **Farmers Convicted for Illegal Sale of Mortgaged Property**

We conducted numerous investigations nationwide involving farmers selling their FSA-mortgaged property. Many of these farmers pled guilty and have been sentenced, while others are awaiting sentencing.

- A Pennsylvania farmer pled guilty in Federal court to the illegal conversion of 88,000 bushels of various grains which were pledged as collateral for a \$217,000 farm loan from FSA. The farmer sold the

pledged grain without proper notice to FSA and then lied to an FSA inspector who was checking on the status of the grain. The farmer told the inspector the grain had not been sold and was still on his farm, when in fact the grain had been sold. Sentencing is pending.

- In Nebraska, a producer was convicted for converting FSA-mortgaged grain and livestock. The producer pled guilty to one felony count of conversion, was sentenced to 6 months' imprisonment followed by 3 years' supervised release, and was ordered to pay restitution of \$72,300. The producer also executed a consent judgment wherein he agreed to pay a total of \$119,240, which included the criminal restitution amount. Administratively, FSA saved an additional \$16,100 in setoff, to be applied against future payments.
- In Oklahoma, a farmer pled guilty in State court to charges of illegally selling FSA-mortgaged cattle. The farmer was sentenced to 5 years' probation and ordered to pay \$23,200 restitution.
- In Louisiana, a farmer was sentenced to serve 15 months in prison after pleading guilty to felony charges for illegally selling \$42,000 worth of timber from land pledged as security to FSA. In addition, he was ordered to pay full restitution. In 1989, he had been placed on probation for 5 years after pleading guilty to illegally selling property mortgaged to the former Farmers Home Administration (FmHA).

### **Sentencings Completed in Million Dollar Mohair Fraud**

As reported previously, four Texans pled guilty in Federal court after our investigation showed they had filed more than \$2 million in false claims under the 1988-1990 Mohair Incentive Program. The Mohair Incentive Program, now eliminated, allowed mohair producers to receive Government subsidies approaching 400 percent of the amount of their mohair sales. The four individuals submitted bogus mohair sales receipts in support of their claims. One of the defendants was previously sentenced. In January 1998, two of the defendants, a father and son, were sentenced. The father, a former bank officer, was sentenced to serve 40 months in jail and ordered to pay \$1,585,600 restitution. His son was sentenced to serve 24 months in jail and ordered to pay \$974,500 restitution. Both are to serve 3 years' supervised

release after finishing their prison terms. The final defendant was sentenced to 2 years' probation and 3 years' supervised release, and has paid a total of more than \$368,400 restitution.

### **Two More Texas Farmers Sentenced in Disaster Fraud Cases**

We previously reported that several Texans pled guilty in Federal court to defrauding FSA under the disaster assistance program. They had submitted bogus seed receipts and land leases in support of their watermelon and other crop loss claims for years 1989 through 1993. These cases were investigated as a result of an OIG audit of the disaster assistance program. Two more persons have now been sentenced. One was sentenced to serve 18 months' imprisonment and ordered to pay \$152,400 restitution. The other farmer was sentenced to serve 2 months in jail and ordered to pay \$65,100 restitution. Both are to serve 3 years' supervised release after completing their prison terms.

To date, a total of 16 people have been indicted in this investigation, of whom 13 have pled guilty, 1 was placed on pretrial diversion, and 2 were acquitted in separate trials. The fraudulent crop disaster claims for those who pled guilty totaled about \$890,700.

### **Investigation Saves FSA Nearly \$500,000**

Failure to properly make and service a cattleman's FSA guaranteed loans cost an Oklahoma bank over \$499,000. Our investigation showed the bank misrepresented both the loans' purposes and the cattleman's assets to obtain FSA approval of 80-percent and 90-percent loan guarantees for 2 loans. The bank officers allowed the cattleman to operate as a cattle order buyer (not an authorized loan purpose) and to sell his mortgaged cattle, and personally purchased some of the cattleman's equipment collateral when the operation failed. Also, one bank loan officer did not disclose an unrelated personal business relationship with the cattleman during the application process. The bank applied the collateral sales proceeds to the borrower's interest payments rather than appropriately reducing the loan principal, thereby increasing the amount of loss to be claimed under the FSA loan guarantees. When the cattleman's operation failed, the bank filed claims against FSA. Because of the bank's inappropriate actions disclosed by our investigation, FSA successfully denied the bank's claims for reimbursement.

## **Farming Partnership Pays \$625,000 To Settle Civil Suit**

A farming operation in the Pacific Northwest agreed to pay \$625,000 in settlement of a civil complaint filed by the Government. The former Farmers Home Administration (FmHA) had previously agreed to write down the debt of the farming operation from \$1.25 million to \$75,000. However, when the partners failed to make good on their agreement with the Government to settle their debt for \$75,000, we were asked to investigate. Our investigation determined that the partners had falsified information provided to FmHA in order to obtain the debt write-down. The partners initially transferred assets to the friend of one of the partners in order to conceal ownership from FmHA. They also concealed their financial interest in a farming business that had been established by the friend and another individual, since deceased.

## **RISK MANAGEMENT AGENCY (RMA)**

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 created RMA to provide both supervision of the Federal Crop Insurance Corporation (FCIC) and oversight of all programs authorized under the Federal Crop Insurance Act. FCIC is a wholly owned Government corporation which offers subsidized, all-risk crop insurance through an all-private delivery system by means of reinsurance. Private insurance companies enter into standard reinsurance agreements under which they agree to perform the insurance marketing, distribution, servicing, training, quality control, and loss adjustment functions in return for a percentage reimbursement of the premiums. Insurance agents sell and service the individual policies, while loss adjusters perform the verification and inspection functions necessary to establish producer eligibility for crop loss indemnities. RMA's programs are estimated at \$1.9 billion in premiums (about \$1 billion of which is in the form of premium subsidy), \$26.7 billion of insurance in force, \$2.1 billion in indemnities, \$202.5 million in sales commissions to agents, \$257 million in delivery expenses, and \$68.4 million in administrative and operating expenses for FY 1998.

## **Crop Insurance Abuse in South Texas**

During the spring of 1996, the Coastal Bend area in south Texas experienced a severe drought that impacted the three primary crops in the area: corn,

cotton, and grain sorghum. FCIC had established the same final planting date (April 15) and late planting period (April 16 to May 10) for these three crops. We received complaints that insurance agents were using a loophole in the standard crop insurance policy to give insureds in this area an unfair advantage. According to the allegations, double and even triple indemnities were paid to producers who planted two or three different crops sequentially on the same acreage before the May 10 deadline. The normal practice was to replant the original crop if it did not make an adequate stand.

The allegations were jointly reviewed by OIG and FCIC compliance investigators. The review included 479 crop insurance claims in which 352 deficiencies were noted in the following three areas.

- *Improper seed viability determinations were made by loss adjusters.* Some loss adjusters determined potential crop production of zero based on seed appearance and condition. This appraisal method has not been approved by RMA and, according to State Extension Service representatives, may not accurately determine seed viability. If an accurate assessment of potential crop production cannot be made, the adjuster should postpone the appraisal or require the producers to leave representative test strips for future appraisal. Loss adjusters for seven reinsurance companies and the Texas FSA office performed appraisals using unapproved seed-testing procedures, resulting in questioned claims of about \$5 million.
- *Producers did not plant the original insured crop.* Because of extended drought conditions, some initial insured crops failed, and reinsurance company loss adjusters appraised the crops and released the acreage for further use. Each adjuster should have determined at the time of loss, considering all factors involved, the feasibility of replanting and harvesting the insured crop. In some cases, there was no indication that a feasibility determination was made, and in fact the producers did replant the same crop on acreage separate from the initially planted acreage. By doing this, the producers collected the crop coverage amount on the initial insured crops and the late-planted coverage amount for the same crops planted on separate acreage. The second payments should have been limited to replant payments. RMA has taken exception to payments made to 89 producers amounting to about \$986,000.

- *Crops were destroyed without the consent of reinsurance companies.* Producers who have insured crops that have suffered losses are required to notify their insurance companies and obtain appraisals of the losses prior to putting the acreage to another use. There were 21 instances where producers in this area had plowed their original insured crops prior to loss appraisals, and planted other crops on the acreage. RMA concluded that accurate appraisals were not made, resulting in overpayments of about \$164,000.

RMA has issued initial findings to the applicable insurance companies, requesting refunds of all payments made.

### **Improvement Needed in Adjusting and Reviewing Large Claims**

Our review of the losses for selected insureds who were among those receiving the largest calendar year 1995 individual and/or overall losses disclosed the need for improvement in adjusting and reviewing large claims. FCIC required that the reinsured companies review all loss adjustments for claims \$100,000 and over. As a result of our review, we questioned a net overpayment of about \$1.2 million, of the approximately \$13.2 million in indemnities paid on 103 claims.

We questioned the determinations made by adjusters and reinsured companies in the adjustment and/or calculations of 51 claims in such areas as determining income under dollar plan crops and/or production-to-count under actual production history plans, determining acreage, verifying units, and determining whether insureds met policy provisions.

We noted that 41 (40 percent) of the 103 claims in our sample had questionable yields, and 32 of the questionable yields exceeded tolerances and caused overpayments. For example, one claim for apricots was overpaid by almost \$50,000 because the agent and insured included production in the calculation of the actual production history yield which did not meet the minimum standards and/or did not have acceptable records to support what was reported.

We recommended that RMA ensure that the companies perform the quality control reviews of crop claims \$100,000 and over in sufficient depth to detect discrepancies, and require that the quality control

review of crop claims \$100,000 and over include all claims filed by insureds during that calendar year to the date pulled for review, regardless of size. We recommended recovery of about \$1.2 million in questioned costs in the individual State audit reports.

RMA officials agreed that reinsured companies' reviews of claims over \$100,000 should provide sufficient coverage to detect deficiencies, and they also stated that during the update of the next Standard Reinsurance Agreement, they would negotiate with the reinsured companies to require quality control reviews of crop claims \$100,000 and over to also include all claims filed by the insureds during the calendar year.

### **RMA Needs To Improve Its Oversight of Catastrophic Risk Protection Plan (CAT) Policy Servicing**

Last period, we reported on an ongoing review of the phasing-in of a single delivery system for CAT coverage. The 1996 Farm Bill authorized the shift to a single delivery system by transferring policies written by FSA local offices to private insurance companies. During the 1997 crop-year, over 108,000 CAT policies were reassigned on a random basis to 15 reinsured companies in 14 States. In May 1997, the Secretary approved the transfer of all remaining CAT policies serviced by FSA local offices in 36 States to reinsured companies, effective for the 1998 crop-year.

We found three servicing issues during the transfer of policies in the first 14 States: Producers were not receiving adequate local servicing, limited-resource producers were not being serviced, and RMA's evaluation process was not addressing the quality of CAT program servicing. We identified various instances where local insurance agents were not willing to service the policies, partly because of the lack of a financial incentive. We also found that reinsured companies were not administering to limited-resource producers the fee waiver provisions, which enable qualified producers to obtain CAT coverage at no cost.

We recommended that RMA monitor the servicing of CAT policies to determine whether reinsured companies and agents are providing adequate servicing to producers, especially limited-resource and other socially disadvantaged producers. Also, RMA should take a proactive role to ensure the transfer process proceeds smoothly. In addition, we recommended that RMA

evaluate the effectiveness of CAT policy servicing, including that provided to limited-resource and socially disadvantaged producers.

Although RMA officials generally agreed with the audit findings and recommendations, planned actions did not address the problems reported, particularly the servicing of limited-resource producers. We are working with RMA to achieve management decisions on our recommendations.



# Food, Nutrition, and Consumer Services

## FOOD AND NUTRITION SERVICE (FNS)

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

FNS' funding for FY 1998 is \$36 billion. Three FNS programs receive the bulk of this funding: FSP (\$22 billion), CNP (\$9 billion), and WIC (\$4 billion).

## FOOD STAMP PROGRAM (FSP)

### Casefile Retrieval Rate Improves in New York, but Some Food Stamp Issuances Still Not Properly Supported

We previously reported that New York City could not locate 10 percent of the casefiles we sought. On the basis of statistical sampling, we concluded that FY 1992 food stamp issuances totaling \$86 million were not properly supported by casefiles. At that time, we recommended New York City initiate several corrective actions to ensure casefile documentation was available and retained.

Our followup audit found improvements in the casefile retrieval rate. New York City was able to locate 99.26 percent of the casefiles requested for audit. However, our analysis of the records retrieved disclosed that the city did not retain casefile records to support authorization for 3.5 percent of the issuances. On the basis of our statistical sample, we estimated that New York City made issuances during July 1996 totaling \$3.8 million which could not be supported by authorizing documentation, a material internal control weakness.

We also continue to be concerned with the quality of the documentation maintained in the casefiles. We found that New York City had not always complied with FSP certification regulations regarding application processing, certification and recertification actions, assignment of certification eligibility periods, and notices to clients.

We recommended that FNS (1) establish a standard for determining compliance with casefile documentation requirements and impose financial penalties when the standard is not met, (2) determine whether New York City should be held liable for about \$2 million (the lowest, most reliable estimate) for July 1996 FSP issuances that were not supported, and (3) require New York City to resolve its noncompliance with certification regulations.

FNS agreed to require the city to resolve the noncompliance issues, but did not agree to establish a standard for casefile documentation compliance or hold the city liable for unsupported issuances. We continue to work with FNS officials to resolve the recommendations with which they disagree.

### State Agency Claimed Unallowable Matching Costs for Training Provided Under the Food Stamp Program

FNS reimburses States for some of their costs of administering FSP. An audit of matching costs in the State of Washington was performed by the U.S. Department of Health and Human Services. Its objective was to determine if training costs claimed by the State agency for Federal reimbursement were allowable.

The audit concluded that the State agency claimed Federal reimbursement of \$5.6 million for unallowable costs relating to training contracts for work performed from July 1989 through June 1995. The auditors found that the State used unallowable third-party contributions to meet matching requirements. In this case, the "contributions" of the third parties amounted to services that the State said were undervalued. The State argued that the services were worth more than the State paid for them and claimed the higher amount for matching. The State also claimed other unallowable costs. Of the \$5.6 million in questioned costs, almost \$1.8 million related to FSP.

We recommended that FNS recover the approximately \$1.8 million in questioned costs. In its followup response, the FNS regional office agreed with the finding and recommendation and issued to the State agency a bill for collection for the questioned costs. The State agency has appealed the FNS billing to the State Food Stamp Appeals Board. The claim is currently pending an administrative review decision.

## **Disaster Food Stamp Program in Guam Was Well Managed**

On December 16, 1997, Typhoon Paka struck the island of Guam with winds up to 220 miles per hour. In response to this disaster, FNS approved the Government of Guam's request to implement a Disaster Food Stamp Program, which provides food stamps to households affected by major disasters.



Foundation and frame are all that remain of a home destroyed by Typhoon Paka. OIG photo.

FNS officials were on site working with the Guam Department of Public Health and Social Services staff and local officials when the program was implemented. OIG provided staff to assist during implementation of the Disaster Food Stamp Program and to ensure that controls were in place to detect possible duplicate participation.

To ensure that applicants were eligible and to check for possible duplicate issuances, Guam officials cross-checked household members' names, addresses, and Social Security numbers using a computer-matching process. While we were on site, Guam officials were reviewing data that indicated some possible duplicate payments.

The procedures in place in Guam to process applications were effective, and after the initial rush of applications, the enrollment process went well. All eligible applicants appeared to have been serviced in a timely manner, and controls were implemented to ensure that if duplicate applications were submitted, they would be detected and any overpayment pursued.

We recommended that FNS ensure that the Guam Department of Public Health and Social Services completes its review of any potential duplicate disaster program applications and takes action to collect any duplicate benefits identified. FNS officials concurred with our recommendation.

In a February 23, 1998, letter to Guam, FNS officials noted that Guam was unable to timely input applicant data to track possible duplicate participation due to a lack of electricity, delays in configuring the hardware, and lack of a tested software program. FNS officials urged Guam to analyze its response to the audit with these problems in mind and to determine how to avoid similar problems in the future.

## **Implementation of the Electronic Benefits Transfer (EBT) System Continues**

In previous reporting periods, we described FNS' progress in implementing EBT systems. Currently, 29 States use EBT cards to deliver FSP benefits (1 State also partially delivers WIC benefits via EBT). During FY 1997, almost \$3.5 billion in FSP benefits were delivered via EBT.

This period, as a member of the President's Council on Integrity and Efficiency, we continued to chair a working group composed of Federal, State, and public accounting representatives to develop standard procedures for audits of EBT processor operations. We also conducted reviews of the three largest EBT processors and the Account Management Agent (AMA) system at the Federal Reserve Bank of Richmond. The AMA system is designed to account for the FSP funds delivered by EBT systems. These reviews examined the processing of FSP transactions, the use of Federal funds, and the reporting of financial information. We found that the EBT processors and the AMA system accurately reported financial information to FNS.

## **Operation Talon**

For complete information about Operation Talon, one of our three Presidential initiatives, please see page 7.

## **Freight Train Rider Kills Transients for Their Food Stamp Benefits**

An individual in Oregon is serving two life sentences after pleading guilty to two homicides. An investigation

by OIG provided critical information that verified that the individual, a regular freight train rider and member of the Freight Train Riders of America, had obtained food stamps and other benefits under the names of various fellow transients who were subsequently determined to have been murdered. The subject confessed to numerous homicides, including murders in Oregon, California, Montana, Utah, Florida, and Kansas. He admitted that one of the reasons he killed his fellow freight train riders was to use their identities to collect food stamps and other welfare benefits.

Our investigation revealed that the subject had been collecting welfare benefits under several names in 12 States from 1994 through 1996. OIG provided the pertinent information to the local investigators and prosecutors, along with the original applications. Some files reflected the victims' names with the defendant's photograph on various identification documents.

The information we developed was critical to the prosecution of the subject, who had been classified as a serial murderer. Using our information, a time line was developed which solidified a chain of events. Our information directly linked the subject to some of the homicide victims through the subject's use of their identities and his photograph on a false identification card that he used to obtain welfare benefits. In addition to providing a link to the homicide victims and demonstrating his opportunity to commit the crimes, OIG provided proof of the subject's motive. The subject is also under indictment in Florida and Kansas for homicide.

#### **Store Owners and Recipients Plead Guilty to EBT Fraud**

Because 29 States are now delivering food stamp benefits via EBT, our efforts in this area are intensifying. Typically, EBT fraud occurs when, for a fee, an EBT cardholder allows a store owner to use the EBT card even though no food is purchased. During this reporting period, we have had significant results from our investigations of EBT fraud.

- In New Jersey, as previously reported, 16 people who owned or operated 10 stores involved in fraudulent EBT transactions were indicted in Federal district court. All 16 defendants have entered guilty pleas as a result of this investigation. The EBT fraud, based on transaction analysis, is estimated at \$6.5

million. Approximately 920 food stamp benefit recipients were identified as having engaged in suspect transactions at the stores. Each of the recipients illegally redeemed at least \$1,000 in food stamp benefits. To date, 582 recipients have been suspended from the food stamp program, resulting in a cost avoidance of approximately \$43,200.

Forfeiture actions against the 16 store owners and operators involve an estimated \$200,000 and are pending judicial action. A principal defendant in this investigation was sentenced to 14 months' imprisonment. Sentencing for the remaining 15 defendants is scheduled for June 1998.

- In Baltimore, Maryland, the owner of a retail grocery store pled guilty in Federal court to illegally trafficking in \$350,000 of EBT food stamp benefits through his store between 1992 and 1995. The store owner was sentenced to serve 5 months in Federal prison and 5 months of home detention, and to make restitution of \$350,000. In addition, five food stamp recipients who regularly trafficked their benefits at the grocery store were indicted in State court on fraud charges. Four of these recipients have pled guilty. The fifth is a fugitive.
- In Houston, Texas, the owner of a sham meat and seafood market was sentenced in Federal court to serve 12 months in prison and ordered to pay over \$286,000 restitution. Our investigation showed that between March 1995 and April 1996, the market redeemed over \$331,000 in EBT food stamp benefits even though virtually no food was purchased. Additionally, the owner personally purchased EBT benefits for cash, at a discounted rate, from an undercover agent. This investigation was conducted with the U.S. Secret Service and the Office of Inspector General of the Texas Department of Human Services.

#### **Nationwide Undercover Investigations Net Scores of Convictions**

Continuing undercover investigations nationwide have resulted in the indictment and conviction of numerous individuals who engaged in food stamp trafficking.

- In Detroit, Michigan, a grocery store owner pled guilty to conspiracy to traffic in food stamps. The store owner laundered \$13 million worth of food stamps

through his store between 1990 and 1995. He and the owners of six other stores in the area purchased and routinely transferred between themselves unlawfully acquired food stamps totaling \$24 million. The store owner was sentenced to 2 years' confinement and ordered to pay \$13 million restitution to USDA. One of the other six conspirators has pled guilty but has not yet been sentenced. Another conspirator is expected to plead guilty to conspiracy to launder money and has agreed to forfeit \$200,000 cash prior to sentencing. The other four conspirators have signed plea agreements. This case was worked jointly with the Internal Revenue Service-Criminal Investigations Division (IRS-CID), and the U.S. Secret Service.

- As previously reported, a food stamp fraud investigation that centered in New York City's Chinatown district resulted in the indictment of 76 defendants. To date, 61 defendants have been arrested; of these, 56 have been convicted, 2 have been deferred for pretrial intervention, and 3 are awaiting trial in Federal district court. The 56 defendants who were convicted received sentences ranging from probation to 4 years in jail and were ordered to pay approximately \$5 million in fines and restitution. Additional forfeitures in the amount of \$5 million are pending.
- In North Carolina, the owner of four convenience stores and his son pled guilty to food stamp fraud, money laundering, and currency structuring. The owner agreed that they had received not less than \$750,000 as a result of their crimes and that not less than \$500,000 had been transferred to the country of Pakistan and could no longer be recovered. The defendants therefore agreed to forfeit U.S. bank accounts, U.S. currency, foreign currency, food stamps, real property, and a promissory note, all totaling approximately \$700,000. In addition, the father agreed to pay a \$35,000 fine. The defendants are resident aliens and consented to deportation after they serve whatever sentence is handed down. The investigation was worked jointly with IRS-CID and with the Federal Bureau of Investigation (FBI). Sentencing is pending.
- As the result of an undercover operation in Warrensville Heights, Ohio, a local grocer pled guilty to 564 counts of money laundering in connection with food stamp trafficking. The investigation showed that

from January 1994 through July 1997 the grocer redeemed over \$6.1 million in food stamps for several Cleveland area grocers who were permanently disqualified from the food stamp program. The Warrensville Heights grocer received a 4 to 5 percent commission on the redemptions.

The investigation began in January 1997, when a cooperating grocer reported that he had been solicited by a permanently disqualified grocer to redeem food stamps. Undercover agents established a "sting" operation in the form of a grocery store to redeem the food stamps. After redeeming the disqualified grocer's stamps for a short period, the undercover agents decided to discover if the disqualified grocer had other outlets through which he could redeem the stamps. This required a "reverse sting" operation: the undercover agents gave back \$26,000 in stamps to the disqualified grocer, claiming they could not redeem any more from him. The disqualified grocer then led the undercover agents to the Warrensville Heights grocer.

This investigation was conducted by the Cleveland Food Stamp Task Force, which was composed of OIG, FBI, the U.S Secret Service, IRS-CID, the U.S. Customs Service, the Cleveland Police Department, and the Ohio Department of Public Safety.

- In Missouri, our investigation of food stamp trafficking by two authorized food stamp retailers resulted in the Federal indictments and convictions of eight individuals. This investigation was based on complaints that several people were buying large amounts of food stamps from customers at a local food stamp issuance site. Each of the eight subjects of the investigation received fines, and sentences ranging from probation to 1 year in jail. One of the subjects, a triple murderer who had escaped from a parolee halfway house years earlier, was returned to prison to serve the remainder of his original murder sentence. Both of the grocers went out of business as a result of our investigation, which was worked jointly with various State and local law enforcement agencies and the FBI.

One of the subjects of the investigation had been reselling food stamps to Federal employees at a local U.S. Department of Veterans Affairs (VA) hospital. A further joint investigation with the VA and the FBI

resulted in the successful prosecution of 10 VA employees in State court. Administrative action was taken by the VA against another 14 employees. Four other authorized retailers involved in food stamp trafficking were identified during our investigation, and Federal criminal prosecution of those retailers is pending.

- A Louisiana husband and wife who owned two grocery stores pled guilty in Federal court to charges of food stamp trafficking, firearms violations, and over \$600,000 in money laundering after a joint investigation by OIG; the U.S. Secret Service; the Bureau of Alcohol, Tobacco, and Firearms; the Louisiana Department of Social Services; the Lisbon and Homer, Louisiana, Police Departments; the Clairborne Parish Sheriff's Department; and the local district attorney. Over \$40,000 in food stamps was exchanged for \$21,000 cash and 7 semiautomatic handguns during the undercover portion of the investigation. The husband and wife were each sentenced to serve 27 months' imprisonment and ordered to pay over \$237,000 as restitution. In addition, forfeiture action against their stores and other property is pending.
- A South Bend, Indiana, grocer, who was formerly a congressional aide, pled guilty to fraudulent food stamp redemptions and money laundering. Our investigation disclosed that from January 1988 through July 1993, the owner redeemed approximately \$1.35 million in food stamps, while his reported food sales for the same period were less than \$400,000. The owner admitted he had been illegally purchasing food stamps for cash since his release from prison on an unrelated charge in October 1991. Sentencing is pending.
- Two store owners in the New Orleans, Louisiana, area were sentenced in Federal court after pleading guilty to money laundering and conspiracy to commit food stamp trafficking in a \$2.5 million food stamp fraud scheme investigated by OIG and the U.S. Secret Service.

As part of the scheme, four associates of the store owners purchased food stamps from recipients at a discounted rate outside a food stamp issuing office, using cash supplied by the store owners. The purchased food stamps were then redeemed at full face value by the two owners.

One owner was given a 3-year sentence, the other a 4-year sentence. Both were ordered to pay \$2.5 million restitution to USDA. Additionally, their real estate and bank accounts were forfeited to the Government. The four associates were also convicted of conspiracy to commit food stamp fraud. They received probation ranging from 3 to 5 years, were fined a total of \$3,000, and were ordered to pay restitution totaling \$4,000.

- In Morgan City, Louisiana, a former store owner pled guilty in Federal court to conspiracy and money laundering involving food stamp trafficking. Not authorized to accept food stamps herself, the former store owner operated her store under a fictitious name and fraudulently redeemed over \$397,000 in food stamps. In her plea agreement, she agreed to forfeit over \$68,000 in cash, a pickup truck, silver bars, and a coin collection, all of which were seized as the result of a search of her residence, store, bank accounts, and safe deposit box. The former owner was sentenced to serve 4 years in prison and ordered to pay over \$384,000 in restitution, in addition to forfeiting the above property. This investigation was initiated after a review by FNS' compliance branch.
- Also in Louisiana, three family members and their employee pled guilty in Federal court to charges of conspiracy, food stamp trafficking, and money laundering as a result of our investigation of their "rolling store." ("Rolling stores" are vehicles that are used to sell merchandise to customers.) The four individuals purportedly sold fruits and vegetables from a truck, but primarily were in the business of buying food stamps at a cash discount. Our investigation showed they fraudulently redeemed over \$1.3 million in food stamps from 1993 to 1996. The four were sentenced to prison terms ranging from 6 months to 10 years and agreed to forfeit over \$33,800 in cash seized during searches of their personal property, bank accounts, and a safe deposit box. Our investigation was initiated after a review by FNS' compliance branch.
- In California, the former owner of a mobile meat vending truck was sentenced to serve 2 years in prison and ordered to pay restitution of \$747,000 after pleading guilty to unlawful redemption of food stamps. Our investigation disclosed that the owner used his status as an authorized retailer to redeem



food stamps from other merchants who were not authorized to accept or redeem the stamps. During a 15-month period, the truck owner redeemed over \$700,000 in illegally acquired food stamps and was so involved in this activity that he essentially gave up his small retail meat business.

### **Food Stamp Trafficker Forfeits \$200,000**

A woman was sentenced to 5 years' probation and forfeited more than \$200,000 after she pled guilty to trafficking in food stamps from her residence in Sacramento, California. This case was worked jointly with the Sacramento Police Department.

A search of the individual's residence after her arrest disclosed \$8,000 in food stamps, about \$2,500 in cash hidden in a wall heater, and 7 months' worth of food stamps issued to the subject's husband, still in the issuance envelopes. The individual's safe deposit box also contained over \$200,000 in cash and silver bars and coins. Her savings account showed a deposit of a Supplemental Security Income disability payment.

All funds found in the residence and safety deposit box were subsequently forfeited to the Government.

## **CHILD NUTRITION PROGRAMS**

### **Audits Are Uncovering a Widespread Breakdown of Controls Over CACFP**

For complete information about ongoing reviews of sponsors administering the Child and Adult Care Food Program, one of our two Presidential initiatives, please see page 9.

### **New Jersey Schools Need Better Controls Over School Lunch Program**

At the request of FNS, we evaluated the East Orange, New Jersey, School Food Authority's automated system for counting and recording meals served under the National School Lunch Program (NSLP). We reviewed operations at the end of the 1996-1997 school year and claims for reimbursement for the period September 1995 through March 1997. The State agency had identified serious program deficiencies in its management review of the school food authority's operations.

Our audit found that by April 1997, the school food authority had strengthened its system controls to provide accurate meal counts. However, our analysis of the claims for reimbursement from September 1995 through March 1997 disclosed that meal counts were not accurate and were not fully documented until April 1997. We found that meal counts for some months could not be substantiated. The school food authority could not produce all source records, and on those that were produced, some monthly meal count summaries did not agree with the daily counts documented.

Based on supporting records, we recalculated the amount of reimbursement the school food authority was entitled to from September 1995 through March 1997 and determined the school food authority overstated the number of meals served. It was not entitled to reimbursement of about \$585,000.

During our review of system operations, we also found control weaknesses that still need to be addressed to bring the school food authority's operations into compliance with program regulations. Verification of lunch applications was not adequate, onsite school meal service reviews were not performed, and average daily attendance factors were not used to monitor meal counts. We also found that some meals served were not counted by the computer system due to a system-related flaw, and that some meals were not counted at the point of service. These weaknesses could result in a potential overclaim of up to \$78,000.

We recommended that FNS establish a claim to recover the \$585,000 in overpayments and determine the school food authority's liability for the \$78,000 in questioned costs. We also recommended that the school food authority implement controls to bring its NSLP operation into compliance with regulations.

FNS generally agreed to implement our recommendations. FNS expressed concerns over whether regulations support a claim where a school food authority had adequate verification of applications.

## **FOOD DONATION PROGRAMS**

### **Better Controls Are Needed To Protect the Quality of USDA-Donated Commodities Used for the National School Lunch and School Breakfast Programs**

Through the Food Distribution Program, USDA purchases food with funds appropriated by Congress and acquires commodities through surplus removal and price support activities. These foods are then distributed to States for use by eligible local outlets, including schools participating in the NSLP and School Breakfast Programs.

We evaluated the effectiveness of FNS and State efforts to control loss of USDA-donated commodities through proper handling and storage. FNS requires that all commodities be used within their recommended storage periods and that all frozen commodities be stored at or below zero degrees Fahrenheit to minimize bacterial growth. Bacterial growth increases rapidly as storage temperatures rise.

Our audit focused on storage practices in Illinois and Wisconsin.

- Illinois did not provide the oversight necessary to identify improper storage practices and temperatures, and to correct sanitation deficiencies at the State-contracted warehouse. We found that a majority of the frozen commodities held at the warehouse were stored at more than 10 degrees above zero for more than 40 percent of the time between January 1996 and mid-May 1997. The quality and potentially the wholesomeness of 3.4 million pounds of frozen commodities valued at \$3.2 million were jeopardized.

Illinois also did not ensure that the oldest commodities in storage were used first and that commodities were not ordered in excessive quantities. We estimated that over 522,000 pounds of commodities with an estimated value of \$328,000 were stored beyond the FNS-recommended storage periods. We also estimated, based on current rates of usage, that another 734,000 pounds of commodities with an estimated value of \$586,000 would be held beyond the recommended storage periods due to excessive supplies. Commodities held beyond their recommended storage periods are at increased risk of losing quality or becoming unwholesome.

- Wisconsin did not adequately monitor commodity usage and maintain accurate records of commodities in storage. For example, the Milwaukee Public Schools had an 11-month supply of frozen ham even though the recommended storage period for ham is only 6 months. We estimated that over 275,000 pounds of commodities valued at over \$246,000 were stored beyond the FNS-recommended storage periods. We also determined that at current rates of usage, an additional 92,000 pounds of commodities valued at over \$130,000 would be stored beyond their recommended storage periods.

At one of the two State warehouses, improper storage temperatures ranging from 1 to 10 degrees above zero Fahrenheit were identified 42 percent of the time between August 1996 and May 1997 in the two main freezers containing donated commodities.

We recommended that FNS monitor the States' oversight of State-contracted warehouses to ensure that safe storage is provided for USDA-donated commodities. We also recommended that all commodities held significantly beyond the FNS-recommended storage period be tested for wholesomeness. Finally, we recommended a series of internal controls designed to ensure that commodities are used on a first-in-first-out basis, and that excessive quantities of commodities are not maintained in inventory.

FNS officials generally agreed with the findings and recommendations as presented.

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

### **Ineffective Monitoring of the Implementation of California's Automated WIC System Resulted in Cost Overruns and Delays**

In 1992, California requested \$25.2 million from FNS to automate the WIC program Statewide. FNS approved \$12.2 million for the Integrated Statewide Information System (ISIS), to be completed by July 1995.

By June 1995, the system was still not close to being operational, and additional funds were needed. In March 1996, FNS approved increased funding of \$7.7 million, bringing the total project cost to \$19.9 million.

At the request of FNS, we reviewed the ISIS project to evaluate FNS controls over the implementation of ISIS and to determine the allowability of the costs claimed by the State of California for the ISIS project.

We concluded that, overall, ISIS was successfully implemented. It is effectively performing its intended mission, and costs reimbursed under the project are allowable and supportable. However, we identified a number of conditions that may have contributed to the increased project costs and the delayed completion date.

- California's project management made changes in the project design during the development and implementation phases of ISIS.
- The State did not adequately evaluate the costs of leasing computer equipment versus the cost of purchasing the equipment. We concluded that the State could save about \$977,000 by purchasing the equipment at the end of the 3-year lease agreement.
- The State did not adequately account for the costs of developing ISIS. We identified overstated costs of about \$452,000 reported in the State's progress reports.

In addition, we found that the State did not have an inventory system to properly account for all leased and purchased ISIS equipment.

We concluded that a more effective review and monitoring of the ISIS project by the FNS regional office could have potentially precluded such problems. The regional office recommended approval of the State's project planning document even though the document was deficient and did not include any cost-benefit analysis of the lease-versus-purchase option. Further, the regional office did not ensure that it had a large enough staff to monitor the State's project or that the staff had the knowledge and experience necessary to understand the project. We also found some miscommunication and misunderstanding between the FNS national office and regional office.

We recommended that the FNS regional office ensure that staff assigned to future computer projects have sufficient knowledge and experience, and that the office evaluate whether the State's purchase of equipment (versus lease of equipment) will be more cost-effective. We also recommended that FNS require the State to

include appropriate cost changes in its final progress report, develop a system to account for all leased and purchased equipment, and closely monitor the costs of operating ISIS.

FNS officials generally agreed with our audit results and recommendations.

As a result of our audit in California, we issued an evaluation report to the FNS national office. In this report, we put forth our concerns about national office oversight and made several suggestions on ways to improve the monitoring process.

### **Ohio Grocers and Wholesaler Admit to WIC Infant Formula Fraud**

OIG, in conjunction with the Columbus Division of Police, the Ohio Department of Taxation, and the Franklin County prosecutor, conducted a 12-month undercover investigation into the trafficking of WIC infant formula and untaxed cigarettes. Investigators determined that store owners and a wholesaler got the formula through the black market, removed its "not for retail sale" marking, and sold it commercially in area stores and to businesses in other States.

In two separate "buy-bust" cases, store owners and managers were arrested for having illegally purchased hundreds of cases of WIC formula and hundreds or thousands of cartons of untaxed cigarettes. Both investigations were linked to a Columbus commodity wholesaler at whose warehouses between \$500,000 and \$1 million in commodities was seized.

In separate indictments, which included a charge under Ohio's racketeering statute, the store owners and managers of both stores were charged with trafficking in WIC benefits, trafficking in untaxed cigarettes, money laundering, and possession of criminal tools. In addition to racketeering, the wholesaler was charged with receiving stolen property, theft, possession of criminal tools, forgery, money laundering, trafficking in WIC benefits, and trafficking in untaxed cigarettes.

The owner and the manager of the first "buy-bust" case pled guilty to racketeering and trafficking in WIC benefits and untaxed cigarettes. The owner and manager in the second case pled guilty to trafficking in WIC benefits and untaxed cigarettes. Their corporation pled guilty to racketeering. The wholesaler's trial is pending.

## **FINANCIAL MANAGEMENT**

### **Montana State Agencies Could Strengthen Financial Management Over FNS Programs**

One of the State agencies that administers FNS programs in Montana was reorganized in July 1995. Because of this reorganization, the FNS regional office suggested that we review the agency's fiscal activities. Our audit identified several areas where the agency could strengthen its financial management of FNS programs. The State agency did not do the following.

- Bill infant formula manufacturers in a timely manner for rebates under the WIC program. This resulted in earlier drawdowns of Federal funds to pay food costs which could have been paid by rebates. The delays resulted in interest costs that we estimate exceeded \$32,000.
- Reconcile food costs accumulated by the WIC computer system to those in the State's accounting system. Food costs reported to FNS exceeded food costs shown in the State's general accounting system by \$734,000 and \$197,000 in FY's 1995 and 1996, respectively. We did not identify any overclaims to FNS resulting from the State's inability to reconcile the two systems.

- Account correctly for an unliquidated obligation of over \$13,000 on the FY 1996 final WIC fiscal reports.
- Have a policy to ensure that all audit reports were received and reviewed in accordance with the Single Audit Act.
- Follow an FNS corrective action plan that recommended quarterly reconciliations of Child and Adult Care Food Program (CACFP) claims to the State's accounting system.

We recommended that FNS instruct the State agency to (1) ensure WIC rebate invoices are sent promptly to the manufacturer, (2) reconcile food costs in the accounting system to actual food costs and adjust the accounting system as necessary, (3) ensure audit reports are submitted on time and reviewed, and (4) complete quarterly CACFP reconciliations in accordance with the corrective action plan.

FNS concurred with our recommendations and is working with the State agency to obtain corrective action.

# Food Safety

## FOOD SAFETY AND INSPECTION SERVICE (FSIS)

FSIS administers a comprehensive system of inspection laws to ensure that meat, poultry, and egg products moving in interstate and foreign commerce for use as human food are safe, wholesome, and accurately labeled. FSIS' appropriation for FY 1998 totaled approximately \$589 million.

### Owner of Slaughterhouse Pleads Guilty

The owner of a Pennsylvania slaughterhouse pled guilty in Federal court to one count of conspiracy, while three employees pled guilty to two counts each of violating the Federal Meat Inspection Act. The owner and his employees slaughtered 3-D (dying, down, or diseased) cattle during evening hours after the FSIS inspector had left the premises. The unwholesome meat was commingled with federally inspected meat and sold as federally inspected product such as bologna, beef sticks, and jerky. In addition, hearts and tongues of uninspected cattle were made into summer sausage, bologna, ground meat, or kielbasa. The FSIS Compliance staff assisted in this case. The employees were sentenced to 2 and 3 years' probation and a \$500 fine. The owner was sentenced to 5 years' probation and a \$1,000 fine.

### FSIS Inspector and Federal Meat Plant Plead Guilty to Bribery, Sentenced

The FSIS inspector assigned to a beef slaughter operation in northern New York pled guilty in Federal court to accepting bribes from the owner of the plant to permit the slaughter of livestock, including 3-D cows, without the benefit of inspection. The slaughter facility also entered a plea of guilty to bribery. The inspector

has been terminated from his position with FSIS. Our investigation disclosed that for about 2 years the assigned inspector was receiving weekly cash payments from the owner of the slaughter facility, initially to conduct inspections of "downers" (physically weakened or injured cattle) without notifying the FSIS Supervisory Veterinary Medical Officer. The inspector later permitted plant personnel to slaughter livestock and to use USDA inspection stamps without his being present on the slaughter line, frequently after he had departed the plant. The inspector was sentenced to 6 months' confinement, 5 years' probation, and 200 hours' community service, and ordered to pay a fine of \$17,000. The plant was sentenced to 5 years' probation and ordered to pay a fine of \$5,000.

### Freezer Storage Facility Pleads Guilty to Misbranding Poultry

A commercial freezer storage facility in Gainesville, Georgia, pled guilty in Federal court in Atlanta, Georgia, to misbranding poultry. In the plea agreement, the president of the company admitted to having boxes and containers of poultry products fall to the floor and become damaged because of overcrowded conditions at the Gainesville facility. The damaged poultry was reboxed on weekends without the knowledge or permission of the USDA inspector at the facility. The frozen damaged product was thawed to make it easier to rebox, after which it was worked back into interstate and foreign shipments. The damaged reboxed product was combined into shipments of the original processor and different poultry processors. The company was fined \$200,000 and ordered to pay \$40,000 restitution for the cost of the investigation. The fine was the largest paid by a company in the Southeast under the Poultry Products Inspection Act. The investigation was worked jointly with FSIS Compliance officers.



# Marketing and Regulatory Programs

## **AGRICULTURAL MARKETING SERVICE (AMS)**

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1998 is approximately \$243 million.

### **Guilty Pleas in Strawberry Case**

We previously reported that the former sales manager of a San Diego, California-based food processing company pled guilty to conspiracy in relation to the substitution of Mexican strawberries for U.S. domestic strawberries in the USDA School Lunch Program. We also reported that the company and its president/owner were indicted for submission of false claims to USDA. The company and its president/owner have since pled guilty to the charges. Sentencing for all three defendants is pending.

## **ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)**

Through its inspections, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for FY 1998 are estimated to total over \$516 million.

### **Importers Convicted of Smuggling Misbranded Food**

In San Francisco, California, two businessmen are awaiting sentencing after pleading guilty to causing the delivery of misbranded food for introduction into interstate commerce. A third subject is expected to plead guilty to similar charges. A joint investigation conducted by OIG, the U.S. Customs Service, and the U.S. Food and Drug Administration disclosed that the businessmen smuggled bird's nests, abalone, fish maw, scallops, and dried oysters from Hong Kong by commingling these products with their legitimate imports of frozen shark fins and other food products.

# Natural Resources and Environment

## FOREST SERVICE (FS)

FS manages natural resources on over 191 million acres of National Forest System lands. It provides cooperative forestry assistance to States, communities, forest industries, and private landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and manage recreation areas. For FY 1997, total FS funding was about \$3.5 billion, with receipts from timber sales and other activities estimated at \$850 million.

### Two Found Guilty of Conspiracy To Defraud the Forest Service of 28 Aircraft, Sentenced

A former employee of FS and a self-employed aircraft broker were found guilty of conspiracy to defraud FS of 28 aircraft by providing false statements to officials of the Department of Defense (DoD) and General Services Administration (GSA), mail and wire fraud, and offering and accepting gratuities. The former FS employee was sentenced to 2 years in prison and 3 years' probation, and the aircraft broker to 30 months in prison and 3 years' probation. The 28 aircraft had an estimated value of between \$22 million and \$28 million.

The scheme involved the creation of an illegal Historic Aircraft Exchange Program (HAEP) by FS. The former FS employee accomplished this by misrepresenting to FS officials the authority of FS to create such a program, which was then used to transfer surplus aircraft from DoD to airtanker companies with whom FS contracted to fight forest fires.

The self-employed aircraft broker facilitated the transfer of FS aircraft in HAEP to the airtanker contractors. At times, the aircraft broker was employed by the same companies that received the FS aircraft and Government contracts to fight forest fires. The scheme was carried out by the airtanker companies exchanging non-flight-worthy aircraft for flight-worthy FS aircraft. The former FS employee knew to whom the aircraft were being transferred and was instrumental in the transfers of title. The self-employed aircraft broker, who was not in the business of fighting forest fires, obtained three FS aircraft and sold or traded them, netting a profit of \$1.5 million.

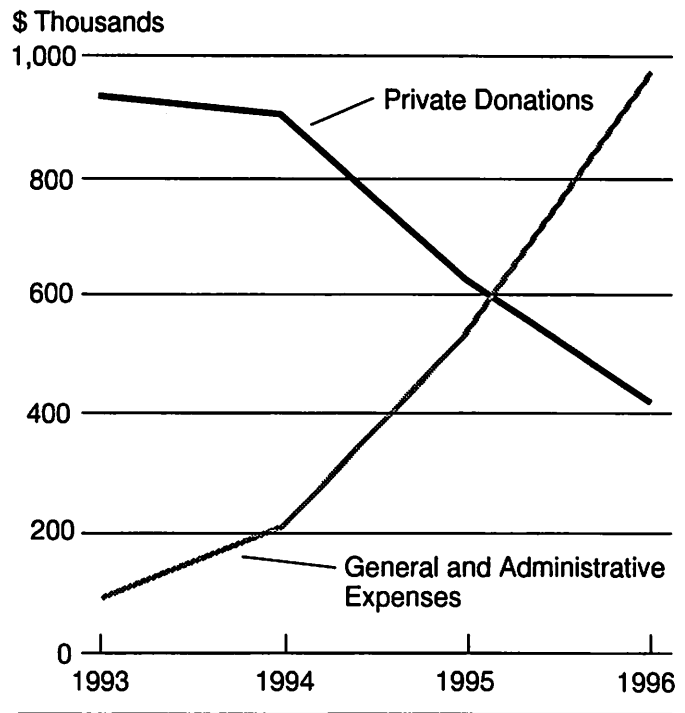
This case was worked in conjunction with the Defense Criminal Investigative Service, GSA OIG, and Naval Criminal Investigative Service.

### National Forest Foundation (NFF) Provided Only Limited Benefits to the Forest Service

NFF was established with the expectation that it would receive private gifts enabling it to conduct activities that support and provide substantial benefits to FS. However, almost 7 years after passage of the NFF Act, and expenditures of over \$4.1 million in Federal funds, private financial support for the foundation has declined and reliance on funding from FS for its administrative costs has increased (see figure 4).

Figure 4

### Private Donations vs. General and Administrative Expenses



We are concerned that if NFF continues to operate in this manner, the benefits of the relationship between FS and NFF will be outweighed by the existing and potential costs of the relationship. The net fiscal benefit received by FS has averaged only slightly more than \$179,000 per year as of December 31, 1996.

We also determined that FS needs to improve its controls and oversight of NFF. FS did not manage the agreements with NFF in accordance with laws and regulations. As a result, \$1.2 million in Federal funds

was not matched by NFF, and NFF has not implemented a financial management system that meets assistance agreement standards.

We recommended that FS initiate actions to reduce NFF's dependency on appropriated funds for administrative expenses and that NFF be required to reimburse FS for the value of in-kind services provided by FS. This recommendation is to ensure self-sufficiency on the part of NFF and to contain costs and save Federal funds.

We also recommended that \$1.2 million in Federal funds not matched by NFF be recovered, that NFF's financial management system meet standards required in the assistance agreements, and that NFF submit revised Federal financial documents that are prepared in accordance with applicable regulations and reflect the total cost of the assistance agreements.

FS officials did not agree with our recommendation to recover the \$1.2 million or to withhold funding to NFF until its financial system had been modified to adequately track expenditures of Federal and private funds.

FS generally concurred with the remainder of our recommendations and is addressing corrective action to reach management decision on those recommendations.

#### **FS Entered Into an Improper Agreement With NFF and Subaru of America**

NFF is a private foundation set up to "encourage, accept, and administer private gifts of money, and of real and personal property for the benefit of or in connection with the activities and services of FS." NFF was established to provide a method for FS to receive things of value from the private sector that FS, as a Government entity, could not solicit or accept. The only restriction on NFF's solicitation and acceptance of gifts is the broad clause which requires that its activities provide a benefit to or connection to FS activities.

NFF and Subaru entered into a written agreement in July 1997. The stated purpose of that agreement was for NFF to benefit the Nation's forests and for Subaru to promote and showcase its product lines. Terms of the agreement required NFF to arrange for 34 donated leased vehicles to be used by FS at prominent locations



## **Help Smokey Prevent Forest Fires!**



A Subaru Forester bearing the official FS shield and the decal naming it the official vehicle of the National Forest Foundation being exhibited at the Philadelphia International Auto Show. OIG photo.



A closer view of the decal. OIG photo.

agreed to by FS, NFF, and Subaru. NFF would also arrange for Smokey Bear to attend a minimum of 10 major auto shows per year as designated by Subaru and distribute literature about fire prevention and NFF's role in restoring forests that have been adversely affected by wildfire. This literature would bear "Subaru branding." NFF would also incorporate Subaru marks on NFF trail maps, brochures, and literature produced or sponsored by NFF; allow the use of NFF's marks in Subaru advertising, highlight Subaru on the NFF web page, and generally support the partnership arrangement.

We found that FS participation in this agreement was improper.

- The agreement had product promotion as a key purpose of the partnership. Departmental and agency policies and regulations prohibit the endorsement and promotion of commercial activities. The accompanying photographs show the Forest Service shield on a Subaru Forester displayed at the Philadelphia (Pennsylvania) Auto Show.
- Smokey Bear is the property of the Federal Government. By words or illustrations, Smokey is not to endorse a commercial product or service. The Smokey Bear symbol is required always to be used in conjunction with an approved fire prevention message.

We recommended that FS (1) cancel further participation in the partnership because the partnership agreement was improper and violated established agency and Departmental policies and regulations and (2) advise NFF to refrain from making commitments of U.S. Government property, specifically Smokey Bear.

FS agreed to cancel its memorandum of understanding with NFF and to initiate discussions to renegotiate the agreement with Subaru. FS officials met with officials of NFF and told them that Smokey Bear would not appear at future auto shows and that NFF must discontinue making commitments for the involvement of Smokey Bear and NatureWatch. FS also required NFF to ensure that Subaru Forester vehicles appearing at auto shows do not bear the FS shield and that NFF remove the "Official Vehicle" decal from all Forester vehicles donated to FS by NFF. The agency also requested that NFF modify its agreement with Subaru to reflect the changes agreed upon when the FS/NFF agreement has been renegotiated.

### **Wildlife and Fisheries Habitat Management Shows Weakness**

FS manages a significant portion of the Nation's wildlife, fish, and rare plant habitat. This habitat provides homes to more than 3,000 species of amphibians, birds, fish, mammals, and reptiles, including 283 threatened and endangered species. The FS mission includes protecting, improving, and restoring ecosystems and habitat for fish and wildlife species along with protecting

threatened, endangered, and sensitive animal and plant species. Our audit included a review of 1996 fish and wildlife activities at the FS headquarters, two regional offices, two national forest supervisor offices, and two ranger district offices.

We found that (1) about \$84,000 in fish and wildlife funds earmarked for the FY 1996 AmeriCorps Program was not returned for fish and wildlife use when the program was canceled, (2) about \$63,000 was charged to improper resource fund codes, (3) land resource and management plans often lacked specific, measurable, and trackable program goals and objectives, (4) monitoring and evaluation of the program's effectiveness at the forest level was not always performed, (5) a project costing up to \$1 million was funded without thorough planning, and (6) critical regional program leadership vacancies were not filled promptly. As a result, projects designed to inventory and improve habitat for wildlife and fish, including threatened and endangered species, were not performed; provisions of the Government Performance and Results Act may not be met; and the effectiveness of land resource and management plans for protecting and enhancing wildlife and fish habitat will continue to be questionable.

We recommended that FS (1) verify that the funds designated during FY's 1996 and 1997 to support the AmeriCorps Program are returned and used by the correct originating resource area and that erroneous charged-as-work and benefiting function charges totaling about \$63,000 be corrected, (2) expedite the completion of revised land resource management plan regulations which would contain requirements for specific, measurable, and trackable resource goals and objectives, (3) perform the wildlife and fish monitoring activities contained in the land resource management plans or process amendments to delete the monitoring activity, (4) direct the forests to include data on the progress being made toward meeting the land resource management plan goals, objectives, and desired future conditions in annual management and evaluation reports, and (5) monitor and assist regional offices to ensure that key wildlife and fish leadership positions do not remain vacant for extended periods.

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

# Rural Development

## RURAL HOUSING SERVICE (RHS)

RHS has the responsibility for making available decent, safe, sanitary, and affordable housing and community facilities by making loans and grants for rural family housing and apartment complexes; and for financing the construction, enlargement, or improvement of essential community facilities such as fire stations, libraries, hospitals, and clinics. For FY 1997, program funding for RHS loans and grants totaled \$4.4 billion. As of September 30, 1996, RHS had an outstanding loan portfolio totaling over \$30.9 billion. An additional 56,600 borrowers had obtained guaranteed single-family housing and community facilities loans totaling \$3.7 billion.

### **Joint Initiative Works To Uncover Fraud and Hazardous Conditions in Rural Rental Housing (RRH)**

For complete information about ongoing reviews geared to uncover fraud and hazardous living conditions in the RRH Program, see page 12.

### **Identity-of-Interest Entities Skim Equity From RRH Projects and Underinsure Projects**

The RRH program makes loans and provides subsidies to build RRH projects. Regulations permit owners of RRH projects to use independent management companies or to form management companies (identity-of-interest companies) to manage and provide services to their own projects.

We determined that an identity-of-interest management firm charged RRH projects in Arizona, Colorado, New Mexico, and Texas in 1996 for excessive workers compensation premiums totaling over \$38,000, for expenses already covered by its management fees totaling about \$4,800, and for unauthorized and unallowable expenses totaling about \$4,700. Also, the company did not turn over almost \$6,100 to the projects in coin-operated laundry proceeds. Further, the management company did not deposit over \$14,000 in the reserve accounts of 8 projects and siphoned off over \$9,500 from the reserve accounts of 16 projects. A general partner of six projects in New Mexico and Texas did not deposit the required 2-percent funds (about \$121,000) into the projects' operating accounts. As a result, the projects lost use of the funds, lost

interest income of approximately \$10,000, and incurred property tax penalties of almost \$1,200.

The identity-of-interest management company also did not provide adequate casualty and fidelity insurance. In 1996, it did not properly insure nine projects it managed in New Mexico; therefore, nine properties were underinsured more than \$736,000. When the projects' general partners were informed of the problem, the projects were insured for the proper amounts in 1997. Further, the management firm provided only the level of fidelity insurance for its management staff that it provided for its RRH project employees; therefore, New Mexico projects were underinsured for management company malfeasance by \$170,000.

We recommended that Rural Development direct the management company to return all questioned amounts to the projects; account for similar charges, in 1995 and 1997, as determined to be unallowable in 1996; and provide adequate fidelity insurance.

RHS agreed with the findings and recommendations and is implementing corrective action.

### **Prominent Washington State Attorney Pleads Guilty to RRH Fraud**

In Washington State, a prominent local attorney is awaiting sentencing after he pled guilty to making false statements, receiving kickbacks, and filing a false Federal income tax return. As a general partner of limited partnerships which owned federally financed and subsidized low-income housing projects, the attorney built 65 apartment projects in 20 States under the RRH program. Our investigation disclosed that the partner submitted false and fictitious construction invoices to RHS and to the lending banks which administered RHS loans in order to divert \$176,000 in funds from four RHS loans. Our investigation also showed that he received kickbacks from the bank where loan funds were deposited. In order to conceal the kickbacks, he submitted fictitious invoices to the bank for purported legal services rendered. He also failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return.

In a related case, a contractor who maintained an identity of interest to the attorney, and performed repairs on projects where the attorney was a general partner, was sentenced to 60 days' home confinement with

electronic monitoring, participation in a mental health program, and restitution of nearly \$22,400 after he pled guilty to filing false statements and filing a false Federal income tax return. The contractor submitted false and fictitious construction invoices and cost certification to RHS in order to divert loan funds. He also failed to disclose nearly \$61,000 derived from the diverted funds and other related sources on his 1995 income tax return.

Our investigation was conducted jointly with RHS, the FBI, and the IRS.

### **OFFICE OF COMMUNITY DEVELOPMENT (OCD)**

OCD is a part of the Rural Development mission area. OCD operates special community development initiatives and provides technical support to USDA-Rural Development community development staff in offices throughout the United States.

#### **Added Controls Improve Empowerment Zone Operations**

Title XIII of the Omnibus Budget Reconciliation Act of 1993 authorizes the Secretary to designate rural Empowerment Zones (EZ) to empower rural communities and their residents to create jobs and opportunities to build for tomorrow as part of a Federal, State, local, and private sector partnership. Each EZ receives \$40 million for these purposes.

Our review of Rio Grande Valley (Texas) EZ operations identified control improvements needed in (1) drawing down EZ social services block grant monies in a timely manner, (2) accounting for appropriate use of EZ social services block grant funds, and (3) ensuring projects meet planned benchmark objectives. As a result of these weaknesses, the Federal Government incurred over \$38,000 in additional interest costs for 12 of 16 projects reviewed, the time and related costs of part-time employees who worked on multiple projects were not properly allocated for 1 project, and 2 projects did not provide low-cost housing in accordance with benchmark goals.

After bringing these matters to the EZ officials' attention, they initiated a policy to disburse funds on a 30-day forecast and required the return of prematurely advanced funds and over \$14,000 in interest earned on those funds. Further, they terminated the agreement with a nonperforming contractor and arranged for a grant-specific audit of the two projects not meeting benchmark goals.

We recommended that EZ follow up on recommendations made in the grant-specific audit. Texas State Rural Development officials agreed to follow up to ensure the recommendations are fully implemented.

### **RURAL UTILITIES SERVICE (RUS)**

RUS, successor to the Rural Electrification Administration, was established under the Department's Reorganization Act of 1994. RUS makes and guarantees loans to electric and telecommunications systems in rural areas and makes loans and grants to rural water and wastewater systems. Most RUS-financed rural electric cooperatives use a two-tier organizational structure. Power supply cooperatives generate or otherwise procure electricity for sale to distribution cooperatives. Individual consumers are members of distribution cooperatives that provide electricity directly to homes and businesses. As of September 30, 1997, electric borrowers totaled over 800 with outstanding loans of nearly \$29 billion. The FY 1998 program level is \$925 million.

#### **Problems Exist With Electric Program Loan Funds, Borrowers**

We evaluated RUS' electric program because of its high dollar value (approximately \$32 billion in outstanding loans as of September 30, 1996), potential for large losses (writeoffs of more than \$1.7 billion from February 1994 through June 1997 and about \$8 billion owed by financially troubled borrowers at the end of FY 1996), legislative changes made from 1992 through 1994, and changes in the industry. Our primary objectives were to determine how well the new requirements were working and determine the need for additional legislation to target funds and services to borrowers most in need of Federal assistance.



The eligibility criteria prescribed by law and regulations for hardship loans, and prioritization of applications for municipal rate loans, did not take into consideration the applicants' financial strengths, loan amounts, or local area user rates. Also, the law (the Rural Electrification Act of 1936, as amended) and regulations did not allow RUS to ensure that insured and guaranteed (Federal Financing Bank) loan funds are benefiting only truly rural areas. This could delay funding for improvement of electrical service to the most needy borrowers and in truly rural areas. We also found that RUS personnel did not always have effective internal controls for servicing problem borrowers.

We recommended that RUS seek legislative change and amend regulations so that hardship loan funds can be targeted to areas of greatest need by taking into consideration financial condition and local area user rates, and by ensuring municipal rate loan funds benefit only truly rural areas. We further recommended that RUS formalize procedures and strengthen controls over the servicing of problem borrowers.

Agency officials generally agreed with the findings; however, they did not agree with all of the recommendations. In March 1998, RUS issued a new staff instruction to establish procedures for handling requests from electric program borrowers for debt settlement and other requests dealing with borrowers' financial conditions.

# Research, Education, and Economics

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

CSREES administers USDA's extramural research program in support of agricultural research and technology transfer. It also administers a program of competitive grants to State Agricultural Experiment Stations, colleges and universities, other research institutions and organizations, Federal agencies, private organizations or corporations, and individuals to promote research in food, agricultural, and related areas.

### **CSREES Needs To Widen the Representation of Researchers and Research Institutions in the Competitive Grants Program**

CSREES was authorized by Congress to administer the National Research Initiative Competitive Grants Program (NRICGP). NRICGP increases the amount and quality of science by (1) attracting the best U.S. scientists for research to assure sustainable agriculture, (2) stimulating scientific breakthroughs to solve problems facing agriculture, and (3) supporting research that helps to solve problems or meet unforeseen threats to the U.S. agricultural industry, food supply, or environment. Under NRICGP, CSREES makes grants for high-priority research in the food and agricultural sciences.

Our audit disclosed that CSREES' process for awarding grants favors large institutions and previously awarded researchers. We also found an apparent correlation between those institutions which received awards and the institutions' representation on peer review panels. During FY's 1993 through 1996, the top 25 award recipients received over 55 percent of the awarded funds and were represented on more than 52 percent of the panels.

Our audit also disclosed that CSREES (1) made grants that did not fully comply with regulations regarding competitive eligibility, (2) did not limit its Strengthening Program funds to small and mid-size institutions, (3) used more than the allowable 4 percent for administering NRICGP, (4) did not meet the funding requirement for multidisciplinary research, and (5) did not maintain a uniform accounting system for reporting NRICGP activities.

We recommended that CSREES (1) pursue a broader representation of panel members in order to prevent an apparent correlation between the composition of peer review panels and awards funding, (2) revise eligibility and selection requirements for Strengthening Program awards to protect small and mid-size institutions, (3) remove equipment grant stipulations in the Strengthening Program and require the grants to be subject to the same criteria as other Strengthening Program grants, (4) obtain an opinion from OGC regarding CSREES' participation in multiagency research programs, (5) obtain an opinion from OGC regarding the appropriateness of categorizing peer review costs as programmatic costs to the extent that the peer review costs exceed the 4 percent allowable for administrative fees, (6) obtain an opinion from OGC regarding the appropriate funding basis to compute the required level of multidisciplinary research, (7) periodically review and adjust NRICGP allocations for multidisciplinary research grants to ensure that program funding complies with applicable legislation, and (8) develop a uniform accounting system for NRICGP.

On March 31, 1998, CSREES responded with disagreement on several findings and recommendations. Further discussions are under way to reach management decisions.

### **University Official Misused CSREES Research and Extension Funding**

From FY 1994 through the first half of FY 1997, Langston University (Langston, Oklahoma) received CSREES grants for research, extension, and the expansion of research and extension facilities, totaling \$11.5 million. Based on the results of a review by CSREES personnel into alleged improper personnel practices and misuse of grant funds by the university, the CSREES Administrator requested that OIG conduct a more indepth review.

The audit revealed that a former university official had full control over the university's use of CSREES grant funds and Evans-Allen (federally assisted) research project revenues with little or no oversight. Therefore, his failure to follow rules and regulations was not detected. The former university official misused over \$1.2 million in grant funds, and accounting practices jeopardized over \$209,000 in Evans-Allen research project revenues.

Over \$678,000 was used for the development of architectural plans and topographical maps for the construction of elaborate facilities (a \$16 million research and extension building at the university and a \$68 million facility for troubled youths in another town over 85 miles from the university). Although the total estimated cost of these facilities was over \$84 million, the university only had about \$3.1 million available for their construction.

OIG learned that the university was working with an architect to revise the plans for the \$16 million research and extension facility into plans for a \$5 million facility instead. University officials planned to use \$3.1 million in CSREES funds and obtain another \$2 million from other sources. Since the planned construction costs still exceeded available CSREES funding, we issued a management alert to the CSREES Administrator in October 1997 recommending that CSREES freeze the \$3.1 million in CSREES funds available for construction purposes and direct the university not to expend any CSREES-administered funds for architectural planning or construction of facilities until full funding is assured and CSREES has approved the project. The Administrator concurred and implemented this recommendation.

In addition, the audit revealed that the former university official used grant funds for various other unallowable purposes. He used over \$77,000 to purchase major construction equipment (a bulldozer) without CSREES approval. He also used research funds to assist two students to attend college. One individual was paid over \$45,000 during a 2-year period even though she did not attend college. The other individual was paid over \$151,000 during a 4-year period while he worked on his doctorate degree at another university. In addition, this individual was instructed to complete timesheets showing he worked at the university Monday through Friday even though he worked there only 1 or 2 days per month.

The former university official obtained approval to use \$110,000 to construct a water tower; however, all of the relevant facts about the need for and use of the water tower were not provided to CSREES officials. The former university official also used over \$74,000 in travel funds for unallowable costs. In addition, the former university official did not follow State procurement policies to select and pay an architect to prepare a construction master plan, and competitive bidding rules were circumvented. Further, Federal regulations requiring that separate accounts be maintained for each funding source were not followed, and revenues from Evans-Allen projects were commingled with other funds.

The audit also revealed that CSREES national office personnel did not adequately monitor and review documents provided by the university which showed funds were being used to plan a facility for which funding was not available. Furthermore, CSREES did not have adequate procedures for grantees to report total estimated construction costs and the source of construction funds. Under existing rules, grantees did not have to report Evans-Allen expenditures for facilities expansion or upgrade, nor did they have to report total estimated building costs of structures proposed to be funded with facilities grants.

We recommended that CSREES require the university to replace misused grant funds totaling over \$1.2 million. In addition, we recommended that the university be required to follow Federal and State rules governing travel and procurements and maintain separate accounts for all revenue sources. We also recommended that the CSREES Administrator ensure that CSREES procedures for monitoring facilities expenditures are adequate, and modify grantee reporting requirements to show total estimated building costs and anticipated funding by source.

CSREES agreed with the recommendations and initiated corrective action.

# Financial, Administrative, and Information Resources Management

## EQUAL EMPLOYMENT OPPORTUNITY

### The Department Has Moved Toward Improving Its Discrimination Complaint System

Last reporting period, we reported the results of our review of the Department's system for processing civil rights complaints and its fairness in dealing with disadvantaged and minority farmers. We determined that the Office of Civil Rights (OCR) needed to eliminate the increasing backlog of civil rights complaints, and that the Farm Service Agency (FSA) needed to improve its technical assistance to minority farmers applying for farm loans.

Our review was part of a continuing evaluation of the Department's civil rights complaint system, performed at the direction of the Secretary. Since December 1996, we have issued 2 evaluation reports and 2 internal memoranda to the Department which contain 44 recommendations.

This period, we monitored the Department's efforts to implement our recommendations. Since December 1996, we have reached management decision on 16 of the 44 recommendations. OCR has measurably improved its system for processing civil rights complaints. It has developed a more reliable data base of complaints, hired additional staff, and informed all complainants of the status of their cases. FSA has also put in place several new procedures that should improve relations with the minority farm community.

The remaining 28 recommendations still need attention. FSA has not completed its task of reengineering its farm program operations, and OCR has not corrected all deficiencies in its complaints system. Two areas in particular are critical: OCR needs to formally institute a process to reconcile the outstanding complaints it has on file with those listed by the individual Departmental agencies, and it needs to publish regulations describing how discrimination complaints should be processed. Reconciling complaints and publishing regulations governing the complaints process are vital to maintaining accountability within the system.

- *OCR has no formal system in place to reconcile its outstanding program complaints with the listings at the individual agencies.* OCR currently has a stop-gap data base in place which breaks down the

complaints by agency. However, we could not determine, with a reasonable degree of certainty, the number of outstanding complaints at the Department, because OCR has not reconciled its data base with agencies' records.

An accurate count of program complaints is not possible without a formal reconciliation process. We compared the number of outstanding complaints on record at FSA and Rural Development to OCR's data base. In February of this year, FSA's listing of outstanding complaints totaled 384, while OCR's data base showed 499. Rural Development's listing of outstanding complaints totaled 301, while OCR's data base showed 223.

OCR's data base listed 1,118 cases as of February 18, 1998. At the time, the data base included all complaints, both open and closed, backlogged and new. (OCR considers cases received after November 1, 1997, as new.) The data base showed the status of each complaint (see figure 5).

Figure 5  
**Status of Complaints listed in OCR's Data Base**

	Backlogged	New	Total
Closed	221	5	226
Final Report Submitted	9	0	9
Revised Report Submitted	25	0	25
Draft Report Submitted	80	3	83
Sent Out for Investigation	127	1	128
Investigation Not Yet Begun	<u>626</u>	<u>21</u>	<u>647</u>
<b>Total</b>	<b>1,088</b>	<b>30</b>	<b>1,118</b>

- *Regulations need to be published.* The Department's codified regulation, 7 CFR part 15 - Nondiscrimination, which sets forth USDA's policy of nondiscrimination for federally assisted and federally conducted programs regarding title VI of the Civil Rights Act of 1964 and other civil rights laws, is outdated and does not accurately reflect current Departmental agencies, programs, and laws. This regulation is vital to the establishment of a successful Departmental complaint system. The regulation should include the Departmental agencies, programs (federally assisted and federally conducted), and civil rights laws which USDA has the authority to enforce. Also, the regulation should describe the complaint process governing the receipt, processing, and resolution of complaints within established timeframes.

We continue to monitor the Department's implementation of our recommendations. To resolve the recommendations, OCR should, on a weekly basis, manually reconcile its lists with those obtained from each of the agencies. OCR also needs to develop (1) an adequate plan to significantly reduce the backlog of complaints within a reasonable period and (2) a timeframe for the revision and publication of 7 CFR part 15, and Departmental Regulation 4330-1, Departmental Policy for Program Compliance Reviews.

## FINANCIAL MANAGEMENT

USDA is required by the Chief Financial Officers Act and the Government Management Reform Act to prepare and audit financial statements for all Departmental accounts and activities. Financial statements for USDA are generated from seven accounting systems maintained by six separate agencies and USDA's National Finance Center. In addition to the financial statement audits, OIG routinely audits other financial management areas to determine if

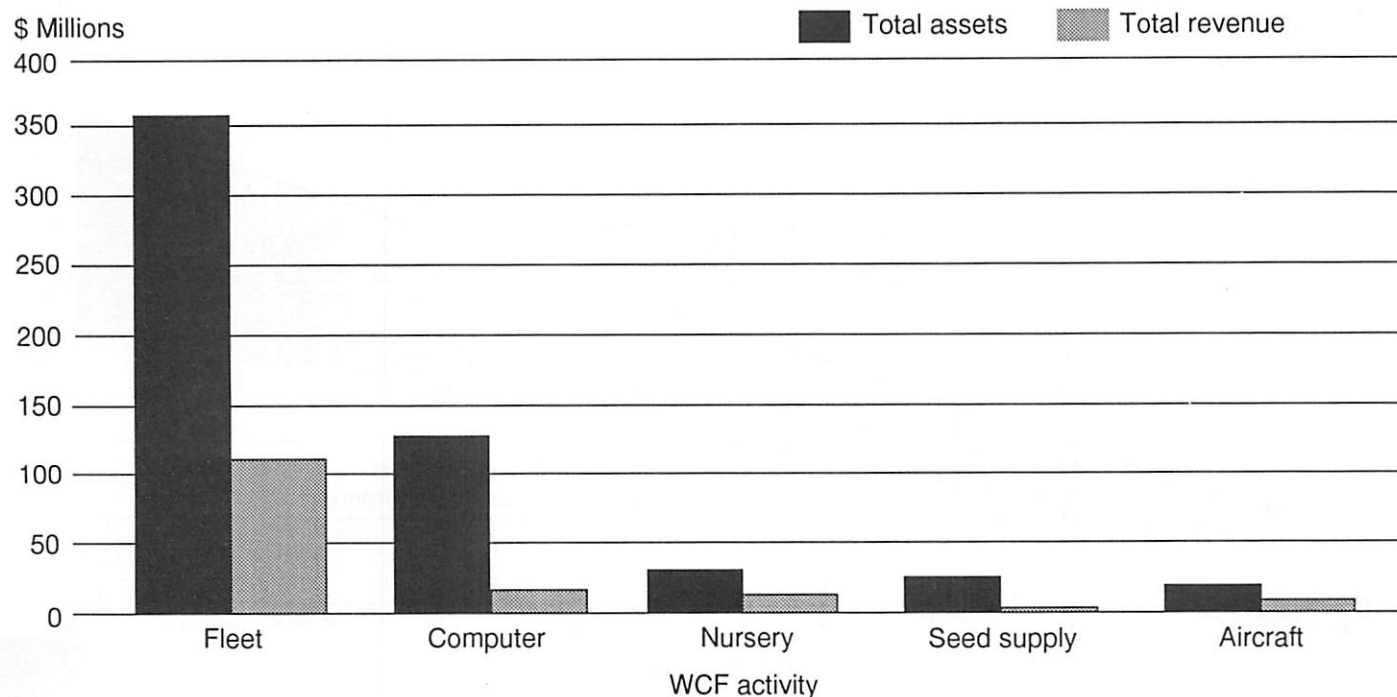
systems are adequate and assets are properly safeguarded.

### The Forest Service's Working Capital Fund (WCF) Absorbs More Program Funds Than Necessary

The Forest Service's (FS) WCF is a self-sustaining, revolving fund that provides services to national forests, experiment stations, and other Federal, State, and private agencies that cooperate with FS in fire control and other programs. The fund finances the purchase of equipment (computers, vehicles, etc.) and replenishes its assets by charging the units that use the equipment a user fee, which is charged against the agency's program funds. The fees accumulate and are used to replace the equipment when needed. At the end of FY 1996, assets in WCF totaled \$557 million. During FY 1996, \$151 million was generated. The two largest WCF activities in FY 1996 were fleet management (i.e., road vehicles) and computer services, which accounted for assets of \$356 million and \$127 million, respectively, as shown in figure 6.

Figure 6

### Total Assets and Revenue of Major WCF Activities for the Fiscal Year Ended September 30, 1996



Our audit addressed management of the WCF computer services activity and found that efforts are needed within FS to improve WCF operations.

- Directions issued by FS' Washington, D.C., Office instructed regions to set user rates so that enough funds would be collected at the end of 6 years to cover the full cost of replacement. We found that actual replacement would be incremental and that the equipment would be fully replaced at the end of 10 years rather than 6 years. We estimated that by collecting for full replacement in 6 years, regions will have collected approximately \$49.6 million in excess funds at the end of the sixth year, funds that could have been available for program purposes during the years of collection (see figure 7).
- Regions should set user rates based on replacement plans and cash-flow analysis statements. By doing so, regions will accumulate only the cash needed to fund replacements. Only one of the units we visited had developed replacement plans for the WCF computer service activity. Without replacement

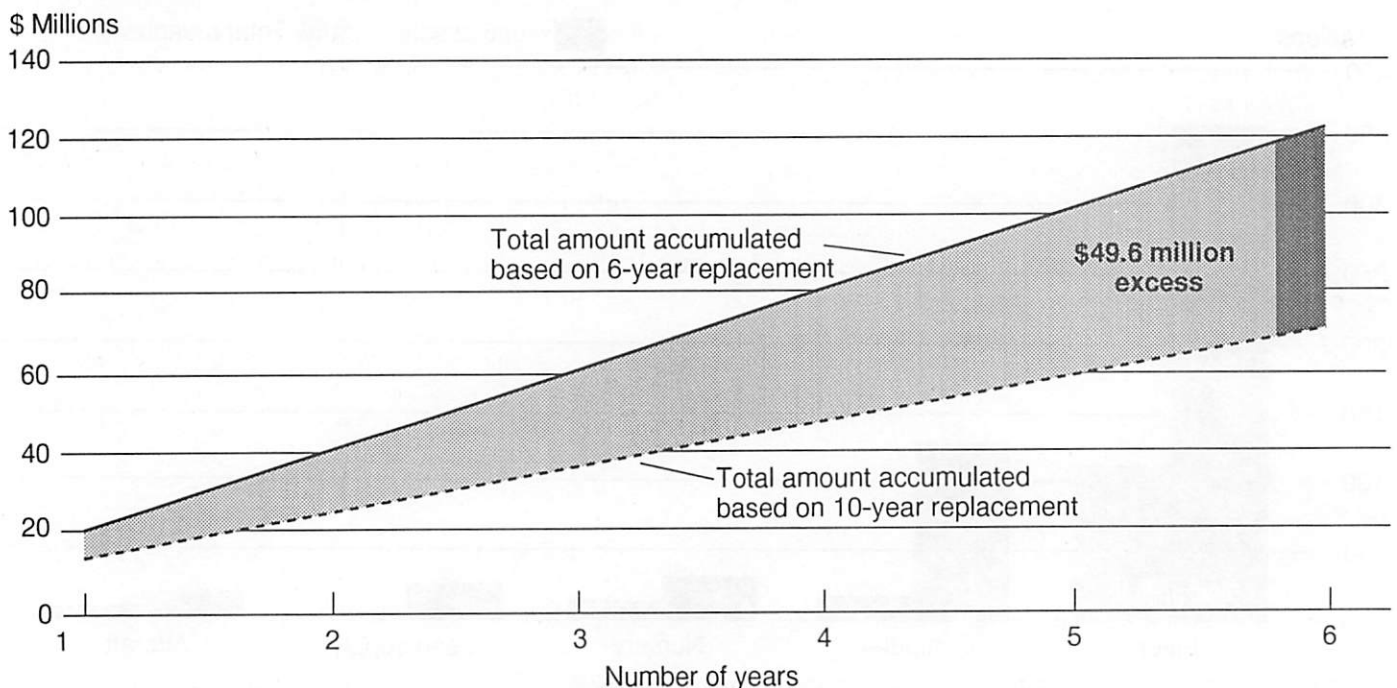
plans, regions were unable to make accurate estimates on the amount they expected to spend on computer equipment replacements.

- Financial reports pertaining to the computer service activity were not reliable in that cash shown by the WCF financial statements did not reconcile with cash balances shown in the Central Accounting System. The unreconciled difference totaled \$1.2 million in FY 1996. In addition, we identified two regions which were not resolving accounting errors identified by discrepancy reports. For example, at two national forests in one region, discrepancy reports identified approximately \$939,000 in errors that had not been corrected, while at another region, discrepancy reports identified approximately \$970,000 in potential errors that had not been researched (to determine if accounting corrections were needed).

To minimize the accumulation of excess cash, we recommended that FS amend its operating manual to require that regions establish rates for the WCF computer service activity based on estimated cash needs determined from cash-flow analysis statements

Figure 7

### Amount of Excess Cash Accumulation in WCF Computer Service Activity If FS Continues to Collect for Full Replacement in 6 Years





and incorporate realistic replacement plans. We are working with FS officials to achieve management decision.

### **The Payroll/Personnel and Time and Attendance Systems Need Better Controls To Safeguard Against Errors and Fraud**

Our review of the Department's payroll and personnel systems found that additional controls were needed to fully protect the systems from errors, irregularities, or abuse. Our audit identified control weaknesses that impact systems used to process actions for about 434,000 employees and an annual payroll totaling about \$21 billion.

During our testing, we identified the following problems:

- The payroll and personnel systems do not have sufficient controls to preclude clerks with update authority from changing their own records. The systems also do not readily identify this type of activity. We detected significant numbers of people updating their own personnel and leave records. Although we noted only one instance of potential fraud in our testing, we found numerous errors that resulted in overpayments, and we believe there is a threat of further fraudulent activity and errors.
- Documentation was not always maintained to support salary or salary-related changes to the payroll and personnel data base. From our review of 710 changes made to employee leave balances through the Time Inquiry - Leave Update System (TINQ), we found that 207 did not have documentation authorizing the changes, 524 did not have supervisory approvals, and 61 of the changes, involving 1,300 hours, were made incorrectly. Each year, USDA agencies process about 113,000 changes to leave balances through TINQ, with a value of about \$45.5 million. Non-USDA agencies process an additional 235,000 TINQ adjustments, valued at \$155.3 million.
- A system that processed 2,288 "special salary payments," totaling nearly \$1.2 million during 1996, did not have sufficient controls to preclude or detect errors and irregularities. We noted improper payments, overpayments, and a lack of an adequate accounting process. For example, we found that a clerk had processed, without approval, a duplicate

payment to one employee of \$450, for hours supposedly worked after the employee had already separated from the job and been paid. We also identified 11 employees who had received 13 duplicate salary payments totaling \$7,778.

- Access security is weak. Agency personnel do not always perform security access reviews to ensure that only authorized personnel have access to the systems. During our reviews, we identified over 180 people who had left the agency but still had access to systems for up to 7 years.

We recommended that the Department institute appropriate internal controls to eliminate the cited weaknesses, including automated controls to prevent employees from changing their own records and to control/validate accesses to the payroll and personnel systems.

### **Weaknesses Continue To Exist in Internal Controls at NFC**

Our FY 1997 audit at NFC found that the deficiencies disclosed during the earlier reviews continued to exist, and due to the pervasiveness and materiality of the weaknesses noted, we rendered an adverse opinion on the Center's internal controls. Extended delays in the implementation of key corrective actions have adversely affected and will continue to adversely affect our ability to obtain reasonable assurances regarding NFC's internal control structure. We found a number of deficiencies.

- Certification reviews required by OMB Circular A-130 and accompanying access control reviews were not always performed in a timely manner. We identified individuals who should not have been granted access authority.
- Many of NFC's older applications do not adhere to currently recognized development and documentation processes and, as a result, reflect internal control weaknesses and operational deficiencies.
- Reconciliation procedures do not always provide effective controls for following up on unreconciled differences and resolving them. We also noted instances where design weaknesses prevented effective use of the reconciliation process.

- Control procedures do not provide reasonable assurance that adjustments to user agency accounts, financial statements, and financial reports are authorized and processed accurately.
- The general ledger at NFC does not conform to the U.S. Standard General Ledger: accounts did not always reference the appropriate financial statements; the audit trail, in some cases, was nonexistent; and subsidiary ledger detail did not exist for some accounts.

We made no further recommendations for deficiencies for which NFC had corrective actions under way. We did recommend that management (1) assign a full-time senior executive to oversee and support the development and implementation of a comprehensive corrective action plan to resolve longstanding material weaknesses, (2) conduct uniform risk assessments and add controls based on those assessments, (3) develop a revised schedule to ensure that certification and recertification reviews required by OMB Circular A-130 are completed on time, and (4) improve access controls over the NFC computer room and tape library.

The Office of the Chief Financial Officer (OCFO), which administers NFC, generally agreed with the audit recommendations.

### **Rural Development's Programs Funding Control System (PFCS) Needs To Be Reassessed**

As a result of the reorganization within USDA, Rural Development and FSA officials determined that a new appropriation accounting system was needed to integrate the requirements of the various reorganized agencies. At the same time, the 1996 Farm Bill, which established the Rural Development Trust Fund, required that changes be made in the control of funds within the affected agencies. To address this need, Rural Development and FSA established the New Appropriation Accounting System (NAAS) Project, now renamed PFCS. The project's objective was to identify requirements for a single, integrated appropriation accounting system to support the programs of the Rural Housing Service, Rural Business-Cooperative Service, Rural Utilities Service, and the farm credit programs of FSA.

We questioned the PFCS project managers' conclusion that a custom design, rather than commercially available software, was the best alternative to select. Accounting

software owned by two Departmental agencies had not been fully evaluated. Authoritative personnel within the Department did not concur with Rural Development and FSA evaluation of the existing Department-owned systems and noted numerous instances where the evaluation inaccurately characterized these systems as not being capable of meeting current needs. We concluded that sufficient, relevant information did not exist to support the project team's determination that the commercial software products already owned by the Department were not adequate.

We recommended that Rural Development and FSA discontinue any further procurement of PFCS until a thorough reanalysis identifies the PFCS requirements that cannot be met by Department-owned systems. Concurrently, we recommended that the Office of the Chief Information Officer (OCIO) not approve the PFCS project until the recommended reanalysis is completed.

A steering committee, made up of senior program managers from Rural Development and FSA, has been created to oversee this project. A representative of OCIO advised us that prior to authorizing funding, that office will require Rural Development and FSA to initiate an independent validation of the PFCS requirements and an analysis of existing software. Rural Development officials agreed with this determination, and a statement of work for an independent study is being developed by OCIO in conjunction with the steering committee, OCFO, and OIG.

### **Implementation of the Foundation Financial Information System (FFIS)—Changes Need To Be Made**

Our prior audits of USDA's financial statements and the National Finance Center's (NFC) internal control structure disclosed that the existing accounting system was not in compliance with applicable accounting standards. Controls were weak, and the system could not provide the information that USDA managers need.

- Reconciliation procedures were weak due to design and/or system deficiencies that prevented effective use of established reconciliation processes.
- The system could not provide reasonable assurance that adjustment to user agency accounts, financial statements, and/or reports were processed accurately.

- The general ledger did not conform to the U.S. Government Standard General Ledger.

To correct these longstanding and significant weaknesses, OCFO acquired a commercial off-the-shelf software product to provide an automated accounting system. The product, when implemented, is planned to serve as the central part of the USDA FFIS.

We previously reported problems related to the implementation of FFIS. Subsequent to our report, OCFO made substantial changes to the FFIS implementation plan, deferred some critical processes, etc., and implemented three FS offices on October 1, 1997. During our current review, we found that substantial problems exist that are preventing the full and effective implementation of FFIS. Most of these problems can be attributed to the premature implementation of the three FS offices. Despite assurances that only a fully tested system would be implemented, FFIS was brought online with testing being incomplete. We concluded that the implementation of additional agencies, including other FS offices, should be deferred until the system is fully operational and an extended operational assessment is performed.

We recommended that OCFO (1) not implement additional Forest Service (FS) offices unless all systems are complete, adequately tested, and undergo substantial operational readiness testing, (2) require an independent verification and validation that the system is functioning as designed, was adequately tested, data was appropriately converted and verified, and is operationally functional prior to implementation of additional FS regions, and (3) assure that resources are provided to continue planning for the implementation of agencies into the FFIS, while ensuring that no agencies are scheduled for implementation on October 1, 1998.

OCFO generally agreed with our recommendations. OCFO officials are currently working with the Secretary's office to develop a comprehensive plan detailing the tasks that need to be completed prior to the implementation of additional FS offices. They are also planning on deferring the implementation of the other FS regions until problems with the system have been resolved.

## Financial Statement Audits

### *FCIC: Unqualified Opinion*

During this reporting period, we completed an audit of the FY 1997 financial statements for the Federal Crop Insurance Corporation (FCIC). FCIC received an unqualified opinion in that its financial statements fairly presented, in all material respects, its financial position and the results of operations. No internal control weaknesses were identified that would have a material effect on the financial statements.

## INFORMATION TECHNOLOGY

### Department Progressing With "Year 2000" Conversion Project

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

The "Year 2000" crisis poses a significant challenge to all users of affected information technology. Every organization, whether Federal or private, must ensure that its information systems are fully converted well before December 31, 1999. The Office of Management and Budget (OMB) recently set the target date for all Federal systems to become converted by March 30, 1999. OCIO serves as the Department's focal point for addressing conversion issues.

We performed a review to determine how prepared USDA agencies and service centers are to achieve conversion. Our objectives were to determine whether agencies had established an overall strategy, prioritized the systems that needed to be converted, developed a plan to test and validate the new systems, devoted sufficient resources to the conversion process, and prepared contingency plans in case they did not meet the March 1999 implementation date set by OMB.

USDA was cited in the media and in congressional hearings as one of the Federal agencies behind schedule in addressing problems in the "Year 2000" conversion. An oversight committee that grades agencies on their conversion preparedness gave USDA a "D" grade on its report card. Also, USDA did not meet the OMB deadline for completing the assessment phase by the end of June 1997. The Department did not report the completion of the assessment phase until November 1997, 5 months behind schedule.

Our reviews at five selected USDA agencies and two service centers confirmed the concerns expressed about the Department's progress in converting its systems. Some agencies had developed plans and had inventoried and prioritized their systems; other agencies were just initiating the process.

We also found that OCIO needs to address several crosscutting activities. OCIO needs to monitor all "Year 2000" funding and reserve requests from individual agencies, assess the need for a departmentwide centralized test facility to minimize duplication of effort and costs, and coordinate the evaluation of commercial software and equipment to provide better information sharing and reduce duplicate vendor contacts. Also, OCIO needs to continue monitoring the agencies' efforts and ensure that all affected agencies coordinate with external organizations on data exchange issues, including schedules for conversion.

We recommended that OCIO monitor and coordinate the efforts to ensure that sufficient resources and funds are available to USDA agencies to correct "Year 2000" problems, coordinate efforts taken by different agencies to establish test facilities, and track conversion efforts by agencies that are using similar software and equipment. Also, we recommended that OCIO monitor the status of test plans, evaluate the adequacy of test teams, and ensure that contingency plans are in place for each agency's critical systems.

OCIO officials agreed with our findings and recommendations and are implementing corrective actions. The oversight committee referenced earlier recently gave the Department a "B," and OMB redesignated the Department as a Tier II agency in OMB's most recent report to Congress.

## **Audits Find Questionable Use of Commercial Software Within USDA**

Commercial software developers and their publishers have taken action to enforce copyright protection. The Software Publishers Association has estimated that its members suffer annual losses in excess of \$2 billion due to software piracy and unauthorized use. Unauthorized duplication of software is a Federal crime, and penalties can include statutory damages of up to \$100,000 per infringement, fines of up to \$250,000, and jail terms of up to 5 years. Ineffective management of computer software can expose an organization to additional risks such as litigation, public criticism, lost productivity, and unanticipated legal fees.

We reviewed commercial software use at OCIO, the Animal and Plant Health Inspection Service, the Risk Management Agency, and the National Information Technology Center. The objectives of our evaluations were to determine if use of commercial software was authorized and in compliance with licensing agreements, and if USDA's software control procedures were adequate.

We found that controls over software within the Department needed strengthening. Over 2,000 unauthorized copies of commercial software existed within the offices reviewed. Agency procedures were ineffective in ensuring that commercial software acquired by the Government was used only in accordance with its applicable licensing agreements. As a result, agencies could be assessed penalties for unauthorized copying and use of commercial software.

We recommended to OCIO that Department procedures on the use of commercial software be strengthened to provide more effective control. We also recommended that the agencies immediately remove any copies of unauthorized software they have or obtain additional licenses.

OCIO agreed with the recommended actions and issued a Departmental notice in December 1997 to provide guidance to USDA personnel on the use and limits of copyrighted software. This notice directs USDA supervisors to make copyright protections *known to* their employees and to conduct periodic reviews to determine if USDA policies are being followed. The

notice also requires all USDA organizations to inventory and document all software belonging to them, and requires employees to obtain written authorization to install personally owned software on Government equipment.

## **HAZARDOUS WASTE MANAGEMENT**

### **Management Controls Over Radioactive Material Need Strengthening To Reduce Risks to Employee and Public Safety**

The Nuclear Regulatory Commission (NRC) authorizes USDA to use radioactive materials in research and other activities. USDA's Radiation Safety Committee establishes Departmental policies and oversees compliance with NRC and USDA regulations.

As of February 1997, the safety committee had issued 584 permits for the use of radioactive materials in 7 agencies. The permits authorize the permit holders to use about 1,330 unsealed sources (e.g., radioactive isotopes used to study animal digestion), 570 sealed sources (e.g., gas chromatographs), 20 irradiators (used to sanitize meat products), and 200 x-ray machines. These permit holders and materials are located at 228 facilities in the United States, the Virgin Islands, Mexico, and Guatemala.

We evaluated the Departmental and agencies' controls over radioactive materials and wastes. We reviewed a statistically selected sample of 35 permit holders at 14 facility locations.

We concluded that Departmental and agency internal control systems need improvement to ensure that radioactive materials are properly handled and accounted for, and to minimize unnecessary risks to employee and public safety.

Compliance deficiencies existed at all 14 locations visited and involved 25 of the 35 permit holders reviewed. Specifically, we found the following:

- Unauthorized and unneeded radioactive materials were on hand,
- inventory records for radioactive materials and waste were inaccurate,
- permits were inaccurate,
- materials were used by personnel lacking permit authorization,
- dosimetry (staff exposure to x rays or radioactivity) reports were not maintained and one user failed to use a dosimetry badge,
- monthly contamination surveys were not conducted, and
- security and warning signs for radioactive materials were inadequate.

These deficiencies were the result of inadequate inspections of facilities and permit holders. Officers designated at each location to perform annual inspections had not always received training in those responsibilities, and safety committee staff members had not provided inspection checklists to ensure that the inspectors covered all NRC and USDA compliance requirements.

Department-level inspections, conducted by the Department's radiation safety staff, were insufficiently documented to support inspection reports. The frequency of facility inspections by the radiation safety staff had been reduced from every 3 years to every 5 years based on the assumption that the local annual inspections were being performed. We found that only 2 of the 13 onsite officers we reviewed who were designated to perform annual inspections had actually conducted them. The radiation safety committee did not monitor completion of the annual inspections and generally did not review them.

USDA was fined by the NRC in 1990 and 1993 for the same types of conditions found during our audit. Continued noncompliance risks further NRC fines, the loss or theft of radioactive material, and suspension by NRC of USDA authorization to use radioactive material.

We recommended that the Department's radiation safety staff (1) implement standard inspection checklists, (2) increase the frequency and scope of facility inspections, and (3) survey facilities to identify all radioactive material burial sites on USDA property and conduct required site inspections. We also recommended that agencies maintain complete and accurate radioactive material inventories, and ensure that annual inspections are conducted and officers designated to conduct them are properly trained.

The Department's response to the audit was very positive. The Department agreed with all findings and recommended improvements and provided complete management decisions for the 13 audit recommendations. All planned corrective actions are to be implemented between June and December 1998.

## **AUDITS OF CONTRACTS**

### **Contract for the Law Enforcement Case Management System Was Mishandled**

The Forest Service's law enforcement branch awarded a contract to a software development company to study the feasibility of developing a Law Enforcement Case Management System (LECMS). FS planned to use LECMS to bring itself into compliance with the Federal Uniform Crime Reporting Act of 1988.

The contract was awarded in April 1994, was not to exceed \$500,000, and had a completion date of April 1995. This contract has continued without completion for over 3 years, and the contract price has escalated

from about \$467,000 to over \$1 million. Our review disclosed that FS (1) did not have or did not use the expertise necessary to plan a project of this level of technical complexity, (2) did not hold the contractor to the original contractual agreement, and (3) did not provide consistent direction and assistance to the contractor. After 3 years and the expenditure of more than \$1 million, FS has still not fulfilled the requirements of the act.

During our review we became aware of proposals under way to modify the LECMS contract yet again and incur additional costs ranging from \$200,000 to \$500,000. We believe these contract modifications warrant immediate reappraisal.

We recommended that the Chief of FS (1) suspend any future contract modifications until a thorough analysis of the statement of work can be performed, (2) ensure all future contract modifications require prior approval from the Chief, and (3) coordinate with OCIO concerning any additional contract modifications. FS concurred with our findings and recommendations.



# Employee Integrity Investigations

## Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct, including conflicts of interest, misuse of official position for personal gain, and the misuse or theft of Government property and money. During the past 6 months, our investigations into these types of matters resulted in 9 convictions of current or former USDA employees and 44 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations that yielded results during the past 6 months.

### FSA Employee Ordered To Pay \$300,000 Restitution

As reported previously, a Texas FSA program assistant with 24 years of Government service pled guilty to charges of theft and embezzlement of more than \$945,000. She has now been sentenced to serve 18 months in prison and ordered to pay over \$300,000 restitution. She was also ordered to forfeit her retirement benefits, which totaled about \$25,000, and apply them toward the restitution. The employee

created numerous false loans, altered several Commodity Credit Corporation (CCC) checks to bear her name, forged the signatures of two FSA county supervisors on the CCC checks, and deposited several CCC loan and program payment checks into her personal bank account. The actual dollar loss to the Government was about \$286,400 due to the employee using some of the fraudulent loans to pay off other fraudulent loans in order to keep the scheme active.

### Former FSA Employee Embezzles \$111,000

In Washington State, a former FSA employee is awaiting sentencing after she pled guilty to forgery and embezzlement of more than \$111,000. The employee, whose husband was enrolled in FSA's Conservation Reserve Program, submitted false and altered FSA program payment applications in her husband's name without his knowledge. She later forged his name on the applications and on the subsequent CCC payment checks to him, which she generated. She also forged two coworkers' signatures needed for approval to issue the checks. The employee, who had worked for FSA for 10 years, resigned during our investigation.

# Statistical Data

## Audits Without Management Decision

The following 43 audits did not have management decisions made within the 6-month limit imposed by Congress. While 17 of these were pending judicial, legal, or investigative proceeding, 26, the majority, were pending agency action. 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)
CSREES	03/27/97	1. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)*	5,633	0
FAS	12/02/96	2. Evaluation of the Fund for Democracy and Development (07801-4-Te)*	5,885,622	5,853,585
FNS	03/21/97	3. Establishment and Collection of Food Stamp Claims (27002-2-Te)*	1,908,988	1,908,988
FNS	06/18/97	4. Food Distribution Program on Indian Reservations (27601-6-KC)	6,187,235	41,425
FNS	07/8/97	5. Reinvestment of Quality Control Penalties (27099-4-At)	50,150,541	48,470,145
FNS	08/25/97	6. National School Lunch Program Verification of Applications in Illinois (27010-11-Ch)	31,200,000	31,200,000
FNS	09/25/97	7. Strategic Monitoring of the Electronic Benefit Transfer System in Illinois (27099-11-Ch)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FNS	09/30/97	8. Food Stamp Program- Reporting Accuracy of Claims Activity (27601-12-Ch)	0	0
FS	10/27/92	9. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	1,079,189
FS	07/18/96	10. FY 1995 Forest Service Financial Statements (08401-4-At)*	1,150,183,750	1,150,183,750
FS	09/30/96	10. Real and Personal Property Issues (08801-3-At)*	0	0
FSA	01/19/95	11. Disaster Assistance Program, Geneva County, AL (03099-157-At)*	1,667,814	229,828
FSA	09/08/95	12. Management of the Sumter County, GA, Consolidated Farm Service Agency (CFSA) Office (03006-5-At)*	4,479,035	2,513,132
FSA	09/18/95	13. Management of the Dade County, FL, CFSA Office (03006-1-At)*	75,175,410	909,437
FSA	03/15/96	14. Wool and Mohair Payment Limitation, Concho County, TX (03099-2-Te)*	2,072,102	1,177,675
FSA	03/29/96	15. Cash/Share Lease Provisions (03801-2-Te)*	1,076,557	1,076,557
FSA	06/05/96	16. 1994 Crop Disaster Payments, Minnesota (03006-5-Ch)*	375,801	33,658

<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
FSA	01/31/97	17. Crop-Year 1995 NAP Payments, Minnesota (03099-2-Ch)*	59,366	59,366
FSA	03/04/97	18. State-Administered Mediation Programs (03801-23-Te)*	1,174,624	1,174,624
FSA	07/15/97	19. FY 1996 CCC Financial Statements (06401-6-FM)	5,300,000	0
FSA	08/27/97	20. Operator Compliance With Payment Eligibility and/or Limitation Provisions in South Dakota (03006-5-KC)	63,909	63,909
FSA	09/29/97	21. Peanut Price Support Program (03601-6-At)	46,704,388	46,704,388
FSA	09/29/97	22. Assessments on Imported Tobacco (03001-2-At)	123,481,825	123,481,825
FSIS	05/23/97	23. Controls Over the Export of Meat and Poultry Products (24099-1-Te)	0	0
RBS	03/31/97	24. Intermediary Relending Program (34601-1-Te)*	3,602,795	3,602,795
RMA	09/30/97	25. Reinsured Companies' APH Self-Reviews (05099-1-Te)	0	0
RMA	09/30/97	26. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	15,082,744

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
<b>Audits Pending Judicial, Legal, or Investigative Proceeding</b>				
AARC	09/30/96	27. AARC Cooperative Agreement with Agro-Fibers, Inc. (34099-1-At)*	0	0
FS	03/31/97	28. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)*	469,000	469,000
FNS	09/22/97	29. Child and Adult Care Food Program - Sponsor Abuses (27601-7-KC)	56,296	56,296
FSA	09/30/93	30. Disaster Program Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
FSA	03/02/95	31. Disaster Assistance Program, Jackson County, FL (03099-158-At)*	359,265	359,265
FSA	03/31/95	32. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (03600-26-SF)*	484,972	364,522
FSA	06/09/95	33. Large Operator Compliance With Payment Limitations, Georgia (03099-5-Te)*	491,680	491,680
FSA	09/07/95	34. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI (03099-8-KC)*	165,069	165,069

<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt. Decision (in dollars)</b>
FSA	09/07/95	35. A&B Professional Consulting, Inc. (03004-1-At)*	628,976	628,976
FSA	09/28/95	36. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,804,828
FSA	01/02/96	37. Crop Disaster - Brooks/Jim Hogg, Texas (03006-1-Te)*	2,469,829	2,469,829
FSA	03/29/96	38. Texas Agricultural Mediation Program (03801-15-Te)*	964,878	964,878
FSA	05/02/96	39. Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
FSA	09/18/96	40. Emergency Feed Program in Texas (03601-7-Te)*	626,182	115,425
FSA	09/30/96	41. 1994 Disaster Assistance Program, Maine (03601-1-Hy)*	2,666,383	2,660,573
FSA	03/27/97	42. Emergency Disaster Loan Eligibility in Arkansas (03099-13-Te)	614,490	280,000
RHS	05/02/96	43. RRH Project Operations - CATO Management Company, Michigan (04010-12-Ch)*	235,498	215,631

\*Reported in last semiannual report.



## **Audits Without Management Decision - Narrative**

### **1. Use of 4-H Program Funds - University of Illinois, Issued March 27, 1997**

We recommended that CSREES require the Illinois Cooperative Extension Service (CES) to dismiss several adult 4-H volunteers because of program irregularities they committed. We also recommended that Illinois CES be required to suspend its personnel actions against a former unit leader and regional director, both Federal appointees, and that CSREES monitor the situation to ensure that any rights due these employees under the Merit Service Protection Act are honored. Finally, we recommended that CSREES clarify and disseminate its position regarding the legal rights and protection of Federal appointees to all CES directors. There are approximately 8,000 CES employees who hold Federal appointments.

CSREES sought the Office of the General Counsel's (OGC) opinion on the rights of CES employees under the Merit Service Protection Act. OGC advised the agency that the CES positions were covered under the 1990 law extending coverage to Schedule A excepted service positions. OGC concluded that specifically in the case of the two Illinois CES appointees the provisions of the act covering due process and appeal rights applied. CSREES officials stated they will implement all recommendations except those relating to the dissemination of the OGC opinion of Federal appointees' employment rights and to our recommended intervention in the ongoing personnel actions at the university. The university had informed OIG that CES professional staff did not have rights to counsel prior to dismissal nor any appeal rights following their notification of termination.

In February 1998, OIG issued a management alert to the Under Secretary for Research, Education, and Economics elevating the findings of our report to obtain his position on Schedule A coverage. As a result, the Under Secretary directed the CSREES Administrator to accept the application of civil service coverage to Schedule A extension employees, disclose fully the pertinent facts and information on these positions to the Merit Systems Protection Board, inform all CES directors of the protections of Schedule A appointees, and prevent prohibited personnel practices to include protections from adverse actions against whistle-

blowers. CSREES's subsequent response, however, was not acceptable to reach management decisions on the recommendations. We are currently working with the Under Secretary to resolve these differences. We will elevate the remaining issues to the Deputy Secretary.

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

OIG recommended that the Foreign Agricultural Service (FAS) collect \$2,163,390 from FDD for its failure to account for donated commodities and its agent's misappropriation of donated commodities. Although the donation agreement provides that the cooperating sponsor will be liable to CCC for any use of the commodities or sales proceeds that is inconsistent with the donation agreement, the General Sales Manager believes that CCC did not intend to make the cooperating sponsor an insurer against any unauthorized use of the commodities, regardless of the circumstances relating to any such unauthorized use. OIG believes that if accountability is not established for the donated commodities, program losses may even escalate.

We also recommended that FAS determine the proper disposition of \$3.6 million in sales proceeds from donated commodities because of the auditee's noncompliance with its operating plan. FAS officials authorized FDD to use an additional \$1.8 million for small and medium-sized Russian agribusiness loans even though FAS agreed not to enter into any new programs with the sponsor unless all the issues raised in this audit are fully answered and resolved.

FAS officials have requested a meeting in an effort to reach management decision. If necessary, the matter will be elevated to the Department's resolution official for a decision.

### **3. Establishment and Collection of Food Stamp Claims, Issued March 21, 1997**

We reported that the State agency in Texas referred potential fraud claims for investigation before establishing them as inadvertent household errors in the accounts receivable tracking system. This happened

because of State agency policy that requires delay in establishment of a claim until a determination of intentional program violation is made. As a result, outstanding claims valued at over \$1.9 million are not recorded in the accounts receivable tracking system and reported as a receivable for financial statement purposes. We recommended that the State agency compute the overissuance for all cases referred for investigation and establish these cases as inadvertent household error claims. We also recommended that the State agency change its policy and classify all future referral cases as inadvertent household error claims. Management decision on these recommendations is awaiting policy decisions at the national level of the Food and Nutrition Service (FNS) concerning the proper classification of cases referred for investigation.

#### **4. Food Distribution Program (FDP) on Indian Reservations, Issued June 18, 1997**

We recommended that FNS establish claims against 56 households cited for receiving benefits for which they were not eligible and recover erroneous benefits provided to 32 households cited for simultaneously participating in FDP and the Food Stamp Program (FSP). FNS established claims against 51 of 56 cited households who received benefits for which they were not eligible due to their income. FNS determined claims were not warranted for the five remaining cases. Claims were also established against 27 of the 32 households cited for dual participation. FNS determined claims were not warranted for two, and the remaining claims are pending FNS' determination on the claim amounts.

We also recommended that FNS add language to the Federal regulations for FDP which is similar to that in FSP regulations to provide FDP personnel the authority to make intentional program violation determinations and allow personnel to take appropriate action. In addition, the regulations should state that FDP households disqualified because of intentional program violations should also be disqualified from FSP during the same period. FNS developed a proposed rule that will establish disqualification penalties under FDP for intentional program violations; however, FNS has not yet developed a proposed rule to require that disqualified FDP households also are disqualified from FSP for the same period.

#### **5. Reinvestment of Quality Control Penalties, Issued July 8, 1997**

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

#### **6. National School Lunch Program Verification of Applications in Illinois, Issued August 25, 1997**

FNS does not have controls to ensure that school food authorities (SFA) are verifying an adequate number of National School Lunch Program (NSLP) applications when certification problems are identified. Current regulations allow, but do not require, expanding the sample when situations in which SFA's discover a high percentage of errors, nor do they require SFA's to report verification results to the State agency. We found that, absent these regulatory requirements, SFA's are not expanding the verification sample size, even when high error rates are detected. As a result, there is reduced assurance that NSLP funds are being spent only on eligible children.

We projected that \$31.2 million per year was paid for ineligible meals. This represented 18.9 percent of the \$165.1 million free and reduced-price meal reimbursement to Illinois for NSLP in 1995. We recommended that FNS require the State agency to monitor verification efforts of its SFA's and take appropriate followup measures on those which had high error rates. We also recommended that FNS establish a threshold for the maximum percentage of errors allowable during the verification process and require additional sampling when that percentage is exceeded.

FNS responded that the State agencies monitored verification activities as part of the Coordinated Review Effort. However, since these reviews are performed only every 5 years, we do not believe this is adequate oversight, as was evidenced by the high error rates which we detected. FNS has been unwilling to require expanded sampling, even for SFA's whose applications have high error rates. FNS did not want to require additional verifications based on the work in only one State; they proposed a study which would collect data from additional States before making a decision.

Subsequently, FNS advised that its funding for this project had been transferred to another agency and that FNS would be unable to do the study. We are continuing to work with FNS on these issues.

**7. Strategic Monitoring of the Electronic Benefit Transfer (EBT) System in Illinois, Issued September 25, 1997**

Neither the State nor its contractor verified that manually processed transactions were authorized by the food stamp recipient household. The State and its contractor allow rolling vendors and other merchants to electronically process manual transactions rather than require the merchants to send their paper copies to the contractor for verification. We believe there should be stronger controls over ensuring the legitimacy of manually processed food stamp transactions. Manually processed transactions circumvent the household verification procedure of a personal identification number, which is used in regular online processing. However, a paper voucher must be completed, recording the date and amount, as well as other pertinent data and the recipient's signature. FNS believes that a recipient's right to contest a transaction is sufficient to address the risk of manually processed vouchers.

The State does not age the use of food stamp benefits separate from other State-issued benefits on the EBT card. This was permitted by FNS in 1994, and the Illinois system was designed to report an EBT card as "active" if any benefit, including State-issued benefits, is accessed by the recipient. Therefore, unused food stamp benefits could accrue on the EBT card while the recipient is accessing other benefits. Federal regulations require unused food stamp benefits to be expunged after 1 year. Unless food stamp benefit access is tracked separately, the State is unable to identify whether stamp benefits were accessed. FNS stated that recipient access of any benefit on the EBT card is reasonable assurance that the food stamp account is also active. FNS further stated that requiring the State to track food stamp benefits separately would be costly since it would require the contractor to reprogram its system. We continue to work with the agency to reach management decision.

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

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

**9. Historic Aircraft Exchange Program, Issued October 27, 1992**

We recommended that Forest Service (FS) officials resolve ownership issues involving the C-130A and P-3A aircraft that were improperly exchanged for private aircraft, and recover ownership of the aircraft as appropriate. In November 1997, a former FS employee and another person were convicted of conspiracy to defraud the Government. We are working with FS to ensure that appropriate actions are initiated.

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

FS and OIG personnel have been working closely on a task force to improve FS accounting systems and processes, and to adopt new accounting standards issued by the Office of Management and Budget. One primary objective of the task force is to enable FS to prepare timely and accurate financial statements and ultimately receive unqualified audit opinions of those statements. FS has begun to implement a new real property accounting system and began converting field offices to the new Departmental general ledger system in October 1997. Implementation timeframes for (a) the new general ledger, (b) improvements in FS accounting subsystems, and (c) new accounting standards will extend into FY 1999. We continue to work closely with FS to ensure that longstanding deficiencies in its accounting systems and controls are eliminated.

**11. 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. Investigative actions were recently completed, and overpayments to producers were confirmed. However, the U.S. attorney declined prosecution. FSA is in the process of administrative recovery actions.

**12. Management of the Sumter County, Georgia, Consolidated Farm Service Agency Office, Issued September 8, 1995**

The audit identified 11 producers who provided inaccurate information and received excessive disaster 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 recommended that FSA recover the excessive payments. We are working with FSA officials to reach agreement on the cases.

**13. Management of the Dade County, Florida, Consolidated Farm Service Agency Office, Issued September 18, 1995**

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

**14. Wool and Mohair Payment Limitation, Concho County, Texas, Issued March 15, 1996**

We questioned over \$1.2 million in wool and mohair price support payments to a family group because the producer did not operate as reported to FSA. Not all of the producers were actively engaged in farming, they

were not separate and distinct, and their shares of a partnership were not properly reported to FSA. In addition, another producer's farming operation was not separate and distinct from the partnership. We recommended that the agency determine whether the members of the partnership and the other producer should be combined as one "person" for payment limitation purposes. We are working with FSA officials to reach a management decision.

**15. Cash/Share Lease Provisions, Issued March 29, 1996**

We recommended that FSA officials clarify and consistently apply regulations prohibiting landlords from using combination leases requiring tenants to pay them any Government payments or price support benefits earned by the tenant under FSA programs. To reach a management decision, we need documentation to support action taken to recover overpayments cited in the report. FSA has provided documentation of recovery actions for all producers except one, who has filed an appeal with the National Appeals Division. FSA will provide the documentation needed to reach management decision when the appeals process is completed.

**16. 1994 Crop Disaster Payments, Minnesota, Issued June 5, 1996**

The FSA State office established a payment level reduction factor in excess of the established range, and the FSA county offices made incorrect payments due to production and acreage errors which resulted in overpayments of \$108,988 and underpayments of \$1,879. We recommended that the State office provide appropriate guidance to the county offices and require the county offices to recover all overpayments. We are working with FSA to reach management decision.

**17. Crop-Year 1995 NAP Payments, Minnesota, Issued January 31, 1997**

We reported that actual production yields were based on inaccurate and unsupportable production evidence provided by producers. Producers also provided false certification in that reported production for prior years exceeded amounts previously reported to FSA for calculating payments for the old ad hoc disaster assistance program. We recommended that the State office require the use of T-yields (yields assigned to the

county committee) unless production evidence provided by producers could be verified and that the State office require county offices to collect all overpayments. We are working with the FSA State office to reach management decision.

#### **18. State-Administered Mediation Programs, Issued March 4, 1997**

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

#### **19. FY 1996 Commodity Credit Corporation (CCC) Financial Statements, Issued July 15, 1997**

Our prior and current audits noted that CCC's General Sales Manager (GSM) system, which accounts for a \$5.7 billion credit (loan) guarantee program, did not provide accurate and timely data, necessitating extensive analysis by CCC and a substantial number of large dollar adjustments to the general ledger account balances after yearend closing. Also, significant differences continued to exist between the bank/exporter records and outstanding credit amounts in the GSM system. We recommended that CCC complete the reconciliation of the GSM system and implement procedures to assure the respective records of U.S. banks and the Foreign Agricultural Service reconcile to the Credit Reform Accounting System (CRAS). CCC reported that it intended to have the downloaded FY 1997 information from the GSM system reconciled with that provided from the participating banks by mid-March 1998. However, these reconciliation activities have not been completed. We continue to work with the agency to obtain its new timeframe for completing the FY 1997 reconciliation of the GSM system with the banks and CRAS.

#### **20. Operator Compliance with Payment Eligibility and/or Limitation Provisions in South Dakota, Issued August 27, 1997**

We reported that a producer, the producer's spouse, and an associated corporation inaccurately reported their interest in 1996 production flexibility payments and 1995 conservation use for payment acres. This resulted in payments totaling \$61,459 to which the entities may not have been entitled. We recommended that the county committee perform an end-of-year payment review and determine if the producers adopted a scheme or device to evade the payment limitation provisions. In response to our recommendation, the South Dakota State office agreed to include the entities in their end-of-year reviews. FSA, when conducting the review, determined that the producer had already provided copies of pertinent documentation to OIG. As a result, OIG provided copies of requested documents to the South Dakota State office in January 1998. We continue to work with the agency to reach management decision.

#### **21. Peanut Price Support Program, Issued September 29, 1997**

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

#### **22. Assessments on Imported Tobacco, Issued September 29, 1997**

We reported that, over the period 1994 to 1996, FSA had not identified and assessed, in a timely manner, a potential of \$123 million in marketing penalties and interest charges for late assessment payments on imported tobacco. FSA officials are reviewing the late assessment payments to determine how much in marketing penalties and interest charges will be billed. FSA officials advised they are confident the marketing penalty determinations will be completed by May 1, 1998.

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

Our audit determined that the Food Safety and Inspection Service's (FSIS) current directive precludes FSIS inspectors from opening, inspecting, and verifying the contents of containers of products presented for export unless the container appears to be damaged. We believe that the absence of such a control constitutes a material internal control system weakness of FSIS' food safety oversight responsibility. FSIS officials proposed to resolve the matter by transferring the responsibility to the Agricultural Marketing Service (AMS). However, before we can accept a management decision, FSIS needs to provide us with its proposed corrective action plan. The plan needs to (1) establish how the FSIS/AMS export inspection procedures will function, (2) establish and explain the responsibilities that each agency will assume to provide the necessary quality controls for both food safety and market development activities, and (3) provide a description of the system of internal controls pertaining to meat and poultry export activities. We are continuing to work with FSIS to address this matter.

### **24. Intermediary Relending Program, Issued March 31, 1997**

We recommended that the Rural Business-Cooperative Service (RBS) notify cited relenders that 17 loans totaling \$1.4 million were for ineligible purposes, and initiate action to recover the loan funds; determine whether another 22 questioned loans totaling \$1.6 million met program guidelines, loan agreements, and work plans, and for those loans that do not meet eligibility requirements, initiate action to recover the funds from the relenders; and determine if 5 loans totaling \$750,000 (this also includes a \$150,000 loan included above) that involved conflicts of interest should be recovered. The agency agreed to review the cited loans. At the agency's request, OIG working documents were provided, all cases have been reviewed by the agency, and the agency is currently working with OGC on the response to the recommendation. The agency and OIG will continue to work to reach management decision.

### **25. Reinsured Companies' Actual Production History Self-Reviews, September 30, 1997**

We concluded that actual production history self-reviews by reinsured companies have not been correcting systemwide errors. Further, the Risk Management Agency's (RMA) statistical sample noted almost half of the 1995 crop-year actual production histories for eight major crops were erroneous. Thus, RMA projected that premiums for the 1995 crop-year were overpaid by about \$15 million and administrative expenses overpaid by at least \$4.6 million.

### **26. Crop Insurance on Fresh Market Tomatoes, Issued September 30, 1997**

The audit disclosed that the Fresh Market Tomato Crop Insurance Program in Florida has been poorly managed by the reinsured companies and abused by sales agents, loss adjusters, and producers. This situation has developed and worsened because of a major breakdown in oversight controls by RMA. Consequently, we found that reinsured companies paid indemnities for (1) abandoned crops, (2) losses outside the insurance period, (3) crops planted on converted wetlands, and (4) under/ nonreported production. Additionally, we found agents of reinsured companies who received almost \$400,000 in commissions for crop insurance policies sold to producers in conflict-of-interest situations. One of these two producers subsequently received over \$2.4 million in indemnities from insurance policies. RMA disagrees with the \$15,082,744 in audit exceptions. We are working with RMA to obtain management decision on this issue.

### **27. Alternative Agricultural Research and Commercialization (AARC) Cooperative Agreement with AgroFibers, Inc., Issued September 30, 1996**

The AARC Corporation awarded \$800,000 to a company to develop, manufacture, and market kenaf (papyrus grass) nonwoven mat products. The company had provided the AARC Corporation a financial statement that showed equity in excess of \$1.1 million, and the agreement called for the company to invest an additional \$2.8 million over the subsequent 5 years. The AARC Corporation became concerned about the status of its investment and asked OIG to audit the project. Our audit disclosed that, after 5 years, the company had only \$100 equity in the business and had



similarly misrepresented its financial position to a bank to obtain a loan guaranteed by the Tennessee Valley Authority for an additional \$800,000. The company's records did not support the financial statement submitted to the AARC Corporation and the bank, and the company had not reported over \$1.7 million in debt owed to affiliate entities. The company had provided the AARC Corporation no program reports or audited financial statements. Soon after our visit to the site, the plant burned to the ground.

Our review found that, since most of the AARC Corporation funds had been used for operating expenses, nothing could be recovered from the insurance and, because the company had not begun to produce the anticipated return, it was questionable that anything could be salvaged from the AARC Corporation's investment. The AARC Corporation has taken action to improve its project management and agreed to apply due diligence in future arrangements with the company. However, until the U.S. attorney has released the case from possible criminal prosecution, and investigators are satisfied there is no need to take administrative action, the AARC Corporation is prohibited from negotiating for any further arrangements with the company.

#### **28. Research Cooperative and Cost Reimbursable Agreements, Issued March 31, 1997**

We recommended that FS recover about \$469,000 of administrative overhead expenses that had been incorrectly reimbursed. FS has requested a legal opinion by the Comptroller General before determining the corrective actions it will take. No management decision can be made until the Comptroller General completes its review and FS determines the corrective actions to be made.

#### **29. Child and Adult Care Food Program - Sponsor Abuses, Issued September 22, 1997**

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

#### **30. 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 crop production, acreage, planting dates, and ownership interests 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 acreage. In some instances, it was questionable that the total acreage was planted. County staff accepted inaccurate information even though, in many cases, other readily available data would have shown inaccurate information was provided. FSA officials agreed with our recommendation. However, claims cannot be established until all investigative actions are complete.

#### **31. 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.

#### **32. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, California, Issued March 31, 1995**

The State office disagrees with our interpretation of regulations governing recovery of payments made to producers who misrepresent their operations. A producer in Yuba County admitted to making false statements about a farm in which he had an interest. The State argues that because the producer was not a signatory to the operation he misrepresented, the State is not authorized by law to recover any payments made to the producer for any other farms for which he received disaster assistance. We disagree. We have asked the national office to resolve the issue.

**33. Large Operator Compliance With Payment Limitations, Georgia, Issued June 9, 1995**

We reported that a producer and five related producers provided false information to FSA in 1993 regarding their share of a cotton operation 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.

**34. 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 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.

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

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

**36. Disaster Assistance Payments, Lauderdale, 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 to evade disaster payment limitations 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.

**37. Crop Disaster - Brooks/Jim Hogg, Texas, Issued January 2, 1996**

We reviewed 38 of the 117 producers who received a total of \$3,302,484 in 1993 disaster assistance for nonprogram crops such as watermelon and cantaloupe. We determined that 23 of the 38 producers received

questionable payments of \$1,363,860 because they provided false information to support their loss claims or could not otherwise provide evidence to show they had a loss. Also, our third-party verification of evidence used to support the 1993 loss claims at seed and fertilizer suppliers disclosed evidence of programs with prior year disaster claims for 14 of the sampled producers and 4 others. Therefore, we questioned prior year disaster payments of \$839,401 to these 18 producers because of false statements they provided to support their claims. All 27 cases have been referred for investigation for possible criminal prosecution. We also questioned payments of \$214,906 to one producer for payment limitation violations and \$51,662 to one producer for unreported production. We recommended that FSA take administrative action; however, claims cannot be established until the investigative actions are completed.

**38. Texas Agricultural Mediation Program, Issued March 29, 1996**

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

We identified a potential conflict of interest for three of the four full-time mediation program employees. A Texas Agricultural Mediation (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. In addition, an employee of the Texas Tech Agricultural Financial Analysis Project had outstanding USDA farmer program loans totaling approximately \$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. TTU also claimed a 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. His salary, benefits, and related indirect costs totaled over \$479,000 during FY's 1989 through 1995.

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.

The FSA Administrator canceled the certification of the agricultural mediation program administered by TTU and instructed 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. FSA did not recertify TTU for FY 1998, and the FSA Texas State office began implementing an alternative mediation proposal for these producers.

#### **39. Disaster Assistance Program - 1994, Thomas County, Georgia, Issued May 2, 1996**

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

#### **40. Emergency Feed Program in Texas, Issued September 18, 1996**

We recommended recovery of program overpayments totaling \$214,267 from producers in two counties. The State office has begun corrective action to collect the overpayments in one of the counties. Due to ongoing investigations, the State Executive Director was notified

not to take administrative action against the producers in the other county because it might interfere with legal actions.

#### **41. 1994 Disaster Assistance Program, Maine, Issued September 30, 1996**

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

#### **42. Emergency Disaster Loan Eligibility in Arkansas, Issued March 27, 1997**

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

#### **43. Rural Rental Housing Project Operations - CATO Management Company, Michigan, Issued May 2, 1996**

The management company charged RRH projects \$215,631 in unsupported and unallowable operating costs. The unallowable costs included expenditures for training, travel, bookkeeping fees, and office equipment purchases. In some cases, the questioned costs were unallowable because the company could not provide adequate documentation to support the allocation of costs to the projects. We recommended that the borrower reimburse the projects for the unallowable and unsupported charges made to RRH projects. RHS has suspended corrective action pending completion of an ongoing investigation.

## Indictments and Convictions

Between October 1, 1997, and March 31, 1998, OIG completed 394 investigations. We referred 276 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 289 indictments and 271 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 271 convictions do not necessarily relate to the 289 indictments. Fines, recoveries/ collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled about \$38.3 million.

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

### Indictments and Convictions October 1, 1997 - March 31, 1998

Agency	Indictments	Convictions*
AMS	4	3
APHIS	4	1
ARS	2	2
FAS	1	0
FSA	18	19
FNS	236	221
FS	0	1
FSIS	9	12
NRCS	4	0
RHS	8	9
RMA	3	2
SEC	0	1
Totals	<u>289</u>	<u>271</u>

\*This category includes pretrial diversions.

## The Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,237 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 8 displays the volume and type of the complaints we received, and figure 9 displays the disposition of those complaints.

Figure 8

### Hotline Complaints

October 1, 1997, to March 31, 1998

(Total = 1,237)

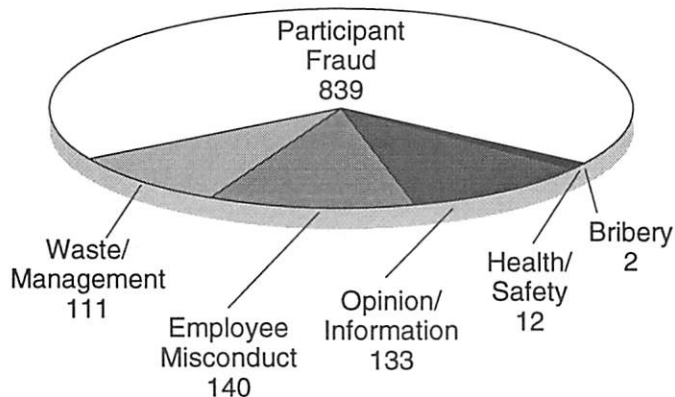
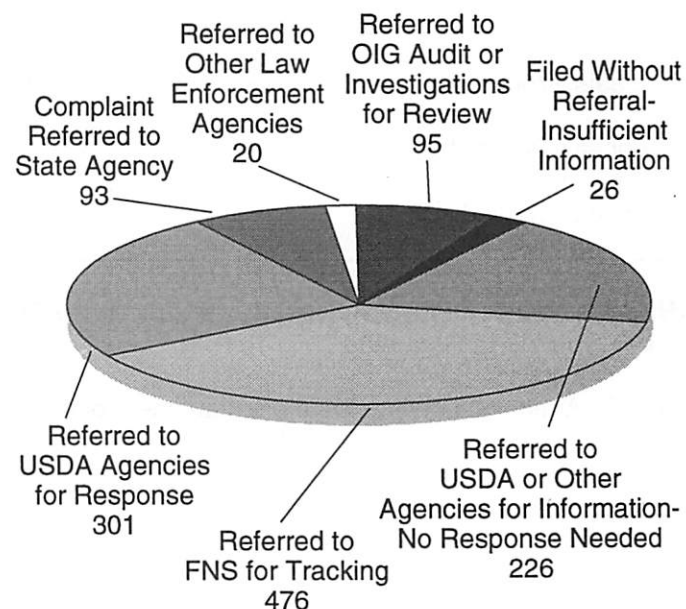


Figure 9

### Disposition Complaints

October 1, 1997, to March 31, 1998



**Freedom of Information Act (FOIA) and Privacy Act (PA) Requests  
for the Period October 1, 1997, to March 31, 1998**

**Number of FOIA/PA Requests Received** 211

**Number of FOIA/PA Requests Processed** 199

Number of Requests Granted in Full 105

Number of Requests Granted in Part 56

Number of Requests Not Granted 38

**Reasons for Denial:**

No Records Available 6

Requests Denied in Full 24

Referrals 8

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

Received 102

Processed 96

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**Appeals Processed** 6

Appeals Granted 0

Appeals Denied in Full 6

Appeals Denied in Part 0

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**Number of OIG Reports Released  
in Response to Requests** 273

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, 1997	89	\$485,518,160	\$148,545,455
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	38	186,208,055	2,705,368
TOTALS	<u>127</u>	<u>\$671,726,215</u>	<u>\$151,250,823</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	57		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$27,356,302	\$917,618
NOT RECOMMENDED FOR RECOVERY		\$36,515,998	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		19,236,801	1,204,147
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	70	588,792,987	149,157,564
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	40	416,608,386	146,456,335

\* 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, 1997	23	\$6,512,295,693
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	12	85,784,513
TOTALS	<u>35</u>	<u>\$6,598,080,206</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	13	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$84,458,921
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		1,094,014,991
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	22	5,420,425,577
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	14	5,406,643,914

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998, THE OFFICE OF INSPECTOR GENERAL ISSUED 112 AUDIT REPORTS AND EVALUATIONS, INCLUDING 8 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE REPORTS BY AGENCY:

AGENCY	REPORTS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED <sup>a</sup> COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1			
FARM SERVICE AGENCY	17	\$136,597,472		
RURAL HOUSING SERVICE	7	\$300,134	\$54,681	\$932,398
RISK MANAGEMENT AGENCY	7	\$12,950,816		\$19,000,000
FOREST SERVICE	9	\$1,263,144		\$51,473,303
RURAL UTILITIES SERVICE	1			
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	2	\$22,928,086	\$110,000	\$11,030,657
FOOD AND NUTRITION SERVICE	14	\$4,671,097	\$2,531,747	\$1,470,986
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
RURAL BUSINESS-COOPERATIVE SERVICE	7	\$7,407,000		
MULTIAGENCY	44	\$90,306	\$8,940	\$1,877,169
TOTALS	112	\$186,208,055	\$2,705,368	\$85,784,513
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	51			
MULTIAGENCY AUDIT	39			
SINGLE AGENCY EVALUATION	17			
MULTIAGENCY EVALUATION	5			
TOTAL RELEASED NATIONWIDE	112			
TOTAL COMPLETED UNDER CONTRACT <sup>b</sup>	8			
TOTAL SINGLE AUDIT ISSUED <sup>c</sup>	33			

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

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

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

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
<b>AGRICULTURAL RESEARCH SERVICE</b>				
02-017-0010-HY 1997/11/13	INCURRED COST AUDIT - DYNACORPS 1994/1995			
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>1</u>		
<b>FARM SERVICE AGENCY</b>				
03-006-0010-CH 1998/03/19	EMERGENCY DISASTER LOANS - SHELBY CO., IL	\$3,603		
03-006-0019-AT 1997/10/09	PERSON DETERMINATIONS - CHARLESTON/ BERKELEY COUNTY, SC			
03-099-0016-TE 1998/01/22	ABUSE OF THE CROP INSURANCE PROGRAM IN SOUTH TEXAS	\$6,176,611		
03-099-0018-TE 1998/03/11	MOHAIR PRODUCER/BUYER IN KIMBLE COUNTY, TX			
03-601-0007-AT 1998/03/05	EMERGENCY DISASTER LOAN PROGRAM - MISSISSIPPI	\$111,026		
03-601-0007-CH 1998/03/03	EMERGENCY DISASTER LOAN PROGRAM	\$542,885		
03-601-0008-SF 1997/12/04	EMERGENCY DISASTER LOAN PROGRAM IN CALIFORNIA	\$742,316		
03-601-0009-KC 1998/02/24	IMPLEMENTATION OF THE BEGINNING FARMER PROGRAM	\$127,679,250		
03-601-0011-SF 1998/01/23	NONINSURED CROP DISASTER ASSISTANCE PROGRAM PAYMENTS FOR 1996 CROPS - CALIFORNIA	\$1,642		
03-601-0022-TE 1998/03/10	EMERGENCY DISASTER LOAN ELIGIBILITY	\$607,012		
03-601-0023-TE 1998/03/31	REORGANIZATIONS FOR PAYMENT LIMITATION IN HIDALGO COUNTY, TX	\$542,807		
03-601-0027-TE 1998/03/18	NONINSURED CROP DISASTER ASSISTANCE PAYMENTS FOR 1996 CROP LOSSES IN FLORIDA	\$190,320		
03-801-0005-CH 1998/02/10	EVALUATION OF STATE ADMINISTERED MEDIATION PROGRAM - MICHIGAN			
03-801-0030-TE 1997/10/03	STATE ADMINISTERED MEDIATION PROGRAM IN ARKANSAS			
03-801-0031-TE 1998/02/06	NORTH DAKOTA MEDIATION PROGRAM			
03-801-0032-TE 1997/11/19	ALABAMA MEDIATION PROGRAM			
03-801-0033-TE 1998/03/26	IOWA MEDIATION PROGRAM			
TOTAL: FARM SERVICE AGENCY		<u>17</u>	<u>\$136,597,472</u>	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
<b>RURAL HOUSING SERVICE</b>				
04-004-0004-CH 1998/03/13	EVALUATION OF RRH TENANT INCOME VERIFICATION PROCESS - MICHIGAN	\$6,401		
04-601-0005-TE 1998/03/31	REPORTING GRANTS TO IRS AS TAXABLE INCOME			
04-801-0001-KC 1998/03/26	EVALUATION OF RRH TENANT INCOME VERIFICATION PROCESS	\$58,801	\$54,681	\$8,646
04-801-0001-SF 1998/02/04	EVALUATION OF RRH TENANT INCOME VERIFICATION PROCESS	\$7,225		\$10,580
04-801-0006-TE 1998/01/21	EVALUATION OF THE MANAGEMENT OF SELECTED RURAL RENTAL HOUSING PROJECTS	\$149,151		\$906,805
04-801-0007-TE 1998/03/31	EVALUATION OF RRH TENANT INCOME VERIFICATION PROCESS	\$17,392		\$6,367
04-801-0008-TE 1998/01/07	MANAGEMENT OF SELECTED RURAL RENTAL HOUSING PROJECTS IN TEXAS	\$61,164		
TOTAL: RURAL HOUSING SERVICE		<u>7</u>	<u>\$300,134</u>	<u>\$54,681</u>
<b>RISK MANAGEMENT AGENCY</b>				
05-099-0001-KC 1998/03/03	TRANSFER OF CAT POLICIES TO REINSURED COMPANIES			
05-401-0003-FM 1998/02/26	FY 1997 FCIC FINANCIAL STATEMENT			
05-401-0004-FM 1998/02/26	FEDERAL CROP INSURANCE CORPORATION FISCAL YEAR 1997 REPORT ON MANAGEMENT ISSUES			
05-601-0001-CH 1997/11/25	CROP INSURANCE CLAIMS IN THE MIDWEST	\$726,057		
05-601-0001-HY 1997/12/19	CROP INSURANCE CLAIMS	\$24,759		
05-601-0003-TE 1998/02/18	CROP INSURANCE CLAIMS			
05-801-0001-KC 1998/02/12	CROP REVENUE COVERAGE PROGRAM	\$12,200,000		\$19,000,000
TOTAL: RISK MANAGEMENT AGENCY		<u>7</u>	<u>\$12,950,816</u>	<u>\$19,000,000</u>
<b>FOREST SERVICE</b>				
08-003-0003-SF 1998/02/24	TONTO NF LAND ADJUSTMENT PROGRAM - PAYSON DISTRICT RANGER OFFICE			
08-017-0001-HQ 1998/03/11	REVIEW OF THE CONTRACT FOR THE FS LAW ENFORCEMENT CASE MANAGEMENT SYSTEM			
08-017-0004-KC 1997/10/03	AIR RESOURCE SPECIALISTS, INC. CONTRACT			
08-017-0005-SF 1998/02/12	EQUITABLE ADJUSTMENT CLAIM - MARTIN CONSTRUCTION, INC., JUNEAU, AK			\$241,734
08-099-0001-AT 1997/12/19	WILDLIFE, FISH, AND RARE PLANT MANAGEMENT SYSTEM			
08-601-0004-AT 1998/03/31	WILDLIFE AND FISHERIES HABITAT MANAGEMENT			\$148,049

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
08-601-0020-SF 1997/12/09	FINANCIAL MANAGEMENT OF THE WORKING CAPITAL FUND - COMPUTER SERVICE	\$14,579		\$51,083,520
08-801-0001-TE 1998/02/11	FOREST SERVICE GRANTS TO NONPROFIT ORGANIZATIONS	\$1,248,565		
08-801-0002-HQ 1998/02/11	FOREST SERVICE AGREEMENT WITH NATIONAL FOREST FOUNDATION AND SUBARU			
TOTAL: FOREST SERVICE		<u>9</u>	<u>\$1,263,144</u>	<u>\$51,473,303</u>
RURAL UTILITIES SERVICE				
09-801-0001-KC 1998/03/31	RURAL ELECTRIC PROGRAM			
TOTAL: RURAL UTILITIES SERVICE		<u>1</u>		
NATURAL RESOURCES CONSERVATION SERVICE				
10-099-0007-KC 1998/02/27	COMPLIANCE DETERMINATIONS FOR HIGHLY ERODIBLE LAND PROVISIONS			
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		<u>1</u>		
OFFICE OF THE CHIEF FINANCIAL OFFICER				
11-401-0003-FM 1998/03/25	FY 1997 NATIONAL FINANCE CENTER REVIEW OF INTERNAL CONTROL STRUCTURE			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		<u>1</u>		
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE				
13-011-0001-TE 1998/03/31	USE OF GRANT FUNDS BY LANGSTON UNIVERSITY, LANGSTON, OK	\$1,200,881	\$110,000	
13-601-0001-AT 1998/03/31	COMPETITIVE RESEARCH GRANTS AWARD PROCESS - NRI	\$21,727,205		\$11,030,657
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE		<u>2</u>	<u>\$22,928,086</u>	<u>\$11,030,657</u>
FOOD AND NUTRITION SERVICE				
27-002-0009-CH 1998/01/09	CONTROLS OVER USDA-DONATED COMMODITIES IN THE NSLP/SBP			
27-002-0010-CH 1998/02/26	CONTROLS OVER USDA-DONATED COMMODITIES IN THE NSLP/SBP - WISCONSIN			
27-004-0006-TE 1997/12/11	DUPLICATE FSP PARTICIPATION IN LOUISIANA	\$17,679	\$2	
27-010-0012-HY 1998/03/30	NEW YORK CITY CASEFILE DOCUMENTATION	\$2,047,988	\$2,047,988	



**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
27-010-0016-HY 1998/03/30	SURVEY OF NATIONAL SCHOOL LUNCH PROGRAM EAST ORANGE, NJ	\$664,246	\$479,618	
27-017-0012-HY 1997/12/01	FISCAL YEAR 1994 INCURRED COST OF ABT			
27-099-0002-KC 1997/11/19	FINANCIAL MANAGEMENT MONTANA STATE AGENCIES HELENA, MT	\$4,139	\$4,139	\$42,161
27-099-0005-HY 1997/12/22	CPA-KINDER CARE LEARNING CENTERS			
27-099-0005-SF 1998/01/30	WIC - ISIS COSTS - CALIFORNIA			\$1,428,825
27-099-0008-SF 1997/10/15	FOOD STAMP PROGRAM-WASHINGTON STATE DEPT. OF SOCIAL & HEALTH SVCS-TRAINING CONTRACT COSTS	\$1,787,048		
27-099-0010-CH 1998/03/13	ACCOUNTABILITY FOR WIC VOUCHERS - MINNEAPOLIS, MN	\$149,997		
27-099-0010-SF 1998/03/09	EMERGENCY FOOD STAMP PROGRAM - GUAM			
27-801-0001-TE 1997/10/17	HOUSE TO HOUSE TRADE ROUTE IN LOUISIANA			
27-801-0002-SF 1998/03/31	WIC - STATE OF CALIFORNIA, ISIS COSTS - FY'S 1993-1996 - NATIONAL OFFICE OVERSIGHT			
TOTAL: FOOD AND NUTRITION SERVICE		14	\$4,671,097	\$2,531,747
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-099-0002-FM 1998/02/12	EVALUATION OF MANAGEMENT AND CONTROL OF SOFTWARE			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		1		
RURAL BUSINESS-COOPERATIVE SERVICE				
34-004-0001-CH 1998/01/08	BUSINESS AND INDUSTRY LOAN PROGRAM - OHIO			
34-004-0002-HY 1998/02/17	RURAL BUSINESS-COOPERATIVE SERVICE RURAL BUSINESS ENTERPRISE GRANTS			
34-099-0002-CH 1997/11/18	BUSINESS & INDUSTRY GUARANTEED LOAN PROGRAM SOUTH POINT ETHANOL, INC.			
34-099-0002-TE 1997/12/18	REVIEW OF A RURAL BUSINESS ENTERPRISE GRANT IN ARKANSAS			
34-601-0001-KC 1998/02/23	BUSINESS AND INDUSTRY LOANS - FINANCIAL STATEMENT ANALYSIS	\$7,407,000		
34-601-0002-TE 1997/11/12	BUSINESS AND INDUSTRY LOANS - FINANCIAL STATEMENT ANALYSIS			
34-801-0002-TE 1998/02/27	EMPOWERMENT ZONE - TEXAS			
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		7	\$7,407,000	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>
<b>MULTIAGENCY</b>				
50-018-0005-CH 1997/10/15	SINGLE AUDIT OF THE STATE OF MINNESOTA - FY 1996			
50-019-0012-HY 1997/10/01	NEW MILFORD MUNICIPAL AUTHORITY FYE 12/31/93			
50-019-0013-HY 1997/10/01	FRACKVILLE AREA MUNICIPAL AUTHORITY, A-128 FYE 12/31/94			
50-019-0014-HY 1997/10/01	COUNTY OF BOTETOURT, VA, A-128, FYE 6/30/95			
50-019-0015-HY 1997/10/06	COUNTY OF GRAYSON, VA, A-128, FYE 6/30/95			
50-019-0016-HY 1997/10/06	TOWN OF FINCASTLE, VA, A-128, FYE 6/30/95			
50-019-0017-HY 1997/10/03	TOWANDA AREA SCHOOL DISTRICT, PA, A-128 FYE 6/30/95			
50-019-0018-HY 1997/10/06	TOWN OF DENNIS, MA, A-128, FYE 6/30/95			
50-020-0013-CH 1997/10/17	SINGLE AUDIT STATE OF INDIANA	\$2,095		
50-020-0026-AT 1997/10/23	A-128 AUDIT FOR STATE OF GEORGIA, FYE 6/30/96			
50-020-0027-AT 1997/10/24	A-128 AUDIT OF THE STATE OF NORTH CAROLINA, FYE 6/30/96			
50-020-0028-AT 1997/10/30	A-128 AUDIT OF THE STATE OF SOUTH CAROLINA, FYE 6/30/96			
50-020-0029-AT 1997/10/28	A-128 AUDIT OF THE STATE OF TENNESSEE			
50-020-0030-AT 1997/11/07	A-128 AUDIT FOR OKALOOSA COUNTY, FL, FOR FYE 9/30/96			
50-020-0035-KC 1997/10/02	A-128, STATE OF COLORADO (FY 6/95), DENVER, CO			
50-020-0036-KC 1997/10/22	A-128, STATE OF COLORADO (FY 6/96), DENVER, CO			
50-020-0037-KC 1997/12/12	A-128, THREE AFFILIATED TRIBES (9/93), NEW TOWN, ND	\$2,485	\$2,485	
50-020-0038-KC 1997/12/12	A-128, THREE AFFILIATED TRIBES (9/94), NEW TOWN, ND			
50-020-0049-HY 1998/01/15	STATE OF WEST VIRGINIA, A-128, SFYE 6/30/95	\$32,885	\$6,455	
50-020-0051-HY 1998/01/15	STATE OF MASSACHUSETTS, A-128, SFYE 6/30/96			
50-020-0054-SF 1997/10/03	A-128 AUDIT - STATE OF ARIZONA FOR FYE 6/30/96			
50-020-0055-SF 1997/10/06	A-128 AUDIT - REPUBLIC OF PALAU FOR THE FYE 9/30/96	\$11,733		
50-020-0056-SF 1997/10/08	A-128 AUDIT - STATE OF HAWAII, DEPARTMENT OF HEALTH - FYE 6/30/96			
50-020-0057-SF 1997/10/21	A-128 AUDIT - STATE OF CALIFORNIA - FYE 6/30/97	\$2,218		
50-020-0058-SF 1997/11/21	A-128 AUDIT OF THE PUBIC UTILITY DISTR #1 OF JEFFERSON CITY, WA, FOR THE 2 YR PD ENDED 12/31/95			
50-020-0059-SF 1997/12/23	A-128 AUDIT OF STATE OF IDAHO FOR FYE 6/30/96			
50-020-0060-SF 1998/02/12	A-128 AUDIT OF THE GOVERNMENT OF GUAM FOR FYE 9/30/96	\$11,630		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN OCTOBER 1, 1997, AND MARCH 31, 1998**

<b>AUDIT NUMBER RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS BE PUT TO BETTER USE</b>	
50-023-0004-AT 1997/11/03	A-133 AUDIT OF THE UNIVERSITY OF SOUTHERN MISSISSIPPI, FYE 6/30/96				
50-023-0005-AT 1997/11/03	A-133 AUDIT OF THE UNIVERSITY OF KENTUCKY, FYE 6/30/96				
50-023-0006-AT 1997/11/06	A-133 AUDIT OF THE UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC., FYE 6/30/96				
50-023-0007-AT 1997/11/06	A-133 AUDIT OF THE UNIVERSITY OF GEORGIA, FYE 6/30/96				
50-023-0009-AT 1997/11/25	A-133 AUDIT OF AUBURN UNIVERSITY FYE 9/30/96				
50-023-0010-AT 1997/12/30	A-133 AUDIT OF MARSHALL COUNTY WATER ASSOCIATION, MISSISSIPPI, FYE 12/31/96				
50-099-0003-KC 1998/03/19	CONSERVATION RESERVE PROGRAM ACREAGE UNDER ENROLLMENTS UNDER SIGNUP 15	\$1			
50-099-0004-KC 1998/02/10	15TH CRP SIGNUP ACTIVITIES IN OREGON AND WASHINGTON				
50-099-0011-FM 1998/03/25	VERIFICATION OF DATA INPUT INTO NFC PAYROLL/ PERSONNEL SYSTEM	\$27,259			
50-601-0001-FM 1998/03/31	COMPUTER APPLICATIONS CONVERSION FOR YEAR 2000				
50-601-0003-AT 1998/03/31	RADIOACTIVE MATERIAL AND WASTE MANAGEMENT				
50-601-0006-KC 1998/03/30	CONSERVATION RESERVE PROGRAM (CRP) ACREAGE ENROLLMENTS UNDER THE 16TH SIGNUP				
50-801-0003-FM 1998/02/12	MANAGEMENT AND CONTROL OF COMMERCIAL SOFTWARE WITHIN USDA				
50-801-0004-FM 1998/03/11	IMPLEMENTATION OF THE FOUNDATION FINANCIAL INFORMATION SYSTEM				
50-801-0004-HQ 1997/12/17	MINORITY PARTICIPATION IN FARM SERVICE AGENCY'S LOAN PROGRAMS - POST REPORT WORK				
50-801-0005-AT 1997/12/18	UNLIQUIDATED OBLIGATIONS FOR COMMUNITY DEVELOPMENT LOANS AND GRANTS			\$1,877,169	
50-801-0005-HQ 1998/03/04	FOLLOWUP ON CIVIL RIGHTS RECOMMENDATIONS				
TOTAL: MULTIAGENCY		<u>44</u>	<u>\$90,306</u>	<u>\$8,940</u>	<u>\$1,877,169</u>
TOTAL: RELEASE - NATIONWIDE		<u>112</u>	<u>\$186,208,055</u>	<u>\$2,705,368</u>	<u>\$85,784,513</u>

# Agency Abbreviations

AARC	Alternative Agricultural Research and Commercialization (Corporation)
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CES	Cooperative Extension Service
CFSA	Consolidated Farm Service Agency
CSREES	Cooperative State Research, Education, and Extension Service
DoD	Department of Defense
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GSA	General Services Administration
IRS-CID	Internal Revenue Service-Criminal Investigations Division
NFC	National Finance Center
NFF	National Forest Foundation
NRC	Nuclear Regulatory Commission
NRCS	National Resources Conservation Service
OCD	Office of Community Development
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCR	Office of Civil Rights
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
USDA	U.S. Department of Agriculture
VA	U.S. Department of Veterans Affairs