

UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL

STATEMENT OF THE HONORABLE PHYLLIS K. FONG  
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Before the

Subcommittee on Agriculture, Rural Development, Food  
and Drug Administration, and Related Agencies

Committee on Appropriations

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Good afternoon, Chairman Kingston, Ranking Member Farr, and Members of the Subcommittee. Thank you for the opportunity to testify about the Office of Inspector General's (OIG) fiscal year (FY) 2013 budget request, and provide information about our recent audit and investigative work.

In FY 2011, our audit and investigative work obtained potential monetary results totaling over \$4.3 billion. We issued 45 audit reports intended to strengthen Department of Agriculture (USDA) programs and operations, which produced about \$4.2 billion in potential results. OIG investigations led to 449 convictions with potential results totaling almost \$113.6 million.

I will begin my testimony by describing our ongoing work to assess and improve the Department's programs and operations under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Next, I will cover our most significant recent audit and investigative activities under our major strategic goals. I will conclude with a description of the cost saving actions that OIG is taking in FY 2012 to live within its budget constraints, as well as a summary of the President's FY 2013 budget request for OIG.

### **OIG's Oversight of Recovery Act Programs**

With the additional funds Congress appropriated for Recovery Act oversight, we have been able to perform a comprehensive review of USDA programs, intended to ensure that the \$28 billion in Recovery Act funds provided to USDA served their intended purpose. Notably, the funds OIG received allowed us to perform more audits with statistical samples. Sampling enables us to obtain a "bird's eye view" of how a program is operating and draw more detailed and accurate conclusions concerning whether a program is functioning effectively or not.

#### *Recovery Act Single Family Housing Direct Loan Program*

OIG is at the end of a review of the \$1 billion the Recovery Act allotted to single family housing direct loans. These loans are intended to help very low and low income households buy homes when they cannot qualify for other credit. Based on a statistical sample of 100 loans, we identified 18 loans where we questioned the borrower's eligibility because field personnel had not ensured that borrowers were likely to repay their loans—3 of the 18 questioned loans were already under a servicing action and a fourth borrower had declared bankruptcy. Based on our overall sample results, we estimate that 1,450 loans (18 percent of the single family housing direct loans), with a projected total value of \$173 million, may have similar issues that will result in increased risk of default. We recommended

that Rural Development (RD) strengthen its controls to ensure that it lends only to qualified applicants, and agency officials generally agreed.

#### *Recovery Act Business and Industry (B&I) Guaranteed Loan Program*

The Recovery Act provided an additional \$130 million in budget authority for RD's B&I guaranteed loan program, which seeks to finance business and industry in rural communities by guaranteeing quality loans. With this authority, the agency guaranteed a total of 515 loans across 47 States, and obligated more than \$1.5 billion in Recovery Act funds. Our analysis of 55 statistically sampled loans found that 68 percent of applications were given unmerited priority for loan approval, and that 65 percent of requests for Recovery Act-funded B&I loan guarantees were reviewed inadequately because key financial data were not documented. As a result, the agency faces significant financial obligations if the borrowers default. Additionally, RD awarded guarantees to at least two loans that do not comply with eligibility regulations, valued at \$6.2 million. Agency officials agreed with OIG's recommendations to improve how these loans are made.

#### *Upcoming Recovery Act Reports*

At present, we are starting the final phase of our Recovery Act audit objectives, which emphasizes how agencies are reporting their programs' accomplishments. Specifically, our work focuses on the performance measures being used to report these accomplishments, such as whether the funds expended contributed to creating or saving jobs.

But the value of our oversight will not expire with the end of Recovery Act funding. When we identify a problem with a program receiving Recovery Act funding, we are often helping to improve the overall program's performance for the future, whether the dollar spent is from a Recovery Act appropriation or not.

Similarly, we anticipate that our investigative work will continue in this area even after Recovery Act funding is no longer available. Our goal remains to timely identify and look into potential fraud involving USDA Recovery Act funds, including the prompt investigation of allegations of whistleblower reprisal, as set forth in the Recovery Act. Since the passage of the Act, OIG has received 60 hotline complaints from various sources and initiated several ongoing investigations.

## **Goal 1: Strengthen USDA's Safety and Security Measures for Public Health**

One of OIG's most important oversight responsibilities is helping USDA ensure the wholesomeness of the U.S. food supply, and we continue to conduct audits and investigations intended to help USDA agencies reduce the risk of food contamination and food-borne illnesses. For example, in January 2006, when Japan halted U.S. beef imports—worth more than \$1 billion annually—due to the discovery of vertebrae in a shipment of beef product originating from a U.S. company, OIG and the Food Safety and Inspection Service (FSIS) jointly conducted an investigation. As a result of our work, the Government filed a civil complaint charging the company with violations of the Federal Meat Inspection Act. In April 2011, permanent injunctive relief and escalating monetary penalties were granted in an effort to prevent the company from future violations of the Act or of the Agricultural Marketing Service's Export Verification Program rules.

Because food safety responsibilities are spread between multiple agencies both within USDA and without, OIG has emphasized the need for greater coordination between agencies responsible for food safety.

### *The Food Emergency Response Network (FERN)*

In our March 2011 audit of FERN—a program that was developed to integrate the Nation's food testing laboratories into a network able to respond to emergencies involving biological, chemical, or radiological contaminants—we emphasized the need for FSIS to better coordinate with the Food and Drug Administration (FDA). We found that FSIS, in coordination with FDA, needs to take steps to formalize FERN, ensure that the program's laboratory capacity is sufficient to respond to emergency surges, and implement targeted surveillance of the food supply. Such surveillance should benefit the network by ensuring that emergency response personnel are able to execute their assigned tasks. Generally, FSIS agreed with our recommendations, and took steps to initiate a more robust program of targeted food surveillance.

### *Research into Genetically Engineered (GE) Insects and Animals*

OIG has recently completed an audit of the regulatory situation pertaining to cutting-edge experimentation in GE animals. We found that the Animal and Plant Health Inspection Service (APHIS) has not issued regulations specifically addressing the introduction (import, interstate movement, or field release) of GE animals or insects. We recommended that APHIS develop such

regulations. We also found that USDA needs to address specific security and research-related problems at several laboratories performing research into GE animals and insects. Agency officials agreed with our recommendations.

### *Employee Safety and Animal Welfare*

In addition to food safety, assuring the personal safety of USDA employees is paramount. In January 2011, an OIG investigation disclosed that, from 2009 through 2010, a USDA official sexually assaulted his female subordinate on multiple occasions. In February 2011, this official was charged in Federal court with four counts of aggravated sexual assault. He pled guilty in March 2011 to one misdemeanor count of sexual assault and in April 2011 was sentenced to 5 months' incarceration.

OIG also conducts work that promotes animal welfare. In November 2011, a horse trainer was sentenced to 24 months of probation after he pled guilty to knowingly transporting a horse with legs and hooves that had been intentionally soled (i.e., injured so that the horse walks with a certain gait). Injuring a horse in this manner is a violation of the Horse Protection Act.

### *Upcoming Work*

We are preparing a second report on efforts to improve how FSIS tests ground beef for *Escherichia coli* O157:H7. In our February 2011 report on this topic, OIG made recommendations to FSIS concerning how it samples beef so that the agency could improve the accuracy of its tests. In Phase 2, we are visiting beef slaughter plants and analyzing how the beef industry's sampling and testing protocols vary among plants and whether they differ from FSIS standards.

## **Goal 2: Strengthening Program Integrity and Improving Benefit Delivery**

One of OIG's most important goals is helping USDA safeguard its programs and ensuring that benefits are reaching those they are intended to reach. This year we have made a concerted effort to help improve the integrity of the Supplemental Nutrition Assistance Program (SNAP).

### *Trafficking in SNAP Benefits<sup>1</sup>*

In FY 2011, OIG devoted about 46 percent of its investigative resources to SNAP-related criminal investigations, and our investigations resulted in 179 convictions and monetary results totaling

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<sup>1</sup> Trafficking is the illegal exchange of SNAP benefits for cash.

\$26.5 million. In a recent example, OIG worked jointly with Immigration and Customs Enforcement to determine whether a SNAP retailer was engaged in a conspiracy to defraud SNAP through trafficking, wire fraud, money laundering, and operating an unlicensed money transmitting business. The investigation revealed that the SNAP retailer trafficked at least \$3.1 million in SNAP benefits. In January 2012, the owner was sentenced to 46 months of incarceration, and ordered to pay \$2.5 million in restitution.

OIG also is working to minimize fraud, waste, and abuse within SNAP by performing a series of data mining audits analyzing 10 States' participant databases.<sup>2</sup> We have completed work in five States—Kansas, Florida, Louisiana, Alabama, and Mississippi—and found a total of 8,594 recipients who were receiving potential improper payments. We estimate that these recipients could be receiving a total of about \$1.1 million a month.

In our reports, we have recommended that the Food and Nutrition Service (FNS) require State agencies to ensure they use a national database to perform death matches and social security number verifications, and that they perform checks to make sure information is entered correctly. Generally, FNS has agreed with our recommendations and is taking corrective action.

On December 1, 2011, we presented the early results of this work to the Subcommittee on Department Operations, Oversight, and Credit of the House Agriculture Committee. Based on the feedback we received, we expanded the scope of our audit work to include evaluating the adequacy of FNS and State tools to prevent and detect SNAP fraud, determining whether the States are using all available tools, and identifying and evaluating the integrity of amounts reported for recipient and retailer fraud.

#### *Improper Payments at USDA*

OIG has also continued its work to reduce the rate and volume of improper payments in USDA. In July 2011, we released our first required report focusing on “high-dollar” overpayments in high-risk programs. Our review found that USDA submitted its FY 2010 high-dollar overpayment reports after the deadline, did not report all high-dollar overpayments, and did not accurately report its corrective actions. These problems occurred because USDA did not have an adequate reporting process in place. We recommended that the Department and its agencies take steps to formalize and improve their reporting processes, and the Department concurred with our recommendations. We have used this

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<sup>2</sup> The 10 States are Alabama, Florida, Kansas, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, and Texas.

review as the basis for more detailed, ongoing reviews aimed at decreasing improper payments at the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS).

### *Abuse of Programs by Participants*

In addition to improper payments, we often investigate program participants who provide false information to USDA agencies to obtain payments to which they are not entitled. In one such investigation, OIG found that a large number of farmers in North Carolina concealed their production and then subsequently filed false crop insurance claims based on non-existent losses. This was a far-reaching conspiracy, involving farmers, warehouse operators, insurance agents, and loss adjusters, all of whom assisted in filing false claims and concealing the farmers' actual production. To date, 24 individuals have pled guilty to various crimes in Federal court and, in total, have been ordered to pay \$19.8 million in restitution, fines, and forfeiture.

I also would like to draw the Subcommittee's attention to an especially significant case involving mortgage fraud. Between 2001 and 2003, employees of a Michigan mortgage company issued 271 guaranteed single family home loans, valued at over \$38 million. OIG's investigation disclosed that at least 63 percent of the loans reviewed were based on false borrower income certifications, fraudulent pay statements, forged application signatures, and altered credit scores. These bogus documents were subsequently provided to RD for loan guarantees. Between 2003 and 2008, approximately 40 of these loans defaulted, resulting in RD paying out over \$2.3 million in guarantees. As a result of this case, four individuals received sentences ranging from 2 years of probation to 18 months in prison and have been ordered to pay \$8.7 million in restitution.

### *Upcoming Work*

OIG has several particularly significant audits in process. First, we are completing fieldwork on participant eligibility and vendor management in the Special Supplemental Nutrition Program for Women, Infants, and Children. The overall objective of this audit is to evaluate implementation of food delivery regulations intended to improve the integrity of vendor management, and assess how FNS determines if participants are eligible for the program.

We are also in the process of completing work on FSA's Conservation Reserve Program, which provides incentives to farmers to maintain conservation practices to prevent soil erosion and chemical

run-off. Our audit was designed to determine whether FSA has effective controls in place to ensure that the rates used to pay benefits to these farmers were reasonable.

### **Goal 3: OIG Work in Support of Management Initiatives**

OIG works to improve the processes and systems the Department needs to function. USDA must manage vast amounts of data associated with its many programs and operations, information that ranges from agricultural statistics that drive domestic and global markets to inspection systems that help ensure our food is safe. As you are aware, USDA is facing many challenges to operating information technology (IT) that complies with all Federal requirements.

#### *Security Challenges Concerning Smartphones*

Like other Federal departments, USDA increasingly relies on smartphones and other handheld wireless devices to conduct its day-to-day business. Of approximately 10,000 wireless handheld devices USDA uses, we reviewed 277 devices and found that all 277 devices were not adequately secured. We found wireless handheld devices that were not password-protected, had no anti-virus software installed, and were not configured to encrypt removable media. Ultimately, these problems occurred because USDA deployed wireless handheld devices using a decentralized approach, and did not provide its agencies with clear guidance on how they were to configure their devices and servers. We recommended that the Department take steps to ensure that agencies understand how to configure their wireless devices to meet Federal standards, and Departmental officials agreed.

#### *Contracting Challenges with Cloud Computing*

As part of our FY 2011 Federal Information Security Management Act reporting requirement, we reviewed an IT contract issued to a large computing company in order to provide “cloud-based” internet services to USDA. We found that the contract was signed by a USDA contracting officer who did not have the warrant authority to bind the Department to this contract. She signed a contract for more than five times her authority, which was restricted to contracts with a value up to \$5 million. We recommended that the Department take steps to rectify this situation, and also ensure that its contracting officials do not exceed their authority in the future. Departmental officials agreed.



## *Employee Integrity*

While the vast majority of USDA employees go about their work with the highest standards of integrity, OIG investigates allegations of wrongdoing when an employee is accused of breaking the law. In June 2011, a former Forest Service accountant was sentenced to 4 years of incarceration for mail fraud, and was ordered to pay restitution of \$1.1 million. These charges resulted from a year-end review that disclosed that more than \$600,000 was missing from funds the agency collected to provide a service to private vendors in one of the national forests in California. OIG's investigation revealed that the accountant had embezzled approximately \$1.4 million by redirecting funds from multiple private vendor accounts to a corporation she and her husband owned.

## *Upcoming Work*

As required by law, OIG has begun conducting a performance audit based on a statistical sample of adjudicated claims from *In re Black Farmers Discrimination Litigation*, the discrimination litigation commonly known as Pigford 2.

## **Goal 4: Improving USDA's Stewardship of Natural Resources**

We have recently completed an audit of NRCS' Farm and Ranchlands Protection Program, which keeps selected parcels of land from being developed for housing or other non-agricultural purposes. We initiated this audit after we learned that NRCS State officials in Michigan might be approving conservation easements with inaccurate appraisals. We found that NRCS accepted conservation easement appraisals even though they did not meet standards or were unsupported. Although appraisals should reflect the current value of the land, we found that the State Conservationist did not note that 20 of 34 conservation easements (59 percent), closed since FY 2006, had appraisals that were too outdated to be accurate. In total, we questioned \$7.6 million of the \$11.5 million NRCS paid for conservation easements in Michigan from FY 2006 through FY 2010. We recommended that the NRCS State office improve its oversight processes to ensure that payments are not made to cooperating entities using invalid appraisals, and take more timely action when a cooperating entity submits appraisals that do not meet standards. Agency officials agreed.

An OIG investigation of this program resulted in a land trust organization in Wisconsin entering into a settlement agreement to pay \$50,000 to partly reimburse NRCS for overpayments caused by false statements submitted by the organization's former executive director. These false statements led to

NRCS paying too much to purchase conservation easements from four Wisconsin landowners participating in the Farm and Ranchlands Protection Program.

### *Upcoming Work*

OIG is reviewing how NRCS is using Recovery Act and non-Recovery Act funds to rehabilitate aging dams across the country. In 2009, we reported serious issues with how NRCS was prioritizing dams for rehabilitation—the agency was not always focusing first on dams that, if they failed, might cause serious loss of life. Our current audit will evaluate whether NRCS has implemented the recommendations from our prior audit, and whether NRCS has more effectively used subsequent funds.

### **OIG's FY 2013 Budget Request**

Since 2011, OIG has responded to the call to reduce Government spending while building a stronger and more efficient agency. We have taken a number of steps to increase our effectiveness within our limited budget:

- We approved voluntary buyouts and early retirements for 21 employees during the first quarter of FY 2012, and are seeking authority for 30 more to offset the reduction in available funds as OIG's Recovery Act funding expires in December 2012.
- We are using alternatives to Government travel, including teleconferencing and videoconferencing, which allowed us to reduce our travel expenditures by \$1.1 million, or 49 percent, during both FY 2011 and FY 2012.
- We reduced the amount we spend on training by \$203,000, or 33 percent, by relying more on the training that we provide our employees "in-house."
- We have reorganized and restructured to streamline business operations within the agency to better focus on high-priority work. As vacancies arise, we have filled only key positions.
- We have taken steps to reduce our telecommunications costs, including inventorying all phone lines and disconnecting unused lines. We also have consolidated contracts for smartphones and copiers to achieve greater efficiency.

Thanks to this work, we are a leaner and more effective agency that is better able to carry out our mission. For example, our improved efficiency allows us to reinvest in IT infrastructure and obtain

more communication services, such as bandwidth, with the same money we used to pay for basic phone lines.

We ask that you support the President's FY 2013 budget request of \$89 million for OIG, which would enable us to provide effective oversight of USDA programs and help ensure that tax dollars are being well spent.

The President's budget request includes modest increases in areas where we should be able to produce a high-value return for a relatively small investment:

- \$800,000 to support statistical samples in audits of improper payments. Statistical sampling allows OIG to project the results of our audit work to the entirety of program, which multiplies our work's range and effectiveness, especially for very large programs like SNAP.
- \$1,072,000 to fund an OIG initiative to address SNAP fraud. OIG investigative teams plan to more actively engage State and local authorities and pursue the prosecution of both retailers and recipients involved in benefit trafficking.
- \$613,000 to fund enhanced oversight of USDA's international programs.
- \$468,000 to support the Council of the Inspectors General on Integrity and Efficiency by funding Government-wide activities to identify vulnerabilities in Federal programs.

From FY 2006 to 2011, the potential dollar impact of OIG audits and investigations has been \$5.7 billion, while our appropriations have been \$502.5 million. For every dollar invested, we have realized potential cost savings and recoveries of about \$11.42. This calculation does not include the value of our food safety work and program improvement recommendations, which are not so easily quantified.

This concludes my testimony. Thank you again for the opportunity to appear today, and we would be pleased to address your questions.