USDA OFFICE OF INSPECTOR GENERAL

Investigations and Audit Update
June 2021

INVESTIGATIONS

Food and Nutrition Service

Individual Sentenced to 78 Months in Prison, 36 Months of Supervised Release, and Ordered to Pay More Than $1 Million in Restitution for Supplemental Nutrition Assistance Program Fraud—Maryland

The Maryland Department of Human Resources Office of Inspector General (OIG) reported to the United States Department of Agriculture (USDA) OIG a potential fraud scheme wherein a group of individuals in the Baltimore area appeared to be creating fictitious Supplemental Nutrition Assistance Program (SNAP) accounts. The investigation, which was conducted jointly with the U.S. Postal Inspection Service, revealed a network of individuals creating SNAP accounts using the personally identifiable information of real identities, many of which belong to licensed medical professionals in the State of Texas.

On July 16, 2020, three Federal search warrants were executed without incident at the residences of an individual and his associates. On February 17, 2021, the individual and a co-conspirator were charged by criminal information with conspiracy to commit wire fraud, aggravated identity theft, and aiding and abetting. On March 5, 2021, the co-conspirator pled guilty to conspiracy to commit wire fraud and aggravated identity theft. On March 22, 2021, the individual pled guilty to the same charges.

On June 3, 2021, in U.S. District Court, District of Maryland, the individual was sentenced to 78 months in prison, followed by 36 months of supervised release. He also was ordered to pay restitution in the amount of $1,021,583.72. The co-conspirator's sentencing has been postponed.

This case is being prosecuted by the U.S. Attorney's Office (USAO) for the District of Maryland.

Food Truck Owner Agreed to Pay $250,000 in Restitution for SNAP Fraud—New York

USDA OIG became involved in the investigation of food trucks operating in an area of New York in violation of SNAP rules and regulations. An investigation revealed that a number of food trucks operating in the area were using the manual voucher provision of SNAP to obtain recipients' protected account information and use it to deduct benefits from recipient accounts as part of a "first month free" credit system. Specifically, the food trucks would provide the first month's food for "free" (on credit) and then use the recipient's account information to take payment for the food from the next month's benefits.

On April 5, 2017, a food truck business was authorized to participate in SNAP. USDA OIG, working with Monroe County, the New York Department of Social Services, the New York State Welfare Inspector General, and the Department of Homeland Security, U.S. Immigration and Customs Enforcement, Homeland Security Investigations (HSI), determined that from June 2017 through February 2020, the food truck business engaged in SNAP fraud. Specifically, the business allowed recipients to use SNAP benefits to pay credit tabs and illegally accessed and took SNAP benefits without recipients' authorization. The fraud was perpetrated by the food truck owner, her ex-husband, their son, and several of their other children. On February 10, 2020, in U.S. District Court for the Western District of New York, a seizure warrant was issued for the food truck's SNAP bank account, and executed by HSI.

On June 8, 2021, the food truck owner and her son entered into a Civil Settlement Agreement and agreed to pay $250,000, of which $36,500 has already been seized pursuant to the February 2020 seizure warrant.

This case was prosecuted by the USAO for the Western District of New York.

Business Owner Sentenced to 10 Months in Prison and Ordered to Pay More Than $150,000 in Restitution for SNAP Fraud—Georgia

This investigation was initiated based on information developed by the Food and Nutrition Service (FNS), Office of Retailer Operations and Compliance (ROC), formerly known as Retailer Operations Division, in regards to an unauthorized retailer in Georgia. The business owner appeared to have had approximately 25 electronic benefits transfer (EBT) terminals in his possession, which were linked to several legitimate authorized retailers participating in SNAP.

USDA OIG determined that the business owner and others would contact the third-party processors via telephone and provide them with the legitimate authorized retailer FNS number to obtain the EBT point-of-sale terminals without providing proper documents from FNS. They would also provide fictitious business names, business addresses, and bank account information. EBT sale transactions executed on these EBT point-of-sale terminals would appear to FNS as being processed at the authorized retail store. However, the transactions were being executed by the business owner, not individuals working at the retail stores authorized to participate in SNAP.

On November 19, 2019, a Northern District of Georgia Federal grand jury indicted the business owner on one count of wire fraud and he was arrested on January 10, 2020, during a buy-bust.

On June 10, 2021, the business owner was sentenced to 10 months in prison and ordered to pay restitution in the amount of $152,624.

This case was worked jointly with the Federal Bureau of Investigation, the Internal Revenue Service, Criminal Investigations Division, FNS ROC, and the Georgia Department of Human Services.

Farm Service Agency

Company Owner and Manager Sentenced Collectively to 15 Months in Prison and Ordered to Pay More than $250,000 in Restitution for False Income Tax Statements—Minnesota

USDA OIG initiated this investigation to determine if a company, the company's owner, or his son, who also was an employee and manager at the company, deliberately stole ownership of various depositors' grain, violated terms and conditions of the United States Warehouse Act (USWA), and converted any depositor's grain or the company's grain to their own use without notifying the appropriate authorities, such as banks and USDA inspectors.

The investigation disclosed that the owner and the company manager, over a period of several years, received numerous payments and personal items from the company that the company either directly or indirectly paid for. These payments were never claimed on their individual or the company's corporate income tax returns. In addition, these payments were never reported to the banks that funded the company or to the USDA Farm Service Agency (FSA), which had the responsibility for analyzing the company's financial strength on at least an annual basis so it could maintain a good standing and keep its USDA-issued USWA license. The investigation also disclosed that the company manager orchestrated numerous payments to himself from the company's proceeds, even after the company filed for bankruptcy. The manager orchestrated these payments via a scheme in which individuals were used to pass the money back to the company manager instead of the company's accounts receivable, which is where the money should have gone after the company filed for bankruptcy.

Pursuant to a pre-indictment plea deal, on December 8, 2020, the son, who was also the company manager, appeared in the U.S. District Court for the District of Minnesota and was charged via information with one count of filing false income tax statements. Subsequently, he pled guilty. On December 17, 2020, the company owner was charged with and pled guilty to one count of filing false income tax statements.

On June 2, 2021, the company manager was sentenced to 6 months in prison, followed by 1 year of supervised release and 40 hours of community service. He also was ordered to pay $105,266.42 in restitution. On June 3, 2021, the company owner was sentenced to 9 months in prison, followed by 1 year of supervised release. He also was ordered to pay $144,881.22 in restitution.

Individual Sentenced to 36 Months of Probation and Ordered to Pay $12,735.46 in Restitution to the Farm Service Agency for Conversion of Collateral—Mississippi

This USDA OIG investigation was conducted to determine if an individual wrongfully disposed of cattle pledged to FSA as security for an operating loan. The investigation determined that the individual, without FSA knowledge or permission, sold 20 head of cattle worth an estimated $12,735, which were pledged as security. The individual failed to remit the proceeds of the sale to FSA.

On November 19, 2019, a Federal Grand Jury in the United States District Court for the Southern District of Mississippi charged the individual with one count of conversion of collateral. On December 2, 2019, the individual was arrested and subsequently pled guilty to the charge on March 26, 2021.

On June 30, 2021, in the aforementioned court, the individual was sentenced to 36 months of probation and ordered to pay $12,735.46 in restitution to FSA.

Farm Service Agency/Risk Management Agency

Individual Sentenced to 12 Weeks of Confinement and Ordered to Pay $416,389 in Restitution for Conspiracy to Commit Wire Fraud—Minnesota

USDA OIG initiated this joint investigation with the Minnesota Bureau of Criminal Apprehension and the Traverse and Grant County Sheriff's Offices to determine if an individual and his father paid bribes to an elevator employee of a USDA FSAinspected grain elevator in Minnesota and determine if the individual and his father submitted false statements to USDA and their crop insurance company to bolster their insurance claims.

The investigation determined that the individual paid bribes to at least two grain elevator employees, and in exchange they fabricated both fake grain tickets and inflated grain tickets in the names of the individual, his father, and the individual's business. The individual's father committed crop insurance fraud by not reporting grain sold in his wife's name. The individual's father and his wife both died during the course of the investigation due to COVID-19. One of the grain elevator employees died during the course of the investigation, and the other employee, while fired from his job, was not charged.

On May 27, 2020 an information was filed in U.S. District Court for the District of Minnesota that charged the individual with one count of conspiracy to commit wire fraud. On July 29, 2020, the individual pled guilty to the charge.

On June 2, 2021, the individual was sentenced to 12 weeks of confinement, followed by 4 years of probation and 150 hours of community service. He also was ordered to pay $416,389 in restitution.

Animal and Plant Health Inspection Service

Head of Drug-Trafficking Organization and Dogfighting Ring Sentenced to 30 Years in Prison, 24 Others Defendants Indicted and Arrested—Florida

The Drug Enforcement Administration (DEA) in Florida was investigating the head of a drug-trafficking organization for various federal drug violations. During the investigation, the DEA discovered that the same individual owned approximately 40 pitbull-type dogs and engaged in dogfighting on a regular basis. The DEA requested that the USDA OIG join the investigation to lead the dogfighting aspect of the case. With the support of several Federal, State, and local agencies, the investigation revealed that this drug trafficking organization, in addition to trafficking illegal narcotics, was heavily involved in fighting dogs throughout Florida, Georgia, and Alabama.

On May 9, 2019, a Federal grand jury in the Northern District of Florida charged 12 defendants with 19 counts of drug trafficking offenses. On May 10, 2019, personnel from the DEA, USDA OIG, and several other Federal, State, and local law enforcement agencies arrested these 12 individuals on various Federal drug charges and executed 10 Federal search warrants. Items seized included three kilograms of crystal methamphetamine, U.S. currency, 13 firearms, 90 pitbull-type dogs, and a variety of dogfighting training equipment, pedigrees, veterinarian-grade medical supplies, and other dogfighting paraphernalia.

On June 4, 2019, a Federal grand jury in the Northern District of Florida charged a total of eight defendants with 83 counts of dogfighting offenses; four of these defendants were previously charged in the drug conspiracy. On June 11, 2019, USDA OIG and several Federal, State, and local law enforcement agencies executed four arrest warrants and one search warrant. The remaining four individuals were already in custody on previous drug charges. Ten additional dogs were seized and some were pregnant at the time of seizure, which brought the total number of dogs seized to 107. Of the 107 dogs seized, 21 required some type of specialized veterinary care; 15 dogs were euthanized due to significant health reasons and 92 were adopted.

On September 3, 2019, a Federal grand jury in the Northern District of Florida issued a superseding indictment charging an additional eight defendants with drug trafficking offenses; one of these defendants had been previously charged in the dogfighting indictment. These eight individuals were arrested the week of September 3, 2019, by the DEA and other law enforcement agencies.

The investigation by USDA OIG further revealed that, additionally, a Bureau of Prisons officer was involved in the dogfighting organization. On December 3, 2019, a Federal grand jury in the Northern District of Florida returned a superseding indictment against the Bureau of Prisons officer and an individual previously charged in the drug conspiracy. On December 4, 2019, an arrest operation was conducted by USDA OIG with assistance from other law enforcement agencies.

On June 4, 2021, the main defendant in this investigation was sentenced to 30 years in prison for the drug offenses charged in the drug conspiracy. In addition, he was sentenced to 5 years in prison for each of the 41 counts of dogfighting, to be served concurrently.

To date, a total of 24 defendants have been indicted and arrested. The Government has dismissed charges on one individual and the remaining defendants have been sentenced or are awaiting sentencing.

Audit

USDA's Fiscal Year 2020 Compliance With Improper Payment Requirements
Audit Report 50024-0001-24
June 7, 2021

The OIG objectives were to review USDA's Fiscal Year (FY) 2020 Agency Financial Report (AFR) to determine if the agency was compliant with improper payment requirements, and to review quarterly high-dollar overpayments reports and assess the risk associated with applicable agency programs.

OIG found that USDA was not compliant with the Payment Integrity and Information Act of 2019 (PIIA). USDA reported mandatory improper payment information for 15 high-risk programs for FY 2020. OIG found that 6 of the 15 high-risk programs either did not meet annual reduction targets or reported gross improper payment rates of greater than 10 percent. This occurred because some programs' policies and procedures were not followed by staff, and the corrective actions have not yielded the desired results.

Furthermore, OIG identified an incorrect improper payment rate, erroneous statements, and unsupported statements in the payment integrity section of USDA's AFR. These errors reduced the quality of USDA's improper payment reporting and prevented stakeholders from using the report to make informed decisions. OIG also found that USDA did not issue any FY 2020 high-dollar overpayment reports, as required by Executive Order 13520. This scope limitation prevented us from answering any of the audit objectives relating to high-dollar overpayment reporting. These issues generally occurred because the Office of the Chief Financial Officer (OCFO) officials stated that they experienced staff shortages during FY 2020. USDA agencies agreed with our findings and OIG accepted management decision for each of the six recommendations in this report.

OIG determined that USDA complied with PIIA requirements for its only high-priority program in FY 2020.

2017 Hurricane Relief Emergency Conservation Program
Audit Report 03702-0002-23
June 10, 2021

OIG's objective was to assess the effectiveness of FSA program delivery of the Emergency Conservation Program (ECP) for hurricane-related disasters. Specifically, OIG reviewed the adequacy of FSA's internal controls over approval and payment of ECP applications and determined whether funds were used for eligible purposes.

The FSA ECP assists landowners in restoring land used in agricultural production when damaged by a natural disaster. Congress appropriated $400 million to ECP to address damage caused by Hurricanes Harvey, Irma, and Maria; wildfires occurring in 2017; and other natural disasters.

OIG found that FSA needs to strengthen its internal controls within the ECP. First, producers are typically required to apply within the signup period to ensure eligibility and identify qualifying damage. However, OIG found that FSA issued more than $700,000 in ECP payments for 15 of the 40 applications in our sample without properly documenting concurrence or when FSA should not have concurred with waiving the prior approval rule.

Second, OIG found that, in all four counties OIG reviewed, district directors did not sufficiently document or timely review ECP applications. Additionally, in three counties, county executive directors did not perform spot checks to verify practice maintenance and cost documentation. As a result, the county committee may have been presented ineligible applications for approval. Additionally, because FSA did not complete spot checks, FSA could not ensure producers completed restoration practices on applications totaling more than $1.9 million.

Third, FSA processed cost-share payments for 14 of 40 applications using insufficient documentation, included ineligible costs, or calculated cost-share reimbursements incorrectly. As a result, OIG identified more than $557,000 in potential improper payments.

FSA generally concurred with OIG's findings and recommendations, and OIG accepted management decisions for 9 of the 10 recommendations.

Hurricane Disaster Assistance–Emergency Watershed Protection Program
Audit Report 10702-0001-23
June 25, 2021

OIG's objectives were to evaluate Natural Resources Conservation Service's (NRCS) controls over the Emergency Watershed Protection (EWP) Program relating to hurricane disaster assistance provided for Hurricanes Harvey, Irma, and Maria.

The EWP Program offers technical and financial assistance to help local communities mitigate imminent hazards to life and property caused by floods, fires, windstorms, and other natural occurrences that impair a watershed. OIG found that NRCS did not establish and maintain a database to accurately track EWP Program projects at the national level. Without a database, NRCS is unable to assess, improve, or report on program effectiveness.

Additionally, OIG found that for 15 of 20 sampled Damage Survey Reports (DSR), sponsors did not provide required eligibility documentation and that all three States in OIG's sample did not submit 60-day or final reports for the sampled DSRs. As a result, OIG questioned NRCS' oversight of more than $239.7 million in EWP project funds.

Furthermore, OIG found that State officials did not initiate the closeout process or de-obligate unused funds of more than $9.5 million for 18 signed cooperative agreements in a timely manner. As a result, this could lead to lengthy, unliquidated obligations and potentially prevent the funds from being used on other EWP Program projects.

Finally, OIG found that NRCS had no performance measures specific to EWP. As a result, NRCS could not assess and report on the EWP Program's effectiveness. NRCS concurred with OIG's recommendations and OIG accepted management decision on 7 of the 9 recommendations.

Florida Citrus Recovery Block Grant Program

Audit Report 03702-0001-22
June 30, 2021

OIG evaluated FSA and the State of Florida's delivery of the Citrus Recovery Block Grant Program (CRBG). Specifically, OIG reviewed: (1) how FSA implemented the payment limitations in the Bipartisan Budget Act; (2) whether grant funds were awarded to eligible producers for eligible purposes; and (3) whether producers received duplicate payments.

Overall, FSA and the State of Florida designed an adequate control structure over the block grant program; however, OIG identified discrepancies with 8 of the 39 grant payments in OIG's sample. Specifically, six payments contained errors due to inaccurate payment calculations for young tree acreage, and two lacked sufficient documentation to support their Part 1 payments for grove rehabilitation. This occurred because the State of Florida's internal review process did not identify these discrepancies prior to paying the producer. Specifically, the young tree acreage calculation, which is complicated and prone to errors, was not treated as high-risk during the review process, and the process of reviewing supporting documentation was not consistently completed. As a result, grant personnel issued eight improper payments, totaling more than $7.5 million, to Florida citrus producers affected by Hurricane Irma.

OIG also found 31 grant participants that did not timely apply for the Wildfires and Hurricanes Indemnity Program, which is a prerequisite for the block grant program. As this issue was addressed in a prior OIG audit report, OIG makes no additional recommendations in this report.

Additionally, OIG found that the Florida FSA State office issued an Emergency Conservation Program (ECP) payment of more than $50,000 for expenses already paid by CRBG. OIG informed the FSA national office of this issue and they agreed to work with the Florida FSA State office to review this payment and determine whether collecting the ECP payment from the producer is warranted. OIG agreed with FSA's proposed actions and questioned the amount of the ECP payment.

FSA concurred with OIG's findings and recommendations, and OIG accepted management decision on all recommendations.

Animal Care Program Oversight of Dog Breeders

Audit Report 33601-0002-31
June 30, 2021

OIG's objectives were to evaluate the adequacy of the Animal and Plant Health Inspection Service's (APHIS) controls to ensure breeder compliance with the Animal Welfare Act (AWA) and follow up on agency actions taken in response to Audit Report 33002-4-SF, APHIS Animal Care Program Inspections of Problematic Dealers, issued in May 2010. Due to the Coronavirus Disease 2019 pandemic, OIG experienced a scope limitation due to being unable to travel and observe APHIS inspections.

USDA delegates the responsibility for administering AWA to APHIS. APHIS' Animal Care (AC) Program is charged with developing and implementing regulations to support the AWA. The AWA requires that all individuals or businesses dealing with animals covered under the AWA be licensed or registered with APHIS. USDA's OIG previously performed an audit of APHIS' enforcement of the AWA for commercial dog breeders. Following the issuance of that report, OIG received multiple Congressional communications requesting a follow-up audit.

OIG identified data reliability issues with reports generated from APHIS' Animal Care Information System (ACIS) database. This occurred because the agency no longer has a data manager for ACIS, and several large patches to the system have made it unreliable. As a result, APHIS is impeded in its ability to make informed management decisions, identify trends in noncompliant items, and identify how many inspections have been completed. APHIS is working towards migrating away from ACIS and transitioning to new information systems.

We also found that APHIS did not consistently address complaints it received or adequately document the results of its follow-up. This occurred because APHIS does not have a documented process for responding to complaints or for recording the results of the agency's actions. As a result, some dog breeder facilities may be conducting regulated activity without a USDA license or oversight. Therefore, APHIS is not able to ensure the overall health and humane treatment of animals at these facilities. APHIS agreed with OIG's findings and recommendations, and OIG accepted management decision on all three recommendations.