

# USDA OFFICE OF INSPECTOR GENERAL

## Investigations and Audit Activities Completed in July 2021

### Investigations

#### *Agricultural Marketing Service*

#### **Former General Manager of Seed Company Sentenced to 36 Months in Prison and Ordered to Pay More than \$8 Million in Restitution and Forfeit More than \$7 Million for Fraud and Money Laundering—Oregon**

The United States Department of Agriculture (USDA) Office of Inspector General (OIG) opened this investigation after receiving information that a seed company was intentionally mislabeling seed types and selling the mislabeled seed throughout the United States and to foreign customers. The Internal Revenue Service (IRS) Criminal Investigation (CI) subsequently joined the investigation after it was suspected tax and other financial issues may have been involved. The former general manager of the seed company and his co-conspirators directed employees to package substitute seed varieties with false and misleading labels. They also directed employees to invoice the customers under the original terms of their contracts, notwithstanding the unauthorized substitutions. As a result of this scheme, the seed company invoiced customers for more than \$1.1 million of grass seed the company never delivered.

The investigation revealed that the former general manager and other co-conspirators were involved in multiple schemes to defraud customers and a large food and agribusiness company. In one scheme, the former general manager directed an accomplice to create a limited-liability corporation (LLC) to pose as an independent grass seed broker. The former general manager and a colleague conspired to route a portion of the seed company's overseas sales through a competing grass seed seller based in Oregon. The seed company would, in turn, add its own mark-up to the sales and kick back outsized commissions to the former general manager through his accomplice's LLC. From December 2018, through August 2019, the former general manager generated more than \$369,000 in fraudulent commissions.

In another scheme, the former general manager conspired with the owner of an independent travel agency in Spokane to inflate the purported costs of his international business travel. In total, the agent overbilled more than \$500,000 for international airfare, the majority of which the former general manager ultimately received in kickbacks from the agent.

In the most lucrative fraud scheme, the former manager directed the food and agribusiness' payment of more than \$12 million in "rebates" and "commissions" to entities that were posing as foreign sales partners but were, in fact, fronts for the former general manager's co-conspirators in embezzling those funds. The co-conspirators then transmitted part of their ill-gotten gains from accounts in Hong Kong to real estate investments in Hawaii under the former general manager's control. Years later, the former general manager sold the real estate and wired the proceeds to investment accounts in Spokane as part of an elaborate money laundering operation.

On February 25, 2021, an information was filed in U.S. District Court, District of Oregon, charging the former general manager with three counts of conspiracy to commit wire fraud and one count of conspiracy to commit money laundering. On March 15, 2021, the former general manager pled guilty to all four felony counts in the information. On March 29, 2021, he deposited \$8,298,546.91 with the U.S. District Court in response to the court's order to deposit funds, pursuant to his guilty plea.

On June 10, 2021, in the District of Hawaii, a former employee of the food and agribusiness company in China was indicted by a federal grand jury for conspiracy to commit money laundering. The individual conspired with the seed company's former general manager to launder fraud proceeds, in part through real estate in Hawaii. Included in the indictment was a federal forfeiture notice notifying the individual that, upon conviction, the U.S. Attorney's Office (USAO) would be seeking \$11,627,528 in forfeiture.

On July 7, 2021, the seed company's former general manager was sentenced in U.S. District Court, in the District of Oregon, to 36 months in prison, followed by 3 years of supervised release. Additionally, the former general manager was ordered to pay \$8,298,546.91 in restitution (he also agreed to voluntary tax payments amounting to \$2.6 million), and \$7,735,566.53 in forfeiture.

## *Food Safety and Inspection Service*

### **Former Business Owner and Business Manger Sentenced to Prison for Forced Labor and Financial Fraud—New Jersey**

This investigation began when OIG received a letter from the USAO for the District of New Jersey requesting our involvement in an investigation that included allegations of alleged human trafficking and forced labor at a business located in New Jersey and another business in New York. It was believed that the firm was in violation of the Poultry Product Inspection Act as well as engaged in SNAP trafficking. Both businesses were owned by one individual and managed by another individual. The investigation revealed that undocumented workers at both locations were forced to work up to 15 hours per day without breaks, 7 days per week, and were paid on average less than \$3 per hour. Many of the workers reported that they were not free to leave, and the manager threatened deportation if they attempted to leave or complained. It was further learned that workers were forced to reside in pest-infested accommodations without heat, hot water, or a functioning toilet. Safety equipment such as masks and gloves were not provided, and severe work-related injuries and residual medical issues were reported.

On November 28, 2016, both individuals were charged in a criminal complaint. On November 29, 2016, a Federal search warrant was executed at one of the businesses and they were both arrested. On January 27, 2020, the former manager pled guilty to a criminal information charging him with harboring aliens for financial gain. On January 29, 2020, the former owner pled guilty to a criminal information charging him with willfully providing false statements in the preparation of tax returns for the tax years 2014 and 2015 and failure to pay payroll taxes.

On July 7, 2021, in U.S. District Court, District of New Jersey, the former owner was sentenced to 1 year and 1 day in prison, to be followed by 2 years of supervised release. The former owner was also ordered to pay restitution in the amount of \$335,509.89, and \$100,000 in restitution to two civilian victims. The former manager was sentenced to 3 months in prison, to be followed by 2 years of supervised release.

This case was worked jointly with the U.S. Department of Labor OIG, the Department of Homeland Security, the U.S. Immigration and Customs Enforcement, Homeland Security Investigations, the Federal Bureau of Investigation (FBI), IRS-CI, and USDA's Food Safety and Inspection Service.

## *Food and Nutrition Service*

### **Food Market Owner Sentenced to 15 Months in Prison and Ordered to Pay \$1,445,460 in Restitution for Federal Food Aid Program Fraud—Iowa**

This case was referred to USDA OIG by the FBI and the State of Iowa. The owner of a food market allegedly defrauded Federal food aid programs. The investigation revealed that other beneficiaries' Supplemental Nutrition Assistance Program (SNAP) cards were used to purchase inventory for the owner's store. The FBI, Iowa state investigators, and USDA OIG conducted search warrants of the market and several of the owner's residences. Evidence and cash were seized at the search locations, as well as bank accounts.

On February 5, 2021, the market owner signed a plea agreement for one count of conspiracy to commit wire fraud. The market owner also agreed to pay \$550,000 in restitution to USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The market owner also entered into forfeiture agreements for the cash seized at the owner's properties (\$226,928) and bank accounts (\$111,928), as well as forfeiting three residences.

On July 2, 2021, in U.S. District Court, Southern District of Iowa, the market owner was sentenced to 15 months in prison, followed by 3 years of supervised release. The owner was also ordered to pay \$1,445,460 in restitution to WIC and SNAP (\$945,631 for WIC and \$499,829 for SNAP). The cash, bank account balances, and proceeds from the sale of homes forfeited by the market owner will be applied to the restitution.

### **Two Individuals Sentenced to 60 Months of Probation Each and Ordered to Pay \$90,837 in Restitution Jointly and Severally for Food Stamp Fraud—Wisconsin**

A USDA OIG investigation revealed that two individuals acquired approximately 358 SNAP cards representing 254 households in Wisconsin and used the SNAP cards to purchase approximately \$90,837 of food at a business for use at a food cart and restaurant they operated.

On July 8, 2020, in the Western District of Wisconsin, two individuals were indicted by a Federal Grand Jury on four counts of wire fraud and two counts of food stamp fraud.

On June 8, 2021, one individual was sentenced to 60 months of probation, assessed a penalty of \$100, and ordered to pay \$90,837 in restitution, which is owed jointly and severally with the co-defendant. On June 30, 2021, the co-defendant was sentenced to 60 months of probation, assessed a penalty of \$100, and ordered to pay \$90,837 in restitution, which is owed jointly and severally with the first individual.

## **Audit**

### **Controls Over Select Agents Audit Report 33701-0002-21**

The Office of Inspector General's (OIG) objectives were to evaluate the effectiveness of the Animal and Plant Health Inspection Service (APHIS) controls over select agents as part of the Federal Select Agent Program (FSAP) to adequately reduce the threat to animal and plant products and public, animal, and plant safety. Additionally, OIG followed up on prior audit recommendations from Audit 33701- 0001-AT, *Follow Up on APHIS' Implementation of the Select Agent and Toxin Regulations*, to determine whether corrective actions were adequately implemented and operating effectively.

FSAP is jointly administered by the Centers for Disease Control and Prevention (CDC) and APHIS. FSAP oversees the possession, use, and transfer of biological select agents and toxins, which have the potential to pose a severe threat to public, animal, or plant health, or to animal or plant products.

OIG found several areas of FSAP that APHIS needs to improve. First, the Electronic FSAP (eFSAP) system, which APHIS uses to monitor entities' compliance with Federal regulations, did not always include accurate and complete information. As a result, APHIS may not be able to ensure select agents and toxins are adequately secured by registered entities. Second, OIG identified two deficiencies in APHIS' oversight process. APHIS does not require its inspectors to support "pass" determinations that entities complied with Federal regulations. Additionally, APHIS officials did not ensure that entities timely resolved non-compliances identified during prior inspections. Finally, from 2017 to 2019, the OIG determined that APHIS did not report to Congress 13 losses and 3 releases of select agents or toxins. This occurred because APHIS officials do not consider it a loss when an entity cannot account for but eventually finds select agents or toxins. OIG concluded that, without accurate reports, Congress cannot make informed decisions concerning APHIS' oversight of registered entities' handling of dangerous select agents and toxins.

OIG accepted management decision on 3 of the 11 recommendations. Further action from the agency is needed before management decision can be reached on the remaining recommendations.