

**STATEMENT  
Of  
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INSPECTOR GENERAL  
OFFICE OF INSPECTOR GENERAL  
U.S. DEPARTMENT OF AGRICULTURE  
before the  
HOUSE APPROPRIATIONS SUBCOMMITTEE ON AGRICULTURE,  
RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION,  
AND RELATED AGENCIES**

**February 17, 2000**

**INTRODUCTION AND OVERVIEW**

Good morning, Mr. Chairman and members of the Committee. I am pleased to have this opportunity to visit with you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with information on our audits and investigations of some of the major programs and operations of the U.S. Department of Agriculture (USDA).

Before I begin, I would like to introduce the members of my staff who are here with me today: Jim Ebbitt, Assistant Inspector General for Audit; Greg Seybold, Assistant Inspector General for Investigations; and Del Thornsby, Director of our Resources Management Division.

I want to thank the Committee for its support during the 5½ years since my appointment as Inspector General. We have tried to work closely with you, and I hope we have been able to address some of your concerns. We have a diverse staff of auditors, criminal investigators, and other personnel in our offices throughout the Nation to carry out the agency's audit and investigative mission.

I am proud to say that in fiscal year (FY) 1999, we continued to more than pay our own way. In the audit arena, we issued 146 audit reports and obtained management's agreement on 348 recommendations. Our audits resulted in questioned costs of over \$262 million. Also, as a result of our audit work, management agreed to recover more than \$55 million and put another \$114 million to better use. Equally as important, implementation of our recommendations by USDA managers will result in more effective operations of USDA programs. In addition, our investigative staff completed 515 investigations and obtained 502 indictments, 559 convictions, and 2,780 arrests. OIG investigations also resulted in \$68 million in fines, restitutions, other recoveries, and penalties during the year.

We continued to work closely with USDA agency officials during FY 1999 to address key issues and expand our cooperation with other Federal, State, and local law enforcement and audit agencies to broaden the impact of our work. Working together, our staffs identified program weaknesses and program violators. Capitalizing on the staffs' respective expertise, we created solutions for positive action.

In FY 2000, our primary concerns continue to be in the areas of food safety, public health, and consumer protection. In the food safety arena, we continue to identify contaminated food, misbranded products, uninspected meat or other products, or items smuggled into the United States containing unwanted and unsafe pests. With the Nation's food supply being highly susceptible to tampering, diseases, or infestation with unwanted plant pests, OIG's resources, especially our investigative resources, continue to be drastically overextended in these highly critical areas.

We are also focusing our audit efforts on the Department's financial information systems, which process billions of dollars in payments and an extraordinary amount of sensitive data. And, of course as conditions change, we adapt quickly to address critical, time-sensitive situations. For example, when Congress passed supplemental appropriations to help farmers suffering from natural disasters and low commodity prices last year, our audit staff immediately teamed up with Department officials to make sure controls were in place to quickly get the right payments to farmers. Another area we are addressing is employee integrity. We are concerned by the occurrences of corruption within the Department's ranks. For instance, during FY 1999, we issued 40 investigative reports and obtained 22 convictions of current or former USDA employees.

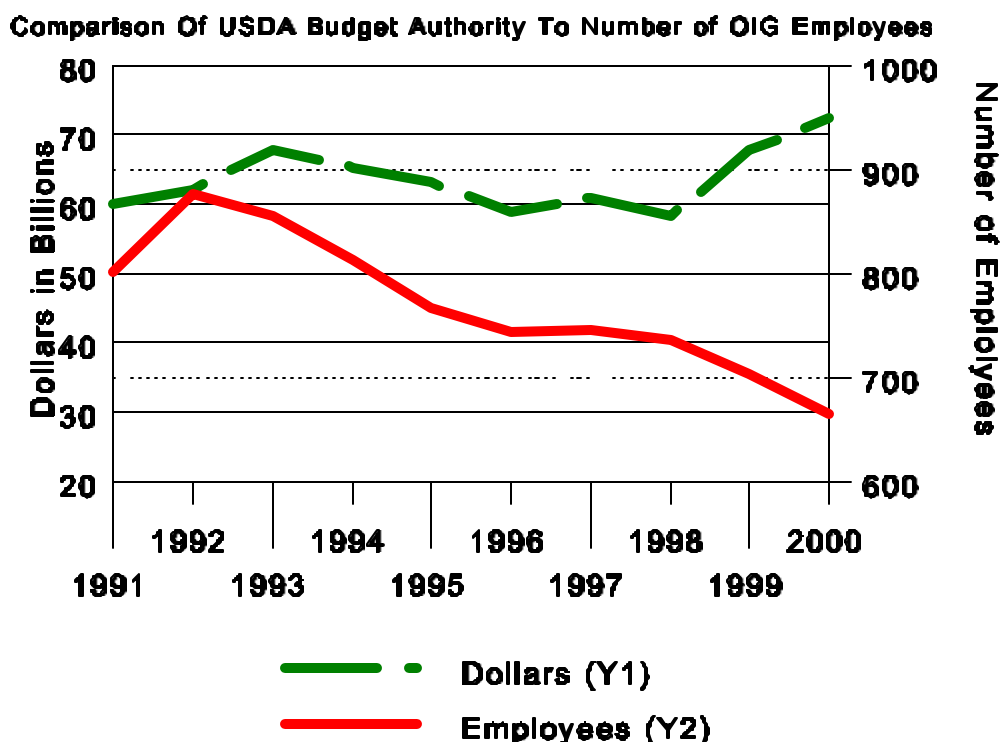
Before I continue with our accomplishments during the past year, I want to take a few minutes to address an issue that has me deeply troubled. I have been candid with the committee on whatever issues came before me and reported the facts as I have known them. This is as it should be. But now, I want to speak of the special agents and auditors of my own agency. These

dedicated individuals have accomplished so very much, only a small portion of which I have ever had the time to share with you. Their work literally saved the lives of large numbers of our citizens, particularly children, and elderly. They have saved our precious tax dollars, worked with USDA agencies to restore integrity to our programs, and protected American agriculture. I am immensely proud of them and hope you are too.

While I have reported to you some of their accomplishments, I have not told how they have been stretched beyond the breaking point. The numbers of special agents and auditors, and the resources available to them, were severely limited when I arrived 5½ years ago, and while our responsibilities have increased since then, our staff and resources have continually diminished. In January 1993, we had 875 employees on board. Now we have only 665 – 210 less, a 24 percent loss. Yet, the decrease to 665 people means little until one considers that the Department's budget, including loan authority, currently is \$177 billion; with a personnel staff of approximately 110,000 for FY 2000. Not included in this dollar amount are the operations and actions of millions of companies, plants, and individuals regulated by USDA. As you know, investigating criminal activity by any of them is the responsibility of OIG agents. Ensuring the integrity of all of these programs is the responsibility of OIG auditors.

To put it in perspective, when we compare OIG staffing to the Department's programs and personnel, we find that each auditor must ensure the integrity of approximately \$635 million in program activity. Each special agent is responsible for investigating all crimes involving nearly \$840 million of USDA funds, and any crimes committed by the Department's approximately 110,000 employees, such as embezzlements, thefts, bribes, or extortions. This lone agent is also

responsible for investigating criminal activity committed by immense numbers of companies, plants, and individuals whose actions are regulated by the Department through its animal and plant, meat, poultry, grain, fruit, and vegetable inspection and grading programs. Then, there are USDA's forests. It's like having one police officer and one auditor to handle all crime and corruption in New York City.



As our funding shortages have grown more severe, we have been forced to change our standards for determining which criminal activities we investigate. For years we have declined to investigate large numbers of prosecutable cases, focusing instead on those with higher dollar amounts or those that would have a significant impact on a USDA program. In recent years, as our resources have diminished, we have had to elevate the standard further, leaving thousands of prosecutable criminal cases in the files. The types of criminal activity which we do not have

resources to investigate continue to vary widely, and range from corruption in USDA's grading programs, to smuggling of agricultural products, to large frauds in the Department's benefit programs. Proactive investigations have been, by necessity, severely curtailed.

Of course, our people continue to do their best, continue to lock up some of those who steal from the taxpayers, poison our citizens, and endanger American agriculture, but you must know that there are now huge gaps in that "thin blue line" that is OIG.

Our auditors and investigators can continue to recover and save money for the taxpayers only if they have the tools needed to perform their duties. The changing world of automation has added to the tools needed, and these tools come at a heavy price. For example, audits of computer security require specialized and costly training, hardware, and software. Without these tools, we stand little chance of staying abreast with the "hacker community," and the Department's exposure to system penetrations remains high, with potentially devastating effects. The highly publicized breakins over the past 2 weeks via the Internet of such major cyberspace vendors as Yahoo, Amazon.com, and eBay only highlight the urgency of protecting the Department's data bases and vulnerable computer systems.

Compounding our dilemma, for several years we have been required to absorb increases in personnel costs. This has forced us to limit our replacement hiring and has extensively curtailed the funding we have available for other necessary items, such as travel and specialized law enforcement equipment. At the same time, programs and activities administered by USDA to protect consumers have undergone substantial increases due to liberalized world trade and travel,

and purchases of commodities for use in the National School Lunch and related programs. In addition to fewer staff, we received no additional resources for such mandated activities as auditing the Department's financial statements, yet this activity consumes about 20 percent of our audit resources. Under these conditions something has to give, and it is reduced coverage of the Department's increasing activities and expenditures. To illustrate this, in fiscal years 1997 through 2000, we determined that on average a little over 100,000 workdays were needed in each of those fiscal years to provide audit coverage. Yet with available audit resources, we could staff only an average of 67,000 workdays, a shortage of 33,000 workdays. In fact, in fiscal year 2000 only 61,400 workdays are available. By way of example, because of these shortages, we have not been able to provide in-depth audit coverage to issues such as the Department's efforts to increase collection of debts owed to it, and the Department's new computer system for tracking the Rural Housing Loan Program. We need to perform more security audits on USDA information systems which involve health and safety, economic matters, and research since these vital systems are increasingly at risk of unauthorized access and possible irreparable damage.

At our current staffing level, we are simply not able to deal with crisis issues needing immediate audit and investigative attention without neglecting important work elsewhere. OIG is often required to pull its special agents from assigned investigations of large frauds in USDA's benefits and loan programs to investigate criminal activity that threatens the health and safety of the public. We currently have 34 open investigations on those who intentionally sold meat products that could have sickened or killed consumers, including school children and military personnel. While most cases involved those who processed the meat products, we also investigated those who endangered the public in other ways. For example, just this month we

immediately responded to an incident where individuals had stolen tractor-trailer loads of meat and poultry from several locations in Georgia. Our immediate concern was that the thieves were repackaging and relabeling the stolen product and not properly maintaining it, making it hazardous to consumers. A portion of one tractor-trailer load transported to Texas had spoiled because the refrigeration unit on the trailer was not properly working. Other stolen meat product was found in Mississippi and in Tennessee, where it had been sold to prisons.

Adequate funding and staffing for our office makes good sense because we help create a Government that works better and produces positive results. While I recognize that funding is limited, I believe OIG cannot continue to provide sufficient service and assistance to you, the Congress, and to USDA agencies without being provided adequate resources, and I request that our proposed funding level be approved. I believe that resources allocated to OIG are very cost-effective in view of the money we save the taxpayers.

Also, to keep the Committee informed, I have attached a summary to my testimony of the forfeiture funds we have received to date as a fully participating member of the Department of Justice's Asset Forfeiture Fund and how these have been used. These monies have been very helpful to the agency and have also enabled us to provide support to the State and local law enforcement agencies we work with in such joint efforts as Operation Talon. For example, we have been able to provide these law enforcement agencies nearly \$100,000 during the last year and a half to assist in this particular operation as a result of our forfeiture authority.



Mr. Chairman, at this time, I would like to highlight some of our audit and investigative activities.

## **AUDIT AND INVESTIGATIONS ACTIVITIES**

### **FOOD SAFETY**

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

Last year, OIG began an antismuggling campaign to interdict foreign agricultural products that are being illegally brought into the country. Such products can contain pests and diseases that could be catastrophic to U.S. plant and animal populations. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, animals, and other commodities that bring high dollars in underground "black market" commerce. This initiative requires significant agent resources dedicated to intelligence collection, undercover operations, and foreign law enforcement liaison, as well as a need for high-tech surveillance equipment.

OIG is currently conducting 26 investigations into the smuggling of agricultural products that are entering the United States through Canada, Mexico, and U.S. ports in Florida and California.

We are working closely with foreign customs and agricultural inspection officials, the U.S.

Customs Service, the Animal and Plant Health Inspection Service, and State and local agricultural inspection personnel to locate the illegal products and identify the manner in which they are being brought into and moved around the country. These ongoing investigations have

uncovered sophisticated smuggling conspiracies that are bringing in large quantities of agricultural products. These individuals fly products into areas of the country with little agricultural inspection, but then move them into other States where they pose a danger. They devise paper trails that hide the source of the products, and conceal the products when moving them. All of the products could harbor pests and diseases that could devastate the agricultural sector. Many of our investigations are being conducted on individuals who are bringing products into California, where outbreaks of plant pests have been common and costly. There is heightened concern in California because of the fruit fly quarantine imposed as a result of these pests being introduced. OIG must do proactive work to ensure these destructive pests are not being brought into the country on smuggled plants and commodities to infest our plants and crops. We must shift staff from current work to address these immediate issues to prevent loss of crops and dire economic consequences to the local economies.

Antismuggling operations also include our long-term joint Special Field Enforcement Program with APHIS, the U.S. Customs Service, and State and local law enforcement agencies in Florida. This Special Field Enforcement Program will target organized transportation and distribution networks responsible for the smuggling of foreign fruit contaminated with fruit flies and other pests into the United States via Florida. This program will eventually expand to other States with pest smuggling problems.

In another OIG criminal investigation that demonstrates our work in this area, we worked with APHIS to convict two owners and their company operating a horse export/import business in Virginia and Germany. The owners pled guilty to smuggling and providing falsified information

concerning the age of horses being exported from Germany. The German veterinarians unknowingly issued inaccurate health certificates that allowed the horses to be exported to the United States. The certificates were presented to APHIS officials so that the horses could avoid the 50 days of quarantine in the United States – paid for by the owner – which is a requirement for all horses over the age of 731 days in order to prevent the spread of Contagious Equine Metritis, a sexually transmitted disease. Consequently, at least 10 mature horses were imported into the United States without being placed in quarantine. One owner was sentenced to 4 months in prison while the second owner and corporation were given probation. Collectively, the three were fined \$45,000. Because of OIG criminal enforcement actions, the Government seized the owners' horse farm in Virginia, valued at \$1.2 million, which the owners forfeited to pay damages in this case.

In another case, a husband and wife, both Canadian citizens, were indicted in Washington State for smuggling prohibited Asian fruit into the United States. The Asian fruit is prohibited entry into the United States because it is known to carry pests and diseases not found here that could devastate local crop economies. Four hundred pounds of fruit were discovered hidden in the cargo area of the subjects' station wagon as well as inside the walls of the cargo area. This was the third time these individuals had been caught smuggling fruit into the United States. The husband subsequently pled guilty while the charges against the wife were dropped. Both the Federal prosecutor and the defense counsel had initially recommended probation with no jail time. The judge, noting the potential harmful impact of the fruit, which tested positive for insect infestation, could have had on domestic crops and local economies, declared her intent to “send a message” to the subject. She sentenced him to 2 days in jail and 3 years' supervised release.

## **FOOD SAFETY AND INSPECTION SERVICE (FSIS)**

At last year's budget hearings, I reiterated our continuing commitment to placing a high priority on food safety and consumer protection issues. Threats to the health and safety of the public are the most important matters investigated by OIG. Recent criminal investigations addressed the processing and sale of adulterated meat and poultry and tampering with food products consumed by the public.

During the last few months, criminal investigations have necessitated the immediate deployment of special agents to several cities in the United States to protect the health and safety of consumers. These cases, some of which are still ongoing, have involved real or threatened adulteration of meat with E.coli 0157:H7 and Listeria Monocytogenes bacteria from unsanitary production methods intentionally neglected by the processor, sewing needles placed in commercial meat product packages at a supermarket to injure and possibly kill unsuspecting consumers, and substances such as soy or water added by the processor for economic gain.

To address these serious threats and illegal acts against the public's well being, we are pursuing joint activities with other Federal, State, and local agencies to share intelligence and conduct undercover operations. Doing so will help us better target criminal enterprise in general and the threat to the food supply in packing plants and other facilities in particular.

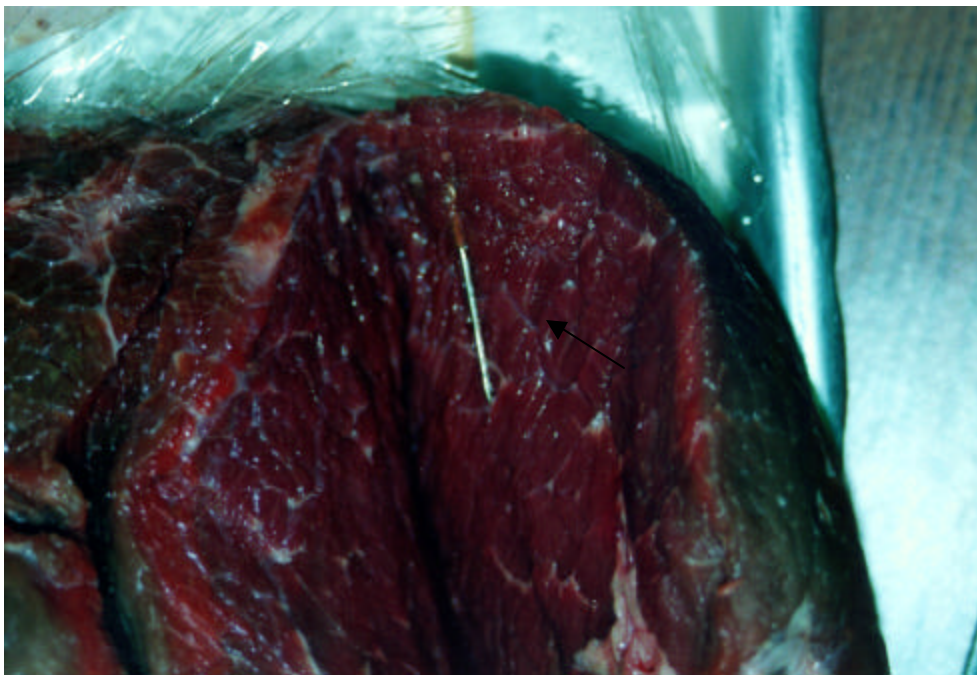
The increasing threat to the wholesomeness and safety of domestic and imported food requires not only vigilance but also advanced preparedness and preemptive undercover operations.

Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats from outside the food industry of criminal adulteration and biological contamination of food products for extortion or ideological motives victimize and disrupt the food production or distribution systems until these threats are resolved through a law enforcement and health and safety response.

Immediate response to emergency situations impacting USDA programs and operations and regulated industries requires the specific, unique law enforcement expertise of USDA OIG. OIG's rapid response and deployment of considerable staff resources has helped to protect the health and safety of consumers this past year, and we will continue to do so in the future. However, the cost to respond rapidly is great and growing. To do so, we require specialized equipment and protective clothing and supplies to ensure the health and safety of our personnel responding to these crises. To date, we have very limited funding for these critical necessities.

A prime example of our work in this area was one of our high-profile cases, which was conducted with the technical assistance of the FSIS Compliance staff. Together, OIG and FSIS identified approximately 30 million pounds of hot dogs and sandwich meat deemed unfit for human consumption and ordered destroyed by FSIS. During December 1998, FSIS suspended the operations of the Arkansas meat processing plant responsible for the unsanitary production process that resulted in *Listeria Monocytogenes* bacteria infecting the hot dogs and sandwich meat. This processing plant produced approximately 600,000 pounds of hot dogs and cold cuts per week and sold these items to large food stores and the U.S. military. Our criminal investigation continues.

An incident at an Iowa grocery store is another significant example of the multitude of food safety issues we deal with on a regular basis. In this case, 18 OIG criminal investigators, in cooperation with the local police department, worked round-the-clock for 4 weeks to identify the individual responsible for placing sewing needles in ground beef packages, fruit, and bakery items to be sold to the public. Due to the immediate response of OIG special agents and their subsequent investigative actions, one individual was indicted on a Federal criminal charge of tampering with food products. Fortunately, no injuries are known to have resulted from these criminal acts. An April 2000 trial date has been set.



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Photograph of tampered meat with needle

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As a result of another joint criminal investigation by OIG and the Internal Revenue Service, two

owners, the vice president, plant manager, and four salesmen for a large meat company in Philadelphia, Pennsylvania, were indicted for skimming \$2.7 million from the company cash register and concealing this income on their tax returns. The owners and plant manager were also indicted for misbranding cheaper cuts of beef and pork and selling this meat as expensive cuts. The two owners pled guilty to all 52 counts brought against them. The plant manager pled guilty to selling misbranded meat and filing false income tax returns. At sentencing, the two owners were ordered to pay a total of \$1.5 million in restitution and fined \$724,000. In addition, one owner was sentenced to serve 60 days' imprisonment, the other was sentenced to 1 year of home confinement, and each received 5 years' probation.

### **Ongoing Food Safety Review**

Another area that is critical to increasing food safety and ensuring that consumers receive safe and wholesome meat and poultry products is successful implementation of the Hazard Analysis and Critical Control Point (HACCP) and pathogen reduction programs. We developed a "Food Safety Initiative" to review FSIS' food safety mission across a broad spectrum of meat and poultry inspection operations. This initiative, which is now underway, includes a review of meat and poultry establishments' sanitation and HACCP implementation, including efforts to test for pathogens and reduce their presence. Because a key to pathogen reduction is FSIS' laboratory operations, our review is assessing FSIS' quality control system over those laboratory operations, product sample integrity, and laboratory testing operations.

Our review also focuses on the import of meat and poultry products into the United States from foreign countries. In order for a country to ship meat or poultry products into the United States, the country must demonstrate that its inspection system is equivalent to the U.S. system. When the review of the FSIS equivalency determination is completed, our efforts will focus on FSIS' responsibility to inspect the imported product on entry to the United States, and if need be, conduct visits to selected foreign countries to assess their inspection systems. Lastly, our initiative is focusing on FSIS' Compliance Program to determine its effectiveness in preventing and detecting violations of the meat and poultry inspection laws. This includes activities related to businesses engaged in transporting, storing, and distributing products after they leave federally inspected establishments. We are in the process of finalizing our work in this area.

### **FSIS Oversight of State-Operated Meat and Poultry Inspection Programs Need Further Improvements**

Under the State-Federal Cooperative Inspection Program, individual States are authorized to inspect meat and poultry products sold solely within their boundaries, provided that their food safety requirements are at least equal to those of the Federal Government. FSIS retains an oversight role in this effort. Twenty-six States have FSIS-approved inspection programs, covering about 2,700 slaughtering and processing plants. About 7 percent of all meat and poultry production in the United States is inspected at these plants.

FSIS took significant steps to correct problems identified in a previous OIG audit, but additional improvements are still needed. Our most recent audit, released in May 1999, included reviews in



two States that represented about 24 percent of the State-inspected establishments nationwide. This audit found that FSIS needs to ensure that acceptable ratings are not given to State programs with identified sanitary deficiencies or to States that do not take adequate corrective actions to address serious sanitation problems. FSIS agreed to implement our recommendations.

### **EMPLOYEE INTEGRITY**

The investigation of criminal acts associated with employee integrity violations by USDA employees is another high priority for OIG. During FY 1999, we issued 40 reports of investigation concerning allegations of criminal conduct by USDA employees. Our investigations resulted in 22 convictions of current and former employees and resulted in 68 personnel actions, including removals, suspensions, resignations, reprimands, and alternative discipline.

Our current investigation in New York City epitomizes the agency's work in the employee integrity area. Thus far, in this ongoing investigation, 9 Agricultural Marketing Service (AMS) graders have pled guilty to charges of accepting bribes for downgrading the quality of fruit and vegetables at the Hunts Point Terminal Market in the Bronx. In addition, 3 owners or employees of produce wholesalers have pled guilty to charges of paying bribes to these graders. All 12 owners and employees of other produce wholesalers have also been indicted and are waiting trial. All had been arrested by OIG special agents. During the 2½ year investigation, we uncovered a scheme by which the AMS graders accepted bribes from produce wholesalers to downgrade lots of produce. The wholesalers then used the lower grades to negotiate the price

they paid the grower for the produce downward, which resulted in the growers being cheated out of the true value of their produce.



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Aerial photographs of Hunt's Point Terminal Market and market vendor's warehouse area

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In another investigation, in West Virginia, nine individuals, including two employees of the Farm Service Agency's (FSA) Agricultural Credit Team, were convicted for defrauding the Government of approximately \$2 million in FSA direct and guaranteed farm operating loan funds. The loans were obligated by FSA based on false information submitted by the applicants. The two employees of the Agricultural Credit Team assisted the loan applicants by forging signatures or manipulating figures on official FSA documents for the purpose of making the applicants qualify for loans. Eight of the nine individuals have been sentenced. All seven loan recipients were ordered to make full restitution. The two FSA employees resigned from Government service following their convictions.

In an investigation in Louisiana, five individuals pled guilty and were sentenced in Federal court for their involvement in a kickback scheme in which an FSA credit manager in Louisiana falsified loan documents, resulting in \$1.8 million in false FSA farm-operating loans. The credit manager, who resigned, and two other FSA borrowers were indicted and are fugitives. In addition, a local bank vice president was placed on pretrial diversion for conspiring with the former credit manager to provide false information to the Government, which resulted in the issuance of an FSA guaranteed loan that should not have been made. The bank vice president obtained the loan for the construction of an airplane hangar. To date, the sentences have ranged from probation to 2 years 3 months of incarceration. In addition, the court has, thus far, ordered a total of over \$670,000 in restitution be paid to USDA.

## **WORKPLACE VIOLENCE**

Another extremely important area for OIG is the investigation of threats of violence against USDA employees. We have responded to numerous situations involving the use or threatened use of force against the Department's employees. For example, in Oklahoma, we investigated a shooting incident involving a farmer, a USDA Natural Resources Conservation Service employee, and a second farmer who was assisting the USDA employee. The USDA employee was present in an official capacity when the shooting occurred. The farmers involved in the situation began arguing about the destruction of several fences, and one farmer shot and killed the other. The USDA employee was held at gunpoint for 30 minutes until he was allowed to leave the scene to obtain help for the farmer who had been shot. The farmer who killed the individual was indicted by a Federal grand jury for murder. He recently appeared in District Court for a detention hearing. He was denied bond and ordered to remain in jail until his trial date which is scheduled for March 6, 2000.

In another investigation, in North Dakota, a dog kennel owner pled guilty to a felony count of threatening to assault an APHIS Animal Care inspector in an attempt to prevent the inspector from performing the required inspections at the kennel. During the OIG criminal investigation of this matter, the subject admitted that he had threatened to kill the inspector, and then proceeded to make a similar threat if the APHIS inspector attempted to perform his inspection duties in the future. The kennel owner was sentenced to 12 months' probation.

## **INFORMATION RESOURCES MANAGEMENT**

### **Computer Security**

We have also conducted numerous reviews of the vulnerability of agencies' computer systems to unauthorized access. We use many of the same software programs that are also used by the hacker community to perform our audits. Using these advanced techniques, our audits disclosed over 600 security vulnerabilities in the systems audited. For example, sensitive data such as passwords could be identified which would enable hackers to penetrate the Department's systems. With the continued expansion of Internet use and public access to departmental systems, security risks will continue to increase. The potential harm of improper entry to the Department's computer systems is extraordinary given the degree of sensitive data processed and the extent of program payments made through these systems. Alteration of data on quantity and price compiled by the National Agricultural Statistics Service could drastically impact world commodity markets. Penetration of Rural Development's \$56 billion loan portfolio could significantly reduce the safeguarding of those assets. Finally, data that FSIS depends upon to ensure a safe and healthy meat and poultry supply could be compromised. Although we have been successful in our audit efforts in this area, much work remains, and our ability to address it has been limited due to staffing and resource constraints.

### **The Department Achieves "Year 2000" Compliance**

Year 2000 testing was essential to provide reasonable assurance that new or modified systems processed dates correctly and would not jeopardize an agency's ability to perform core business

operations after the millennium change. Throughout FY 1999, we continued to review and report on the Department's Year 2000 compliance or necessary remedies. Our reviews were essential to provide the public with assurance that the Department would continue to operate and provide needed benefits to program participants.

The Department overcame the Y2K threat without significant interruption. OIG played a major role in this achievement.

## **FARM AND FOREIGN AGRICULTURAL SERVICES**

### **FARM SERVICE AGENCY (FSA)**

#### **Monitoring the Implementation of the Crop Loss Disaster Assistance Program (CLDAP)**

In 1998, Congress appropriated \$2.4 billion for distribution to eligible farmers under the 1999 CLDAP. This program provided emergency assistance to over 270,000 farmers, many of whom suffered multiyear losses from drought or floods. The value of lost production totaled around \$2 billion. When the bill passed, we began working with FSA and the Risk Management Agency (RMA) as they began to implement this massive farm program, to ensure that all eligible farmers received this Federal farm assistance timely. We provided input on program controls to FSA and RMA as they drafted program regulations, and, in doing so, were able to proactively review and provide comments on the agencies' implementing regulations. This cooperative effort helped to preclude many of the problems we had noted in prior ad hoc disaster programs. We had staff at the

FSA field offices shortly after CLDAP was implemented, checking on the effectiveness of FSA's and RMA's outreach program to ensure all eligible farmers were notified of this program and to determine if there were any backlogs or other problems in the timely processing of applications from all eligible farmers. We worked with the agencies to alert them to potential problems in getting this massive assistance to all farmers. We were also alert to potential abuses in the program through ineligible program overpayments submitted by individuals. As a result of our work with FSA and RMA, they were able to revise the program procedures and on a timely basis, which helped to preclude improper CLDAP payments.

On the investigative side, historically, one of our primary responsibilities has been the investigation of criminal violations of the various farm support programs administered by USDA. For example, as a result of a criminal investigation in Georgia, three Mitchell County farmers have each pled guilty to one count of conspiracy to launder money. These 3 individuals were believed to be the masterminds in a disaster fraud scheme that netted them and 12 of their relatives and friends approximately \$1.6 million in unentitled disaster payments. The defendants filed fraudulent claims to receive FSA disaster payments for themselves and the others and submitted fictitious seed invoices to support the fraudulent claims. Each farmer was sentenced to serve 1 year in Federal prison for involvement in this scheme.

In another investigative case in this area, two Idaho warehouse operators, a husband and wife, were ordered to pay restitution of \$166,000 to the Commodity Credit Corporation and local farmers after they pled guilty to Federal charges related to the theft of grain that was being stored at their State-licensed grain warehouse. Producers in Idaho and Oregon lost more than

\$1.5 million as a result of the theft. The wife was sentenced to serve 6 months in Federal prison to be followed by 4 months of home detention and 3 years of supervised release. Her husband was placed on probation for 4 years. As part of their plea agreement, they also agreed not to contest debarment action by USDA. This investigation was a cooperative effort with the warehouse examiners from the FSA Kansas City Commodity Office; the Oregon State Police; the Canyon County, Idaho, Sheriff's Department; the FBI; and the IRS's Criminal Investigation Division.

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

### **Reinsured Companies Were Not Properly Servicing Catastrophic (CAT) Risk Protection Policies**

The CAT Program is part of the safety net for farmers. It provides basic coverage to all producers at a minimal cost and to limited-resource farmers at no cost. In 1996-1997, a decision was made to transfer the delivery of CAT policies from FSA to the reinsured companies. We evaluated the transfer and found a number of servicing problems, such as farmers not receiving adequate local agent servicing. Frequently, these producers were not contacted by insurance agents, and the needs of the limited-resource farmers were not being addressed.

In our recent followup review, we evaluated how effectively the delivery of this safety net program had been implemented by the reinsured companies. We found that the number of limited-resource farmers with CAT policies declined by about 78 percent between 1997 and 1998, during the time



the reinsured companies assumed sole delivery of the program. RMA acknowledged there is a problem in the CAT Program as currently authorized. However, RMA believes that the significant decline in participation by limited-resource farmers stems from the elimination of the legal requirement that farmers purchase crop insurance in order to receive other Federal farm assistance and from the farmers' perception – as documented in RMA's reviews - that the CAT Program, as currently devised, does not provide an adequate safety net. Without improvements in the CAT Program, we believe that producer participation will likely continue to decline and that the effectiveness of the program as part of the safety net against catastrophic losses for farmers, especially small and socially disadvantaged farmers, will diminish further.

## **FOREIGN AGRICULTURAL SERVICE (FAS)**

### **Monitoring of FAS' Food Aid Assistance Agreements With the Russian Government**

For the past several years, OIG has evaluated various aspects of the Department's food aid assistance to the Independent States of the Former Soviet Union. In response to our recommendations, the Department took actions to strengthen future programs' controls over accountability for the commodities and monetary proceeds and oversight of cooperating sponsors. We believe these actions have improved the Department's current food aid assistance.

In December 1998, the Governments of the United States and Russia signed two food aid agreements that would provide over 3 million metric tons of wheat and various other commodities to the Russian Government. Shortly thereafter, we began to monitor FAS' efforts to implement procedures to minimize potential misuse and illegal diversion of commodities. The

estimated total costs for all the agreements, including transportation costs, are about \$1 billion.

The commodities alone are estimated to have cost \$746 million, and their monetary proceeds in Russia are estimated at over \$403 million.

In February 1999, we recommended specific actions to strengthen FAS' monitoring plan, including the need to increase the size and effectiveness of its monitoring staff detailed to Russia, and to verify the financial integrity of any Russian financial institutions involved with monetary proceeds.

In May 1999, we participated on a U.S. Government Interagency Team to Russia to observe the implementation of the agreements. We documented our observations in a memorandum to FAS in August 1999, suggesting that it needed to quickly finalize the financial guarantees for payment of the commodities and to increase coordination and communication among all parties. In that memorandum and in our testimony before the U.S. House of Representatives, Committee on Agriculture, in October 1999, we stated that even though we could not provide complete assurance that the controls are fully in place and working, we believed that FAS had made significant efforts to establish controls and strengthen monitoring efforts.

## **FOOD, NUTRITION, AND CONSUMER SERVICES**

### **FOOD AND NUTRITION SERVICE (FNS)**

#### **Operation Talon**

Previously, I informed you we had initiated a new law enforcement initiative, code named "Operation Talon." This initiative provides for the exchange of information between law

enforcement and State social services agencies. Specifically, law enforcement fugitive records are matched with social service agencies' food stamp recipient records, and the information is used by OIG and State and local law enforcement officers to locate and apprehend dangerous and violent fugitive felons who may also be illegally receiving food stamp benefits.

Overall, Operation Talon has been the most successful investigative initiative we have yet undertaken. To date, this initiative has resulted in the arrest of approximately 5,600 fugitive felons. This has included 33 wanted for murder or attempted murder; 24 for child molestation; 14 for rape or attempted rape; 9 for kidnapping; and 1,695 for assault, robbery, and drug offenses. Also, a number of States are removing arrested fugitives from their food stamp rolls, which will result in savings to the Food Stamp Program and allow food stamp benefits to continue to go to the needy who are the intended recipients and entitled to this benefit.



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Operation Talon Suspect Arrested by OIG Special Agent and Local Officer

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Operation Talon is an ongoing initiative, and we are planning future arrest operations in many parts of the country. During the next phase of Operation Talon, we will initiate data matches between State social service agencies' records and Federal fugitive information provided by the U.S. Marshals Service. Following these matches, our agents and the U.S. Marshals Service will conduct fugitive apprehension operations. These Federal arrest operations will take place concurrent with OIG, State, and local law enforcement agency operations targeting non-Federal fugitive felons.

### **Food Stamp Program (FSP) – Electronic Benefits Transfer (EBT)**

In FY 1999, just over \$19 billion in FSP benefits was issued with about 70 percent issued via EBT. This now involves 34 statewide systems and the District of Columbia. It is critical that we provide audit coverage to ensure not only that the systems operate as designed, but also that only eligible persons receive benefits in the proper amounts. We will need to provide periodic assurances that EBT is working and that interState operability is functioning as it is expanded.

In FY 1999, we completed EBT system work in seven States. The EBT systems were successfully implemented in all seven States; however, controls need to be strengthened in some areas. Six States need to improve controls over access to their EBT systems. Two States need to establish procedures to reconcile program authorizations to those received by the EBT processor and the system operated by the Federal Reserve. In another State, controls were not in place to correct an erroneous benefit file that had been transmitted to the contractor. This resulted in a system error, causing an estimated \$730,000 in erroneous FSP benefits to be issued to about 10,000 individuals.

Even with these problems, however, we believe EBT has been successful – it gets stamps off the street, thereby reducing the opportunities for food stamp trafficking. Our reviews of EBT systems will continue as States endeavor to implement EBT to meet the deadline of October 2002 mandated by the Welfare Reform Act.

We also continue to devote significant investigative resources to combating fraud in FSP. Ever since this important program began distributing food stamps to needy Americans, unscrupulous people have been willing to devise methods to unlawfully benefit from it. As the result of three OIG criminal investigations in Cleveland, Ohio, that initially seemed unrelated, a local grocer pled guilty to laundering \$8.6 million in connection with food stamp trafficking. The investigation showed that, from June 1993 through March 1998, the grocer organized the illegal redemption of food stamps for himself and other Cleveland area grocers. The grocer was sentenced in Federal court to 12 years' imprisonment. This individual also had two prior convictions for food stamp trafficking as a result of OIG investigations conducted in 1989 and 1994. The other two store owners involved in the conspiracy, who cooperated with the prosecution, were sentenced to 2½ years and 18 months, respectively. All involved grocers were permanently disqualified from FSP. This investigation was conducted by the Cleveland Food Stamp Task Force, which is composed of OIG, the Secret Service, the FBI, the IRS Criminal Investigation Division, the U.S. Customs Service, the Cleveland Police Department, and the Ohio Department of Public Safety.

In another 2-year criminal investigation by OIG, the Texas Department of Human Services' OIG, the IRS, and the Secret Service, six family members in Houston, Texas, were convicted for

food stamp fraud, money laundering, and conspiracy, and criminal forfeiture actions were imposed. The subjects illegally accepted and redeemed in excess of \$2 million in food stamp benefits via the EBT system. The six subjects received sentences that ranged from 27 to 97 months' imprisonment and ordered to pay \$2 million in restitution.

### **Child and Adult Care Food Program (CACFP)**

Last year I testified that we would continue with Operation "Kiddie Care" – our Presidential Initiative reviewing CACFP – as long as we find evidence of abuses in the program. In FY 2000, estimated outlays for this program are \$1.8 billion; a program we judge to be at risk because its current control structure is flawed and places the primary controls in the hands of sponsors. Unless the program delivery system is overhauled, the kinds of abuses we have identified will continue, with the result being food literally being taken out of the mouths of hungry children to the benefit of greedy sponsoring organizations. We have continued our "sweeps" to identify, remove, and prosecute unscrupulous program sponsors and recover ineligible payments.

Since last year, the cases of serious deficiencies and criminal activities have continued to mount. Currently, we have 38 open CACFP investigations, which are part of our ongoing efforts to detect fraud committed by CACFP sponsors nationwide.

Our efforts have been very successful. For example, in Michigan, a former City of Detroit School Board member who owned and operated 16 day care centers and her assistant were indicted by a Federal grand jury for defrauding USDA of an estimated \$16 million. Our

investigation showed that these individuals inflated the number of meals fed to children and falsified supporting documentation. A food vendor admitted supplying false invoices to inflate the food costs of the day care centers to substantiate the false meals reported to USDA. A Federal District Court jury found the owner of the day care centers guilty of conspiracy to commit mail fraud and Government program fraud, obtaining funds of the Department of Agriculture by fraud, mail fraud, embezzlement of public funds, conspiracy to launder money, and money laundering. This individual was sentenced to 108 months in prison, followed by 3 years' supervised release, and was ordered to pay over \$13 million in restitution and a \$10 million fine. Her assistant recently pled guilty to conspiracy to commit mail fraud and Government program fraud. Sentencing is pending.



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Day Care Owner

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Interior of Day Care Owner's house

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Our audit reviews of CACFP, as of December 1999, have identified 40 sponsors whose program deficiencies are so serious that they should be terminated from program participation unless the

shortcomings are promptly addressed. These sponsors have been receiving about \$78.6 million in CACFP funds annually. Twenty-two sponsors terminated from the program were receiving \$45.4 million annually. Fifty-seven individuals have been charged with crimes, and 38 have pled guilty or been convicted thus far.

The focus of our Operation is now on improving program delivery and oversight. After an interim report on Operation “Kiddie Care” in April 1998, we issued our audit report in August 1999, urging needed regulatory and legislative changes to CACFP.

We believe our findings demonstrate a need for dramatic changes in CACFP. We made 23 recommendations to eliminate the structural program flaws, strengthen internal controls, and clarify CACFP requirements. We also recommended that FNS study alternative methods of delivering a meal program to children and adults in day care, specifically one that addresses the problems with private, nonprofit sponsoring organizations. FNS is in the process of preparing new regulations and requesting comments from stakeholders on basic structural changes in how payments are made to sponsors. Until changes are implemented, program abuses assuredly will continue. Returning integrity to this important feeding program and protecting the resources of the American taxpayer are high priorities for OIG, as well as FNS.

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

One of the primary purposes of WIC is to provide funds to families with small children to allow them to purchase certain nutritious food items. In an effort to curb fraud in WIC, we are



continuing our investigative activities. For example, in a joint criminal investigation by OIG and the Georgia Department of Human Resources', Office of Fraud and Abuse, a Georgia Department of Health clerk responsible for administering WIC pled guilty to creating \$47,945 in fraudulent WIC vouchers and converting them for her own use. The investigation disclosed that the clerk created 77 fictitious infants, including 21 sets of twins, in a scheme to defraud WIC from October 1994 to August 1996. The clerk issued 1,073 fraudulent WIC vouchers and redeemed them for infant formula, which she resold to small retail grocery stores in the Atlanta area. While the investigation was in progress, the clerk resigned from her position. She pled guilty and was sentenced to 1 year of incarceration, followed by 3 years of supervised release, and ordered to pay \$47,945 in restitution.

## **RURAL DEVELOPMENT**

### **RURAL HOUSING SERVICE (RHS)**

#### **Multifamily Housing Enforcement Program**

RHS programs are intended to help finance new or improved housing for more than 70,000 moderate or low-income families. When program funds are diverted, tenants (including many elderly and disabled people) do not receive decent, safe, and sanitary housing as intended by the program. OIG and RHS recently combined forces to develop a team approach for review of borrowers and management agents at high risk of defrauding or abusing the multifamily rural housing program. Our report, issued in March 1999, described a high-risk profile which we used to

identify over \$4.2 million in misused funds, as well as health and safety hazards posing an immediate danger to the tenants.

Historically, OIG has responded vigorously when indications of fraud and abuse are identified. However, as our resources are stretched, almost to the breaking point, we are frequently unable to respond to requests for audit assistance. As a result, some who abuse the RRH program can continue to do so with impunity – at least until additional staffing and resources become available.

We have worked closely with RHS to develop proposed legislation to improve the integrity of the multifamily housing program. The draft bill would authorize a broad range of criminal and civil authorities which could be brought to bear against persons or entities who misuse RHS housing programs. Specifically, the proposed legislation would (1) establish civil sanctions for equity skimming, (2) establish civil monetary penalties for persons or entities who violate agreements and contracts, (3) authorize the Secretary to withhold the renewal or extension of loan or assistance agreements and request judicial intervention to enforce compliance with an administrative decision, (4) provide sanctions for money laundering and provide civil fines for obstruction of Federal audits and, (5) authorize the Secretary to impose civil penalties when project accounting records are found to be in unsuitable condition for audit. These provisions will strengthen our ability to audit and prosecute cases of program fraud and abuse, significantly improve program controls, and facilitate the effective administration of rural housing programs.

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

### **Telephone Loan Program Policies and Procedures**

RUS continues to make and service loans to financially strong borrowers who likely could obtain financing from other sources. Of \$4.8 billion in loans to 815 direct and guaranteed RUS telephone borrowers, we determined that 434, or 53 percent of the borrowers, with loans totaling \$1.87 billion had sufficient financial strength to repay their loans or could obtain or be graduated to nongovernmental lending sources. This totaled 39 percent of the loans for the 17-year period, 1981 through 1997, which we reviewed.

By law, RUS is required to assist borrowers to achieve financial strength to enable them to satisfy their credit needs without its assistance. However, RUS' loan eligibility criteria are based on meeting minimum financial standards, with no consideration given to whether the borrower has a financial need. RUS' annual budget is based on anticipated loan requests from all applicants regardless of financial condition. As a result, RUS makes loans to financially healthy telephone companies. We also reported that RUS has not established procedures and requirements for financially strong borrowers to seek credit from other sources, nor has it established a loan graduation program for borrowers who no longer need Government assistance.

We recommended that RUS work with the Congress to clarify its policy for the telephone loan program regarding loan graduation and require financially strong borrowers to obtain credit from nongovernmental sources. If Congress determines that RUS should require financially strong

borrowers to use other sources of credit, we recommend that RUS establish a graduation program for assisting the 53 percent of its telephone borrowers who are financially strong. We must point out, though, that RUS officials disagree that a graduation program is needed. Instead, RUS believes that it is carrying out its mission. We raise the question as to whether or not it makes sense to loan Government funds, limited in the first place, to borrowers who have the wherewithal to obtain credit in the private sector.

## **NATURAL RESOURCES AND ENVIRONMENT**

### **FOREST SERVICE (FS)**

While FS' operations are not funded through this Subcommittee, they are a major program operation within USDA. As a result, OIG invests a significant amount of audit and investigative resources in the agency's activities.

We recently evaluated FS' administrative controls over the preparation of environmental documents and the implementation of environmental safeguards for timber sale activities. Our review disclosed that improvements were needed in all aspects of this program. We found that the lack of adequate administrative controls hurt not only the environment, but also the Timber Sale Program and timber purchasers. During our evaluation, FS took immediate action on several key recommendations that will improve the overall effectiveness of the Timber Sale Program. These actions included halting several timber sales in the Southern Region after we advised the region that surveys for threatened, endangered, and sensitive species had not been performed. Also,

another region's FS personnel revised the boundaries of a timber harvest after we identified a heritage resource site that was not adequately protected.

We have also looked at a number of FS land exchanges. For example, in the Thunderbird Lodge land exchange, in Lake Tahoe, Nevada, FS obtained a \$50 million, 140-acre lakefront estate. During our review, we identified a number of issues that could have resulted in significant liabilities to FS if not resolved before completion of the transaction. For instance, we found that provisions for maintaining the historically significant structures were not adequate. As a result, FS could have been liable for up to \$3 million in maintenance costs for the estate over the duration of the agreement. Prompted by our discussion with FS officials, the terms and conditions of the transaction were changed to ensure FS would not be liable for future maintenance of the structure. While we were able to obtain prompt action in this instance, we are aware of other land exchanges where similar questions could be raised that go unaudited due to the lack of resources.

## **ACCOUNTING AND FINANCIAL MANAGEMENT**

### **Financial Statement Audits**

As required by law, we performed audits of the Department's FY 1998 financial statements. These audits provide Congress and the public with information and insight regarding management's stewardship over Federal assets and its overall fiscal performance. We issued unqualified, or "clean," opinions on the financial statements of the Federal Crop Insurance Corporation and FNS. The Rural Development mission area, including the Rural Telephone Bank, received a qualified

opinion because we were unable to assess the reasonableness of its credit program receivables or its estimated losses on loan guarantees.

We issued a disclaimer of opinion on FS and the USDA consolidated statements. A disclaimer of opinion means that the books and records of the entity were so poorly maintained we could not complete the required audit analyses. FS received a disclaimer due to significant financial system weaknesses, which include the lack of an integrated general ledger and supporting subsidiary records. Furthermore, FS could not account for its vast property, plant, and equipment holdings. The USDA consolidated statements received a disclaimer of opinion because the Department could not provide assurance that its financial systems provide information that is relevant, timely, consistently reported, and in conformance with accounting principles. In addition to financial system problems, numerous internal control weaknesses materially degrade the Department's ability to report accurate and reliable financial information.

### **Implementation of the Foundation Financial Information System (FFIS) Needs Improvement**

Many of the Department's financial accounting problems stem from extraordinary weaknesses associated with the Central Accounting System (CAS) used by the National Finance Center (NFC). These weaknesses have significantly affected the ability of Department officials to prepare accurate financial statements and cost data necessary to manage departmental programs. To correct these problems, the Department is implementing FFIS to replace CAS at NFC. Our monitoring and review of these implementation efforts continue to find substantial weaknesses,

however, and unless corrective actions are taken, the full and effective implementation of FFIS will not be achieved.

### **USDA Investments at Risk Due to Corporation's Mismanagement**

The Alternative Agricultural Research and Commercialization Corporation (AARCC) was established to find innovative uses for agricultural products. We performed an audit to assess the agency's management of its mission program. The audit concluded that AARCC had only minimal assurance that taxpayers' monies had been properly expended and that its \$27 million investment portfolio had been adequately protected from loss.

The audit found that the process used by AARCC to select firms for investment was not adequate because the applicants had not displayed any reasonable basis for prospective success. AARCC's monitoring of the investees' operations to ensure compliance with its agreements was virtually nonexistent. Of particular concern were various transgressions by companies that AARCC took no action to preclude or rectify. In one case, AARCC invested \$450,000 in a firm for the development, manufacture, and marketing of headbands made from starch absorbents. In return, AARCC was to receive royalties on the sales of the product and an equity interest in the firm. After receiving the funding and procuring the specialized equipment to manufacture the headbands, the firm realized that no market existed for the product. However, the firm discovered there was substantial demand – about \$80,000 a month – for incontinence pads which could be made with the same equipment. The firm asserted AARCC had no claim to the revenues from the manufacture of the pads because the product had changed. The agreement, however, prohibited

the use of the equipment for alternative production. AARCC subsequently became aware of the impropriety and unsuccessfully attempted to renegotiate the terms.

Congress did not provide any funding for AARCC for FY 2000. However, AARCC's Board of Directors needs to decide how it will manage and protect its existing \$27 million portfolio to ensure that the Government's interests are protected.

### **CONCLUSION**

This concludes my statement, Mr. Chairman. As you can see, the work of OIG is far-reaching and expansive. I appreciate the opportunity to appear before you today and share with you some of the work we do. I hope my comments have been helpful to you and the Committee. I will be pleased to respond to any questions you may have at this time.

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