



United States
Department of
Agriculture

Office of
Inspector
General

Semiannual Report Office of Inspector General

April 1, 1979 - September 30, 1979

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MANAGEMENT OPERATIONS STAFF

PREFACE

This is the second semiannual report of the U.S. Department of Agriculture's Office of Inspector General, submitted pursuant to the requirements of the Inspector General Act of 1978 (PL 95-452). It covers the period April 1, 1979 to September 30, 1979. The Inspector General has the primary audit and investigative responsibility for the Department's 300 programs. Programs of the Department are administered by 19 agencies. The 1980 operating budget of the Department is almost \$25 billion, not including loan amounts.

During the reporting period we issued 672 audit reports and 1,162 investigation reports. Our work identified \$60 million in recoveries, savings, erroneous payments, management improvements, incorrect loan amounts, penalties, claims, fines and judgments, and resulted in 374 indictments. Most of the indictments were for felony offenses such as food stamp trafficking or fraud in loan programs involving, in some instances, hundreds of thousands of dollars.

We give priority attention to those programs having the greatest vulnerability to fraud and abuse, those posing the greatest risk to employee integrity and those where the greatest amount of government money can be saved or recovered.

This report does not describe all of the problems covered by our audits and investigations, but only those which are, in the language of the

Inspector General Act, "significant." These findings relate to the loan programs administered by the Farmers Home Administration, the domestic food assistance programs administered by the Food and Nutrition Service, the meat, poultry, fruit and vegetable inspection and grading programs administered by the Food Safety and Quality Service and property management within the Department.

Section I of this report covers those programs and contains both the descriptions of the significant problems, abuses or deficiencies and our recommendations for corrective actions.

Section II describes the results of some of our other audit and investigative activities and illustrates the range of the program activities of the Department which we have examined during the reporting period. A complete listing of the 672 audits completed during the reporting period is contained in the appendix to this report.

Section III describes the "Hotline" established to assess and investigate complaints received from employees and the public.

Special mention should be given to the continued excellent support received from Secretary Bergland and Deputy Secretary Williams in carrying out the responsibilities of the Office of Inspector General.

THOMAS F. McBRIDE
Inspector General

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SECTION I

SIGNIFICANT PROBLEMS, ABUSES OR DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION

FARMERS HOME ADMINISTRATION LOAN PROGRAMS

The Farmers Home Administration (FmHA) has 34 loan and grant programs which generally fall into three areas: housing, farming, and public and private rural development. It is through its major farm and housing loan programs that FmHA provides credit and other resources to rural citizens, farmers and rural communities when they cannot obtain assistance from other sources.

Since 1970, the annual dollar volume of FmHA's loan and grant programs has increased nine-fold. In 1970, FmHA made 149,407 individual and association loans and grants with total obligations of \$1.6 billion. During FY 1979, 294,890 loans and grants were made, representing \$14.5 billion. At the end of FY 1979, FmHA had over one million individual borrowers plus an additional 16,000 association and organizational borrowers with a total outstanding principal balance of about \$36 billion.

For almost a decade now, Congressional hearings, GAO reports, and management studies as well as our audit findings point up weaknesses in the management, organization, programs, and operations of FmHA.

These hearings, reports, studies and audits have included reviews of a substantial number of loans in all programs administered by FmHA. They have pointed out problems which can generally be attributed to the highly accelerated rate of program growth. This growth, coupled with only a small increase in FmHA employment during the same time frame, and without a corresponding improvement in program management procedures, has been the major problem.

The results are inadequate attention to loan analysis and poor loan servicing. Over the years, these have been persistent OIG findings.

In the Inspector General's first semiannual report in May of this year, we expressed concern about FmHA's vulnerability to fraud, abuse and waste, particularly in the Emergency, Rural Rental Housing, and Business and Industrial Loan Programs. The Secretary directed us to make recommendations to him for immediate improvements in these programs. A series of meetings were held under the direction of the Deputy Secretary, with the Assistant Secretary for Rural Development and the FmHA Administrator and his staff, and an action plan was developed for resolving the problems identified in these three specific programs. As a result of this cooperative effort, a number of specific policy, procedural and legislative changes have been recommended which, if implemented, should lead to the tightening of management controls in the three programs.

In addition, we have proposed a comprehensive OIG review of FmHA management, operations and all major programs. This review, which will take several months, was begun in October.

EMERGENCY LOAN PROGRAM

In FY 1979, FmHA made about 62,600 emergency loans for about \$2.9 billion. These loans are made in counties designated disaster areas by the President or the FmHA State Director where property damage or severe production losses have occurred. There are basically three types of emergency loans: (1) actual loss, which includes production as well as physical losses; (2) major adjustment or refinancing type loans; and (3) annual operating loans.

To be eligible for emergency assistance, the applicant must be unable to obtain credit from conventional lending sources, taking into consideration the total resources of the applicant.

The actual loss loan is made to eligible farmers, ranchers, and others at a subsidized interest rate, currently five percent. FmHA regulations state that to qualify for a production loss, a farmer or rancher must suffer a 20 percent loss in a basic enterprise, one the rancher or farmer certifies to provide a substantial part of the total income. A physical loss loan can be made for the full amount of the actual loss, whatever the dollar value of the loss.

An applicant who qualifies for an actual loss loan may also qualify for additional assistance (a major adjustment loan) at an interest rate prescribed by FmHA as the "market rate", currently 9.5 percent, to buy equipment and other items and pay costs incidental to reorganizing the farming operation to place it on a sound basis, including refinancing of existing indebtedness. The reorganized farming operation must provide a net income approximately equivalent to that provided the farming operation prior to the disaster.

Subsequent emergency loans to an indebted emergency loan borrower may also be made for annual operating purposes at market interest rates for each year up to five consecutive years after the disaster. The purpose of these annual operating type loans is to permit the borrower sufficient time to recover from the disaster losses and return to usual credit sources. However, the borrower can only take advantage of this opportunity if the borrower cannot obtain credit elsewhere in each succeeding year.

For example, a producer who regularly plants cotton along a river bottom in Mississippi may qualify for an actual loss loan if spring floods destroy fences and buildings (a physical loss) on the farm. The loan amount would be limited to the amount of the loss. A producer may qualify for production losses if the cotton crop yield was 20 percent less than normal. Again, the loan amount would be limited

to the provable production loss. If the producer wishes to change the cropping pattern on the farm to soybeans, the producer can also qualify for a major adjustment loan, both to reorganize debts and shift farming operation to soybeans. This adjustment loan would be made at the 9.5 percent interest rate. This producer can also receive annual operating-type emergency loans at the market rate of interest each year for the next five years to permit recovery from the disaster losses and return to usual credit sources. The terms of these loans could vary from one to seven years for the first production loan. Subsequent production loans are made for a one-year period. Loans for refinancing real estate or for other real estate purposes carry terms of up to 40 years.

As a result of our meetings and a review of the Emergency Loan Program the following recommendations were made by the interdepartmental group:

- o Limit loss loans to actual dollar loss or actual need for continuation of normal operation, whichever is less.
- o Tighten up the test for credit.
- o Impose dollar ceilings on loans.
- o Improve procedures for loss verification and documentation.
- o Tighten procedures for deducting USDA or other federal disaster payments prior to making loans.
- o Implement graduation reviews in the second full year after initial loan and annually thereafter.

- o Require substantial loss or damage to qualify for an operating or major adjustment loan based on loss or damage.
- o Decrease major adjustment real estate loan terms to 30 years, with certain exceptions to 40 years.
- o Require "treasury formula" instead of "money market" interest rates on annual, operating and major-adjustment emergency loans.
- o Limit subsequent emergency annual operating loans to two calendar years after a disaster.

Some of the specific corrective measures recommended for the Emergency Loan Program are illustrated using examples from our audit and investigative work.

Loan Limits

The Consolidated Farm and Rural Development Act which authorizes FmHA to make emergency loans does not prescribe a dollar limit for any type emergency loan. A \$250,000 ceiling established for emergency actual loss loans made as a result of a disaster that occurred on or before September 30, 1978, was not in effect for disasters occurring after October 1, 1978. For the latter disasters, FmHA can now make emergency actual loss loans to producers for any amount at five percent interest, but limited to the provable amount of actual loss.

Our audits have shown that large emergency loans, some as high as \$15 or \$16 million, have been made to large producers. For example, a loan to an individual in California was for \$15,049,310 based on three

separate disaster designations. Of the \$15 million, \$516,000 was made as an actual loss loan; \$500,000 at three percent and \$16,000 at five percent interest. The balance of the loan included \$1 million for annual operating purposes and about \$13.5 million for major adjustments and was made at the money market rate, 9.5 percent. A ranch in which this individual was also a partner received an additional loan of \$1.9 million.

From FY 1977 through FY 1979, FmHA has made about 200,000 emergency loans, of which 300 were in excess of \$1 million to individual borrowers. Our review of these large loans raises serious questions about whether financing from outside credit sources was either actively pursued by the borrower or whether FmHA staff adequately verified the unavailability of credit elsewhere. We have also found cases where loan funds were diverted for unauthorized purposes.

For example:

- o A rancher certified he incurred a loss of \$3,490 when drought prevented him from planting about 250 acres of milo. He received letters from four sources of agriculture credit stating that he could not get a loan for various amounts over \$500,000. He then received over \$7 million in major adjustment emergency loans. Our investigation uncovered evidence that he had falsely certified he could not obtain credit elsewhere. Action against the borrower is being pursued.
- o An audit in Texas disclosed abuse of the test for credit provisions in two counties. Loan approval officials ignored or allowed borrowers to circumvent the "credit elsewhere" provisions of FmHA procedures. Of the 875 borrowers covered in the audit, our statistical projections showed that 175 could have qualified for credit from private sources, and

therefore would likely not have been eligible for FmHA emergency partially-subsidized interest loans.

- o In another instance, a producer made a down payment of \$7,300 on a Cadillac automobile and paid for boat repairs of \$10,000 with loan funds.

We have recommended to FmHA that they impose loan ceilings. They have proposed the following loan limits:

\$250,000 for actual losses per disaster;

\$500,000 for major adjustment loans; and

\$500,000 for annual operating loans.

The major adjustment loan limit includes a \$300,000 maximum for refinancing debts secured by real estate and limits land purchases, except in certain specific instances. For example, funds above the \$300,000 limit could be used to relocate a borrower outside of a flood-prone area. These ceilings would permit an individual borrower to receive emergency loans totaling \$1,250,000 initially. However, the emergency annual operating indebtedness could not exceed \$500,000 at any time regardless of the number of disasters. Likewise, the emergency major adjustment indebtedness could never exceed \$500,000. However, applicants could receive subsequent actual loss loans not to exceed \$250,000 for each additional disaster loss sustained. Since FmHA has made less than 300 loans of more than \$1 million, we do not believe that these loan limits would adversely affect the vast majority of FmHA borrowers.

In addition to loan limits, FmHA's proposed loan regulations would also limit the emergency loans to actual dollar loss or actual need for continuation of a producer's normal operation, whichever is less. This would better prevent loan funds from being used for investments now permitted by the regulations or meeting other unauthorized expenses.

Test for Credit

FmHA regulations require emergency loan applicants to certify in writing that adequate credit is not available to finance their operations. Under current practice, the county supervisor reviews the loan application and related data submitted by the applicant and, based upon specific inquiry made to the applicant's existing lender and knowledge of the credit policies of local lenders, determines whether or not the applicant can qualify for conventional sources of credit at reasonable rates and terms. It is up to the county supervisor's discretion to perform further verification to determine if the applicant can qualify for conventional credit.

Our audits have disclosed that the policy of having applicants first attempt to secure a loan from private credit sources has not been uniformly enforced by FmHA. Thus, applicants who could qualify for financing from private sources have taken advantage of FmHA's laxness in the application of the credit elsewhere test. If an applicant is

rejected for credit by a private credit source, that applicant may then be eligible for a loan from FmHA at a subsidized interest rate. For example, an audit-investigative survey in Texas showed that 21 of 313 borrowers, many of whom were bankers, realtors, attorneys and business persons, did not, in the view of OIG auditors, meet the test for credit provision of the regulations, but nevertheless received emergency loans. Several had cash on hand or certificates of deposit that equaled the emergency loan. Others had unencumbered assets which were more than sufficient to provide security for loans from commercial lending institutions. Also, our recent audits in California and Illinois disclosed a continuing lack of an effective system for verification in the application of the credit elsewhere test in making emergency loans.

Therefore, we have recommended that FmHA require written declinations of credit from at least three lending institutions for loans over \$300,000 and, in some instances, additional verification action by FmHA personnel. For loans below that amount, written declinations would be required at the county supervisor's discretion, based on review and knowledge of the applicant's financial condition.

Loss Verification and Duplication of Benefits

Emergency loans are made to applicants who have actual physical losses or reduction in agricultural production caused by a disaster. Any disaster benefits received from any other federal program, such as

Federal Crop Insurance Corporation indemnity payments, Agricultural Stabilization and Conservation Service disaster payments, Small Business Administration disaster loans or any commercial insurance payments, should be deducted when computing eligibility. Actual losses should also be verified by pertinent record examination or by on-site inspections. Our audits and reviews have disclosed that loss verifications are not always made and duplicate benefits are not always considered in determining proper loan amounts. These problems have been widespread. Some examples we have found through our audit work include:

- o In Missouri, a statistically selected sample of 160 loans in 16 counties disclosed that 45 of the loans were made in excess of the actual loss. The excess amount was \$892,000 and was caused primarily by duplication of benefits, failure to verify losses and miscalculations.
- o Based on a statistical sample in Texas, we estimated that disaster losses used to qualify borrowers for emergency loans were overstated by \$6.4 million. It could cost the government during the loan repayment period as much as \$1.2 million to finance the subsidized interest on the estimated \$6.4 million loan overdisbursements.
- o In five states, our comparison of 823 Small Business Administration loan files with FmHA borrower emergency loan files showed that 73 borrowers had received both Small Business Administration and FmHA loans which exceeded their maximum eligibility by over \$1.3 million. In most cases FmHA made the first loan and held loan collateral.

Aside from better coordination with other federal agencies and our own USDA agencies, loss verification and duplication of payments become a

day-to-day problem of better management of each facet of the loan program. Increased emphasis on better documentation and verification will improve the quality of loan processing and servicing by FmHA personnel.

RURAL RENTAL HOUSING LOAN PROGRAM

The basic objective of the Rural Rental Housing Loan Program is to provide persons of low or moderate income or senior citizens with economically designed and constructed rental housing and related facilities suited to their living requirements. The loans may be made to individuals, partnerships, corporations, trusts or public bodies. During the past ten years, the rural rental housing loan activity has increased at a rapid pace from 390 rural rental loans totaling \$17 million in FY 1969 to 1,645 loans totaling \$870 million in FY 1979.

Our audits and investigations continue to disclose problems of inadequate administration of the program.

As a result of our meetings and review of the Rural Rental Housing Loan Program, the following recommendations were made by the interdepartmental group:

- o Evaluate the feasibility of using an independent appraiser to be paid by the applicant to appraise the project.
- o Set specific criteria for rental housing market data and require applicants to certify the accuracy of the data supplied to FmHA.

- o Establish a master index at the national office to identify applicants operating in more than one state.
- o Require cost certification by an independent certified public accountant of all project costs.
- o Require more extensive FmHA review and verification of tenant income.
- o Eliminate the use of loan funds to buy land where there is an identity of interest by the applicant with the landowners.

Many of our audits and investigations have supported our recommendations for immediate improvements in this program. Some of the specific problem areas follow:

Appraisals

Loan amounts are basically determined by appraisals. It appears that some appraisals have been made by FmHA personnel to justify a predetermined loan amount rather than to determine the true value of the property. Personnel are not always sufficiently trained nor do they devote sufficient time to appraising multi-family housing.

In our nationwide audit of the Rural Rental Housing Loan Program, we found higher loan amounts resulted because separate land appraisals were not made for project sites and the actual land cost to the borrower was disregarded in making appraisals. For example:

- o In Arkansas a partnership purchased a project site from a general partner's contracting firm for \$50,000. The purchase was made about eight months after the general partner's firm had purchased the land for \$25,000. FmHA appraised the project

site for \$50,000. Consequently, the partnership realized a \$25,000 profit on the project site.

- o In Puerto Rico, four projects had serious appraisal problems, due to inflated land costs. In addition the projects had other problems including: (1) inadequate site selection; (2) poor construction and development, e.g., four-story buildings without elevators; (3) no variety of rental units, e.g., almost all were three bedroom apartments; and (4) monthly rentals were excessive when compared to rates in surrounding areas. The projects without elevators were of particular concern because it would be difficult for senior citizens and handicapped people to occupy units in these projects.

Market Surveys

These surveys, which applicants are required to submit to show a need for the project, often tend to overstate the need for the project. The surveys are often poorly prepared and are sometimes falsified.

For example, our audits have found loans approved and closed in Alaska when conventionally financed rental units already had high vacancy rates. Applications for additional projects were withdrawn only after protests, including complaints to members of Congress by local owners of rental units with high vacancy rates, were made.

Loan Principals

FmHA does not have a central file or index system to identify individuals, borrowers, and contractors who have a common interest in more than one project and who are doing business in more than one state. This has resulted in loans to borrowers who have demonstrated an in-

ability to conduct business properly in the Rural Rental Housing Loan Program and who have improperly transferred funds between projects.

Our audits and investigations continue to focus attention on the activities of large real estate syndicators who aggressively pressure local FmHA officials to approve rural rental housing loans in which they have partnership interests. We have found one of these organizations operating in over 20 states. We are currently examining their activities to determine the basis for allegations of patterns of bribery, fraud and shoddy construction.

Cost Verification

FmHA has limited cost verification control which has resulted in loan funds being misused due to submission of erroneous or false statements to FmHA by contractors and borrowers. Cost certification is currently not required of contractors except where the State Director deems necessary. FmHA personnel have advised that they have limited experience in appraising multi-unit housing. An example of problems associated with inadequate cost certification controls is:

- o A rural housing contractor/borrower was indicted for making and causing to be made false statements and reports in connection with applications for rural rental housing loans. The contractor pleaded guilty to three counts, and was sentenced to seven months confinement, ordered to pay a \$5,000 fine and serve three years of supervised probation.

Tenant Income Certification

Tenants are required to certify to their incomes to determine the amount of subsidy to be allocated to borrowers. These certifications are often inaccurate or falsely prepared. At the present time, FmHA field personnel are not required to verify certifications. Field personnel should be required to review and verify these certifications on a sampling basis to determine compliance with program objectives. An example of audit findings related to tenant income certification is:

- o In Nevada, Ohio, and Utah, FmHA had not pressed borrowers to verify tenant incomes to establish their eligibility for residence in low income housing units, nor had FmHA monitored tenant income certifications to assure continuing eligibility.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

The Rural Development Act of 1972 established the Business and Industrial Loan Program, which authorizes FmHA to guarantee loans made by commercial lenders for rural business and industry. These loans are made for improving, developing or financing business and industry and providing employment to improve economic and other living conditions in rural areas with populations of less than of 50,000.

Loans are made by commercial banks or other qualified lenders and are guaranteed by FmHA at any percentage, but not to exceed 90 percent of

the total loan. Guaranteed loans are repayable in not more than 30 years, depending on loan purpose, and bear interest at a rate agreed upon by the lender and the borrower. During FY 1979, FmHA issued 1,609 guarantees for a total of \$1.2 billion. Overall, FmHA has made business and industrial loans totaling about \$3.3 billion.

As a result of our meetings and review of the Business and Industrial Loan Program, the following recommendations were made by the interdepartmental group:

- o Verify pre-loan analysis and document review analysis, and conclusions on applications over \$1 million.
- o Require quarterly reports from lenders and spot check borrowers to verify that lender's servicing responsibilities are being fulfilled.
- o Redefine the term "local lender" and incorporate the new definition in the regulations.
- o Require the primary lender to hold half of the unguaranteed portion of the loan.
- o Define and publish fee guidelines.
- o Evaluate business and industrial state and national staff for workload efficiency and quality of product. Reassign personnel if necessary.
- o Review procedures for approving and making loans at national and state levels.
- o Review loans in certain business sectors to determine if there is an unreasonable concentration of loans, such as loans for motel/hotel or nursing homes.
- o Require that all pre-applications on very large loans be sent to the national office for pre-approval.

- o Use the Office of General Counsel more effectively during review, loan servicing and liquidation of business and industrial loans.
- o Revise and clarify instructions to prevent borrowers from purchasing any part of the loan as an investment.

Two general areas of concern to the Office of Inspector General related to the Business and Industrial Loan Program are pre-loan analysis and loan servicing.

Pre-Loan Analysis

Ineffective evaluations of proposed loans have hampered, to some degree, the goal of guaranteeing only quality loans. A recent audit disclosed that in five of the seven states reviewed, FmHA as well as lender personnel responsible for approving business and industrial loans did not always (1) obtain required financial data from the applicant, (2) obtain updated financial data before issuing conditional commitments on loan note guarantees, (3) question sales and profit projections of the applicant which appeared overly optimistic or inadequately supported, (4) require the applicant to contribute sufficient equity or (5) adequately evaluate the applicant's management capability. FmHA has initiated corrective action.

The following audit findings indicate the problems associated with pre-loan analysis:

- o In North Carolina, FmHA guaranteed a business and industrial loan for \$350,000. The company projected future annual sales between \$3 million and \$6 million if the loan was approved. File data indicated that the annual sales for the company before the loan was made were \$89,000. The company eventually failed.
- o A company in Wyoming received a \$350,000 FmHA guaranteed business and industrial loan. At the time the loan was approved the company's tangible net worth was \$2,000. The company's actual financial status was not reflected in its records because the bank issuing the loan had written off a previous debt so the borrower would appear eligible for the loan.

In addition to the problems involved in pre-loan analysis, a recent audit of business and industrial loans found:

- o While the program provides for guarantees of up to 90 percent, guarantees on loans were generally the full amount requested by the lender or the borrower, virtually always the maximum allowed, with little negotiation by FmHA to set a guaranteed rate which would balance the risk exposure of the lender.
- o While the program provides that the borrower must have at least a 10 percent equity in the business, equity investment requirements by FmHA for the borrower were in most instances 10 percent rather than a higher amount when conditions may have warranted.

Loan Servicing

We have noted two major weaknesses in the servicing of business and industrial loans by FmHA: (1) lender servicing agreements are standard format documents without any amendments or stipulations to tailor them to fit the needs of the individual case; and (2) little

action is taken by FmHA officials when they find that a lender has not fulfilled the requirements of the servicing agreement. The lack of specific instructions or guidelines is a major cause for weak loan servicing by the lender. The responsibilities of FmHA state officials in assuring that lenders undertake their servicing responsibilities are not covered by current regulations.

We have found instances during recent audits in North Carolina and Wyoming where FmHA had paid the guaranteed portion of losses to lenders who had not performed required servicing. In one instance, the government is pursuing legal action against the lender to recover the guaranteed portion already paid. However, in this and other cases, FmHA had not determined if the lender fulfilled servicing requirements prior to payoff of the guarantee.

We also found that personal guarantees pledging personal assets in cases of default were useless when liquidation occurred. Either such assets were substantially reduced by the borrower between application and liquidation, or the guarantee statement placed no specific lien on personal assets.

We are aware of problems of banks seeking business and industrial loan guarantees to "bail-out" some of their risky loans. Another problem is that FmHA grants subsequent guarantees to companies with known financial difficulties. In Puerto Rico, four such loans totaling

\$965,000 were guaranteed to borrowers who had either filed for bankruptcy or had severe working capital problems.

The above problems can primarily be attributed to inadequate loan analysis coupled with inadequate loan servicing. Our audit work in the Business and Industrial Loan Program has reviewed small, medium, and large loans. We have found some problems at all levels. However, we have not addressed the policy question of the appropriate size of loans in the program. Obviously, without a ceiling on the total amount of the loan, extremely large loans curtail the number of loans available. An additional issue is the loan size in relation to quality and number of jobs created. Many of the business and industrial loans are relatively large. For example, one recent loan was approved for \$50 million.

We are continuing to survey and audit this program and have recently started another nationwide audit of business and industrial loans. We are also working with FmHA to develop an internal management review capability for this program. This activity should complement our audit and investigative work and provide more controlled management of the program.

FmHA ADMINISTRATION

During the past several years our audits and investigations, as well as studies of the General Accounting Office and Congressional commit-

tees, have shown that FmHA has serious weaknesses in the administration of its programs. These weaknesses include inadequate staff, inadequate staff skills, and the lack of appropriate management information systems.

Unified Management Information System (UMIS)

Since 1975, FmHA has been engaged in a project to redesign its information processing and accounting system. The objectives of the new system are to: (1) improve the capability to serve loan applicants and borrowers, (2) minimize county office workload, (3) provide responsive, timely management information to managers at all levels, and (4) implement an accounting system that meets General Accounting Office requirements.

System implementation was targeted for October 1978, with outside contract costs for 30 percent of the total project resources originally estimated at \$2.1 million. However, numerous setbacks have resulted in implementation now being delayed to a projected date of February 1982. Payments to the outside contractor have escalated as of September 1979 to about \$6.6 million with the system only about 50 percent complete.

Parenthetically, throughout the system's development, in our opinion, project managers have never clearly defined the separate responsibilities of the contractor and FmHA in relation to individual design and development tasks.

OIG has monitored the system since the initial stages of development. We have made approximately 70 recommendations which addressed problems with project costs and management, application controls, and the planning, design, documentation and testing of the system. FmHA, however, has not implemented many of our recommendations which, in our opinion, could have precluded significant problems and project delays.

To increase project efficiency, we recommended in April 1977 that FmHA managers use more effective management tools, such as computer software packages and justification studies. In February 1978, the General Accounting Office issued a report also addressing FmHA's need to better plan, direct, develop and control the system.

System delays have not only affected FmHA, but have also affected other Departmental operations. The FmHA St. Louis Computer Center was scheduled to be phased out in June 1980 as the new system replaced existing FmHA programs. Now because of delays, the St. Louis Center must continue in operation. Current FmHA programs are designed to operate only on the St. Louis computer. Computer hardware was purchased for the Kansas City Computer Center with the expectation that the new system would be utilizing the new equipment by October 1978. Now the equipment will be underutilized and the Department will be forced to request an extension for the phase out of the St. Louis Computer Center.

While FmHA now appears to be taking positive steps to manage the implementation of the new system properly, we believe there is a continuing need to monitor closely FmHA efforts in this regard in view of the overall weaknesses our audits have disclosed in the general area of FmHA administration. A properly designed management information system would be a tremendous contribution to the effective operations of FmHA.

Program Staffing

In our last semiannual report, we noted that one of the problems in the administration of the programs is the imbalance between the size and complexity of FmHA's programs and the size and skills of its staff. The issue of staffing is complex. It is not only a question of adding more staff, it is also a question of using existing staff as effectively as possible and matching staff skills to work requirements. The various programs of FmHA vary not only in size and complexity, but in their basic nature. For example, the kind of staff resources needed to service a business and industrial guaranteed loan are different than those needed to service a major emergency loan. The servicing of the former is, in theory, performed by commercial lending institutions while the latter is serviced by FmHA's own staff. On the other hand, the pre-loan analysis required of a business and industrial loan may be far more complex and time consuming than that required for an emergency loan.

The staff limitations of FmHA have prevented an adequate internal program review effort. Although our auditors and investigators are able to find significant instances of program fraud, waste and abuse, it is our belief that a properly operating program should have sufficient internal review efforts to identify these problems. In this regard we are working with FmHA to develop internal review teams in the Emergency, Rural Rental Housing, and Business and Industrial Loan Programs, and to develop an overall system for quality control and program review and monitoring in FmHA.

Our audits have found many instances of inadequate loan documentation. Further, we have found instances where FmHA officials have implied to the borrower that full adherence to the regulations was not necessary and instances of apparent acquiescence to borrower noncompliance with regulations. This is not only a poor business practice, it has on occasion led to the refusal of a U.S. Attorney to prosecute a case. Certainly, some of these problems stem from the inadequate staff and the constant conflict between loan making and loan servicing.

Obviously, the most significant factors in determining staff needs for FmHA are the number of programs, their size, and the complexity of the loans and programs. Thus, as part of our comprehensive review of FmHA, we will explore the kinds, size, and skills of the staff needed

to service the many FmHA programs. Of course, if Congress decides to curtail sharply FmHA programs, it would decrease staffing needs. Conversely, if expansion of FmHA programs continue, staffing needs would be increased.

LEGISLATIVE RECOMMENDATIONS

While most of our recommendations can be implemented by administrative actions, several require Congressional action. We believe it is important for Congress to impose loan ceilings for the Emergency Loan Program in order to make any administratively imposed ceiling statutory. Congress should seriously consider imposing an "actual need" standard for these loans.

The current statute provides that emergency loans are available to finance actual needs. However, the statute also goes on to say that such loans may include, but are not limited to, the amount of the actual loss sustained as the result of the disaster. In view of this somewhat contradictory language, and the pattern of some of the emergency loans, particularly the major adjustment and annual operating loans, it appears necessary for some further statutory guidance in defining the term "actual need."

Further, we recommend legislation to limit emergency operating loans to two calendar years after a disaster. Consideration should also be given to FmHA's legislative proposals, including requiring the

treasury formula instead of the money market interest rate on annual operating and major adjustment emergency loans and limiting FmHA county committee certification authority to emergency loan eligibility and not the amount of the loan.

There is one recent change in the law covering the Emergency Loan Program which Congress should examine. As a result of an amendment affecting the 1979 crop year, FmHA State Directors are authorized to make disaster declarations when they learn of a natural disaster which has substantially affected one or more farmers. There is the possibility for abuse arising from statutory language which would permit a State Director to make a disaster declaration for a whole county where only one farmer may have been affected.

The administrative proposal for expanding crop insurance to make it mandatory, where available, in order to qualify for federal disaster assistance, including emergency production loss loans, would lessen the need for emergency loan assistance.

DOMESTIC FOOD ASSISTANCE PROGRAMS

We continue to devote more resources to reviewing the food assistance programs administered by the Food and Nutrition Service than to any other program area. The programs are expensive. The cost for FY 1980 will be about \$11 billion. The programs themselves and their delivery systems are quite complex, making compliance with the applicable laws and regulations difficult to monitor and enforce. Finally, the persistence of a number of serious problems requires continued vigilance.

FOOD STAMP PROGRAM

The Food Stamp Act of 1977 made substantial changes in the program. The cash purchase requirement was eliminated enabling recipients to now get their food stamps free. New standards of eligibility were established aimed at simplifying administration and concentrating assistance on families and individuals who are most in need. New procedures for administrative determinations of fraud were established and greater financial incentives to reduce error rates and to support the investigation and prosecution of fraud cases were provided.

Elimination of the Purchase Requirement and Conversion to New Eligibility Standards

The cash purchase requirement was eliminated January 1, 1979. On March 1, states were required to start applying the new eligibility

standards to new applicants and the existing caseload. This conversion was to be completed by June 30. Only one state was unable to complete the conversion to the new eligibility standards on time.

The Department has made a preliminary analysis of the impact of these changes on food stamp participation. It indicates that between 500,000 and 700,000 persons previously receiving food stamps have been dropped from the program. Several million more have had benefits reduced. In addition, about 2.9 million new recipients have come into the program. Most of these participants while eligible in the past, did not participate due, in part, to the cash purchase requirement.

We are still concerned about the accuracy of eligibility and benefit determinations by caseworkers under the new rules. During the implementation of the new law, interim quality control procedures were in effect which were designed to find mistakes made in converting cases to the new standards on a far more rapid basis than normal quality control procedures would allow. The agency adopted these interim procedures so that categories of errors could be identified and corrections made in the certification process while cases were still being converted. Because of the conversion workload, it was not practical to collect cost data on the overissuances and underissuances resulting from the errors that were discovered.

A more comprehensive quality control system went into operation October 1. Since states will receive a higher rate of federal matching funds for their administrative costs (60 percent versus 50 percent) if their quality control error rates fall below five percent, we will pay special attention to the accuracy and integrity of the quality control system in future audit work.

It is difficult to measure the impact of the elimination of the purchase requirement on the amount of serious criminal activity in the Food Stamp Program. We do know that the number of indictments resulting from OIG investigations into food stamp cases has jumped sharply from 100 for the first half of Fiscal Year 1979 to 231 for the last half which ended September 30. These cases involved major trafficking operations or caseworker fraud or theft. The figures do not include the recipient fraud and retail outlet cases.

The elimination of the purchase requirement has eliminated cash handling in the Food Stamp Program. When the purchase requirement existed, there were serious problems involving the accountability of the more than \$3 billion of cash purchase requirements collected each year by thousands of vendors. Cash deposits were made late, and some funds were stolen. With the elimination of the purchase requirement, those particular fraud problems ceased and there has been substantial improvement in food stamp accountability.

However, there are some new issuance problems that have become more serious since the elimination of the purchase requirement. Most of these problems can be addressed under existing legislation, by putting stronger safeguards into several parts of the food stamp issuance system. The most serious of these problems involve the "ATP", the Authorization-to-Participate card.

The most common system for issuing food stamps to certified households is to mail them an Authorization-to-Participate card which states the amount of food stamps that the household is entitled to receive for a given month. The card is taken to an issuance point, often a participating bank or post office, where it is signed by the participant and redeemed for the stamps. Before the cash purchase requirement was eliminated, the household had to pay a certain amount of money for its allotment of stamps. The size of the payment relative to the allotment depended on the income of the household. Some very needy participants paid little or nothing for their stamps, while others paid a substantial amount and received only a small value of "bonus" stamps above the value of the cash that they paid.

We are concerned that the theft of authorization cards has become more attractive since no money is required to exchange them for food stamps. For example, it would not have been profitable in the past for a thief to steal the card, pay \$50 for \$100 worth of stamps and

then sell the stamps at a 50 percent discount to an illegal trafficking operation. Since a recipient who does not receive his or her authorization card must only sign an affidavit to that effect and is then entitled to a replacement within five days, we are also concerned that elimination of the purchase requirement may have influenced some recipients to falsely report the nonreceipt of their authorization card, get a replacement and redeem both cards for stamps. For example, a recent food stamp audit in a large city reviewed 110 cases where two authorization cards were redeemed for the same household in the same month. Sixty of the households had reported their cards as lost, stolen, or never received; five were issued two cards due to administrative error; and forty-five households were issued two cards for undocumented reasons. The redeemed cards were examined, and in eighty-three cases the signatures on both cards appeared to be in the same handwriting.

In order to deal with the problem, it is first necessary for project areas and states to conduct a timely reconciliation of authorization cards at the end of the month, including a determination of whether there were duplicate redemptions in cases where there was a replacement of an authorization card reported lost or stolen. This is required by program regulations, but officials of most large project areas were unable to provide information on the incidence of this

problem when we reviewed their activities. To cite the worst example, the number of replacement authorization cards issued in New York City more than trebled from 7,000 in October 1978 to 25,000 in September 1979. The city is several months behind in reconciliation and its reconciliation process does not provide the required information on duplicate redemptions. Thus, we have no way of knowing whether the surge in replacement cards has been accompanied by a similar jump in the number of cases where two cards were redeemed for the same household during the month. There is also no way of determining whether duplicate redemptions are resulting from increased mail theft, recipient fraud, or both.

The Inspector General, OIG staff, and Food and Nutrition Service representatives met with New York City Food Stamp officials. New York City recently issued a plan of major corrective actions. The first step is the expeditious reconciliation of redeemed authorization cards and the identification of replacements that have resulted in two redemptions. We will continue to monitor the situation.

In addition to having a timely reconciliation system which pinpoints problem areas, there are several actions that can be taken to improve the integrity of the food stamp issuance system:

- o Some improvement could be made through compliance with existing regulations which require consideration of alternative means of delivery when a household has reported mail losses for two consecutive months. This regulation could be strengthened by requiring states to take action when the incidence of reported mail losses reaches an unacceptable level. It is important to stress that the regulation is only meaningful if states have in place a system for actually identifying and keeping track of households that are issued replacement authorization cards.
- o In cases where it can be shown that a recipient improperly and deliberately redeemed two Authorization-to-Participate cards, administrative fraud hearings provide a mechanism for requiring restitution as a condition for continued participation in the program.
- o Some jurisdictions have experimented with computerized issuance systems. Recipients present their food stamp ID cards at an issuance point, are given their stamps and the transaction goes into the system. It is then impossible to obtain more stamps at a different issuance point until the next month. This is similar to the system employed by many banks with multiple branches to keep track of savings and checking accounts. While the specific system we looked at had some computer security problems, we think that the idea is sound. It offers good control over issuance without inconveniencing recipients.
- o A number of rural project areas now require direct pick-up of food stamps. The recipient goes to a specific issuance point where the stamps are issued and a receipt is signed. This system has also been used with success to issue public assistance checks in an urban setting. For example, Philadelphia County recently reported on its experience with direct pick-up of checks accompanied by the use of photo identification cards. The figures indicate that the replacement rate for lost or stolen checks delivered through the mail was more than 1,000 times the rate for direct pick-up. We, together with the Food and Nutrition Service, are studying this system to determine its adaptability to food stamp issuance.

The decrease in authorization cards returned as undeliverable in some areas is a separate but allied problem which indicates that the elimination of the purchase requirement may have made the theft of the cards more attractive. In any substantial project area, a relatively stable proportion of authorization cards that are sent through the mail are returned each month because the participant died, moved and left no forwarding address, etc. Even though food stamp participation has increased, the number of returned authorization cards has decreased in several places as indicated in the table below. This probably indicates an increase in theft of the cards.

NUMBER OF RETURNED AUTHORIZATION TO PARTICIPATE CARDS

<u>City</u>	<u>1978 Average</u>	<u>January/March 1979 Average</u>	<u>Percentage Reduction</u>
Philadelphia	2,500	1,200	55
Detroit	3,000	1,700	45
Boston	1,250	980	25
Newark	1,850	1,550	17
Columbus	1,200	750	35
St. Louis	800	400	50
Washington	950	800	15
Cleveland	1,550	1,330	10

We are cooperating with the Postal Service and state investigative units in pursuing the matter.

The direct mail issuance of food stamps is another source of concern.

It is almost like sending cash through the mail. A number of rural areas have had considerable success in using such a system. It is convenient for recipients and less expensive for the states and the federal government. Losses have been insignificant. We are concerned, however, that the elimination of the purchase requirement has caused a few states with urban areas to seriously consider this issuance system. Since the elimination of the purchase requirement, it is no longer necessary for states to have issuance points to collect recipients' cash and give them their stamps. Mail delivery of the stamps is much less expensive and since states are required to pay 50 percent of issuance costs, it is in their interest to use the least expensive method. The current control on mail issuance of food stamps is similar to the control on mail issuance of authorization cards. States are required to use an alternate method of issuance for households which have reported the nonreceipt of their food stamps two months in succession. (In the case of authorization cards that are not received, the state need only consider the use of an alternative means of issuance). We believe that the agency should provide guidance to the states on acceptable mail loss rates and closely monitor the adoption of mail issuance by any large urban area.

New Controls on Fraud

The Food Stamp Act of 1977 and the amendments (Public Law 96-58) enacted in August 1979, contained a number of measures aimed at reducing fraud and abuse in the Food Stamp Program. Those required by the 1977 Act are now in effect. Proposed regulations will soon be issued for those measures contained in P.L. 96-58.

Prosecutors have been extremely reluctant to pursue recipient fraud cases in the past, except for occasional situations where large amounts of money were involved. The usual reasons given for this reluctance have been overcrowded dockets; the relatively small loss to the government represented by an individual food stamp fraud case; the likelihood that no funds would be recovered; and, the high cost of prosecution.

The new provisions for encouraging more state action on recipient fraud are:

- o Administrative fraud hearings, which provide an opportunity for administrative determinations of recipient fraud in lieu of a criminal trial. Individuals found to have committed fraud must be suspended from the Food Stamp Program for three months. The remainder of the household is allowed to continue participating. States were to begin implementation of this provision March 1, 1979.
- o Seventy-five percent federal funding of the cost of state and local investigations and prosecution. This includes the costs associated with administrative fraud hearings as well as the investigative and prosecutorial costs associated with a criminal trial. Implementing regulations were issued August 10, 1979, with funding retroactive to October 1, 1978.

- o Recipient repayment of fraudulent overissuances. This requires that recipients who have committed fraud as determined by a trial or through an administrative fraud hearing must repay their overissued benefits or agree to a repayment schedule before they may return to the program.
- o State sharing of recoveries. States may keep half of the overissued benefits recovered as a result of administrative fraud hearings or criminal prosecutions.

We have devoted considerable audit and investigative time to encouraging state agencies to make use of all available means to detect and punish fraud. We will be participating with the Food and Nutrition Service and one state in a pilot program that will employ a variety of investigative and prosecutive techniques to uncover food stamp criminal activity. We also interviewed food stamp administrators, investigators and local prosecutors in a number of states during a recent review of state activities with respect to administrative fraud hearings and 75 percent federal funding for investigations and prosecutions. Here are some of our findings:

- o In the 24 states where we interviewed program officials about administrative fraud hearings, only one felt they were a good idea; two felt they conflicted with state law; 11 expressed negative opinions (usually to the effect that they would be an administrative burden that would not justify the cost in financial and personnel resources); and 10 had no comment to make. These negative comments were echoed by state investigators. This lack of enthusiasm helps explain why the 24 states had conducted only 55 fraud hearings to date. This mechanism only became available to states in March, and our review covered the period when most states were focusing their resources on converting cases to the new eligibility requirements. Thus, it is too early to forecast the ultimate significance of administrative fraud hearings. We will continue to watch the situation closely.

- o Even with 75 percent federal funding, some states expect their costs for investigation and prosecution to exceed any recoveries.
- o Some states have limitations on the number of personnel their agencies may hire; others are undergoing staff reductions. This prevents them from adding additional staff even when federal funds are available to pay most of the cost.
- o The 75 percent funding for investigations and prosecutions goes through the state welfare departments. Prosecution normally rests with the Attorney General's office or with local district attorneys. We have talked directly with many district attorneys in areas having large food stamp programs, to ensure that they are aware of the availability of this funding. We plan to continue our work with groups such as the National Association of District Attorneys to encourage more prosecution of recipient fraud.

The 1979 amendments contain two provisions which could help the states uncover recipient fraud: the authority for the USDA to require the use of social security numbers on applications, and state access to certain social security wage information. As we noted in our last report to Congress, our food stamp audits in six states indicated that computer matching of state unemployment security or other wage data is an effective method of verifying income information provided by recipients.

Program Integrity

We intend to closely monitor the actions taken by the Food and Nutrition Service and the states to deal with food stamp fraud and abuse. If the current system of remedies does not effect a substantial improvement in program integrity, Congress should consider tightening

systems for verification of factors affecting basic eligibility and benefits.

There are several steps that could be taken. The first would be to strengthen existing verification procedures. It is clear from our discussions with state officials from state welfare directors to caseworkers that the Food Stamp Act of 1977 and the regulations issued under it are perceived by many as tying the hands of those directly responsible for the certification function. Some of this perception may be a misunderstanding of the new regulations, and some caseworkers may be verifying less than they are allowed or required to verify. Some of this perception may also be based on real constraints.

The Food and Nutrition Service has recently published a request for public comments on changing the food stamp verification requirement. We hope that this action will lead to a better understanding of what can actually be done under the regulations and, if appropriate, modification of the regulations and state procedures to improve verification. The public comments and our own ongoing audit work should provide additional data on whether the states are making effective use of all permissible tools of verification.

In addition, Congress should consider requiring, rather than just permitting, computer matching of available wage data with recipient information. This requirement could be targeted at those food stamp projects where underreporting of income is a serious problem. Congress has already taken this step in the Aid to Families with

Dependent Children Program. Wage matching provides a means of verifying data that is not under the control of the applicant. The present system of accepting documentary evidence or collateral contacts provided by the recipient is too easily manipulated.

SCHOOL FEEDING PROGRAMS

We have given significant audit attention to the National School Lunch and School Breakfast Programs because of their large size--over 90 percent of all American school children attend a school participating in the lunch program--and the historical pattern of management deficiencies. Recently, we have also focused attention on one aspect of an issue of increasing national concern, the quality of the meals served to the children in these programs.

Meals Standards

The National School Lunch Program regulations require meals to contain servings of a specific quantity from certain food groups, for example an eight ounce serving of milk and a three-quarter cup serving of fruit or fruit juice. There are, of course, many factors other than portion size which have an important bearing on meal quality such as the palatability and nutritional value of the food served. However, it has not been feasible to establish and enforce nationwide standards for these attributes.

In 1977, the General Accounting Office reviewed the lunch program in one large city, putting major emphasis on determining whether the

meals served to children met the component quantity requirements. The report indicated that 36 percent of the meals served were inadequate. During the last school year, we evaluated the lunch program in the same city to determine whether the situation had improved. We obtained samples of students' lunches which we had evaluated by a private laboratory. The results indicated that about 37 percent of the meals failed to meet the minimum requirements.

We extended our review to cover a selected number of cities across the country. We looked only at school districts using commercial food service companies, in part, because of the growing role of such companies in the School Lunch Program and because we wanted to see if the school districts contracting with such private organizations maintained adequate supervision and control.

The review covered 22 school districts in eight states involving six management companies and vendors. For those school districts whose data has been analyzed so far, about 69 percent of the meals did not meet the minimum requirements. In some cases, meals failed because one component was short by a fraction of one percent, while in other cases one or more components were seriously deficient or missing entirely.

A literal reading of the regulations governing the School Lunch Program would indicate that an entire meal is ineligible for any federal

reimbursement if there is a short or missing component. This leads to two problems. One can be dealt with administratively, while an expression of Congressional policy would be most helpful in resolving the other.

First, it seems inequitable to disallow an entire meal if one component is short or missing. This is a particular problem with frozen "preplated" meals where the portions are already prepared and the meals are reheated before serving. If these meals are heated too long, moisture is lost and the portion falls below the standard. It is also a problem in schools that cook meals on site. When portions are served on hundreds of trays, it is possible for some to fall below the standard by a fraction of an ounce. One approach would be to continue to set meal standards on the basis of minimum quantities as served, but to provide tolerances for individual servings along with a requirement that 90 percent of the servings must meet or exceed the minimum requirements. For example, instead of requiring each serving of meat or meat alternate to have two ounces, any individual serving could be as low as 1.8 ounces but 90 percent of the servings would still have to be at or above the full two ounces. Meals or meal components could not be averaged to meet the minimum requirements. Establishing meal standards is extremely complex, and the Food and Nutrition Service is currently studying this and other approaches. The Office of General Counsel has been asked to provide an opinion on

whether meals with short or missing components can be paid for at all and whether partial credit is permissible.

The second problem is more complex. In an effort to reduce plate waste, Congress has amended the National School Lunch Act to permit high school and junior high school students to take as few as three of the five meal components that must be offered; such meals are still eligible for full federal reimbursement. If a meal served to a high school student can have two components entirely missing and be fully reimbursable, it makes little sense to try to ensure that each of the five components served to a grade school child meets its quantity standard. We recommend that Congress provide further guidance on the administration of the "offer versus served" provision.

Our review further indicated that a number of school districts have virtually abdicated responsibility for school food service and become financial intermediaries transferring funds from the state agency to a food service management company. A contract is signed at the beginning of the year, or an open-ended contract is signed which may continue for several years. The school districts often do not monitor compliance with the meal pattern requirements or other contractual provisions nor do they review the claims for reimbursement prepared by the company. In some cases of mass produced components or prepackaged meals, production records are not even available locally. The Food

and Nutrition Service's program regulations, instructions, and guidance materials are geared to situations where the school district controls the entire food service operation from procurement of food through placing the serving on a child's plate. We recommend that the agency establish specific monitoring standards and requirements, including coverage for program accountability, meal evaluations and contract compliance for school districts where food service management companies are used.

Donated Commodities

In our last semiannual report, we discussed a number of problems that were uncovered in the use of commodities donated to the states for use in the National School Lunch Program. After these commodities were given to the state commodity distributing agencies, a number of states turned over a portion of the commodities to processors, who then gave the schools a discount on a finished product. For example, hamburger was turned into patties and flour into rolls. The Food and Nutrition Service asked us to examine the program to see if there were any weaknesses. In a number of instances, we found that state and local officials had exercised very loose control, and as a result, processors had built up excessive inventories of donated commodities or had substituted lower quality food in the final product. For example, USDA choice hamburger with 20 percent fat was turned over to a pro-

cessor. In return the schools got hamburger patties made from imported beef that was 30 percent fat. The higher quality donated meat was presumably diverted into commercial market channels.

Since our report was issued, the Food and Nutrition Service has drafted revised regulations governing donated commodities to tighten contractual agreements with processors. The Food and Nutrition Service has also begun providing administrative funds to state distributing agencies that handle commodities, so that more state resources may be devoted to proper administration of processing contracts and other administrative issues regarding proper handling of commodities. In addition, we have worked with the agency to conduct training sessions for state agency officials who have responsibility for the administration of donated commodities.

State Agency Management

In the past, our school lunch and breakfast audits have shown pervasive deficiencies in three areas. First, free meal counts are inflated. Frequently, this takes the form of miscounting meals actually served to paying children as though they were served free to needy children. This makes the school districts eligible for a higher rate of federal reimbursement. Second, certifications for free or reduced price meals are frequently invalid on their face or missing entirely. Sometimes they state an income too high to qualify for the program or

are unsigned. Finally, the cost data on which the per meal reimbursement is based is often insufficient.

The Food and Nutrition Service has developed new regulations which would require state education agencies to monitor school district operations. Where violations of program requirements are noted, the school district must take corrective action or the state is required to reclaim the funds erroneously paid to the school district.

We feel strongly that establishing program performance standards and holding school districts accountable for meeting them is essential for maintaining the integrity of the program. We do feel, however, that stronger sanctions are needed for the program to work effectively.

The appropriations bill recently provided this authority; however, it is recommended that Congress provide such authority in the authorizing legislation. Specifically, the agency should have the same authority provided in the current food stamp and WIC legislation to withhold state administrative funds when programs are not administered efficiently and effectively.

SUMMER FEEDING PROGRAM

In our last semiannual report we discussed endemic problems in the Summer Feeding Program. We found inadequate planning and supervision; fraudulent bidding and contracting, such as collusion between vendors and sponsors; sponsors claiming more meals than actually served; meals

given to adults or taken away from feeding sites and excessive reimbursement claims.

Preliminary findings from our audit work covering this last summer suggest that program abuse may be less than in prior years in some communities and for certain sponsors. Further, the fact that our audit work produced fewer referrals for criminal investigation may be a reason for cautious optimism that the most serious abuses of the program are declining. We believe this is partially due to our heavy investigative efforts in prior years which have resulted in 28 indictments and convictions in the last two years, more stringent regulations, and improved supervision and monitoring.

The program still has major problems, however. For example, an audit this summer in Philadelphia found that only 24,561 of the 37,224 meals provided at 177 feeding sites were actually served to eligible children on the days of our audit visits. The other 12,662 were not served, were consumed off-site, or were served to ineligible participants. We also found that only 52 percent of the lunches we randomly selected met minimum program requirements. Specifically, the test showed that lunches were deficient in the meat or meat alternate, and milk requirements. We found similar conditions in a recent audit of the School Lunch Program.

There is still a need for the legislative remedies that we suggested in our last semiannual report. It is imperative that state agencies

operate the program. Last summer, the Food and Nutrition Service was required to administer the program in 19 states because the National School Lunch Act allows states to turn over responsibility for the program to USDA. This included the two largest states, New York and California. This has had profound consequences. Agency personnel who should have been used to monitor the program and work on major problems were required to spend their time on day-to-day training and supervision of sponsors, reimbursement claims processing, etc. The states are able to use the threat of dropping the program as a powerful weapon. Last year, a large state turned over operation of the Summer Feeding Program to USDA well past the January 1 decision date established by the law. That state and another large state which had threatened to drop the program, engaged in protracted negotiations with the Department prior to making a decision. This has caused serious problems in terms of last minute planning and vendor selection.

We remain convinced that the greatest obstacle to the successful operation of the Summer Feeding Program is the continued participation of large private sponsor/private vendor combinations. They are the source of the worst abuses, and we continue to support legislation to remove them.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN

The Special Supplemental Food Program for Women, Infants and Children is an extension of a two-year pilot program that began in FY 1973 with an annual funding of \$20 million to provide specific nutritious supplemental foods to pregnant, postpartum and breastfeeding women, and to infants and children up to their fifth birthday, who are determined to be nutritional risks. These foods include milk, infant formula, eggs, cereal, cheese and juices. About two million people will participate in FY 1980 and program costs will be approximately \$750 million.

The food delivery systems for people who have been determined to be eligible for assistance are complex. States may elect to have food delivered by vendors to the participant's home; may require participants to pick up packages of food at storage facilities; or may issue to participants food vouchers that are negotiable at retail food stores. The voucher system is used in over 90 percent of the program. A voucher is given to a recipient which enables her to get specific foods from a store. The recipient exchanges the voucher for the food and the store is reimbursed by the government for the sale price of the food, so long as the sale price does not exceed a maximum price printed on the voucher. The maximum price for each food item is set by each state, and is usually above the average retail price for the food in the state.

We recently conducted an audit of the program in the State of California. California operates the program through agreements with about 70 health care centers. Although some data is computerized, the state agency is relying primarily on a manual system to control an average of approximately 97,000 participants and about 800,000 voucher transactions per month. A statewide food vendor registration system, which may ultimately include about 32,000 voucher redemption outlets, has yet to be implemented.

The most significant finding of the audit was that a high proportion of the vouchers were redeemed at maximum value, or within five cents of maximum value even though vendor shelf prices for the commodities were often less. Some of the clerks we interviewed said store managers had instructed them to enter the maximum or a few cents less than the maximum on the voucher regardless of the actual retail price. Other problems we encountered were altered vouchers such as changed amounts, retailer names and other information. Some vouchers were incomplete with no dollar figure or retailer names. We also found cases where the vendors gave cash change for the vouchers.

The procedures employed by the California banks and the California State Treasurer did not reject vouchers that were altered or missing retailer names, participant signatures, and dollar amounts. Ninety-seven of the 584 vouchers tested, or 16.6 percent, were accepted by

banks and paid by the State Treasurer with one or more of the cited irregularities. When we discussed these practices with an officer of one of the major banks, he said the state agency had not notified the bank that it should not accept incomplete or altered vouchers.

California has been somewhat unique in that it does not have specific written agreements with food vendors for participation in the program nor an automated system to help manage the program. A recent survey by the Food and Nutrition Service suggests that only one other state in the country had more than five percent of its vouchers redeemed at the maximum amount. A separate investigation in that state has disclosed indications that vendors are altering vouchers or overcharging for food items.

In addition, California has pilot tested a new vendor system in one county. Under this system, the percentage of vouchers redeemed at the maximum amount fell to less than five percent. California is planning to implement this system statewide on January 1.

Nevertheless, we are concerned that these abuses could be occurring--even if on a smaller scale--in other states. We are also concerned that the new vendor system will not, in and of itself, address all the problems in California's program.

We are beginning a review of the program in twelve states. It will concentrate on the adequacy of the safeguards adopted to prevent the

types of abuse just cited and to explore other potential weaknesses in the program's delivery system. The initial findings of the California audit have been made known to the Food and Nutrition Service. Its staff is taking corrective action. Final rules have also been issued which establish performance standards for the program, with accompanying sanctions for failure to comply.

FOOD SAFETY AND QUALITY

The Department of Agriculture is responsible for ensuring the safety and wholesomeness of the meat and poultry products consumed by the American people. This includes the mandatory inspection of most meat and poultry products and the voluntary grading programs. Within the Department, administration of these programs rests with the Food Safety and Quality Service (FSQS).

In the past, very little audit time has been spent on the activities of this agency. Most of the activities of the Office of Inspector General have involved investigations of alleged bribery of meat inspectors and graders and, to some extent, investigation of serious violations involving the adulteration of meat products. Since 1970, indictments have been obtained against approximately 110 inspectors and graders and 176 packing and processing firms or their officials. Almost all of these indictments resulted in convictions, however, particularly in the cases of the packing companies and their officials, the convictions were often on misdemeanor pleas resulting from plea bargaining.

During the past year a number of factors converged which have led to an increase and intensification of OIG attention to meat industry problems. Among those factors were:

- o Continuing public concern about the extent of corruption in the meat industry and among FSQS personnel. No one had any

reliable data beyond OIG's own investigative/prosecutive figures. OIG's intelligence sources suggested that corruption was a serious problem in some parts of the country. Our intelligence and investigative activity which has been spotty among the OIG regions, tended to be over-concentrated in the New York-New Jersey metropolitan area.

- o Serious questions about alleged variations in the application of meat grading standards. These questions, and the related issue of possible corruption, were highlighted by continuing criticism of the meat grading program by John Coplin, a supervisory grader in charge of the Chicago Main Station and a highly visible and persistent "whistleblower." Also, a General Accounting Office report in 1978 found that grading was not always accurate and consistent:

"Beef grading was not consistent from one section of the country to another.

"Agriculture's management of the beef grading program has been lax and this has contributed to grading inaccuracy. A standard for grading accuracy which graders must meet before being placed in plants had not been established."

- o The assumption by USDA of the Department of Defense's acceptance work placed added emphasis, and strains, on the the meat grading program. The Meat Grading Branch, in addition to providing voluntary grading services to the meat industry, also provides acceptance service to large governmental and institutional meat buyers. This means examining a product to assure that it conformed to the requirements of the contract between buyer and seller. The Defense Department work involves the responsibility for acceptance review of almost 200 million pounds of meat annually with a dollar value of \$250 million.
- o The appointment earlier this year of a new Administrator, Dr. Donald L. Houston, a career regulatory official, and a new Associate Administrator, Thomas P. Grumbly, who, together with Assistant Secretary Carol Foreman and Deputy Assistant Secretary Sidney Butler, were strongly committed to major improvements in agency policies and management and have been generally receptive to OIG recommendations.

As a result of these factors, OIG in May 1979, began a much-intensified effort. That effort is addressing the following issues:

EFFECTIVENESS OF THE ACCEPTANCE WORK OF THE MEAT GRADING BRANCH

OIG's review of the acceptance and certification service was conducted with the assistance of two officials expert in meat quality determinations. They assisted us in examining meat products in five states, which had been accepted and certified by 10 of the 11 Meat Grading Main Stations, and processed by 31 suppliers as well as a variety of products and purchasers (Veterans Administration, Department of Defense and State institutions). The examination of about 4,500 individual cuts of meat disclosed that 13.6 percent of the cuts contained defects which put them out of compliance with contract specifications and 7.7 percent of the cuts had defects which materially affected the useability or value of the product. Of the 67 production lots examined, three resulted in price adjustment between the buyer and seller because the product did not conform to specifications.

One of the fundamental problems disclosed by this review was the necessity of revising the specifications to permit the use of more objective criteria for judging whether a product meets the contract requirements. For example, the criteria for cube steaks requires the cuts from which they are prepared to be "reasonably free" of membranous tissue. We found that about 20 percent of the steaks we sampled from one lot had excessive membranous tissue, but had not been identified as such, because graders had varying opinions on what

"reasonably free" meant. As a result of this lack of clarity of standards the "error rate" figures are not reliable. They depend too much on differing individual grader judgments. An allied problem is the absence of any overall compliance review or quality control system covering acceptance work.

Dr. Houston recently initiated a management review of the Meat Quality Division. Among the recommendations of the review team are:

"Establish a Program Review Staff in the Office of the Director. The review Staff will be responsible for the technical review of in-plant grading and acceptance procedures, and for developing and implementing a destination review program at both the institutional and retail levels ... Workload data now on the grading and acceptance certificates should be captured in an electronic data processing system which can provide headquarters management and the Program Review Staff with timely and useful information on trends and possible problem areas in field operations."

Adoption of these and other proposals of the team are strongly supported by the Office of Inspector General. FSQS should take action to see that competent and adequate resources are devoted to a review system and that such a system is implemented as soon as possible.

Expedient action is also needed to clarify the vagueness found in many agency standards used for acceptance work. Sufficient resources should be assigned to this task, and appropriately organized, so that these shortcomings can be eliminated without undue delay.

OIG recommends the adoption of sampling techniques for acceptance work. Our observation of graders at the plants visited indicates that

it is virtually impossible for a grader to examine each individual cut. A better approach would be to thoroughly check a sample of cuts from each lot. The agency's management study has reached the same conclusion and new procedures are being designed.

VARIABILITY IN APPLICATION OF MEAT GRADING STANDARDS

Although USDA provides fee supported voluntary quality grading services for a number of foods, consumers are probably most familiar with the grading of beef purchased in grocery stores or restaurants, as prime, choice or good. Beef quality grading is based on the age of the animal and the degree of fat marbling present. Since grading is somewhat judgmental and the decisions in borderline cases have a substantial impact on the value of the carcass, we consider the program vulnerable to fraud and abuse.

We have initiated an effort to assess the current beef carcass quality and yield grading practices and techniques. Data collection will commence shortly and analysis should be completed by the end of Fiscal Year 1980. As part of this effort, OIG recently entered into an interagency agreement with the Science and Education Administration, Meat Science Research Laboratory, to conduct an in-depth study of the current beef carcass quality and yield grading practices and techniques. This study will utilize the services of university-affiliated meat research scientists to determine the accuracy and uniformity in.

the application of the grading standards throughout the United States.

We are aware that the Food Safety and Quality Service and the Science and Education Administration have jointly undertaken steps to develop more objective methods of grading meat. This involves instrumentation utilizing video imagery. Based on our preliminary review, we believe this work is essential to reducing the program's vulnerability to fraud and abuse. We plan to monitor the progress of research in this important area.

FSQS COMPLIANCE ACTIVITIES

The Enforcement Operations Branch of the Evaluation and Enforcement Division, which is comprised of compliance officers, is responsible for detecting and documenting violations of the Federal Meat Inspection Act, the Poultry Products Inspection Act and program regulations. We reviewed their activities to determine whether: (1) all violations were reported and appropriately handled; (2) all appropriate matters were referred to OIG; and (3) their activities were exercised in the most effective and efficient manner.

We performed our reviews at each of the branch's five area offices located in Moorestown, New Jersey; Atlanta, Georgia; Dallas, Texas; Des Moines, Iowa; and Alameda, California. In addition, we interviewed 53 compliance officers, subsequent to our reviews, to inquire as to

whether they felt matters were properly handled and to solicit ideas on how to improve their operations.

For the period January 1979 through May 1979, 278 violations were reported to the area offices. Of these, 20 were rejected. Our interviews with the compliance officers did not disclose any serious deficiencies. From reviewing the 258 violations, we concluded that: (1) adequate evidence existed to support the incident reported; (2) the manner of gathering the evidence was acceptable; and (3), with a few exceptions, all appropriate matters were referred to OIG. (Under a Memorandum of Understanding with OIG, the Evaluation and Enforcement Division is to refer to OIG all bribery and personnel misconduct matters and serious violations involving meat and poultry products.)

We reviewed the Evaluation and Enforcement Division's efforts in monitoring state compliance programs to determine whether the states had compliance programs "equal to" the federal system. We found that the division did not consider all states to have compliance programs "equal to" the federal system, nor was the division performing periodic reviews. The division should periodically review state compliance programs to assure that the states are effectively enforcing the provisions of the Acts. We also found that the division had compliance officers in states that have their own effective programs. Because of this, the division may not be efficiently using its resources.

The Program Review Branch, located in Lawrence, Kansas, is responsible for conducting in-plant reviews as part of the overall compliance function. We evaluated their process of selecting plants for review purposes; determined whether all "problem plants" were being identified under the rather new (March 1978) problem plant policy; determined whether follow up reviews were conducted in a timely manner; and determined whether violations were being detected and properly handled.

We found that the branch does not conduct completely unannounced reviews. Their policy of announcing the dates of reviews and the circuits in which they will be performed (but not, since April 1979, the identity of the individual plants) does not, in our opinion, provide the review officer full opportunity to observe the normal operations of the plant.

We found that the manner in which they deal with plants operating under unsanitary or other noncompliance conditions was not fully effective. Based upon a rating system, the division will publish the names of chronic problem plants, and, after this, may initiate action to withdraw meat inspection services. Since implementation in 1978, three chronic problem plants have been publicly identified but no withdrawal of inspection actions have been taken. Since these plants can correct many sanitation problems in a short period of time, FSQS

must establish a history of repeated violations before withdrawal of inspection can be recommended. This report speaks later to legislative changes being proposed by FSQS to help alleviate this situation.

We identified 122 plants where FSQS reported serious deficiencies during the period January 1979 through May 1979. These reviews, however, did not document the full extent and seriousness of the deficiencies, most of which, but not all, were sanitation problems. We found the review officers did not have authority to detain meat and poultry products. Also, there is only limited coordination with the Enforcement Operations Branch to follow up on such problems. Therefore, provisions of the Acts are not fully enforced when deficiencies are found within plants and contaminated products may continue to enter human food distribution channels.

The Program Review Branch was established to develop objective data regarding the effectiveness of in-plant inspection systems, and compliance by the industry with the inspection laws, principally in the areas of misbranding, adulteration and plant sanitation. Reports generated by this branch are designed to keep top management informed of trends within the industry so that preventive action can be taken if found to be necessary. All incidents of noncompliance are to be reported through normal supervisory channels so that appropriate action can be taken. Serious matters are to be handled in an expedited manner with local supervisors.

This group has not been used as a regulatory group until the "problem plant" program began. Our review indicates that FSQS should increase the branch's regulatory responsibilities.

We also reviewed the activities of the Case Evaluation Branch to determine whether: (1) employees initiated appropriate administrative actions to seek withdrawal of inspection services as provided in the Acts; and (2) whether they took timely action on the violations reported.

The Case Evaluation Branch has not fully utilized the withdrawal authority of the Meat and Poultry Inspection Acts. The Meat Inspection Act (similar to the Poultry Products Inspection Act) provides:

The Secretary may withdraw inspection service if he determines, after opportunity for a hearing that such applicant or recipient is unfit to engage in any business requiring inspection ... because the applicant or recipient, or anyone responsibly connected with the applicant or recipient, has been convicted, in any Federal or State court, of (1) any felony, or (2) more than one violation of any law, other than a felony, based upon the acquiring, handling, or distributing of unwholesome, mislabeled, or deceptively packaged food or upon fraud in connection with transactions in food."

Prior to 1979, withdrawal was only initiated for a serious offense, such as bribery. In 1979, the division began considering, on a case-by-case basis, withdrawal for other offenses, such as the shipment of adulterated meat products. However, the criteria used seem too narrow to be fully effective. Furthermore, the criteria have not been for-

malized nor has the Office of the General Counsel been involved in the establishment of these criteria. For example, in a recent case it was decided not to initiate withdrawal action against a firm convicted of a felony involving the shipment of adulterated meat because, among other reasons, the indictment or judgment order did not contain the words "intent to defraud."

We found that the routine violations handled by the Case Evaluation Branch were acted upon in a reasonably timely manner. Most of the routine violations were disposed of by Letters of Warning to the violators.

In addition to the compliance activities of the Food Safety and Quality Service, other agencies within the Department, such as the Packers and Stockyards Administration and Veterinary Services of the Animal and Plant Health Inspection Service, conduct investigative or compliance activities involving the meat industry. We believe these activities need to be better coordinated with each other and with OIG to increase the effectiveness of the Department's responsibilities regarding enforcement of the various laws relating to the processing and distribution of meat products. We will be taking steps with these agencies to insure better coordination.

We also reviewed the activities of the Meat and Poultry Standards and Labeling Division, which administers the labeling functions of Food

Safety and Quality Service. The purpose of our review was to assess how well the division approved labels according to existing laws and regulations and their internal controls to achieve this objective.

Briefly the problems uncovered were:

- o approval of labels which are contrary to the laws and regulations;
- o use of policies, control sheets and bulletins in lieu of promulgating regulations because it was more "convenient" to operate this way;
- o practice of allowing company representatives to be present when a label reviewer reviews their label applications;
- o failure to initiate corrective action as a result of its own quality control reviews;
- o granting temporary label approvals without establishing any guidelines;
- o failure to adequately safeguard records containing product formulas of the industry;
- o lack of internal controls over the expiration of temporary label approvals and appeals; and
- o lack of internal controls over industry contacts and appointments.

In response to our review, corrective action has been initiated. The agency is preparing formal standards for publication, and improving controls over temporary approvals, record security and industry contacts, as well as initiating a number of management improvements. These actions should go far to resolve many of the problems disclosed by our review.

INVESTIGATIVE ACTION

We have intensified OIG intelligence collection and investigation of possible corruption involving USDA employees and/or the meat and poultry industry. We have also increased investigation of serious adulteration and wholesomeness matters as well as improprieties in the acceptance and certification of government procurements involving meat and poultry products.

Several indictments and/or convictions have been obtained in recent months, but the results of much of the current investigative work will not be known for some time.

The Food Safety and Quality Service has established an Integrity Task Force to make recommendations for improved management systems to minimize opportunities for, and occurrences of, bribery and other serious employee misconduct. We fully support this effort. OIG has been providing the Task Force with information and advice based on our investigative and audit work.

SANCTIONS FOR CRIMINAL AND REGULATORY VIOLATIONS

One of our principal concerns has been to strengthen USDA's capacity to take action against meat and poultry firms and their officials once a violation of a federal law or regulation is detected. Most violations are handled by sending Letters of Warning to the company. A small number are referred for criminal prosecution and a handful result in the agency taking action to withdraw inspection services.

FSQS recently issued a formal policy on withdrawal of inspection services based upon conviction of bribery or related offenses. In addition, we have been working closely with agency personnel in developing policy changes, regulatory changes and legislative recommendations to deal more effectively with these violations.

The agency is now developing criteria to be used to initiate withdrawal action in other situations. We are pressing FSQS to move expeditiously on this issue. We support the agency's recommendations for legislative changes to strengthen the withdrawal sanction including the summary withdrawal of inspection pending a hearing. We also support their recommendation for authority to impose civil money penalties against firms for violations of federal law and regulations governing meat and poultry products. This would provide an additional or alternative sanction in those cases where criminal prosecution, withdrawal of inspection or debarment may not be a feasible or adequate remedy.

Of particular importance to OIG is the strengthening of criminal sanctions against meat and poultry firms guilty of bribery or corruption of USDA employees. Unfortunately, in the past, meat and poultry inspectors and graders have often been convicted of felony bribery charges, jailed and/or fined, and fired, while officials of the firm, or the corporation, have been allowed to plead guilty to misdemeanors,

fined and suffered no additional penalty. The Department's legislative recommendations would represent an improvement.

An important additional sanction is debarment from eligibility to receive federal contracts. For example, in the School Lunch Program alone, about 280 million pounds of meat and poultry products valued at \$245 million are purchased by USDA. Firms with a history of sanitation, adulteration or wholesomeness problems should not be allowed to obtain these federal contracts. Due to weaknesses in the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Federal Property and Administrative Services Act, and implementing regulations, debarment is rarely used. Indeed, it has only been used as a sanction following criminal convictions of the firm and then not in all cases. A strengthening of the debarment sanction is urgently needed. We will be working with FSQS on proposals for regulatory or, if necessary, legislative action to strengthen the debarment sanctions.

PROPERTY MANAGEMENT

Precipitated by recent media attention given to this Department's and other federal agencies' controls over the disposal and management of equipment, furniture, and supplies, the Office of Inspector General initiated an audit of the Department's property management system.

Based upon our preliminary findings, which showed weaknesses in the control systems for the use, storage, and disposition of property, the Secretary has directed the implementation of the following corrective actions:

- o Hold all purchase requests for equipment and furniture in abeyance until the need is fully justified and suitable replacement items are found not to be in storage;
- o inventory all property not currently in use to provide adequate accountability for these items;
- o work with the General Services Administration to assure appropriate disposition of those items found to be surplus;
- o direct all recyclable paper goods to designated holding areas;
and
- o ensure security over disposal areas.

The Office of Inspector General had previously done audit work in 1972 and in 1977 in the area of property management and found many of the

same problems. Since indications are that property management is a government-wide problem, we have joined with the Inspector General of the General Services Administration in forming an interagency task force to review the problem. It is anticipated that this review will span the entire property management process from purchase to disposal, with corrective actions resulting which will have government-wide utility.

Our audit work of property management is continuing. We expect to provide recommendations which will assist the task force effort.

SECTION II

SUMMARY OF INVESTIGATIVE AND AUDIT ACTIVITIES

INVESTIGATIONS

Between April 1 and September 30, 1979, we completed 1,162 investigations including 935 which involved possible criminal violations. We referred 348 cases to the Department of Justice and 74 matters to state and local prosecutive authorities.

During this six-month period, there were 374 indictments and 200 convictions based upon our investigations. Since the period of time to get court action on an indictment varies widely, the 200 convictions are not necessarily related directly to the 374 indictments. Fines, recoveries, and collections resulting from our investigations during this same period totaled about \$6.2 million and claims were established for approximately \$15.9 million. The following is a breakdown of indictments and convictions, by agency, for the period:

<u>Agency</u>	<u>APRIL-SEPTEMBER 1979</u>		<u>TOTAL FOR FY 1979</u>	
	<u>Indict- ments</u>	<u>Convic- tions</u>	<u>Indict- ments</u>	<u>Convic- tions</u>
Agricultural Marketing Service	6	12	18	14
Agricultural Stabilization and Conservation Service	40	8	66	38
Farmers Home Administration	40	11	51	19
Forest Service	5	1	12	10
Rural Electrification Administration	1	-	2	1
Soil Conservation Service	-	-	1	-
Food and Nutrition Service	249	144	357	232
Animal and Plant Health Inspection Service	1	4	14	13
Food Safety and Quality Service	7	12	18	16
Federal Grain Inspection Service	-	1	1	2
Office of the General Sales Manager	-	-	1	-
Multiple Agencies (two or more USDA agencies involved)	2	2	3	3
Commodity Futures Trading Commission	21	2	21	2
Office of Inspector General	1	1	1	1
Science and Education Administration	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>374</u>	<u>200</u>	<u>567</u>	<u>352</u>

Examples of cases which led to indictments included:

- o An indictment in June of a licensed weigher employed at a rice and soybean products firm in Arkansas has increased to eight the number of individuals indicted in a systematic scheme to defraud the firm of more than \$500,000. The scheme involved the diversion of rice and soybean shipments to other facilities for the profit of those involved, and the issuance of false weight and grade certificates to cover the shipments. Charges against one individual have been dismissed, while six others have been sentenced to terms ranging from three years probation to three years confinement. Final disposition of the latest indictment is still pending. (United States v. Ball Trucking Company, et al, Eastern District of Arkansas.)

- o A producer in Missouri was charged with 10 counts of converting 138,000 bushels of corn, wheat and soybeans mortgaged to the Commodity Credit Corporation and three counts of making false statements. After pleading guilty to two counts, he was fined \$10,000, placed on probation for four years, and ordered to make loan restitution. (United States v. Larry Newham, Western District of Missouri.)
- o The indictment and arrests in June of 55 individuals in the Baltimore metropolitan area terminated an 18-month joint federal and local law enforcement operation during which OIG undercover agents penetrated a series of fencing operations dealing in contraband, stolen property and food stamps. To date, 54 of these individuals have either pleaded guilty or have been found guilty at trial. Sentencing has varied up to a \$10,000 fine and four years confinement. (United States v. Albert Isella, et al, District of Maryland.)
- o Bais Issac Zvi, a community organization registered as a sponsor in the New York City Summer Feeding Program and its principal officer were indicted and guilty pleas were entered to submitting false claims against the United States. This sponsor was linked with several other organizations and individuals indicted and convicted earlier of charges associated with the 1975-1976 Summer Feeding Programs. Investigations of violations in this program in New York City continue. (United States v. Sidney Pinter, Eastern District of New York.)
- o One of the largest vendors in the Los Angeles Summer Feeding Program, three sponsors of the program and seven individuals representing the principal officers of the vending and sponsoring organizations were indicted by a federal grand jury which charged the defendants with conspiracy to defraud and submission of false claims to the United States. One defendant is presently a fugitive and an arrest warrant has been issued. (United States v. Catering Services and Management, Inc., et al, Central District of California.)
- o Sixteen individuals and one corporation in New York City participated in a scheme to traffic food stamps which involved wholesalers, retailers, bank tellers and check cashers. The corporation, an authorized retailer/wholesaler, purchased food stamps at a discount from retailers and at least one fence. The fence got his food stamps from a retailer who purchased stolen Authorization-to-Purchase cards and exchanged them for food stamps with the help of a bank teller and check cashers. The manager of a branch bank was paid by the corporation's owners to approve false checks used to cover their massive

food stamp trafficking and excessive redemptions. Over a period of two years at least \$2.5 million in illegally obtained food stamps were redeemed as part of the overall scheme. Sentences to date have ranged from two years probation under the Youthful Offender Act to six months in jail, three years probation, and a \$10,000 fine. Investigation continues. (United States v. Shelton Blumhof et al, Southern District of New York.)

- o A computer match of wage data conducted by Office of Inspector General auditors in Hawaii uncovered a number of food stamp recipients who had failed to report income. To date, the ensuing investigation has resulted in twelve individuals being indicted in State Court for theft of public assistance benefits. In addition, as a result of our efforts, Hawaii has increased the size of its welfare fraud investigative unit and tightened its administrative procedures. (State of Hawaii v. Jenny Chun Pires, and others. First Circuit Court of Hawaii.)
- o As a result of an Office of Inspector General audit, we initiated an investigation into the issuance practices in many Cook County, Illinois, District Food Stamp Offices. We found caseworkers who obtained Authorization-to-Purchase cards. Our investigation has documented a loss of \$149,982 in food stamps. To date, 26 caseworkers and four others have been indicted in federal or state courts. (United States v. Elbert Hale, and others. Northern District of Illinois.)
- o Purchases of intentionally mislabeled packages of meat by OIG special agents, in coordination with the FBI and meat graders from the Food Safety and Quality Service, have resulted in a \$200,000 fine against the second largest supermarket chain in the Chicago area after it pleaded guilty to 20 felony violations of the Federal Meat Inspection Act. The violations relate to meat purchased by undercover agents which was labeled "Prime" when it was known to be "Choice". In a plea agreement, the chain admitted its employees intentionally mislabeled meat at the time of packaging. (United States v. Dominick's Finer Food Stores, Northern District of Illinois.)
- o A Farmers Home Administration borrower was indicted for submitting a false statement in support of his application for an \$82,000 guaranteed emergency livestock loan. (United States v. Edwin Decker, Eastern District of Oklahoma.)
- o A 50-count indictment was returned against a former Farmers Home Administration Assistant County Supervisor and seven others in South Carolina, charging various offenses including

conspiracy to defraud the government by embezzling, stealing and converting monies and properties of the Farmers Home Administration. (United States v. Robert D. Belk, et al, District of South Carolina.)

- o A rural housing contractor/borrower was indicted for making false statements and reports in connection with applications for Farmers Home Administration Rural Rental Housing Loans. The contractor pleaded guilty to three counts, and was sentenced to seven months confinement, a \$5,000 fine and three years of supervised probation. (United States v. Paul B. Sullivan, Northern District of Mississippi.)
- o A former County Executive Director of an Agricultural Stabilization and Conservation Service county office in Indiana was charged with causing two false loan applications to be made, causing false entries to be made in the books of the Commodity Credit Corporation, and sharing directly in \$49,264 obtained through the fraudulent loans. Trial is pending. (United States v. John C. Sachs, Southern District of Indiana.)
- o At the request of the United States Attorney, Middle District of Alabama, OIG investigated an allegation that the principal and lunchroom manager of the Bullock County School District had been misusing National School Lunch Program funds. The investigation culminated with the indictment of five individuals including the lunchroom manager, principal and associate superintendent of schools. The defendants were variously charged with making false statements, obstruction of justice, conspiracy and embezzlement. (United States v. Ella R. Hall, et al, Middle District of Alabama.)
- o An investigation into the activities of the Berkley Electric Cooperative in South Carolina led to the indictment of the general manager on 10 counts of submitting false financial statements to the Rural Electrification Administration. The indictments charged that the general manager had authorized the expenditure of approximately \$991,000 of cooperative funds and assets for entertaining state legislators, public service commissioners and others; making personal use of a bank loan to the cooperative; financing the construction of a single family home; and conducting business with a firm in which he had a financial interest, from August 1971 through December 1975. The general manager pleaded guilty to one count of the indictment and was subsequently sentenced to six months at a pre-release center, five years probation, ordered to spend four hours a week for two years performing public service work and was fined \$7,500. (United States v. Robert L. Wingard, District of South Carolina.)

- o A grain company agreed to pay the government \$4 million to settle a civil suit that alleged the company had short-weighted or misgraded grain purchased or financed by the United States for export under the PL-480 Program. The company, once the nation's third largest grain exporter until it sold its grain operations to a Japanese firm in 1978, had previously pleaded "no contest" to federal criminal charges related to the same offenses for which it was fined \$370,000. (United States v. Cook Industries, Inc., Eastern District of Louisiana.)

FEDERAL GRAIN INSPECTION SERVICE STUDY

In May, we reported on a two-year study by the Office of Inspector General of the current grain inspection and weighing system. The study was designed to provide information for use in evaluating the need for changes in the system at other than export port locations. We gathered information, complaints and comments from 139 interior country grain elevator operators and 481 grain producers located in 15 of the major grain producing states. Although we found indications of problem areas and a need for certain changes in the current system, we developed relatively little evidence to indicate that irregularities such as those found during the "Grain Scandal" of the early 1970's, were widespread.

AUDITS

Between April 1 and September 30, 1979, we completed 672 audits resulting in recoveries of \$2,222,524 and savings, including management improvements, of \$12,705,512. Through our audits, we also identified \$17,481,031 in erroneous payments and \$6,161,988 in loans incorrectly disbursed. Penalties, fines, and judgments of \$53,672 were also attributed to our audit work.

A representative selection of these audits is highlighted below. In many cases corrective action has already been taken or is in progress.

RURAL RENTAL HOUSING PROGRAM

By using statistical sampling techniques in an audit of the Missouri State Farmers Home Administration office, we estimated that the 16 county offices audited had granted excessive interest subsidies (interest credit) to 30 borrowers totaling \$39,600. Our sample of 156 interest credit agreements (about 10 per county office) disclosed 14 cases with computational errors, 8 cases of overstatement of property and 8 cases of unverified income.

Also, in the Missouri audit, we found that graduation reviews were not performed in sufficient detail to identify borrowers with a high potential for graduation, nor were these type borrowers required to submit loan applications to commercial lenders. We identified over 7,900 rural housing borrowers with unpaid principal of over \$70

million, who, in our opinion, were in a position to graduate because of increased equity and generally increased income over the last five to 10 years.

EMERGENCY LOAN PROGRAM

Because we noted many problems in other states relating to emergency loan processing, we took a different approach in an audit in California. In that state, we audited emergency loans before the loan funds were distributed to the borrowers.

In five county offices, we reviewed 60 approved loans totaling about \$6.7 million. About 36 percent of the 60 loans reviewed contained errors including failure to reduce the loans for disaster payments received from the Agricultural Stabilization and Conservation Service and indemnity payments received from the Federal Crop Insurance Corporation; failure to check yields and acreages with other governmental agencies; and miscalculations and mathematical errors. As a result, losses on 13 loans were overstated by about \$178,000 and understated on nine loans by about \$74,000.

An audit of a county in Texas disclosed that 76 of the 200 borrowers who received three percent emergency loans based on 1977 and 1978 designations, received questionable loans totaling about \$2 million. In most of the 76 cases, it appeared that the borrowers had the financial means to obtain credit from other sources.

Examples of audit findings include:

- o Inadequate Rejection Letters from Other Creditors - The rejection letters were not adequate to determine whether the borrowers could receive credit from other sources

A borrower received a three percent loan of \$19,410. He had an off-farm income of \$45,000 and a net worth of \$587,805. His unencumbered assets included \$32,000 in cash, bonds and investments; 1,060 acres of land valued at \$371,000; and a home valued at \$60,000. The only rejection letter in the file was from a credit union that stated they did not make loans secured by livestock only. The borrower was not required to contact any other lenders and he said he was not willing to pledge his unencumbered assets to obtain a loan from another source.

Another borrower received a three percent emergency loan of \$26,000. He had assets of \$454,950; debts of \$70,000; and an annual nonfarm income of \$47,090. The bank, which furnished the only rejection letter, stated that it could not extend credit. The borrower was vice president and a director of the bank. The borrower apparently used the loan proceeds for a partial payment on a \$37,438 Production Credit Association debt. The local production credit representative told us he would have extended further credit to the borrower.

- o Financial Statements - Eligibility of borrowers was based on inaccurate financial information.

A borrower received a three percent emergency loan of \$10,750. His financial statement furnished to FmHA before the loan was made showed assets of \$244,300, liabilities of \$90,384, with a net worth of \$153,916. A financial statement provided after the loan was closed showed that he had \$60,169 cash, stocks worth \$1,238,000, a house valued at \$169,169, and a net worth of \$2,085,383 excluding assets held in trust.

Another borrower received a three percent emergency loan of \$27,830. His application showed that he had a net worth of \$426,000 with one real estate debt of \$19,500 which was subsequently paid off with the loan funds. The borrower told the auditors that he forgot to show his interest in a car dealership on his application. The borrower was a director of the bank which furnished the rejection letter.

As a result of our audit in that county, we expanded our review to four Texas districts, which included 19 county offices. We reviewed about 300 emergency loan borrower files and identified 109 borrowers who, in our opinion, failed to meet the credit elsewhere provisions. The audit concluded that loan approval officials in two counties allowed applicants to circumvent the credit elsewhere requirements.

For example:

- o The test for credit provisions were considered met if the applicant provided a rejection letter from a commercial lender showing credit was not available. We found that rejection letters were received from lending institutions (such as credit unions) that did not normally lend money for agricultural purposes. Commercial banking officials were also willing to sign rejection letters for applicants with substantial nonfarm incomes, liquid assets, and/or net worths. Bank officials also signed rejection letters for other bank officials and directors who had substantial financial holdings. In one county no applicants were denied emergency loans because they qualified for credit elsewhere.
- o In another county, the county supervisor placed a prepared statement in applicants' files to justify that the test for credit provisions were met when in fact they had not been. This prepared statement said, in effect, that commercial credit was generally unavailable. There was no evidence in the file that any other action was taken to determine whether applicants met provisions relating to test for credit.

FOOD STAMP PROGRAM

We audited the Pennsylvania and Michigan Food Stamp Programs to determine whether actions have been taken to correct significant problems noted in prior audits. Our reviews disclosed that either no action or

insufficient actions had been taken to correct the problems, some of which date back to 1971. For example, in Pennsylvania we noted that:

- o The state agency was not reexamining public assistance food stamp cases when the recipient's eligibility for other public assistance was terminated. We identified 2,292 households whose eligibility status should have been reexamined. Using sampling techniques, we projected that these households were issued and redeemed Authorization-to-Purchase cards with a "bonus" value of at least \$2.7 million. This condition had been previously reported in 1971, 1974 and 1978.
- o The processing of Food Stamp Program claims was ineffective. The backlog of unprocessed claims had increased from 15,000 cases involving \$2.1 million in April 1977 to 25,000 cases involving \$3.5 million in 1979. Approximately \$3.1 million of this amount involves suspected fraud cases. This condition was reported in 1974 and 1978.
- o The current computer system is not effectively used to detect errors or to reconcile Authorization-to-Purchase cards issued to those redeemed. Most of the losses projected in the current audit can be either directly or indirectly attributed to the need for an improved computer system. This condition was reported as early as 1974.

Pennsylvania has undertaken corrective actions since the release of the current audit report. Actions implemented include (1) establishing a demonstration project in Philadelphia relative to the use of quality control results to lower certification error rates; (2) increasing the staff by 40 people; (3) improving claim establishment and collection efforts; and (4) modifying the state's computer system to improve program effectiveness.

A special review of the Food Stamp Program in Michigan disclosed that Wayne County had significantly reduced the number of cases lacking current certifications. However, certification errors continued at a high rate; 33.8 percent as compared to the 34.6 percent rate projected in the prior audit report. Statistical projections indicated that at least \$334,260 in bonus coupons had been overissued during a one-month period. The Wayne County district offices had not made any improvements in detecting instances where both the original and replacement Authorization-to-Purchase cards were redeemed or in following up to see whether fraud or forgery was involved, nor had the county significantly improved its handling of claim determinations. We did determine that the state had made significant progress in improving the Food Stamp Program automated data processing system.

COTTON RESEARCH AND PROMOTION PROGRAM

A review of the domestic and foreign activities of the Department's Cotton Research and Promotion Program was made to determine whether there had been effective USDA and Cotton Board management and supervision of program activities, and to ascertain if Cotton Incorporated, a private contractor, had engaged in questionable cotton marketing activities involving foreign textile mills. We found that USDA and the Cotton Board have not effectively carried out their oversight responsibilities, and that Cotton Incorporated has, by default, been

given a degree of autonomy not envisioned under the legislation or contract with the Cotton Board. As such, there had been inadequate control over the budgets and program activities resulting in questionable actions by Cotton Incorporated. Also Cotton Incorporated representatives engaged in sales-related activities primarily directed to a few U.S. suppliers and there was a fragmentation of efforts to promote the export of U.S. cotton among several entities, including the Foreign Agricultural Service, Cotton Incorporated, and Cotton Council International. USDA and the Cotton Board are revising program guidelines to permit more effective administration of the program. The Office of Inspector General will monitor actions taken.

SHIPHOLD INSPECTIONS OF DONATED COMMODITIES

We performed a survey, with assistance from Federal Grain Inspection Service personnel, to determine the extent of care afforded USDA foodstuffs donated under Title II, PL 480 (Food for Peace), during lifting and stowing aboard ocean carriers. Examination of 52 ships disclosed 13 instances where one or more holds were deemed unacceptable for the stowage of foodstuffs due to various factors, including standing water or remnants of human and rat excreta. Effective July 1, 1979, the Department implemented regulations requiring agencies or agents who book the vessels carrying donated agricultural commodities under this program to arrange with carriers to have the ship's hold inspected prior to loading.

PLANT PROTECTION AND QUARANTINE PROGRAMS

The audit evaluated the overall management of the cooperative programs designed to control and/or eradicate plant pests which affect or threaten crops in Mexico and the United States.

We found problems in the management of the program including limited supervision, planning, and coordination within and between the Mexico Region of the Animal and Plant Health Inspection Service (APHIS) and offices in Minneapolis and Washington. Additionally, we noted problems with respect to handling of cooperator trust funds, contracting and procurement procedures, transportation and release of pupae and identification of program objectives. Actions are being initiated by APHIS management to improve program operations.

AGRICULTURAL TRADE OFFICES

We performed a review of the London Trade Office to determine if functions of such offices as outlined in the Agricultural Trade Act of 1978 were being effectively performed. We found problems with respect to supervision, guidance and direction were restricting the trade office from achieving its primary objective of improving international markets for United States commodities. The conditions noted were discussed with Foreign Agricultural Service officials in Washington and actions are being initiated to correct weaknesses at the London office and preclude similar conditions from occurring at other offices.

MARKETING ASSOCIATIONS

An audit of the Georgia-Florida-Alabama (GFA) Peanut Association's general operations disclosed:

- o Miscalculations of sales invoices and warehouse settlements for crop years 1976 and 1977 resulted in Commodity Credit Corporation losses on loan collateral peanuts totaling \$331,457.
- o Excessive advances, totaling \$131,722, for administrative expenses for FY 1977 and 1978 were still being retained in the general fund. Advances for FY 1979 (through February) have exceeded actual expenses by \$255,701.
- o Funds totaling \$180,692 were on deposit in the general operating account to cover unpaid Commodity Credit Corporation and GFA expenses that have accumulated over the past 23 years.
- o Liberal travel policies have resulted in unnecessary travel costs exceeding \$90,000 over the past five years.

EMERGENCY CONSERVATION MEASURES

Teton Dam, a Bureau of Reclamation project, was almost complete when it collapsed in June 1976, flooding parts of five counties. Agricultural producers affected by the flood were given financial assistance through a variety of government disaster programs. An audit of the Agricultural Stabilization and Conservation Service's participation in that effort revealed that it and the Bureau of Reclamation paid flood victims at least \$416,551 in duplicate benefits. When Congress authorized the Bureau of Reclamation to pay all damages caused by the flood, the Agricultural Stabilization and Conservation Service neither

discontinued its emergency conservation and low yield disaster payments, nor did it adequately coordinate those payments with Bureau of Reclamation activities. We recommended the Agricultural Stabilization and Conservation Service work with the Bureau of Reclamation to collect duplicate payments.

VOLUNTARY DIVERSION PAYMENTS

We did extensive data base analysis of computerized Agricultural Stabilization and Conservation Service (ASCS) program records to determine whether payment procedure controls were functioning properly. In one phase, we made a computerized search of voluntary diversion payment records and produced listings of potential over and underpayments. Local county office employees verified records at local ASCS county offices and identified over and under payments of about \$478,000 and \$127,000, respectively. The analysis and verification cost USDA about \$60,000. The agency has adopted the techniques we employed as an additional management tool to minimize errors and program abuse.

In another data base analysis, we identified potential problems in payment limitation procedures in the Wheat and Feed Grain Programs. When we verified the information at 89 ASCS county offices in three states, we found that counties had not always obtained sufficient data to make a correct determination to apply the payment limitation to cases of multiple farm ownership. As a result, some "persons"

received over and underpayments of about \$353,000 and \$20,000, respectively. The agency has instituted action to get the conditions corrected in other county offices.

TRAVEL PROCEDURES

An audit was conducted of USDA travel procedures which concentrated on practices of the agencies and the Department.

We found that USDA's travel policies and instructions have not been revised and supplemented to support the centralized payment process concept at the National Finance Center. Internal agency travel instructions have not always been in agreement with those of the Department and federal travel regulations. There have also been discrepancies between instructions issued to approving officials and those issued to the voucher reviewers at the National Finance Center.

We recommended that uniform Department travel instructions would improve travel management in USDA. In addition, travel costs could be reduced by increased use of General Services Administration vehicle rental contracts and airline discount fares. The Office of Operations and Finance was generally agreeable to our recommendations, with the exception of the practicability of using uniform travel instructions. The recommended corrective actions are being implemented.

OVERTIME MANAGEMENT

We completed the audit of the Animal and Plant Health Inspection Service to determine possible abuses of overtime, as referenced in the

last report. We found that inadequate controls were exercised over the \$6.5 million in overtime paid to 1184 inspectors. We also found that improved scheduling of tours of duty and overtime assignments, the clarification of agency guidelines, and follow up by management to insure compliance with the overtime procedures could have reduced overtime claims by an estimated \$840,000. Managers of the inspection programs have implemented the audit recommendations. Our audit work in the general area of overtime is continuing.

COMPLIANCE WITH CIVIL RIGHTS LAWS IN STATE ADMINISTERED COOPERATIVE
EXTENSION SERVICE PROGRAMS

We found the Virginia Cooperative Extension Service to be in serious noncompliance with Title VI of the Civil Rights Act of 1964 and Title IX of the education amendments of 1972. Our report covering 10 counties revealed that the Virginia Cooperative Extension Service has failed to provide general and specific guidance necessary to guarantee compliance with federal law prohibiting discrimination on the basis of race or sex in federally assisted programs or activities. Specifically, the audit report discussed the following problems:

- o Disparities were observed in the extent, quality and/or types of services provided to white and minority clientele with respect to their proportionate representation in target populations, in at least one of the three major program areas.
- o Agents and volunteers have failed to provide services across racial and sexual lines.

- o Little action has been taken to adjust services to meet the needs of minorities or to achieve integration.
- o Disparities were observed between salaries paid to minority and nonminority, and to male and female employees. Disparities were also observed in the amount of travel monies allocated to male and female employees.
- o There has been little progress in attaining the minority employment goals established in 1976 for black professionals.

The conditions noted in one county warranted a separate report. The Virginia Cooperative Extension Service in Clark County was found in substantial noncompliance with Title VI of the Civil Rights Act and Title IX of the education amendments. The audit report which contained recommendations that should be implemented to eliminate the disparities and violations, has been transmitted by the Secretary to the President of Virginia Polytechnical Institute and State University.

SECTION III

EMPLOYEE COMPLAINTS ("HOTLINE")

As a result of the Inspector General Act of 1978, a complaint assessment and investigative staff was established to handle complaints received through the OIG Hotline, and letters and referrals pertaining to violations of law or specific dangers to public health and safety.

The USDA-OIG Hotline Center receives complaints through calls on a 24-hour basis on nationwide toll free lines or through letters to a Washington, D.C. post office box. Both were publicized through a Secretary's Memorandum to all employees and notices in the USDA Newsletter. The identity of complainants is protected and the Secretary's Memorandum enjoins agency officials against taking any reprisal action against employees who report wrongdoing or wasteful conditions. Complainants are advised, unless they remain anonymous, of the results of inquiry.

In addition to complaints from USDA employees, the complaint staff investigates referrals from the General Accounting Office Hotline which relate to the Department's programs and activities, and coordinates action in the Department on all referrals from the Office of the Special Counsel, Merit System Protection Board, relating to prohibited personnel practices.

Many complaints concerning duty connected matters such as dangerous working conditions, wasteful supply practices, promotion policies and practices and minor misconduct can be resolved through coordination with officials of the concerned agency. Others require preliminary or full field attention by our audit or investigative personnel. There is continuing coordination between complaint investigators in USDA and their counterparts in other agencies.

Since activation of USDA's complaint investigation unit on February 8, 1979 and through September 30, 1979, we received 302 complaints by either phone or letter; 72 complaints were received from the General Accounting Office's Hotline operation; and 10 were sent to us by the Office of the Special Counsel, Merit System Protection Board.

It is too early to assess and project the composition of complaints and the workload which this operation will develop on an annual basis. However, an analysis of the first 240 complaints produced this data:

The largest group (37%) involved allegations of noncriminal misconduct of persons and irregular personnel practices. The next largest category (22%) concerned allegations of general mismanagement and waste. The 240 complaints were acted upon as follows:

- 27% were resolved or closed on initial review by the complaint investigation staff;
- 41% were referred to the cognizant USDA agency for inquiry and report to the complaint investigation staff;
- 22% were referred to OIG Regional offices for inquiry and report to the complaint investigation staff; and
- 10% were referred to the USDA Office of Personnel for review and report to the complaint unit.

The status of the 240 complaints, as of September 30, 1979, is:

- 30% action completed and complainant informed (unless anonymous);
- 10% action complete on inquiry, in the complaint section for final review and closing;
- 24% still under inquiry;
- 5% insufficient information to pursue and complainant anonymous; and
- 31% in processing with the complaints investigation staff for resolution or referral for additional inquiry.

There have been 24 complaints which developed into full investigations but none of these, as of September 30, have resulted in legal or administrative actions.