



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

MAY 30 1980

Dear Mr. Chairman:

Pursuant to Public Law 95-452, Section 5(b), I am transmitting the semiannual report of the Inspector General.

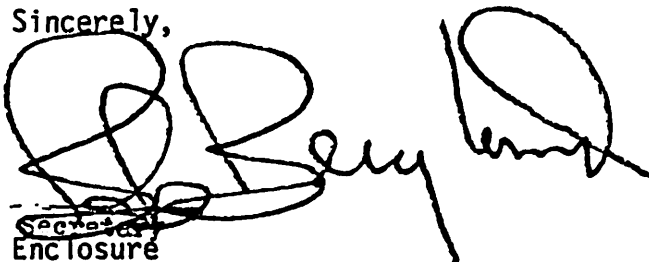
The report describes some of the more significant problems in several of the important programs of the Department. In most cases corrective action on these problems has begun. For those problems that corrective action is not yet underway, I am directing the Assistant Secretaries who have responsibility for the programs concerned to undertake immediate corrective action.

In terms of the recommendations regarding the problems in some of the programs of the Farmers Home Administration, I began to take corrective action this past summer. At that time I directed the Inspector General to work with the Assistant Secretary for Rural Development and the FmHA Administrator in developing recommendations to improve FmHA's management controls. That group developed over 60 recommendations, with particular emphasis on improving the Rural Rental Housing, Business and Industrial and Emergency Loan programs. Action is currently underway to implement those recommendations.

The Assistant Secretary for Food and Consumer Services and the Food and Nutrition Service Administrator have also been working closely with the Inspector General in developing legislative, regulatory and administrative recommendations that would help correct some of the long-standing problems in the programs of the Food and Nutrition Service.

Finally, upon learning of the problem with furniture procurement within the Department of Agriculture and the federal government, I immediately took action to bring it under control in this Department. I established a freeze in USDA on the procurement of furniture from all sources except in emergency situations. This freeze will continue until the Department no longer has a problem in this area.

Sincerely,



Secretary
Enclosure



United States
Department of
Agriculture

Office of
Inspector
General

Semiannual Report Office of Inspector General

October 1, 1979 - March 31, 1980

PREFACE

This is the third 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 October 1, 1979 to March 31, 1980. 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 447 audit reports and 976 investigation reports. Our work identified \$73 million in recoveries, savings, erroneous payments, management improvements, incorrect loan amounts, penalties, claims, fines and judgments, and resulted in 307 indictments. Most of the indictments were for felony offenses such as food stamp trafficking, fraud in loan programs and bribery or attempted bribery of meat inspectors.

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, in Section I, relate to the domestic food assistance programs administered by the Food and Nutrition Service, the loan programs administered by the Farmers Home Administration,

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 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 447 audits completed during this 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.

THOMAS F. McBRIDE
Inspector General

TABLE OF CONTENTS

	<u>Page</u>
PREFACE	i
SECTION I - SIGNIFICANT PROBLEMS, ABUSES OR DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION	1
DOMESTIC FOOD ASSISTANCE PROGRAMS	1
Food Stamp Program	1
School Feeding Programs	10
Summer Feeding Program	10
Child Care Food Program	13
Special Supplemental Food Program for Women, Infants and Children	14
FARMERS HOME ADMINISTRATION LOAN PROGRAMS	16
Assessment Teams	17
Task Force on FmHA Management Functions	17
Rural Rental Housing Program	18
Business and Industrial Loan Program	19
Emergency Loan Program	21
Management of Acquired Property	23
FOOD SAFETY AND QUALITY	26
PROPERTY MANAGEMENT	28
OMB REQUIREMENTS FOR AUDITS OF FEDERAL ASSISTANCE PROGRAMS	32
SECTION II - SUMMARY OF INVESTIGATIVE AND AUDIT ACTIVITIES	36
INVESTIGATIONS	36
AUDITS	42
SECTION III - EMPLOYEE COMPLAINTS (HOTLINE)	57
APPENDIX - Listing of Audits	

SECTION I

SIGNIFICANT PROBLEMS, ABUSES OR DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION

DOMESTIC FOOD ASSISTANCE PROGRAMS

As in the past, we have continued to devote more resources to reviewing the food assistance programs administered by the Food and Nutrition Service than to any other program area. These include the Food Stamp, School Lunch, Summer Feeding and Child Care Feeding Programs, the Special Supplemental Food Program for Women, Infants and Children and other food assistance programs. These programs and their delivery systems are complex. They are delivered through many different agencies of State and local government. This complexity makes compliance with applicable Federal laws and regulations difficult to monitor and enforce.

FOOD STAMP PROGRAM

In FY 1979, Food Stamp Program expenditures were about \$6.9 billion. Eligible participants receive food stamp allotments based on their household size and net income after certain deductions. The purpose of the program is to permit low-income households to obtain a more nutritious diet by increasing their food purchasing power.

Multiple Redemptions

In our last semiannual report we gave considerable attention to the increased potential for criminal activity in the Food Stamp Program through the theft of Authorization-to-Participate cards sent through the mail, and recipients falsely claiming the non-receipt of their cards, having a replacement card issued and then redeeming both for food stamps at an issuance office.

Since that report, we have emphasized this issue in the States where we have conducted audits. In some cases there is no system for identifying the multiple redemptions that result from the issuance of replacement authorization cards. In other cases, the capability exists but inadequate efforts are made to screen multiple redemptions for possible fraud or theft.

The Food and Nutrition Service regional offices conducted a preliminary review which indicated that some local project areas had problems while others seemed to have adequate systems in place and functioning to minimize the amount of theft and fraud. That review is now being expanded. It will cover the approximately 80 projects which issue \$1 million or more worth of food stamps per month and cover specific features of food stamp reconciliation and issuance systems that are related to the problem of multiple redemptions.

Information about successful methods for identification and prevention of multiple redemptions is being gathered and disseminated by the agency. We hope that this sharing of information among States and local projects will result in solutions that are tailored to deal with the specific problems being experienced by specific States and local project areas.

The Food and Nutrition Service will shortly be issuing final regulations requiring the States to submit a monthly reconciliation report. States are now required to reconcile all redeemed authorization cards to a master file, identify those that for any reason do not reconcile, and investigate the circumstances leading to failure. Submission of the report will provide FNS

with a tool for monitoring States' reconciliation efforts as well as continuous information on multiple redemptions.

In our last report, we specifically cited the New York City situation where the number of replacement food stamp authorization cards issued each month more than trebled from 7,000 in October 1978 to 25,000 in September 1979. Since then the city has begun to require recipients requesting authorization card replacement to pick up their new cards in person. This summer, the city plans to go a step further and require all recipients who request replacement authorization cards two months in a row to begin picking up their original authorization cards in person. In addition, the City expects to implement a "rapid access system" in September 1980 which should prevent the negotiation of a replacement authorization card if the original has already been redeemed.

New York City has also made efforts to tighten reconciliation procedures after the fact. Since February, the City has been doing a monthly reconciliation of issued and redeemed authorization cards. While the automated data processing system does not identify cases where an initial and a replacement authorization card were both redeemed, some work is being done on a manual basis to match the affidavits signed by recipients to get a replacement card with the original redeemed authorization card. For December 1979 and the part of January 1980 that has been processed, 10,000 cases have been established where the local officials feel there is a possibility of recipient fraud. According to the City, as additional months' records are processed, some cases will be referred for prosecution, others for administrative

fraud hearings and others will result in the establishment of claims. While we view this as a definite positive step we do have some concern about the time required through this process to identify the most flagrant violators for prosecution or fraud hearings.

Ultimately, New York City plans to go to an electronic funds transfer system that will eliminate the use of authorization cards altogether. This will take at least two years to design and implement. In the interim the measures now underway or planned for the near future will reduce the problem if adequate resources are devoted to making them work. The most recent data available seem to indicate that the number of replacement authorization cards being issued has leveled off after steadily increasing for nearly a year.

Another encouraging development is a pilot project proposed by the State of Pennsylvania for the direct pick up of authorization cards in certain sections of Philadelphia and Pittsburgh. In Pennsylvania, losses caused by the replacement of authorization cards are significant. In December 1978, one month prior to the elimination of the cash purchase requirement, Philadelphia County recorded 1,500 cases where both the original and replacement authorization card were redeemed. Ten months later in October 1979, 2,800 multiple redemptions took place.

The direct delivery system is already in use for public assistance checks which are picked up by recipients at participating banks. In the pilot project, participation will be mandatory for public assistance clients who also receive food stamps and for nonpublic assistance food stamp recipients who have reported repeated losses of their authorization cards. Participation will be voluntary for other food stamp recipients.

In the pilot, the recipient will go to a designated bank each month and present a photo ID card. The teller will compare the individual's appearance and signature with those on the card. The individual will then receive a food stamp authorization card which will be signed and transacted.

The results in the pilot sections of Pittsburgh and Philadelphia will be compared with their own past history and with other sections of the cities that continue to mail authorization cards. A decision will then be made about extending the system.

Food Stamp Trafficking

The Food Stamp Program has always attracted a certain amount of criminal activity involving "discounting," the purchase of stamps at less than their face value and redeeming them through normal grocer and banking channels at their full value. We will never be able to investigate every possible case of food stamp trafficking. Rather, our efforts have been geared to working on major cases involving criminal rings and thousands or even hundreds of thousands of dollars worth of stamps. We hope to have a deterrent effect by the attention given to the indictments and convictions resulting from our work. In FY 1979, of 329 indictments for Food Stamp Program offenses, 255 were for trafficking.

The participation of wholesalers in the program has been a particular problem, as they can easily conceal large quantities of illegally obtained food stamps by altering the redemption certificates given to them by retailers and "padding" the retailers' food stamp volume, often without the knowledge or cooperation of the retailer. This avoids the attention that a large redemp-

tion by an individual store would bring. Wholesalers are also harder to investigate as they usually deal only with retail stores and people they know well. One wholesaler we investigated redeemed over \$2.5 million in illegally obtained food stamps over a two-year period. FNS will shortly issue a proposed change in the regulations which, if implemented, should radically curtail wholesaler participation in the Food Stamp Program, a move we endorse. This could have an important effect in reducing large scale food stamp trafficking.

Recently, the authority of the government to retain both the stamps and the cash confiscated in our investigations has been challenged by some defendants charged with food stamp trafficking. While we believe that the Food Stamp Act implies such forfeiture authority, we are pleased that the House Agriculture Committee has reported out legislation containing a provision clarifying that authority. An identical provision has been introduced in the Senate.

Puerto Rico Food Stamp Program

In July 1979, over 460,000 households participated in the Food Stamp Program in the Commonwealth of Puerto Rico. During that month they received about \$62 million in food stamps, about 10 percent of the stamps issued that month in the entire country. Because of the size and the history of problems in the administration of the program in Puerto Rico, we have monitored the program almost continually since July 1974, when the Commonwealth began food stamp operations. We have just completed another major review. While there is improvement to report, a number of serious problems remain. Since the

audit is still in the draft stage, the precise extent of the problems, particularly the dollar overissuances, cannot be reported at this time. However, some of our general findings follow.

Certification. In this as in similar audits of major food stamp projects, we use scientific statistical sampling to determine the dollar impact of certification errors. We reviewed 494 randomly selected case files for the month of July 1979 and made home visits to a subsample of 195 households.

We found that almost 30 percent of the cases we reviewed contained errors. There were two frequent sources of error--work registration and determination of income. Each accounted for about 40 percent of the cases in which errors were noted. Since OIG and GAO have noted errors in compliance with work registration requirements in many States, some explanation is in order. Failure of nonexempt recipients to register for work is normally a caseworker problem rather than a matter of recipient abuse. The problem usually stems from the caseworker failing to require an applicant to complete a work registration form.

Two offices we visited in Puerto Rico did not require members of households to register for work because the offices did not have the required forms. Noncompliance can also result from an incorrect determination that a household is exempt from the work registration requirement, and we found some instances of this as well. These errors in work registration do not generally result in overissued benefits, because compliance with the work registration requirement does not produce savings unless the household member actually finds employment. Given the high unemployment rate in Puerto Rico,

actual savings would probably not be large. However, work registration is a legal requirement and there is no excuse for not imposing it.

We also found problems in the treatment of income in 40 percent of the cases in which errors were noted. These included computation errors, differences in the income reported to the caseworker compared with earnings disclosed during our home visits, and acceptance of recipients' statements about self-employment without documentation.

Reconciliation. Prior to the elimination of the food stamp purchase requirements States were required to reconcile the authorization cards redeemed with food stamps issued and the amount of cash collections turned over to the Federal government. From the time Puerto Rico entered the program in July 1974 until the purchase requirement was eliminated in January 1979, no final reconciliation report was ever submitted for any month. This condition has been reported in the past and was the subject of a formal warning from FNS. We accomplished a reconciliation using all available data. It indicated an overall cash shortage of \$12.1 million and a coupon shortage of \$3.7 million. The Puerto Rico food stamp agency believes the shortage is due at least in part to authorization cards that were actually issued and redeemed during the early days of the program, when administration was somewhat chaotic. We plan to recommend that FNS bill Puerto Rico for the appropriate amount.

Excessive Redemptions. The Puerto Rico computer system has the capacity to identify food stamp recipients who redeem more than one authorization card per month. Our review indicated that some recipients receive replacement

authorization cards month after month with inadequate local office followup. We also found cases where recipients were receiving authorization cards from more than one local office.

We should mention that we saw improvements in a number of areas, such as the processing of claims and computer support which is also giving local management better tools for administering the program. We plan to continue our work in Puerto Rico by reviewing selected aspects of program management during the next two years.

Food Stamp Legislation

By the time this report is issued, the Congress may already have acted on food stamp legislation for this year because of the urgency attached to the issue of increasing the FY 1980 budget resolution, authorization ceiling and appropriation. However, we would still like to comment on the legislation reported out by the House Agriculture Committee, S.1309, which contains several provisions related to controlling fraud and abuse and promoting better management of the program. We have already mentioned the forfeiture provision which we support. There are several important provisions of the legislation which we strongly endorse:

- o State liability for excessive errors and rewards for low error rates. This would impose a penalty upon those States that fail to meet specific performance standards in the reduction of their quality control error rates. It would also provide a higher level of Federal support for meeting the administrative costs of States with very low error rates.
- o Computer Matching. This provides for computer matching of the income reported by food stamp households with available wage information from other sources that are independent of the recipient.

- o Increased cost-sharing for computerization. This would provide enhanced Federal cost-sharing (75 percent rather than 50 percent) for developing and installing computer systems for managing program operations more effectively. We feel that many problems in food stamp certification and issuance systems could be solved through better use of computer systems.
- o Photo Identification. This would give the Secretary the authority to require the use of photo identification cards by recipients in specific areas experiencing problems with the integrity of their issuance systems.
- o Verification. This provides that eligibility workers may seek verification of certain eligibility criteria based on error-prone profiles of households examined through the quality control system. At present the eligibility worker must document a reason specific to the household for seeking verification of some eligibility factors.

SCHOOL FEEDING PROGRAMS

In our past reports to Congress we have pointed out problems in the operations of the National School Lunch and School Breakfast Programs that are national in scope. These programs received over \$2.9 billion in cash and commodity support in FY 1979. To help deal with the problems we have encountered, we continue to recommend that the Congress enact legislation giving the Department the same authority it already has in the Food Stamp Program and the WIC Program to deal with State agencies that consistently fail to administer the programs efficiently and effectively--the authority to withhold all or a part of Federal grants for State administrative expenses. This measure has been employed sparingly but effectively in the Food Stamp Program.

SUMMER FEEDING PROGRAM

In our past reports to the Congress we have noted the typical abuses of the Summer Feeding Program, which received about \$138 million in Federal support

in FY 1979. There is inadequate planning and supervision which results in excessive ordering of meals, meals given to adults or taken away from the site, and excessive reimbursement claims. It is our view that schools and sponsors that prepare meals on site have had the best programs and large private sponsors using meals prepared by a commercial vendor have had the most problems. For this reason, we support the Department's legislative proposal to place restrictions on the number of sites and meals handled by private sponsors who contract with private vendors.

The history of this program shows a high vulnerability to mismanagement and outright fraud unless there is extensive monitoring and correction of problems during the planning stage and the first few weeks of operations. An intensification of these efforts would reduce the cost and improve the integrity of the program. Realistically, FNS and OIG are not now in a position to devote substantially more staff to such an endeavor. More staff could be provided at no added cost if FNS did not directly administer the program in at least 21 States including California and New York. The provision allowing any State to drop the program, in favor of direct Federal administration has had two effects. First, FNS personnel who could be reviewing all State operations, monitoring and providing technical assistance, are instead assigned to run the program. Second, on more than one occasion a State's threat to drop out of the program has been used as a powerful weapon to resist taking effective corrective action on deficiencies. We believe program administration should be a State responsibility and we strongly endorse the Department's legislative proposal to recognize it as such.

As a control on abuse, current regulations require that sponsors whose total program payments are expected to exceed \$50,000 must have an audit of their claims and supporting documentation by a Certified Public Accountant or an independent State or local government accountant. The general issue of non-Federal audits of grant-in-aid programs is discussed elsewhere in this report. Last summer we examined the audit work on large sponsor operations performed by a number of CPA firms to see if they could be relied upon to provide an accurate evaluation of sponsor compliance with program requirements. To assist CPA firms in their reviews of Summer Feeding sponsors, FNS and OIG developed an audit guide detailing minimum requirements for coverage of the sponsors' financial management and compliance with applicable laws and regulations.

Since the Summer Feeding Program is operated on a performance funding basis, i.e., the maximum amount that a sponsor can claim is the number of eligible meals served multiplied by a per meal reimbursement rate, the number of eligible meals served is a critical element in determining the validity of the claim for Federal funds. Inflated meal counts and claims based on ineligible meals are usually uncovered through site visits. We generally found that the CPA firms conducted an inadequate number of site visits--in some cases none at all--and the number of meals delivered to each site rather than the number of eligible meals served was used as the basis for the claim.

In monitoring the 1980 Summer Feeding Program we plan to focus on non-Federal audits while they are being performed rather than reviewing them after the fact.

CHILD CARE FOOD PROGRAM

The Child Care Food Program provides food service to children in nonresidential institutional settings such as day care centers and after-school programs. In FY 1979 the program cost over \$160 million. We have conducted several audits of specific sponsoring organizations in the past and are now engaged in a more detailed review of FNS, State agency and sponsor management in ten States.

To date we have observed many of the same kinds of problems found in the Summer Feeding and School Feeding Programs. At the site and sponsor levels there are meals that do not meet requirements, inflated meal counts, mistakes in handling free or reduced price applications, and inadequate records to support the claims for reimbursement. Many of these problems are allowed to go uncorrected because the State agencies and FNS regional offices, which directly administer the program in several States, have not in the past performed sufficient reviews of sponsor and site operations. The reviews that are performed are sometimes inadequate and in many cases no corrective action results on the deficiencies noted. In response to this problem, FNS has issued regulations which establish monitoring requirements. We view this as a step in the right direction and in future reviews we will assess the impact of the new regulations on program administration. In our current review we are also looking at any duplicate payment problems that may be present in cases where a sponsor receives funding from both the USDA Child Care Food Program and programs administered by the Department of Health and Human Services. While it is perfectly legitimate for local organizations to

participate in more than one Federal grant program, we are finding cases where it appears that the same cost may have been claimed for reimbursement under more than one Federal grant.

While we will be reporting on the extent of these problems to FNS and the Congress in more detail when our current review is completed, we would like to make the preliminary observation that inadequate resources are being devoted to the management of this program. Where the State education agency runs the program, the managers are often oriented towards the needs of schools and day care problems get short shrift. Where FNS directly runs the program, the same problems of inadequate staff and oversight exist that we have mentioned in the discussion of the Summer Feeding Program. We recommend that the Congress require State administration of this program.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN

During the last year, we have looked at the administration of the WIC program in several States and local jurisdictions. The program has grown from a \$20 million pilot effort begun in FY 1973 to a budget request of \$900 million for FY 1981. Because of this rapid expansion and the potential for abuse we are now conducting a more extensive review in ten States.

The program is designed 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. The most prevalent system of delivery is the issuance of vouchers to participants that are negotiable at retail food stores for specific foods or combinations of foods.

In the past, we have found some problems with inadequate security and accountability for vouchers, and deficiencies with ADP systems. One disturbing finding is that some State agencies administering the WIC program are not taking adequate action to enforce compliance with program requirements on the part of retail stores. As a result, past reviews have found cases in two States where vouchers were redeemed for sums greater than the retailer shelf price for the commodities in the WIC package.

We have continued to find this type of abuse in our current 10 State review. When it is completed, we will make appropriate recommendations to the Food and Nutrition Service and the Congress.

FARMERS HOME ADMINISTRATION LOAN PROGRAMS

In early 1979 the Office of Inspector General conducted a review of past audits of FmHA programs and found that many of them reported the same general problems, e.g., inadequate application reviews, inadequate loan servicing and handling of delinquent accounts, failure to graduate borrowers to commercial sources of credit, and inadequate construction inspections. Many of the problems were attributed to the imbalance between the size and complexity of FmHA programs and the size and skills of its staff.

That review led to the creation of an intradepartmental group (the Deputy Secretary, Assistant Secretary for Rural Development, Inspector General and FmHA Administrator) which was charged by the Secretary with the responsibility for developing recommendations to improve FmHA's management controls and lessen the susceptibility of the Rural Rental Housing, Business and Industrial Development and Emergency Loan programs to fraud, waste and abuse.

In the October 1979 semiannual report we noted that a number of policy, regulatory and legislative changes had been recommended by the intradepartmental group and corrective action was being initiated by FmHA.

FmHA in taking the actions has, in many cases, gone beyond the scope of the original recommendations in attempting to assure effective program management. However, the Administrator is concerned that the recent hiring freeze and limitations on travel will make it difficult to implement fully the changes FmHA has made. In fact there is concern that the delivery of many of USDA's programs may suffer because of the travel limitations. The direct delivery of many of the programs and the ability to monitor programs in many

cases is dependent on the ability of USDA personnel to travel. We are currently participating in a review of such travel issues within USDA.

ASSESSMENT TEAMS

As previously stated, FmHA has taken action on the recommendations of the interdepartmental group. One of the most significant of these is the initiation of program assessment teams. The purpose of the teams, composed of FmHA and OIG personnel, is to visit periodically each State and selected District and County Offices to identify program weaknesses and their cause and effect and to offer recommendations for corrective action.

Assessment teams have been established for the Farm Ownership and Operating Loan Programs, Emergency Loans, Single Family Housing, Rural Rental Housing, Community facilities, and Business and Industrial Loan Programs.

Thus far, assessments are being conducted of the Business and Industrial Loan Program in ten States; of the Community Programs in four States; of the Rural Rental Housing Program in five States; of the Single Family Housing Program in two States; and of the Farm Ownership and Operating Programs in three States.

TASK FORCE ON FmHA MANAGEMENT FUNCTIONS

The Office of Inspector General is also reviewing some selected aspects of FmHA management functions. We are currently reviewing FmHA internal review systems, implementation of the District office concept, and the work measurement system. We feel the development of an effective internal review capability within FmHA is of primary importance and will strengthen FmHA's ability to manage its programs and minimize fraud, waste and abuse.

RURAL RENTAL HOUSING LOAN PROGRAM

The objective of the Rural Rental Housing Loan Program is to provide persons of low or moderate income or senior citizens with rental housing that meets their basic needs and is economically designed and constructed. FmHA in FY 1979 made 1,645 loans totaling about \$869 million.

Previous audits and investigations disclosed instances of inadequate administration of the program. The primary problems were: (1) inadequate appraisals; (2) inadequate and frequently misleading market survey data; (3) failure to certify project costs; and (4) failure to verify tenant incomes.

FmHA initiated several changes to strengthen the management and financial procedures of the program. These changes will assist the agency in determining whether: (1) projects are justified; (2) projects are constructed in a cost efficient manner; and (3) projects benefit those persons for whom they were built.

The following are selected examples of recent changes made or pending:

- o Requiring applicants to certify the market survey data submitted in support of the application are accurate. In the past many market surveys have been poorly prepared and have often tended to overstate the need for the project. In some cases our auditors have found loans approved when commercially financed rental units in the same area had high vacancy rates.
- o Requiring the certification of all project costs submitted by the contractor for those projects in which the borrower and the contractor have a common identity. This change should reduce the possibility of converting savings on one or more parts of the project costs to profit by not reporting the savings to the FmHA. However, this change does not apply to those projects in which there is not a common identity between the borrower and the contractor. Nor does it address the reasonableness of profit margins permitted on FmHA projects. We will continue to monitor these two items and, if necessary, make appropriate recommendations to the Agency.

- 2
- o Requiring State or district office personnel to verify the incomes of tenants. Prior to this change tenants were required to certify their incomes to determine the amount of subsidy to be allocated to the borrower. Our auditors found situations in which tenants of Rural Rental Housing projects had incomes in excess of the level permitted by the program and their income certifications were inaccurate or false.
 - o Including the names of problem borrowers in FmHA's data base. This will aid in keeping records on those borrowers who demonstrate an inability to carry out their responsibilities and facilitate cross checking to see if those same borrowers are involved in projects in other States. Our audits and investigations have found situations in which large syndicators, operating in several States, have experienced problems in properly completing projects or have improperly transferred funds between projects and are simultaneously attempting to get other projects approved in different States.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

The purpose of the Business and Industrial Loan Program is to provide financial assistance to improve the economic and employment conditions in rural areas with populations of 50,000 or less. Loans can be made for financing business or industrial acquisitions, construction, repair or modernization of facilities, supplying working capital, etc. In FY 1979 FmHA guaranteed 1,610 loans totaling \$1.1 billion.

Previous audits have disclosed two general areas of concern in the Business and Industrial Loan Program; pre-loan analysis and loan servicing. Typical problems have been: (1) failure to obtain the required financial data from the applicant; (2) failure to obtain financial data before issuing conditional commitments to the lender; (3) failure to analyze sales and profit projections of the applicant; (4) failure to require the applicant to contribute sufficient equity; (5) inadequate evaluation of the applicant's

management capability, and (6) failure to provide sufficient guidance to field personnel on the servicing requirements of the loans.

FmHA initiated many changes which should serve to protect the interest of the government as well as the interest of the borrowers. Some of the changes made or pending include:

- o Developing improved loan servicing procedures. Because the loans are guaranteed by FmHA, most servicing action is handled by the lender. FmHA's regulations and guidance material on loan servicing is rather limited and not specific because of the relative newness of the program and the complexity of the program. The revised loan servicing procedures clarify the loan servicing actions, procedures, responsibilities and authority for servicing actions as well as clarifying the relationship between FmHA and the lender.
- o Requiring annual field reviews with the lender. The purpose of the field review is to check on loan status and servicing and when necessary enforce the conditions and covenants in the loan agreements.
- o Requiring lenders to hold a portion of the loan (as an incentive to comply with their servicing responsibilities). Because lenders were permitted to sell all the non-guaranteed as well as the guaranteed portions of the loan, some lenders felt they could avoid participating in the risk. Hence, there was no incentive for them to comply with their loan servicing responsibilities. By requiring lenders to hold five percent of the unguaranteed portion of the loan, they are fully aware of their servicing responsibilities and the risk involved with the loan.
- o Clarifying instructions to prevent applicants, or officers or stockholders of the applicant from purchasing any part of the loan as an investment. Some situations had arisen where borrowers or holders of the loan have proposed to participate in the guaranteed or unguaranteed portions of the loan. In addition to the issue of conflict of interest, there was a question regarding the need to provide the total amount requested if the borrower or associates had the resources to purchase a portion of the loan as an investment.
- o Requiring all pre-applications in excess of \$5 million to be submitted to the national office for review. Because there is no statutory limit on loan size, it was the opinion of the intra-departmental group that applications in excess of \$5 million should be subjected to review by headquarters staff to insure the loans are within the intent of the program.

EMERGENCY LOAN PROGRAM

The purpose of this program is to assist eligible farmers, ranchers and agriculture operators and others to recover from property and/or production damage and loss that occurred as a direct result of a natural disaster. Loans are made to repair, restore or replace damaged or destroyed farm property and supplies, and to compensate for the loss of income due to reduced production of crops, livestock and livestock products resulting from disaster. Applicants who qualify for an actual loss loan may also qualify for additional assistance through a major adjustment loan to buy equipment and to pay the cost of reorganizing the farming operation to place it on a sound financial basis, including the refinancing of existing indebtedness. The borrowers could also qualify for annual operating loans each year up to five consecutive years after the disaster. These loans are to permit the borrower sufficient time to recover from the disaster losses and return to normal credit sources. In FY 1979 FmHA made about 62,600 emergency loans totaling \$2.9 billion.

Previous audit reports disclosed various problems and raised policy questions related to the program, including: (1) the lack of loan limits (limited only by the provable amount of the loss); (2) inadequate verification of the lack of availability of commercial credit; (3) failure to verify losses; and (4) failure to ascertain if applicants were receiving duplicate benefits from other agencies.

FmHA implemented several changes in February 1980 through the issuance of new regulations governing the administration of the program. Some of the major changes are listed below:

- o Requiring applicants to apply at not less than three conventional credit sources when applying for a loan of \$300,000 or more. Previous regulations required applicants to certify in writing that adequate credit was not available to finance their operations. It was up to the County Supervisor to perform further verification. Audits disclosed that many borrowers had unencumbered assets which should have qualified them for commercial credit.
- o Establishing loan ceilings. The legislation did not prescribe dollar limits for the program. Due to a substantial number of loans in excess of \$1 million being made to individual borrowers, issues arose as to whether some of the loans were for purposes intended in the legislation and if issuing loans for such large dollar values was denying smaller farmers an opportunity to participate due to the limited amount of funds available. Loan ceilings of \$500,000 for the actual loss loans and \$1.5 million for major adjustment and operating loans should limit abuses of the program.
- o Requiring FmHA personnel to verify other disaster assistance received or to be received from other agencies. Our audits disclosed that some borrowers had received benefits from different agencies for the same disaster related losses even though legislation specifically states that any benefits from other federal programs such as Federal Crop Insurance Corporation indemnity payments, Agricultural Stabilization and Conservation Service disaster payments or Small Business Administration disaster loans should be deducted when computing eligibility.
- o Requiring graduation reviews for all insured loans during the second full year of the initial loan and every year thereafter until graduation is achieved to determine whether the borrower is eligible for commercial credit. The prior procedure called for the initial review be conducted after the fifth year. The change will cause borrowers to be graduated sooner and therefore lessen the FmHA caseload.

In addition to monitoring the actions taken on the recommendations made by the interdepartmental group we have continued to conduct audits in FmHA programs. The following are examples of the audits conducted during this reporting period.

RURAL HOUSING LOAN PROGRAM

Management of Acquired Property

Previous audits and publicity had disclosed that FmHA was experiencing problems in the management of properties acquired through foreclosure proceedings or voluntary conveyance. In order to determine the extent of the problems, we completed a survey of the methods used by FmHA to liquidate, manage and sell single family Rural Housing loan program properties acquired by FmHA through default, voluntary conveyance or foreclosure. We noted that during 1978 the dollar loss on the sale of these properties was approximately \$15 million.

The survey concluded that:

- o FmHA cannot identify the subdivisions in which the rates of delinquencies and liquidations are increasing and in which corrective action needs to be taken. This is due to the fact that the FmHA data base does not include codes that could identify loans by locations. This results in FmHA continuing to make new loans in some subdivisions in which they have recently acquired properties through default, foreclosure or voluntary conveyance.
- o Funds allocated for Rural Housing loans were often used to make subsequent loans to owners for the purpose of repairing their homes. During 1979, about \$3 million in loan funds were obligated for this purpose. The County Supervisor has contract authority up to \$2,000 for repair purposes and can exceed that limit with the permission of the State Director. While FmHA policy is that acquired property be repaired prior to being sold, there are some instances in which it is to the government's advantage to sell acquired property "as is" and make a subsequent loan for repairs. However, since direct housing loan funds are affected and contract regulations for repair purposes are avoided, FmHA needs to specifically outline when loan funds can be used for repair purposes.
- o FmHA had not developed or pursued an effective loan delinquency program. The Agency had emphasized loan making functions without a corresponding emphasis on loan servicing as is detailed below.

During the audit we found that between September 1977 and February 1979 FmHA sold 41 inventory houses in one county in Virginia to private investors at prices ranging from \$3,850 to \$6,000. Several of these homes were then brought back into the program using Rural Housing loans for prices ranging from \$23,400 to \$25,350. These transactions resulted in windfall profits for the private investor.

Our reviews in Florida, Delaware, Maryland and Pennsylvania also showed that inventory properties were often sold at low prices to investors rather than FmHA spending a limited amount to repair the houses and reselling them at or near the market value thereby limiting or eliminating any possibility of dollar loss.

The following recommendations were made by OIG:

- o Revise current instructions to require that State Property Management Specialists and State Rural Housing Chiefs prepare and present to State Directors a yearly evaluation of State housing needs. Instruct State Directors to determine the maximum number of new loans to be approved for each county based on this analysis. FmHA is now requiring this information be presented in the State Management Plan.
- o Require District Directors to review a sample of loans made outside of subdivisions, to determine if the property is structurally suitable for participation in the program. FmHA now requires District Directors review a sample of all loans made in a unit office.
- o Instruct FmHA State and county personnel to obtain cost estimates for repairing properties being considered for sale "as is." Require the estimates to be used in determining if the repairs would increase the properties' present market values.
- o Draft instructions which specify when loan funds can be used to repair acquired property. Require State office approval of sales involving properties sold "as is" when a subsequent loan is requested for repairs.

- o Develop and implement specific instructions on actions to be taken by State and county personnel in servicing borrowers during the first three months of delinquency. Specify when liquidation procedures should begin if the borrower fails to respond to servicing. Establish a specific minimum amount and specific maximum repayment term for additional partial payment agreement. FmHA is in the process of developing specific instructions which will address this problem.
- o Consider adopting a nationwide policy of monitoring arbitrary reductions in the market value of acquired properties. For example the State office in Virginia requires the District Director or Property Management Specialist to review all reductions in the present market value in excess of \$1,000. This should eliminate the practice of arbitrarily reducing the value of property in order to remove it from inventory.

We are continuing to do a substantial amount of program audit work in these program areas in order to monitor the results of the recommendations and to determine if additional corrective action needs to be taken.

FOOD SAFETY AND QUALITY

In our last report to Congress we mentioned that increased audit and investigative efforts were being devoted to the programs of the Food Safety and Quality Service. At the present time, this work is continuing in three areas:

Meat Grading Study. We have entered into an agreement with the Meat Science Research Laboratory of the Science and Education Administration to evaluate the accuracy and uniformity of beef grading. We expect that the study will provide data for the possible development of accuracy standards that can be employed in the supervision and management of the program. We are also considering an evaluation of the effects of transportation from point of slaughter to point of purchase on possible changes in quality grades.

Audit of Meat and Poultry Inspection Activities in Slaughter and Processing Plants. We are looking at compliance with several program requirements related to meat and poultry slaughter and processing. This includes determining whether existing standards and tolerances for added fat, water and other substances are reasonable and enforceable given current industry technology. We are also trying to determine the effectiveness of the quality control and acceptable quality level programs. Our reviews are being conducted in all five Meat and Poultry Inspection Program Regions. We are visiting area offices and selected meat and poultry plants within each of the regions.

Intensified Investigative Work Related to Bribery of Federal Inspectors and Graders and Other Criminal Activities. Bribery cases are difficult and time consuming to investigate. However, we think that there is a need for increased deterrence. To that end, we are devoting substantially more investigative time to this sort of work--nearly an 80 percent increase for the period October 1979 - March 1980 compared with the same period one year ago. We have also increased our outreach efforts among inspectors, graders and meat industry officials to encourage them to report any incidents of apparent bribery or solicitation of bribes. During this reporting period, 17 firms or individuals were indicted as a result of our investigations in the food industry. These included such diverse cases as the bribery of Federal inspectors, violation of sanitation regulations, and the use of counterfeit grading stamps to misbrand meat.

PROPERTY MANAGEMENT

In our September semiannual report we reported on our preliminary audit findings regarding the disposal and management of equipment, furniture, and supplies. Based on our preliminary report, the Deputy Secretary instructed the Assistant Secretary for Administration to:

- o Require all purchases of furniture and equipment to be approved by the Office of Operations and Finance subject to its determination that (1) the need for furniture/equipment is justified and (2) suitable furniture/equipment is not available in unused equipment pools.
- o Direct the Office of Operations and Finance to develop a central inventory of all currently unused furniture/equipment regardless of the cost of the items, refer unusable or unrepairable surplus items to the General Services Administration for disposition instructions, and work with agencies in arranging for the repair or refurbishment of excess items.
- o Design a procedure whereby the Office of Operations and Finance would receipt for all incoming material and equipment, and arrange for delivery to the stated destination within USDA.

Since that report the following actions have occurred:

- o The Office of Operations and Finance initiated a program to rid all hallways and offices in the Washington, D.C. building complex of excess furniture and transfer it to the Department pool.
- o The Office of Inspector General reviewed the storage and disposition of excess property and the acquisition of new furniture in selected field installations of the Department.

On December 11 our audit covering furniture acquisition and disposition at USDA's Washington, D.C. building complex was issued. The audit found inadequate security and controls in the Department's main receiving and shipping area, uninventoried and unassigned excess equipment pools maintained

by individual agencies and a lack of central inventory of the excess pools from which agencies could secure equipment in lieu of new procurements.

Following the release of this audit and based on the recommendations, the Assistant Secretary for Administration on December 18, 1979, ordered a freeze on furniture procurements within the Department except for emergencies.

In addition the following actions were taken:

- A monitor system was established for the main receiving and shipping area.
- An inventory of all unused furniture in the Washington, D.C. area was developed and circulated to Department agencies in January, March and April 1980.
- Renewed emphasis was given to the furniture rehabilitation program.
- A control log to trace surplus property transactions was established.
- Training sessions were conducted for property custodians.
- On January 4, 1980, the Deputy Secretary authorized the Office of Operations and Finance to establish a central shipping and receiving facility for USDA headquarters.
- A pilot project was implemented to recover recyclable paper from selected offices.
- The Office of Operations and Finance has inventoried and rearranged property in the Departmental excess pool to be more accessible and usable.

Since it is our view that many of these problems had been surfaced in the past and that earlier recommendations had either not been implemented, or had initially been implemented and allowed over time to lapse, we have continued to monitor property management. Our monitoring has resulted in the following findings:

- o Some agencies of the Department did not comply with the new instructions on furniture purchases. We found for example, that almost \$50,000 in furniture was purchased in the Washington, D.C. area alone despite the moratorium on such purchases. Further, our reviews at two field installations disclosed that they purchased over \$135,000 despite the freeze. An additional \$80,000 in year-end purchases of furniture was also cancelled at the request of the Office of Operations and Finance.
- o At the National Finance Center, we reviewed unfilled GSA FEDSTRIP orders for the entire Department and identified approximately \$1 million in unfilled orders for items covered by the freeze.

The Office of Operations and Finance has advised GSA, and the other involved agencies to cancel these orders. Agencies will be allowed to reorder items only if the items meet the criteria of an emergency request. It has further advised agencies to cancel all other procurement of furniture and, similarly, has advised Federal Prison Industries to cancel all USDA furniture orders.

On April 21, 1980, the Deputy Secretary issued another memorandum which continued and reemphasized an absolute freeze on the purchase of furniture within USDA with the exception of emergency requests, e.g., if a natural disaster exists, if there is danger to safety or health of a person, or if the absence of the items drastically impedes the ability of the agency to accomplish its mission.

We are continuing our audit coverage in the property management area. Our coverage will include not only monitoring compliance with the freeze, but will also include additional audit coverage in the following areas:

- o Determining that unfilled orders are in fact cancelled.
- o Determining, on a test check basis, whether unused furniture/equipment is being utilized prior to requests for new purchases.

- o Monitoring furniture/equipment invoice payments at the National Finance Center.
- o Spotchecking the justification for such purchases at headquarters and field locations.
- o Evaluating the development of the Property Management Information System being implemented within the Department.

OMB REQUIREMENTS FOR AUDITS OF FEDERAL ASSISTANCE PROGRAMS

The substantial growth, in recent years, of Federal assistance programs involving State and local governments and a host of other recipients has resulted in a bewildering assortment of Federal audit requirements and procedures. The situation was aptly described by the title of a General Accounting Office report, "Grant Auditing: A Maze of Inconsistency, Gaps, and Duplication that Needs Overhauling," issued in June 1979. That report succinctly summarized the problems by stating, "Government agencies' auditing of the use of Federal grant funds is uncoordinated, ineffective, and inefficient," and "About 80 percent of grant funds in GAO's sample had not been audited at all by Federal agencies. Others had been audited repeatedly. This occurred because each Federal agency audits its own grants without coordinating coverage with other funding agencies." The Joint Financial Management Improvement Program has noted the same problems.

The Office of Management and Budget has been attempting to deal with these problems for several years and issued auditing requirements in 1976 and 1977, which were intended to remedy the problems. However, those requirements lacked a framework for implementation. Consequently, most Federal agencies made only limited progress in putting the requirements into effect.

OMB provided part of the missing framework with the issuance, in October 1979, of Attachment P - Audit Requirements, to their Circular A-102 which provides for uniform administrative requirements for grants-in-aid to State and local governments. Attachment P sets forth what has become known as the "single audit" approach. It requires that each State and local government

recipient of Federal grant assistance have an organization-wide financial and compliance audit at least every two years. The audits are to be conducted by State or local government auditors or independent public accountants, under arrangements made by the recipients or subrecipients. It is OMB's intent that a single audit of each of these entities will meet the needs of all parties concerned, particularly the Federal program agencies, for audited financial data. Perhaps the most important new element was the establishment of a Federal cognizant audit agency structure. The cognizant audit agencies will have a number of important responsibilities including monitoring to ensure that required audits are conducted.

The OMB concept has the potential to provide important benefits to all concerned. The grant audit burden upon State and local governments could be reduced. At the same time, many of the gaps that GAO found in coverage of Federal assistance programs should be closed. Also, Federal users of the audit reports would have the assurance that the auditors had the opportunity to review the whole spectrum of Federal funds, rather than examining programs on a grant-by-grant basis.

There are, however, some serious questions and problems connected with implementing the "single audit" approach:

- o The most important question is, "Will the single audit approach result in improved prevention and detection of fraud, abuse and waste in Federal grant programs?" The single audit concept must be carefully implemented and monitored and evaluated to enable us to answer that question.

- o There is some incompatibility between the single audit concept and the authorities and responsibilities of the Inspectors General. Many people, particularly in the non-Federal sector, believe these audits will substantially decrease or even remove the Federal audit presence. Care must be exercised to avoid interference with the Inspectors' General legislated responsibilities for auditing their agencies' assistance programs. The audits required under Attachment P can complement the work of the Inspectors General, but the mechanics of how that will be done have yet to be worked out.
- o The cognizant audit agency structure provided for in Attachment P is the key to the success of the single audit concept. However, the grant situation in any given State is very complex and insufficient information exists now to intelligently make audit cognizance assignments. There is a need to develop substantially more basic data before proceeding with this very important step.
- o The workload and cost impacts of implementing the OMB audit requirements could be very large. There are more than 93,000 State and local governments and many thousands more nonprofit organizations, colleges and universities, and hospitals, that are or will be subject to these requirements. The audit reports for all these entities will have to be processed by one or another of the cognizant audit agencies and by the other audit agencies concerned. Full implementation of these requirements will generate very large increases in workloads and costs for some audit agencies.

Also, there will be increases in costs to program agencies, such as the Farmers Home Administration and the Food and Nutrition Service, because Attachment P requires audits which are either not now being done or are not being paid for by the program agencies (OMB intends for the government to pay its share of the costs), and because the scope of some audits will have to be expanded. This situation probably applies to other Departments as well as Agriculture.

- o Federal program managers have expressed concern about whether this type audit will meet their needs. Many of these officials have little interest in audited financial statements, due in part, perhaps, to their lack of understanding or appreciation of the value of this data. They are more interested in compliance with the requirements of their particular programs, and they doubt that these audits will give them the kind of audit coverage and information they need. OMB included provisions in Attachment P that were intended to deal with these concerns. However, the basic question remains unanswered. If these audits fail to meet the needs of Federal program managers, we could end up with more audits, and more audit costs but less than adequate control over compliance with the laws and regulations applicable to any specific grant program.

- o In recent months, there has been considerable discussion about what OMB has termed, "the low quality of audit work by independent public accountants." A recent GAO report highlighted some problems in this area. We have also encountered a good deal of substandard work on audits of certain USDA programs. This situation presents a serious problem since the success of the OMB audit concept depends in no small measure on the public accounting community performing work that can be relied upon by the Federal program and audit agencies.
- o The OMB audit approach focuses upon the recipients' financial management systems, many of which we know to be less than adequate. This is another problem we need to know more about before implementing Attachment P on a broad scale.

We have made recommendations to OMB which we believe address these concerns and will be working closely with OMB, the other Inspectors General, Federal program and audit agencies and State and local governmental audit groups to help insure effective development of the single audit approach. This represents a very fundamental change in approach to audit coverage of federal grant funds.

We recommend that the cognizant committees of the Congress continue to exercise oversight over the development and implementation of this effort.

SECTION II

SUMMARY OF INVESTIGATIVE AND AUDIT ACTIVITIES

INVESTIGATIONS

Between October 1, 1979 and March 31, 1980, we completed 976 investigations including 724 which involved possible criminal violations. We referred 282 cases to the Department of Justice and 82 matters to State and local prosecutive authorities.

During this six-month period, there were 307 indictments and 208 convictions based upon our investigations. Since the period of time to get court action on an indictment varies widely, the 208 convictions are not necessarily related directly to the 307 indictments. For the last period for which we have disposition data 96.6 percent of the indictments resulted in convictions. Fines, recoveries, and collections resulting from our investigations during this same period totaled about \$2.8 million and claims were established for approximately \$1.1 million. The following is a breakdown of indictments and convictions, by agency, for the period:

<u>Agency</u>	<u>Indictments</u>	<u>Convictions</u>
Agricultural Marketing Service	2	2
Agricultural Stabilization and Conservation Service	41	36
Farmers Home Administration	31	14
Forest Service	1	2
Soil Conservation Service	2	2
Food and Nutrition Service	212	135
Food Safety and Quality Service	17	6
Federal Grain Inspection Service	1	2
Office of the General Sales Manager	-	1
Commodity Futures Trading Commission	-	7
Rural Electrification Administration	-	1

Examples of cases which led to indictments included:

DOMESTIC FOOD ASSISTANCE PROGRAMS

- o A two-year investigation into food stamp trafficking in retail stores led to the indictment of forty-seven persons in four cities across the country. At least thirty-eight retail stores redeemed illegally purchased food stamps during this operation. Food stamps illegally purchased by any one store were frequently spread out and redeemed by other cooperating stores. (United States v. Mahumd A. Ghanem et al., Northern District of California; United States v. Omar A. Joudeh, and others, District of Colorado; United States v. Samir Atieh et al., Northern District of Illinois; United States v. Yusuf Farraj et al., Eastern District of New York.)
- o In New York City an increase in the number of replacement ATP's issued to households reporting the loss or nonreceipt of their original ATP led to an investigative survey of the issuance system. The review disclosed significant weaknesses in administration. OIG and FNS are working with the City to correct these problems. As a result of this investigation, six food stamp receipts were indicted for falsely claiming that their original ATP's were not received and consequently receiving replacement ATP's. (United States v. Jocelin Calderon and et al., Southern District of New York.)
- o A New Jersey wholesaler was charged under the False Claims Act for altering redemption certificates to conceal improperly obtained food stamps. At least \$51,737 in improperly obtained food stamps were redeemed during a one month period. (United States v. Nicholas Villalba Wholesalers, Inc. and Nicholas Villalba, District of New Jersey.)
- o A Philadelphia milk dealer was indicted for redeeming illegally obtained food stamps. He had previously been authorized as both a retailer and wholesaler, but lost his authorizations based on his arrest for forgery of Government checks. He subsequently obtained a retailer authorization for his business, under a new name, by having an employee claim to be the owner. He actually operated as a wholesaler, purchasing milk products from a processor and reselling the products to small retail grocers on a route system. The redemption certificates obtained from his customers were altered to conceal the illegally obtained food stamps and turned into the processor, an authorized wholesaler. In a nine month period at least \$21,000 in illegally obtained food stamps were redeemed in this manner. (United States v. Joseph DeLeo, Eastern District of Pennsylvania.)

- o Twenty-four persons have been indicted to date for food stamp trafficking as a result of joint operations with State investigators in Covington, Kentucky. Five juveniles are also facing proceedings. (United States v. Robert Shutte, et al., District of Kentucky.)
- o The executive director of a youth development project conspired with the owner of a bakery to submit false invoices in order to overstate claims made in connection with the Summer Food Program. Kickbacks to the bakery owner totaled approximately \$14,800. The bakery owner has pled guilty (United States v. Earl Finney, District of New Jersey) and the executive director has been indicted (United States v. Marvin Norman, District of New Jersey).
- o Two school principals and the bookkeeper for the Child Nutrition Program, County Board of Education, Bullock County School District, Alabama, were indicted for misuse of more than \$9,000 in National School Lunch Program funds and submission of fraudulent claims for meals in excess of \$22,500. (United States v. Theodore White; Albert Lancaster; and Annie B. Baniel, Middle District of Alabama.)
- o Four persons in San Antonio, Texas, have been indicted in State court on 39 felony counts for violations regarding the National School Lunch Program. These include theft of over \$10,000, conspiracy, official misconduct and witness tampering. The charges resulted from a scheme between food service employees of a school district with major food and equipment vendors in which \$400,000 was siphoned from the school feeding program. (State of Texas v. David Banks, et al., Bexar County District Court.)
- o The director of a child day care center in Montgomery, Alabama, was indicted on 25 counts of submitting false claims totaling over \$5,000 under the Child Care Food Program. He inflated cost and meal figures to receive excess reimbursement. (United States v. Richard Charles Willis, II, Middle District of Alabama.)

FARMERS HOME ADMINISTRATION

- o A realtor, who was the former Federal Highway Administrator, his brother and a former Farmers Home Administration County Supervisor, were indicted on five counts of conspiracy to defraud the United States, to falsify documents submitted to two separate U.S. Government agencies, and to misapply monies of the Farmers Home Administration. Additionally, the realtor was indicted on four counts of misapplication of funds and his brother with two counts of the same. In a separate but related charge, the realtor was indicted on 15 counts of conspiring to defraud the United States, to submit false statements, to embezzle the money of the Department of Agriculture and to commit conflict of interest violations. (United States v. Karl S. Bowers, District of South Carolina.)

- o An operating loan borrower was indicted on one count of submitting a false loan application, failure to list approximately \$25,000 in outstanding debts, and two counts of illegal disposition of FmHA mortgaged chattel property. (United States v. Kenneth P. Good, Northern District of Texas.)
- o An Assistant County Supervisor of the Farmers Home Administration, was indicted on two counts of embezzling a total of \$2,000 in borrower payments. On March 3, 1980 the employee pled guilty to misdemeanor counts. Sentencing has not occurred. (United States v. Edward M. Wiscomb, District of Utah.)
- o A two count indictment charging mail fraud was handed down against the President of a management firm who falsely submitted information to a financial organization, on Farmers Home Administration letterhead stationary to induce the financial organization to provide him with funds. (United States v. Patrick R. Hoggan, District of Utah.)
- o A rural housing contractor was indicted and convicted for executing false certifications to the Farmers Home Administration certifying that all materials and labor had been paid for regarding three houses he had constructed which had been financed by FmHA. The contractor was sentenced to two years confinement, suspended, placed on three years probation and ordered to make restitution to FmHA in the amount of \$8,046.35. (United States v. Aubrey D. Whitehurst, Northern District of Florida.)
- o Two Rural Rental Housing borrowers and a realtor were indicted on 73 counts involving conspiracy, making false statements in acquiring a construction loan, and converting rental payments, which should have been turned over to FmHA to their own use. (United States v. Gerald L. Sittser, Western District of Michigan.)
- o A Farmers Home Administration disaster loan recipient and a cattle dealer were indicted on two counts of conspiracy and three counts of making false statements in acquiring the loan and diverting a portion of the loan funds for unauthorized uses. (United States v. Larry J. Fluharty, and Ted Jennings, District of Minnesota.)
- o A Farmers Home Administration borrower was indicted and convicted for willfully and knowingly submitting a false statement to support his claim that he had purchased fertilizer and seed when he had not. The borrower was convicted and placed on probation for three years and fined \$1,000. (United States v. James W. Brummett, Eastern District of Tennessee.)

- o A Farmers Home Administration borrower was indicted and convicted on two counts of forgery and presenting false bills of sale to get reimbursed by FmHA for cattle that he did not purchase. The borrower was ordered confined for 13 months and placed on three years probation. (United States v. Stephen L. Massey, Northern District of Mississippi.)
- o A Farmers Home Administration borrower and a contractor were indicted on a total of nine counts for conspiring to defraud the United States by making false statements regarding claims they made to FmHA for work allegedly completed on a rural rental housing project, knowing that the work had not been accomplished. (United States v. Millard M. Cooper and Richard H. Wright, III, Western District of North Carolina.)
- o A Farmers Home Administration farm program borrower was indicted and subsequently tried on 30 counts of fraudulently disposing of \$87,000 worth of soybeans. He was sentenced to serve five years confinement to be followed by three years probation. (United States v. Joe E. Grisson, Northern District of Mississippi.)

FOOD SAFETY AND QUALITY

- o A Food Inspector in Iowa was charged with submitting false travel vouchers which netted him over \$3,600 and false Time and Attendance Reports to corroborate the travel vouchers. He was sentenced to two years probation, ordered to make restitution of over \$600, and perform volunteer services for a period of one year on an average of eight hours per week. (United States v. James J. Joslyn, Southern District of Iowa.)
- o A large meat processing firm in Marshalltown, Iowa, was charged with installing and using a cross-connection between a potable and a non-potable water supply used in the slaughter of hogs for human consumption. This firm pled guilty and was fined \$1,000. (United States v. Swift & Company, Southern District of Iowa.)
- o The owner of a meat packing company in Sublimity, Oregon, was charged with bribing a food inspector and for selling/offering for sale adulterated (freezer burned) beef products. The bribery charge was dropped after the owner pled guilty to the adulteration charge. He was sentenced to three years in prison, of which two and one-half years were suspended, placed on probation for five years, fined \$10,000, and ordered to perform 200 hours of community service. (United States v. J. D. Neal Bruce, District of Oregon.)

- o The owner of a meat plant in Indiana and two other persons were indicted for submitting a false application for federal inspection and for conspiring to conceal the identities of persons "responsibly connected" with an applicant for federal inspection, and the fact that one of these individuals had a previous felony conviction. (United States v. Anthony DeAngelis, Leonard Bracconeri, and Lillian Pascarelli, Southern District of Indiana.)
- o Officials of a meat processing plant possessed counterfeit grading stamps which they used to misbrand meat which was moved in interstate commerce. The Corporation and two officers were indicted. (United States v. Joseph Lavin, Louis Lavin and Springfield Beef Co., Inc., District of Massachusetts.)
- o A potato warehouse owner paid a motel bill for a potato inspector who reported the matter to OIG. Later, while under OIG surveillance, the owner paid other bribes. After being indicted he pled guilty and awaits sentencing. (United States v. Moe Kimmel, District of Maine.)
- o The owner of a restaurant was found to be in possession of uninspected canned meat illegally imported from mainland China. An indictment has been filed in the Southern District of New York. (United States v. Chiu Bing Yuen, Southern District of New York.)

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

- o During the past six months, OIG Investigations directed considerable resources to uncovering violations of USDA's Tobacco Marketing Program. As a result, a tobacco warehouse operator and four other persons from the Abingdon, Virginia area were indicted for conspiracy and false statements in the illegal marketing of tobacco. The co-defendants pled guilty to selling a portion of the unused quota on a marketing card which was then used to sell tobacco not grown on the farm to which the card was issued. The warehouse operator was fined \$5,000 and sentenced to serve six months imprisonment and two and one-half years probation. Guilty pleas have been entered by three of the others. (United States v. Frank D. Chilton et al., Western District of Virginia.)

Other similar cases produced eight indictments and four convictions in Virginia and North Carolina. The disposition of four of the indictments is pending.

- o An ASCS County Executive Director in Indiana pled guilty to one count of knowingly and willfully making fictitious loans to two farmers totaling more than \$49,000 and using the money for his own use and benefit. He was sentenced to five years imprisonment (6 months to be served) placed on probation for four and one-half years and ordered to make restitution within five years. (United States v. John C. Sacs, Southern District of Indiana.)

AUDITS

Between October 1, 1979 and March 31, 1980, the Office of the Inspector General issued 447 audit reports. During that same period, resolved audit findings carried the following monetary values:

Recoveries	\$ 3,142,995
Penalties, Fines, and Judgments	\$ 483,333
Erroneous Payments	\$ 38,345,874
Savings	\$ 3,500,000
Incorrect Loan Disbursements	\$ 4,844,181
Management Improvement Practices	\$ 19,000,000

Establishing dollar figures for audit findings is often complex. Certain categories of dollar findings such as "penalties," "fines" and "judgments" represent quite firm dollar figures as do those dollar results listed as "recoveries" which consist of both actual collections and actual claims established by the program agencies of the Department. Other categories, particularly the categories of "savings" and "management improvement practices" represent the best available estimates of the dollar impact of the audit findings and may be either one time, annualized, or computed for the known duration of the audit condition disclosed. Also, it is frequently the case that agencies will extend corrective actions beyond the instances cited in a particular audit resulting in a substantially greater dollar impact than that shown in the audit report.

It is most important to observe that monetary findings represent only a part of the actual value of our work. Of far greater importance is the preventive and deterrent impact of our audit and investigative work. This impact is

usually not measurable in dollar terms. There are those undoubtedly who would be tempted to traffic in food stamps, bribe meat inspectors or submit false statements in order to obtain FmHA benefits, but who are deterred by the knowledge of the substantial amount of investigative attention given to these programs and the commensurate risk of detection and prosecution. There are large numbers of critically important management and financial control systems in the programs and activities of the Department. Much of our audit attention addresses the design, installation and maintenance of adequate systems of financial and management controls to prevent fraud, waste and abuse and insure the greatest possible efficiency and economy.

Some of the recent examples of the fraud, waste and abuse preventive measures resulting from OIG activities are:

- o Corrective measures taken by FmHA in response to 62 recommendations jointly developed by OIG and FmHA, including proposals of specific policy, procedural, and legislative changes, the implementation of which would tighten management control in the Emergency, Rural Rental Housing, and Business and Industrial Loan Programs, such as:
 - Program Assessment Teams for the major programs;
 - Requiring Rural Rental Housing applicants to certify market survey data submitted in support of their application;
 - Requiring random sample verification of Rural Rental Housing tenant incomes;
 - Developing improved Business and Industrial loan servicing procedures;
 - Utilizing the Office of General Counsel in the review, servicing, and liquidation of Business and Industrial loans;
 - Establishing Emergency Loan ceilings;

- Tightening procedures bearing on availability of commercial sources of credit.
- o Actual or proposed changes in FNS legislation and regulations pertaining to:
 - Periodic matches by States of income reported on food stamp applications with other income-reporting sources;
 - Requirement for Social Security Numbers on food stamp applications;
 - Requiring the use of Photo-IDs for food stamp recipients under certain circumstances;
 - Request for additional public comment on verification of food stamp eligibility information provided by recipients.
 - Extensive revisions in FNS' food processing contract regulations.
- o ASCS improvements in defining Normal Crop Acreage to ensure accurate and uniform interpretation of procedures to determine Normal Crop Acreage (resulting in an initial reduction of 1-1/2 million acres in the first nationwide review).

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

FOOD AND NUTRITION SERVICE

As noted in Section I of this report a considerable amount of audit work is being conducted in the Domestic Food Assistance Programs. This includes reviews of the operation of the Food Stamp Program in several States, and reviews of specific vulnerabilities of the Child Care Food Program and the Special Supplemental Food Program for Women, Infants and Children in several States across the country. In addition to that work, we would like to make note of one audit of the Food Stamp Program in a State that has had many deficiencies in its past operations.

Massachusetts Food Stamp Program

Our recent audit found that the State agency had considerably reduced the dollar value associated with certification errors since our prior audit in 1977, even though the error rate itself has increased slightly. The audit found that 50 percent of the sample cases reviewed for the month of July 1979 contained errors. If projected for the entire caseload, these errors would result in overissuances of approximately \$580,000 for that month. Our 1977 audit had shown a case error rate of 47 percent and a projected overissuance of about \$1,500,000 per month. We also found that the State agency did not exercise adequate control over the manual issuance of authorization cards. As a result, it was possible for a recipient to obtain both a computer generated authorization card and a manually issued card or multiple manually issued cards. We reviewed the records for the month of February 1979 and determined that there were 975 multiple redemptions representing over \$87,000 in coupons for that month.

FARMERS HOME ADMINISTRATION

Emergency Loans

Due to the findings of past audits and publicity concerning some disaster loans we completed an audit of selected Emergency Loan program borrowers with loan balances over \$1 million. We reviewed nine borrowers who received 38 loans totaling over \$38 million. In addition, we reviewed the loan file and farming operations for one applicant who requested over \$10 million in loans. This application was subsequently withdrawn upon completion of the audit.

During FY 1979, FmHA made about 63,000 loans for about \$2.9 billion. Of these, about 300 loans were for over \$1 million representing a total unpaid balance of about \$650 million.

Our reviews, which were performed in five States, disclosed that FmHA had not made sufficient efforts to determine whether the borrowers could obtain credit from other lenders; a program requirement. Some of these loans were made to farmers with substantial net worths which would appear more than sufficient to provide security for loans from commercial lending institutions.

We also found:

- o FmHA needs to place more emphasis on the spirit and intent of the major adjustment loans to assure that funds are not used for expansion purposes. Our review disclosed that loans were made to wealthy borrowers who used the funds to refinance major real estate debts on farms which they had owned only about a year and in two cases to refinance land purchased after the disaster occurred.
- o Instructions need to be clarified to assure that loss loans more accurately reflect actual dollar losses suffered by farmers. Methods being used resulted in excessive loans because: (1) losses are determined based on single farming enterprises for which there may have been a loss, without considering off-setting gains from other farming enterprises; (2) in computing losses, FmHA permits the farmers to choose between a county average yield or the farmer's actual yield for determining the farm's normal production; and (3) the same unit prices are used for the disaster year and the normal year when determining disaster year losses, although in some instances, the farmers receive much higher prices for their production in a disaster year because overall production is reduced.
- o Borrowers who received loans on their individual farming operations also received other loans on partnership farms in which they had substantial interests. This may have resulted in excessive three percent loss loans and could result in borrowers receiving excessive loan funds in the future.
- o FmHA county offices are not properly utilizing the multiple advance feature of their Loan Disbursement System. As a result, loan funds of about \$5.5 million had been released directly to borrowers. Release of funds could result in borrowers using funds for unauthorized expenditures. Also, excessive interest costs to the Government or the borrowers may have occurred.

Based on recommendations by OIG, FmHA is currently reviewing all borrowers with balances of over \$1 million to establish whether they can graduate them to private credit sources. FmHA has also implemented an extensive revision of the Emergency loan regulations, incorporating changes that should correct problems such as those outlined above.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

In our continuing effort to review activities in the Business and Industrial Loan Program and at the request of the State Director, we conducted an audit of loans to the carpet industry in Georgia. The State Director had expressed concern about the amount of loan fund allocations going to that industry which is concentrated in one area of the State. He also expressed concern with servicing problems because some of the borrowers were experiencing serious financial problems.

At the time of our audit, the State office had issued 120 loan authorizations totaling \$97 million since the inception of the program in 1974. Approximately \$27 million, 28 percent of the allocation, had been loaned to 12 borrowers in the carpet industry. We reviewed 10 loans made to six borrowers and concluded that four of the loans totaling \$7.7 million did not meet FmHA's minimum financial requirements. Two of the loans are now being liquidated and FmHA could lose as much as \$3 million. Four of the loans are delinquent. In summary our review disclosed the following deficiencies:

- o Approval of loans to borrowers whose financial conditions, at the time the loans were closed, did not meet FmHA's minimum financial requirements and their financial ability to continue operation was questionable, e.g., did not meet the equity requirement, had negative working capital, had poor debt to asset ratios.

- o Financial statements in the case files showed differences that caused the reliability of the information presented to be questionable, but no follow-up action was taken.
- o Loans were used to reduce the lenders' risk exposure, e.g., over \$2 million of one \$4 million loan was used to pay off the borrowers outstanding loan balance, thereby reducing the lenders liability to \$400,000 (10 percent of the amount of the loan).
- o Loan guarantees had not been distributed among a broad range of rural borrowers as was the Congressional intent but rather a significant percentage had gone to the carpet industry in one section of the State. (The State Director indicated that a major portion of the allocation would continue to be used to assist the carpet industry, subject to the results of an economic feasibility study.)

SUSPENSION OF RUSSIAN GRAIN TRADE - ASSUMPTION OF EXPORTER CONTRACTS

As a result of the suspension of grain shipments to the USSR, USDA was directed to purchase the undelivered quantities of grain on eligible contracts between exporters, or their affiliates, and the USSR. The conditions under which USDA will assume the exporter's contractual obligations are set forth in a Commodity Credit Corporation (CCC) Exporters Agreement. The decision was made to reduce the contract price by an amount to take into account the exporter's profit. The USDA must audit the exporters' claims to ensure that the proper price, excluding profits, is paid.

OIG initiated a Task Force to implement its responsibilities with respect to the suspension of the shipment of various agricultural commodities to the USSR.

We are monitoring the Department's action leading to the assumption of the contractual obligations of exporters for undelivered grain. We have been closely involved with the proposed provisions set forth in the Department's

contract with the exporters; particularly the provisions concerning the deduction of profits from the contract sales price and the accessibility of the exporter's records for audit. In addition, we have proposed a mechanism, to be included in the contract, to establish standards and procedures for exporters to follow in compiling financial statements and to resolve the inevitable disputes that may arise.

We are surveying the accounting systems and records of several exporters to assist in establishing standards and procedures to be used by the exporters in compiling profit and loss statements. Upon receipt of the exporters' statements, we will perform detailed audits to verify the accuracy of the statements. We will also verify the validity of the export contracts and the reasonableness of the contract sales price.

Other aspects of the contract assumptions will require continuous monitoring of the USDA disposition of the grain and the accuracy of the final settlement with the exporters. In some cases, the assumption of contracts will result in unsold grain in the interior under the CCC control. Presently, CCC is purchasing grain in storage at country warehouses and we are reviewing the purchases.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

ASCS Sight Draft Accounting System -Accountability Controls

This audit evaluated the effectiveness of computerized fiscal controls over payments and collections for the Wheat and Feed Grain Programs. Using the ASCS data base we identified farms where there was a high potential for erroneous payments.

About \$4 billion was expended nationwide in program payments during 1977 and 1978. A limited review in 18 States identified approximately \$1.2 million in improper or questionable payments (\$927,189 in overpayments and \$255,554 in underpayments).

The actual or potential improper payments occurred because:

- o Neither the ASCS management field office nor the county offices were required to reconcile farm earnings with program payments;
- o Counties were not required to submit all farm data or to correct inaccurate data on the management field office files; and
- o Sufficient loan, producer, and farm identification data was not included on management field office extended loan history and storage payment records.

Based on the results of the review we have recommended to ASCS that they extend the review to the other States and attempt to reconcile payments utilizing our methodology.

Cost of Storage and Handling Commodity Credit Corporation Commodities

In another audit we examined the storage and handling services for CCC-owned commodities and concluded that they were not obtained at the most economical rates. Even though the CCC Board of Directors and the Secretary adopted a policy of self-insurance in December 1976, warehouses were paid an estimated \$942,840 from July 1, 1978, to June 30, 1979, for insuring CCC-owned grain and rice. In addition, contracting officers accepted warehouse storage and handling rates without knowledge of current average storage costs to assist them in making determinations that the offered rates were fair and reasonable.

Loans For Farm-stored Wheat and Grain

We statistically selected 280 farm-stored corn and/or wheat reserve loans in five States for review. We limited our coverage to determining eligibility, accuracy of storage payments and the quantity and quality (grade) of the grain in the reserve. We concluded that:

- o ASCS needs to also make tests for determining the extent of unauthorized removals of grain under reserve loan agreements when future inspections are made regarding the quality of grain in the reserve. (In five States, we statistically projected the unauthorized removal of 6.4 million bushels of grain which involved 2,026 loans totaling nearly \$13 million.)
- o ASCS needs to publicize the need for marketing authorizations or re-payments prior to selling or feeding grain during release periods.
- o Storage payment errors could have been minimized if county office personnel had received better training in computing payments. (In five States, at least 4,661 loans were overpaid \$237,729 and 12,157 were underpaid \$144,755.)
- o Grade determinations, if required at the time grain was placed in the reserve, could identify grain that cannot be safely stored for a lengthy period without proper conditioning. (In five States, at least 44.7 million bushels of reserve grain was of the lowest grade.)

Cost Effectiveness of Voluntary Diversion Payments

In another audit we determined that voluntary diversion payments are not always equitable or cost effective in reducing feed grain production because payment yields are often excessive on farms with both irrigable and non-irrigable cropland. Producers on these farms usually divert the nonirrigable land which has less yield potential. However, according to ASCS policies and procedures, their payments are based on the established yield for the planted crop. This has caused payment inequities between farms and has not effectively reduced feed grain production on the same farms.

Using statistical sampling techniques, we projected that ASCS could have saved at least \$8.3 million in 70 counties in one State if corn diversion payments had been based on the potential yield for the diverted land. Basic legislation will have to be amended or the present concept of normal crop acreage will have to be redefined if the issue of substantial differences in productivity of land are to be effectively addressed in any future production adjustment program involving set-aside.

Beekeeper Indemnity Payment Program

Another audit concentrated on the inspection process, evidence of colony losses, and reasonableness of care exercised by beekeepers participating in the Beekeeper Indemnity program. The major concern identified by our audit was that ASCS management requires no review or evaluation of inspectors and makes no other claim verifications. ASCS instructions permit bee inspection reports to serve as the sole evidence of the extent of damage to an apiary.

The regulations do not provide adequate criteria for judging the extent of damage leaving inspectors with the responsibility of determining whether a colony is moderately or severely damaged or destroyed. Inspector performance in our opinion was generally inadequate to provide reliable projections of apiary damage and did not result in uniform treatment for similar cases.

Examination of Grain Warehouse Inventories

In another audit we examined the inventory and financial practices of grain warehouses. Criteria for selecting the 29 warehouses we examined included: (1) the period of time since the last examination; (2) the nature of the conditions found on prior examinations with emphasis on those in which there

were disclosed shortages or record deficiencies. At the time of our audit, the measured inventories of grain on hand in 22 of the 29 warehouses examined were not within acceptable limits of outstanding storage obligations. In 9 of those 22 the grain in inventory was not sufficient to cover outstanding storage obligations. Other conditions noted include: warehouse-owned grain was in an overobligated position; grain was in danger of going bad; cash values of grain in inventory were underreported; inventories were undervalued for insurance purposes; warehouse-owned grain was not properly supported or documented as required; and daily position records were not properly maintained.

It is conditions such as these that, if not detected and corrected, can lead to the financial collapse of individual warehouses.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Brucellosis Eradication Program

We audited this Federal-State cooperative program in four States to assess the extent of progress made to reduce the spread of the disease which causes serious reproductive disorders in beef and dairy cattle. Overall, we found that the average rate of infection had declined among the heavily infected herds in Alabama, Florida, Georgia, and Texas from October 1978 through September 1979. Further, these States were making a creditable effort to accomplish the objectives of the program. The heart of the program is a provision for making indemnity payments to producers who comply with quarantine requirements and effectively identify and remove infected animals from their herds. About \$6.8 million in indemnities was paid to producers in

the four States audited in this one year period. On a judgment basis, we selected about one percent of the total claims for in-depth review. We found major noncompliance factors in approximately 36 percent of the claims examined which resulted in ineligible or questionable payments amounting to nearly \$500,000. We reported that improvements were needed in (1) performing complete herd tests, (2) promptly identifying diseased animals in suspect herds and (3) totally depopulating severely infected herds.

AGRICULTURAL MARKETING SERVICE

Egg Research and Promotion Program

We audited the Egg Research and Promotion activities administered by USDA and the American Egg Board to determine if management and supervision had been effective in developing and carrying out programs of advertising, promotion, research and education.

We found a need for the Egg Board to increase its compliance activities to effectively monitor delinquent handlers and to assure that all assessments due are collected. We found that approximately 900 delinquent handlers owed assessments of nearly \$800,000 as of December 31, 1979.

The Egg Board could not provide an accounting of the actual use made of research grant funds totaling \$1,541,069 which were disbursed during calendar years 1977, 1978, and 1979. This occurred because the Egg Board had not required grantees to furnish written summary reports on the progress of the projects or an accounting of the grant funds.

In addition, the Egg Board had accumulated an excess revenue of \$3 million in interest bearing accounts instead of using it for advertising, promotion, and research for the benefit of egg producers.

OFFICE OF OPERATIONS AND FINANCE CENTRALIZED ADMINISTRATIVE PAYMENT SYSTEM

An audit of the Administrative Payment System disclosed that benefits intended by the centralization of payments at the National Finance Center (NFC), New Orleans, Louisiana, in 1973, have not been fully realized. The USDA user agencies believe the NFC services to be inaccurate and untimely, and as a result, maintain records which duplicate the process at the NFC.

A primary cause of the agencies' concern is the high rate of rejected input transaction documents. We found a 25 percent error reject rate for the 16 payment subsystems (the highest single subsystem error rate was 58.8 percent). About 85 percent of the errors were due to user agency deficiencies in the preparation of input documents. NFC corrected the error rejects, but did not gather sufficient statistics to identify who was making the errors, the causes of errors, and processing changes needed.

The error reject correction process at NFC requires the use of about 82 work years at an annual cost of about \$1.1 million. The cost of duplicate records is also high. For the two agencies where we could develop cost information, the costs of duplicate financial records was about \$800,000. We concluded that the need for these duplicate records was not justified because NFC's detailed reports were sufficiently accurate for fund management. However, a matter which detracts from the accuracy of the detailed reports and fosters user dissatisfaction was the lack of a reconciliation process for the various summary reports produced by NFC.

We made recommendations which, when implemented, should correct the reconciliation problem and materially lessen the error rates for input transactions. This would be a step toward accomplishing the benefits intended by the centralized concept.

SECTION III

EMPLOYEE COMPLAINTS ("HOTLINE")

The Complaints Analysis and Investigation Staff handles telephone and written complaints relating to violations of law, rules and regulations, mismanagement, waste of funds, abuse of authority, or a substantial and specific danger to the public health and safety. The unit operates a hotline center to receive complaints on a 24-hour basis on a nationwide toll-free line or through letters to a Washington, D.C. post office box. It also investigates referrals from the General Accounting Office hotline and coordinates all referrals relating to prohibited personnel practices, from the Office of Special Counsel, Merit Systems Protection Board.

During the period covered by this report, we received 276 complaints. The majority of those complaints (274), were received from three sources: letter (81), telephone (76), and GAO (117).

The complaints we received fell within two general categories: Personnel Irregularities (46%) and Program Mismanagement (54%). Examples of allegations within these categories are:

Personnel Irregularities

- o Misconduct
- o Favoritism in hiring
- o Promotion/pay disputes

Program Mismanagement

- o Submission of false information to obtain FmHA loan
- o Trafficking in food coupons
- o Violations of Meat Inspection standards.

The 276 complaints were acted upon as follows:

- 22% were referred to one of our regional offices for audit or investigation.
- 63% were referred to the appropriate USDA Agency for inquiry.
- 15% were referred to the Office of Personnel for review or were resolved and closed after initial review.