



**United States  
Department of  
Agriculture**

Office of  
Inspector  
General

# **Semiannual Report Office of Inspector General**

October 1, 1981-March 31, 1982

PLEASE RETURN TO: ROOM 13-E  
MANAGEMENT OPERATIONS STAFF



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

Dear Mr. Chairman:

Pursuant to Public Law 95-452, I am transmitting the Semiannual Report of the Inspector General, covering the period October 1, 1981 to March 31, 1982.

The Department has continued to place major emphasis on management improvements recommended by the General Accounting Office or the Office of Inspector General pertaining to internal controls, particularly in the areas of debt management, procurement, cash management, and of the governmentwide or multi-agency projects carried out under the auspices of the President's Council on Integrity and Efficiency.

Our efforts in the field of audit resolution and followup have resulted in the lowest number of unresolved audits on record in the Department -- a total of 6 older than 6 months as of March 31, 1982, with less than \$1 million in questioned costs. During the reporting period, our agencies have collected over \$25 million in claims arising from audits. I consider this a major achievement, brought about by the continuous and close cooperation between our program offices and the Office of Inspector General.

This effective coordination has also resulted in numerous proposals to Congress pertaining to needed changes in program legislation. They have contributed materially to legislative amendments enacted during the last year, the implementation of which will greatly enhance our capability to further reduce the extent of fraud, abuse, and mismanagement in the Department's programs.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Block".

John R. Block  
Secretary

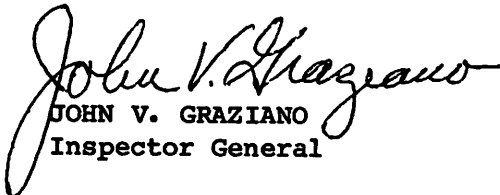
Enclosure

## Foreword

This seventh semiannual report by the Office of Inspector General, U.S. Department of Agriculture, is submitted to Congress as required by Public Law 95-452, the Inspector General Act of 1978. The report covers the period October 1, 1981, through March 31, 1982, the first complete reporting period since my confirmation as Inspector General in July of 1981.

The basic mission and responsibilities of USDA's Office of Inspector General remain to detect and prevent fraud and abuse, to promote economy and efficiency, to alert the Secretary of Agriculture and Congress to problems with recommendations for their solution, and to monitor and report those corrective actions that have been taken.

As a member of the President's Council on Integrity and Efficiency, and the Secretary's Policy and Coordination Council, where I serve as chairman of the Investigations and Auditing Committee, I have seen the need for increased emphasis on areas of particular concern to the Administration, Congress, and the Department. Such areas are debt management, internal controls, security, and vulnerability assessments. We have completed studies for a reorganization of the Office of Inspector General. I am confident that when undertaken reorganization will enhance OIG's capabilities and its responsiveness to requirements placed upon us by the Inspector General Act, subsequent legislative mandates, and special requests by the General Accounting Office, the Office of Management and Budget, and the President's Council on Integrity and Efficiency.

  
JOHN V. GRAZIANO  
Inspector General

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## SUMMARY

In the six-month period from October 1981 through March 1982, the Office of Inspector General (OIG) issued 535 audit reports, including 202 audits conducted by certified public accountants under contract to OIG, and 960 reports of investigation. Monetary values associated with audits amounted to \$651 million. During the period, OIG resolved 407 audits, resulting in claims referred for recovery of \$55.6 million. In addition, agreed-upon savings and management improvements amounted to \$263.6 million (page 5). OIG investigations led to 371 indictments and 442 convictions and resulted in fines, recoveries, and collections of \$3.2 million and claims of \$3.4 million (page 6).

### Debt-Management Audits

The Department increased its emphasis on debt management after the Office of Management and Budget created the Financial Priorities Program in 1979. Audits of Department debt management activities during the reporting period were of such significance that OIG briefed the Secretary and top Departmental management on results before some of the final reports were issued. This was a departure from normal procedure in order to alert the Secretary to a problem of major proportions.

As of March 31, 1982, over \$100 billion, roughly half the total Federal receivables, were owed to the Department of Agriculture, \$53.4 billion of that to the Farmers Home Administration. The Department has recognized that many Farmers Home Administration (FmHA) borrowers face serious financial strain. Farmers Home has, therefore, established specific criteria for handling delinquent accounts and for increasing loan service and supervision (page 7).

Many of the findings of the audits are symptomatic of Federal procedures, in general, and very likely are applicable to debt management practices in other Federal agencies.

### The President's Council on Integrity and Efficiency

OIG assigned high priority to projects sponsored by the President's Council on Integrity and Efficiency (PCIE), devoting to them about 8 percent of total operational audit resources in fiscal year 1982. OIG participated in varying degrees in 13 PCIE projects, such as studies of letter of credit draw-down management, and contractor-held Government property. OIG is the lead agency in the PCIE project on income matching (page 19).

### Audit Resolution and Followup

The Department has continued to emphasize audit resolution and followup. Only six unresolved audits remain that were over 6 months old as of March 31, 1982 (page 40). During the reporting period, Department agencies established claims of \$11.5 million, collected \$25.3 million against these and older claims arising from audits, and waived or compromised less than \$100,000.

## Efficient and Cost-effective Methodologies

Faced with ever-increasing responsibilities and dwindling resources, OIG has developed several efficient and cost-effective methodologies. These include:

- Using computer matching of the records of individuals to verify eligibility for participation in social programs.
- Employing data base analyses to target problem areas.
- Designing and applying error-prone profiles to identify individuals, groups, and program facets highly susceptible to fraud, abuse, or mismanagement.
- Developing audit guides specifically designed to give legally sufficient backup for establishing claims based on disallowed costs.

## Computer Matching

OIG is using computer matching to verify applicant-supplied data in social programs where eligibility is based on income limitations. USDA is coordinating some of its efforts with the Inspectors General of other Federal departments, such as Housing and Urban Development, Health and Human Services, and Labor. Programs of these agencies use similar criteria for participation.

A recent Chicago food stamp audit illustrates the cost effectiveness of computer matching. The estimated cost of \$15,000, which included \$3,000 in expenses incurred by the State, resulted in the discovery of over \$1 million in overpayments and the indictment of 24 individuals for theft, perjury, and conspiracy.

## Food Stamp Audit Guide

OIG completed and tested its draft Food Stamp Audit Guide which is designed to provide:

- Comprehensive coverage of the Food Stamp Program.
- Detailed information to allow auditors unfamiliar with the program to use it successfully.
- Indication of audit steps that support claims against the States administering the program.
- Detailed documentation to support claims.

In the first complete testing of the draft guide, an OIG audit of the Alabama Food Stamp Program identified questioned costs of over \$20 million (page 32).

## OIG Priorities

In general, OIG continued to base its priorities on program vulnerability to fraud, abuse, and mismanagement; on dollar impact; and on threats to employee integrity. The three largest USDA programs account for two-thirds of the Department's budget. Domestic food service programs run by the Food and Nutrition Service will spend over \$12 billion this year. Estimated outlays (direct and loan authority) will total around \$11 billion for rural development programs operated by the Farmers Home Administration and also around \$11 billion for farm programs under the Agricultural Stabilization and Conservation Service/Commodity Credit Corporation. OIG has devoted three-fourths of its fiscal year 1982 resources to these programs--38 percent to domestic food service programs, 26 percent to rural development programs, and 13 percent to farm programs.

### Domestic Food Assistance Programs

During the reporting period, OIG directed a major effort in the domestic food service program area toward monitoring Food and Nutrition Service's implementation of the six key food stamp provisions of the 1981 Omnibus Reconciliation Act. The monitoring indicated that delays in publishing regulations and implementing changes were reducing considerably the benefits and savings that had been projected (page 26).

OIG also took a hard look at re-certification. This work confirmed, as suspected, that the magnitude of the problem is large, particularly in New York City; Washington, D.C.; Cleveland; Massachusetts; and Alabama (page 29).

OIG looked at participation by ineligible aliens in the Food Stamp Program in Florida and California. Costs from ineligible participation in these areas were running over \$1 million a month (page 28).

The Omnibus Reconciliation Act of 1981, P.L. 97-35, passed on August 13, addressed many of the problems highlighted in the February 1981 OIG report on the National School Lunch Program. OIG is monitoring the Food and Nutrition Service's implementation of the new provisions (page 26, 52).

### Farmers Home Administration Programs

In the Farmers Home Administration area, OIG did extensive work on a preventive audit that covered 10 States and 150 county offices. Partial and preliminary results show problems in servicing rural housing loans and in establishing eligibility for several types of FmHA loans. This large-scale audit should be completed before the end of the fiscal year with full details included in the next semiannual report. The audit of FmHA's Rural Rental Housing Program disclosed a large incidence of ineligible participants, excessive subsidies, and excessive management fees and construction costs (page 39).

### Departmental Administration

OIG also undertook a departmentwide audit of cash collections. The overall audit is not yet finished, but completed audits of some major agencies show significant



findings. Problems include delays in depositing collections, quarterly rather than monthly billings, and no interest charged for delinquent payments. On OIG's recommendation the agencies concerned began taking corrective actions immediately, resulting in significant savings (page 41).

In the automatic data processing area, OIG is continuing to monitor systems development activities, review operational systems, and analyze agency compliance with Office of Management and Budget, General Services Administration, and Department guidelines (page 45).

Implementation of the single audit concept (A-102) is progressing. OIG has been assigned cognizancy for 79 State agencies and a number of local governments, departments, and school districts. The first six reports have been issued (page 24).

Fourteen certified public accounting firms under contract to OIG have conducted audits primarily of Summer Food Service and Child Care Food Programs. This activity has resulted in 202 reports and nearly \$350,000 in questioned costs. Audit performance was better than in the past when firms were not under OIG guidance and control (page 47).

#### Legislative Initiatives

In the field of legislative review, OIG has actively initiated or supported changes in existing legislation. This was in addition to previously reported amendments to the domestic food service programs. The recently completed FmHA rural rental housing audit, for instance, includes recommendations for legislative changes to ensure that the program will meet the intent of Congress (page 41).

OIG's long-standing efforts to gain full law enforcement authority produced results. The Agriculture and Food Act of 1981, P.L. 97-98, authorizes designated USDA/OIG personnel who are investigating alleged felony criminal violations to make arrests, execute warrants for search and seizure, and carry firearms.

#### Downtown Complex Security

Security measures designed to control access to and exit from the USDA downtown complex have resulted in a major decline of known incidents of assault and theft (page 54).

STATISTICAL DATA

AUDIT REPORTS ISSUED

During the period October 1, 1981, through March 31, 1982, the Office of Inspector General issued 535 audit reports, including 202 reports prepared by certified public accountants under contract to OIG.\* Monetary values associated with the findings of these audits were as follows:

Questioned Costs

|   |                      |
|---|----------------------|
| Collection Recommended .....  | \$ 25,913,371        |
| Collection Conditional .....  | 8,229,167            |
| Projected for Program Impact Purposes-Collection Not Intended ..... | 356,906,333          |
| Improper Expenditures-Collection Inappropriate .....                | <u>592,749</u>       |
| SUBTOTAL .....  | <u>\$391,641,620</u> |

Questioned Loans

|  |                      |
|--|----------------------|
| Collection/Cancellation Recommended .....  | \$ 30,731,209        |
| Collection/Cancellation Conditional .....  | 62,694,748           |
| Projected for Program Impact Purposes-Collection/Cancellation Not Intended ..... | 119,472,867          |
| Improper Loans-Collection/Cancellation Inappropriate .....                       | <u>46,919,356</u>    |
| SUBTOTAL .....   | <u>\$259,818,180</u> |

TOTAL QUESTIONED COSTS AND LOANS ..... \$651,459,800

\*See Appendix for detailed listing of reports issued during the report period.

AUDIT REPORTS RESOLVED

OIG resolved 407 reports during the report period. The monetary values associated with the findings of these audits were as follows:

At Time of Report Issuance

|  |                      |
|--|----------------------|
| Questioned Costs and Loans Intended for Collection .....     | \$252,521,324        |
| Questioned Costs and Loans Not Intended for Collection ..... | <u>687,804,351</u>   |
| TOTAL .....  | <u>\$940,325,675</u> |

At Time of Report Resolution

|  |                             |
|--|-----------------------------|
| Costs and Loans Referred for Collection .....                | \$ 55,554,066               |
| Post audit Justifications Accepted by OIG .....              | (196,967,258)               |
| Disallowed Costs and Loans Not Intended for Collection ..... | 676,441,937                 |
| Savings and Management Improvements** .....                  | 263,597,045                 |
| Sanctions** .....  | <u>519,460</u>              |
| <b>TOTAL .....</b>   | <b><u>\$996,112,508</u></b> |

\*\*Data for savings and management improvements and for sanctions are entered into the information system only after the program agency has agreed at time of report resolution.

INVESTIGATIONS

Between October 1, 1981, and March 30, 1982, OIG completed 960 investigations, 750 of which involved possible criminal violations. OIG referred 250 cases to the Department of Justice.

During the 6-month period, investigations led to 371 indictments and 442 convictions. Fines, recoveries, and collections resulting from investigations during this same period totaled about \$3.2 million and claims approximated \$3.4 million.

Following is a breakdown by agency of indictments and convictions for the report period:

| <u>Agency</u>                                     | <u>Indictments</u> | <u>Convictions***</u> |
|---|--------------------|-----------------------|
| Agricultural Marketing Service .....              | 0                  | 3                     |
| Agricultural Stabilization & Conservation Service | 44                 | 32                    |
| Animal & Plant Health Inspection Service .....    | 2                  | 2                     |
| Farmers Home Administration .....                 | 19                 | 13                    |
| Federal Crop Insurance Corporation .....          | 1                  | 0                     |
| Food & Nutrition Service .....                    | 292                | 381                   |
| Food Safety & Inspection Service .....            | 6                  | 8                     |
| Forest Service .....                              | 4                  | 2                     |
| Science & Education Management Staff.....         | <u>3</u>           | <u>1</u>              |
| <b>TOTALS .....</b>                               | <b>371</b>         | <b>442</b>            |

\*\*\*Since the time period for getting court action on indictments varies widely, convictions do not necessarily correspond to indictments.

Subpoenas

OIG issued two subpoenas during the October 1981 through March 1982 period.

## HIGH PRIORITY ACTIVITIES

### DEBT MANAGEMENT

After the Office of Management and Budget initiated the Financial Priorities Program in 1979, the Department began giving debt management greater emphasis and priority. The Department needs a strong program. Total receivables increased from \$40 billion at the start of fiscal year 1978 to over \$100 billion at March 31, 1982, \$4.1 billion of it being delinquent. Department receivables amount to about 50 percent of the Federal Government's total receivables. A great deal of the Department's increased receivables came through Farmers Home Administration programs, with about \$53.4 billion owed to that single agency.

The Office of Management and Budget selected the Department of Agriculture to participate in a governmentwide debt management study. The Department was directed to study the effectiveness, economy, and efficiency of debt management procedures, and the Assistant Secretary for Administration was assigned overall responsibility.

The Department study team released a report in May 1980 covering five USDA agencies that hold 99 percent of debts due the Department. The report identified many areas for improvement.

A second study investigated debt management practices in three additional agencies and the Department's National Finance Center. This report was released in March 1981, and related problems similar to those noted in the first study.

As a result, the Department's top managers ordered individual agencies to develop remedial measures, and the Department prepared an action plan to deal with major issues identified by the studies. Debt management steering and coordinating committees were established to oversee implementation.

Basic problems continue at operating levels. Audits have disclosed weaknesses in agency accounting and reporting systems, instructions, and work priorities. The Office of Inspector General believes that an unacceptable percentage of the Department's receivables are now or will become delinquent.

Department debt management studies did not determine whether policies and procedures under which agencies operate have direct bearing on delinquencies. Thus, the Department's action plans have not addressed policy and procedures issues. However, OIG's audits and previous semiannual reports to Congress on the Farmers Home Administration have stated that a major cause of increased delinquencies has been a lack of stress on loan servicing to correspond to the emphasis on loan making. Recent policy statements by the Department's leadership have addressed the need for better loan servicing.

### Farmers Home Administration

The Farmers Home Administration holds about 54 percent of total Department receivables and 88 percent of its delinquencies. Amounts loaned have increased

tremendously in recent years. In 1969, Farmers Home had about 200,000 borrowers and a loan portfolio of just over \$2 billion. At the end of fiscal year 81, borrowers numbered 1.4 million and the portfolio totaled \$56.4 billion. This figure does not include about \$5 billion in guaranteed loans under the Business and Industrial Loan Program. About half of these loans or guarantees have gone on the books since fiscal year 1978.

OIG has reported on Farmers Home Administration management problems since OIG's first semiannual report to Congress in May 1979. The same general problems have prevailed regardless of the type of loan program reviewed. It has been OIG's experience that inadequate monitoring and supervision in loan making has been the main reason for an increasing number of loan delinquencies. Other reasons include inadequate reviews of loan applications and supporting documents, inadequate loan servicing and handling of delinquent accounts, and failure to graduate borrowers to commercial sources of credit. These problems are caused by the fact that the size and skills of the agency's staff do not balance the size and complexity of the program and by the inability of the agency to develop an information and accounting system responsive to its needs.

The Department has recognized the current serious financial condition of many borrowers and that unfavorable economic conditions like high interest rates have caused adverse cash-flow problems. In response, the Department has established specific criteria for working with delinquent borrowers and has made servicing and supervising loans a high priority.

#### Accounting and Management Reports

Improvement is needed in the accounting and reporting system of the Farmers Home Administration so that it can provide the information the agency needs to identify loans that require servicing. This lack of information seriously hampers the agency's ability to manage its receivables effectively. The Farmers Home Administration, for example, needs routine loan transaction reports to service rural housing loans when repayments are scheduled on a monthly basis. Borrowers make repayments either through the local county office or directly to the finance office, with the majority of payments being direct. County offices can determine the account status for borrowers who mail payments directly to the finance office only from delinquency reports generated by the centralized system.

OIG audits disclosed that finance office delinquency reports are neither timely nor accurate. In 1981, about 20 percent of the accounts shown as delinquent in one state were actually current.

Errors resulted mainly from delays in posting loan transaction data at the finance office. The unreliability of these reports discourages county office personnel from taking action until a borrower has been reported delinquent more than once. In one State this resulted in the inadequate servicing of 24 percent of delinquent rural housing loans in the statistical sample.

The Farmers Home Administration has ongoing projects to improve its finance office systems and to correct deficiencies in delinquency reporting. It implemented an

enhancement of the loan suspense system in April 1981, and it plans an automated discrepancy processing system for implementation in August 1982. Completion in 1984 in redesign of accounting and reporting systems is scheduled. In the interim, the agency has placed strong emphasis on delinquent loan servicing. It has established goals for reducing delinquencies in each loan program and issued revised procedures outlining new servicing actions for delinquent rural housing loans.

It is OIG's opinion that weaknesses in loan making and servicing contributed significantly to the fact that Farmers Home Administration total delinquencies have increased to about 500,000 borrowers. This is 35 percent of all borrowers.

Overdue payments totaled \$4.6 billion on January 1, 1982. By comparison, on September 30, 1981, 326,000 borrowers were delinquent in the amount of \$1.6 billion.

The recent \$4.6 billion delinquency figure jeopardized unpaid loan principal of about \$21.4 billion. Historically, the agency's January delinquencies are high since loans with annual installments come due in December, and efforts to prepare yearend statements interfere with the timely posting of payments. Nevertheless, the 1982 amount far exceeds January figures for previous years.

#### Farm Loan Delinquencies

Delinquent farm loans represent a serious problem and reflect deficiencies in past loan-making and servicing policies. Total loans have more than doubled during the last three years from \$9 billion in January of 1979 to \$22 billion in January of 1982. During this same period, delinquent farm-related loan totals increased sixfold, from \$700 million to \$4.3 billion. The increase occurred primarily in the Emergency and Economic Emergency Loan Programs.

Audits indicate that many borrowers hold Farmers Home loans with insufficient collateral and limited prospects of achieving and maintaining financial stability. A major reason has been the loan-making policies instituted in recent years for farm operating loans. In January 1978, an administrative announcement prohibited foreclosures or denials of credit to seriously delinquent borrowers if they had any reasonable chance for remaining on the farm. This policy contributed to loans being approved for ineligible farmers. Others went for ineligible enterprises. Loans were disbursed to new or inexperienced farmers without regard for management ability. Some loans were made without regard to repayment ability. Additional loans went to farmers whose farm and home plans showed little or no chance for success. Meanwhile, crop losses in 1980, increased production costs, and depressed market conditions contributed to high delinquency rates with record numbers of borrowers on the verge of bankruptcy.

#### Inadequate Collateral Security

Because of rising delinquencies, OIG completed an audit in 1980 to determine whether the Farmers Home Administration was maintaining security for farm loans (operating, emergency, and economic emergency) in accordance with relevant laws and



regulations. Of over 174,000 loans with unpaid principals totaling \$12.3 billion, approximately 119,000 loans with unpaid principals of \$3.8 billion were delinquent. Actual delinquencies amounted to \$930 million. OIG reviewed a statistically selected sample of 100 borrowers holding loan balances of \$7.1 million, and projected that nearly 37,000 borrowers had disposed of mortgaged property without agency knowledge. In many cases, remaining security was inadequate to cover the loan balance, placing a projected \$1.4 billion in jeopardy. Inadequate servicing and a failure by Farmers Home to carry out required collateral inspections contributed to the problem.

Projections from the sample also determined that over 39,000 borrowers did not have realistic plans for long-range debt retirement. The projected unpaid loan balances amounted to \$3.2 billion. Problems were that present market values of collateral were not equal to the amount of the loan and/or that all borrower's debts had not been considered.

After the audit, the agency issued instructions that stressed the need for long-range debt repayment plans and realistic farm plans to ensure loan soundness. Additionally, Farmers Home now requires annual inspections of livestock security, emphasizes inspections of other collateral, and requires county supervisors to notify local buyers of livestock and other commodities that a list of borrowers will be furnished on request.

#### Loan Eligibility

OIG audits of emergency loans in three southeastern States in 1981 identified over \$14 million in excessive or ineligible loans to 70 borrowers. In one State, an additional \$8 million in loans were questionable. These went to eight borrowers whose deficient repayment ability made it unlikely they could repay. In addition, 20 other OIG audits in the past 2 years have identified over \$9.7 million in ineligible or excessive loans to 134 borrowers.

Improper loans were made to borrowers on both extremes of the financial spectrum. Some borrowers showed net worths of between \$1 million to \$5.7 million. The nonfarm incomes of others ranged from \$40,000 to \$140,000 per year, suggesting they could have obtained credit elsewhere. On the other extreme, some borrowers, with negative net worths ranging from \$57,000 to \$618,000, owed the agency \$1.8 million in prior loans. Borrowers with negative net worths were delinquent \$700,000, were deficient in loan security by \$1.4 million, and had negative repayment ability of \$1.2 million. Still they had received loans in 1981 totaling \$950,000.

In March 1982, OIG initiated a nationwide audit of the Emergency Loan Program after dramatic increases in delinquencies and prior audits reported problems. As of January 1, 1982, 59 percent of all emergency loan borrowers were delinquent. This represented 74,061 borrowers with unpaid loan balances of \$7.8 billion, \$2.7 billion being delinquent. Preliminary survey work disclosed subsequent emergency loans to borrowers with questionable ability to repay who were already seriously delinquent on prior loans.

The Department further changed its loan-making policy relative to delinquent borrowers in February 1982. It now requires only that borrowers have a reasonable chance to repay fiscal year 1982 loans plus interest, without consideration of their ability to repay prior loans.

The Secretary of Agriculture instructed the Farmers Home Administration to make every effort to assist farmers in dealing with current farm credit conditions. The agency asked that farmers with financial problems discuss their loans with field personnel to find ways to remain borrowers for another year except in very extreme cases. The Secretary directed that Farmers Home continue to work with present borrowers who:

- Acted in good faith in trying to meet their obligations.
- Made honest efforts to pay, but could not because of circumstances beyond their control.
- Applied recommended production and financial management practices that are recognized as successful.
- Maintained and accounted for security property.
- Had reasonable chances for repaying 1982 production loans plus the interest that would accrue.

The Secretary instructed the agency to consider all available re-scheduling, reamortization, and deferment of present loans to give each borrower the best possible chance to succeed. When such considerations would not improve loan repayment ability, the Farmers Home Administration was told to carry borrowers delinquent for the 1982 crop year, provided they met the five criteria set forth above.

The Department realized that many present borrowers would need credit from other sources in 1982. Whenever possible, the Department wanted to use its funds to supplement credit from these sources. The agency could subordinate its security to private lenders to help farmers obtain loans from them.

The agency advised borrowers receiving loans under this policy by letter of their serious financial condition and that it was important that they carry out the farm and home plan developed for the current year. They were further advised that the agency would evaluate their farm operation at the end of each production season to determine whether they would continue to receive the Farmers Home Administration financing.

A State director advised that without the February policy change he would not be able to approve operating loans for about 50 percent of his State's farm borrowers. Review of several 1982 emergency loan files at one county office in this same State disclosed some borrowers with significant negative net worths and little or no real

estate collateral. For example, one borrower rented his farmland and owned no real estate. He had assets valued at \$102,000, including \$19,000 in noncollateral-type assets. His outstanding debts totaled \$218,170. About \$200,000 of this debt represented emergency loans from prior years. The loans went as far back as the 1977 crop year, for which the borrower was delinquent \$144,139. Even with maximum use of available debt re-structuring techniques, OIG could not realistically project that the borrower would ever have the ability to repay his debts. Nevertheless, Farmers Home approved a 1982 emergency operating loan of \$73,000.

#### Preventive Audits

Audit coverage of the Farmers Home Administration is complete for 10 States and 150 counties under an approach based largely on a statistical sample of various program activities, resulting in both statewide and nationwide projections.

The audit concentrated on agency servicing of rural housing loan borrowers for graduation to conventional lending institutions and on determining eligibility for new loans granted during fiscal year 1980 under the Rural Housing, Economic Emergency, Farm Ownership, Farm Operating, and Limited Resource Loan Programs. The results provide an overall picture of the problems facing agency management, and suggest actions needed to improve debt management. OIG audits reflect Farmers Home attempts to cope with record delinquency rates and a loan portfolio burdened with borrowers who are ineligible or who should have been shifted to commercial lenders years ago. These situations directly affect loan servicing and a computerized accounting system strained beyond its capacity during peak periods. Elimination of ineligible participants would significantly ease loan servicing and accounting problems. Audit results now being drafted will report nationwide statistical projections at the midpoint.

Rural housing loans with outstanding balances of \$1.3 billion have high potential for refinancing by other lending institutions. Projected interest savings -- the difference between rural housing loan rates and the cost of agency borrowing -- would total \$100 million per year. Average income for borrowers eligible for graduation was \$22,196 with average home equities of \$18,419 -- strong indicators that these borrowers have sufficient financial ability to qualify for and meet conventional lending terms.

Reasons given by county supervisors for not requesting borrowers to graduate into commercial credit included excessively high interest rates, unawareness that private lenders were interested in refinancing the loans, and not enough time to service borrowers for graduation.

At the beginning of the October 1981 graduation review period, Farmers Home reemphasized to its loan servicing personnel that graduation to commercial credit is a high priority. To date, one State has reported that of 30 borrowers in OIG's sample for which actions were started, 26 have been graduated or are in foreclosure. Foreclosure is the only alternative available when borrowers refuse to graduate voluntarily. This, in OIG's opinion, discourages county personnel from aggressively pursuing graduation. Twenty-two others in the same State, but not included in the sample, have been requested to refinance.

The audit projects loans to ineligible borrowers during fiscal year 1980 as follows:

|                    | <u>LOANS</u> | <u>AMOUNT</u>   |
|--------------------|--------------|-----------------|
| Rural Housing      | 2,128        | \$ 62.8 million |
| Economic Emergency | 3,293        | 184.9 million   |
| Farm Ownership     | 507          | 23.6 million    |
| Operating          | 1,438        | 25.3 million    |
| Limited Resource   | 2,331        | 90.0 million    |

Rural housing loans had been made to ineligible borrowers with excessive income or when credit was available from other sources. Maximum adjusted family-allowed income to qualify for rural housing was \$15,600. Income for sampled loans in one State ranged from between \$17,000 to \$28,000.

Farmers Home Administration made economic emergency loans to borrowers who were not bona fide farmers (i.e., did not obtain 50 percent of their income from or devote 50 percent of their time to farming) and to some who could have obtained credit from private sources. Also, loans went to individuals who actually operated as an association of partners.

OIG also found economic emergency loan funds of about \$146 million being used for unauthorized purposes such as purchasing additional land or refinancing nondelinquent debts from other financial institutions. One borrower used \$51,000 of economic emergency loan funds to expand a retail grocery business unrelated to his farming operation. Another borrower received \$400,000 despite assets of \$3.5 million and liabilities of only \$1.7 million.

As an example, OIG's audit questioned a limited resource loan of \$86,000 to refinance existing debts, pay purchase and transportation costs for eight registered European Belgian horses, and cover 1980 operating expenses. Breeding and showing would be the sole source of agricultural income. The refinanced debt would also pay for a barn that the borrower was not to build until the loan was closed. The borrower failed to observe that loan condition. Some costs associated with acquiring the horses included:

|   |           |
|---|-----------|
| Air fare for horses                     | \$ 16,188 |
| Air fare for borrowers and veterinarian | 3,599     |
| Vermont veterinarian and stable         | 1,710     |
| Truck Conversion to haul horses         | 2,920     |
| Miscellaneous (motel and related costs) | 1,837     |

One horse died, and insurance proceeds were applied to the loan. The borrower is still delinquent \$17,778.

The Farmers Home Administration's national office has reviewed this limited resource operating loan. It said that the loan was unique and not typical of other

limited resource loans. The national office determined that the applicant met eligibility requirements for the loan and that the price paid for the registered Belgian draft horses was not out of line with the average prices paid for similar horses in the United States.

#### Business and Industrial Loan Program

Between 1977 and 1979, numerous audits have reported that business and industrial loan guarantees have been approved for marginal, unsound businesses and that loan servicing is almost nonexistent. In early 1980, an audit of business and industrial loan decisionmaking processes at the Farmers Home Administration national office disclosed many deficiencies in analyzing and approving loan guarantee applications. These included external pressure on the business and industrial loan staff to approve marginal or substandard loans.

As a result of these findings and tremendous growth in the program in fiscal year 1979, OIG initiated a nationwide audit that revealed serious program weaknesses. Preloan analysis, supervision, and servicing of the loan portfolio were inadequate. OIG has reported these matters in previous semiannual reports but is highlighting them again to place in perspective problems the Department faces as the Farmers Home Administration's supported enterprises attempt to achieve financial independence.

Review of 30 statistically selected business and industrial loans totaling \$97.8 million in 20 States disclosed \$46.6 million in questionable loans to 17 borrowers, and \$3.2 million in unauthorized disbursements to 7 borrowers. OIG projected that 58 percent of 712 loans obligated during fiscal year 1979 and closed prior to January 11, 1980, went to borrowers of questionable eligibility. Twenty-nine percent involved unauthorized disbursements. OIG questioned the eligibility of 17 borrowers in the sample because of marginal or unsound financial condition at the time they made a loan application, questionable loan purposes, inadequate collateral, and insufficient equity. OIG found that monitoring of loan closings and servicing of lenders were inadequate in 18 of 30 statistically selected cases.

OIG also found inadequate collateral appraisals, incorrect repayment terms, inadequate feasibility studies, conflicts of interest between borrower and lender, excessive guarantee percentages, and lenders' agreements that were practically unenforceable in the event of negligent lender servicing.

In addition, the Farmers Home Administration had not established an adequate system to determine the number of jobs created or saved by the Business and Industrial Loan Program. Farmers Home had reported to Congress that 180,527 jobs were created or saved from the program's inception through September 30, 1979. It based that figure on applicant projections. OIG found that the number of jobs projected to be created or saved by loans guaranteed to 712 borrowers in fiscal year 1979 were overstated by nearly 18,000 jobs, or 59 percent. Additionally, another 18,000 jobs involved loans that were later de-obligated.

In 1981, OIG initiated an audit of business and industrial loan liquidations that is still in progress. The effort follows a nationwide audit in 1980 that showed weaknesses in liquidation procedures and high loss rates on completed liquidations. So far, the audit has found that liquidations of business and industrial loans have been escalating over the past several years.

As of June 1981, Farmers Home had liquidated loans of 144 business and industrial borrowers. Losses of about \$40 million on loans originally valued at \$77 million represented a 56-percent loss rate. The average loan liquidated was about 2.5 years old. About 50 percent of \$5 billion in business and industrial loan guarantees was made in fiscal year 1979 and 1980. If the loss rate on the earliest loans continues, an increase in the number of liquidations is likely. Also since the loan size per borrower liquidated is increasing, losses are likely to increase significantly. In June 1981, 254 borrowers were in liquidation with original loan principals of \$216 million.

We believe the Farmers Home Administration can reduce anticipated losses by controlling the liquidation process more tightly and by auditing final losses prior to settlement. OIG arrived at this conclusion by noting the following:

--Proceeds collected by lenders during and after liquidation were not reported to the agency.

--Paid loss claims included unapproved protective advances and accrued interest thereon; unapproved, unallowable or duplicate expenses; and estimated costs in excess of actual costs.

--Collateral was not liquidated, especially accounts receivable.

--Recovery from personal guarantors was not pursued or was settled for less than the full amount when guarantors had ample repayment ability.

--Violations of loan guarantee conditions (i.e. misuse of loan funds) were not considered.

--Conflicts of interest in collateral sales and other lender actions were under investigation and thus apparent.

-- Inadequate liquidation plans related to data that was either not obtained or not evaluated to assure maximum recovery with minimum processing costs.

In addition to incurring liquidation losses, Farmers Home has repurchased guaranteed business and industrial loans from third party holders. On December 31, 1981, repurchases amounted to \$217.7 million in principal and \$38.1 million in accrued interest. About 90 percent of these repurchases were caused by borrower defaults. The agency carried the repurchases as "investments" and "accrued interest on investments," without a corresponding reserve account to cover expected losses. Other accounting problems resulted because the agency's system cannot generate a summary report of re-purchased accounts. At the start of OIG's audit, the system could not identify all re-purchased accounts. Programing changes are now underway.



The agency has started some debt management initiatives, such as revising its accounting system to strengthen its operation. It is OIG's opinion that the size and complexity of agency operations makes additional innovations imperative.

OIG recommends consideration of several steps:

1. Aggressive action to graduate borrowers to commercial credit. This would reduce the number of borrowers and produce interest savings through lower budget outlays. County offices can handle only limited numbers of cases without jeopardizing ability to service borrowers.

An aggressive program is now in process, but to insure graduation at an expedited pace, OIG recommends that Farmers Home create a special project team to deal with legal arrangements, lender enthusiasm, and processing procedures. Identification and handling of cases eligible for graduation could be contracted out.

Should lender availability become a problem, consideration could be given to guaranteeing refinanced loans. This is allowed by current program regulations. OIG's preventive audit found many borrowers eligible for graduation because of high equity and financial stability. Such guarantees would represent low risk to the Federal Government.

2. Late payment penalties should be instituted immediately. This would discourage borrowers from delaying payments, especially borrowers with loans at interest rates below the current cost of borrowing. Interest on overdue amounts accrues at the loan's original interest rate.

3. Delinquent farm loan borrowers make up a sizable portion of the portfolio. We believe that the agency should establish a special project team to develop strict criteria to avoid foreclosure.

The following are subjects the team should address:

-- Changing farm operations when current operations have no reasonable prospects for profitability.

-- Liquidating assets that are neither profitable nor productive.

-- Identifying marginal operations that should receive no further assistance because they have no reasonable chance for success.

-- Implementing recommendations of the team. To do so the Farmers Home Administration should consider supplementing its staff with outside contractors.

4. The agency needs to separate its function as debt management/collection agent from its loan making and servicing function. This change would eliminate the inherent conflict that results from measuring employee performance in both functions. Debt management teams could be assigned to each State. This would further separate loanmaking from debt management.

## Referral of Debts for Legal Action

Prompt resolution of the Department's debt is also hindered by the litigation process. It is basically slow, ineffective, and inefficient. OIG found a backlog of about 10,000 cases referred by agencies to the Office of General Counsel, with claims totaling over \$550 million. About 300 cases with claims in excess of \$10 million were referred over 5 years ago. Approximately 90 percent of the cases, valued at about \$520 million, were referred by the Farmers Home Administration. Such referrals, principally in the housing programs, have increased significantly during the last eighteen months as greater administrative effort has been devoted to servicing outstanding loans. The resources of the Office of General Counsel have not been increased.

Many of the problems in the Department's Office of General Counsel have been created and compounded outside the Department, namely by the Justice Department. We found, however, that the office lacked processing and accounting systems and case tracking and management information systems capable of handling agency referrals aggressively and expeditiously.

The Department's action plan addressed this issue, and actions are now underway. For example, a tracking and information system is now in place. We believe results must be fully analyzed to develop long-range corrective actions if similar backlogs are not to recur in the future.

## National Finance Center

The Department's National Finance Center operates a centralized billing and collection system that handles the business of various agencies in the Department. Billings are mainly for services, such as grading and inspection activities, that are performed at commercial establishments. Monthly average receivables represent a small portion of the Department's total, yet the amounts should be turned over monthly to provide a continual cash flow to the Treasury.

The centralized billing and collection system has been in existence for several years. As originally designed, it did not include adequate followup or collection activity. On March 31, 1981, about \$10 million of \$19 million due was delinquent. The main problems OIG audits have reported with the National Finance Center system are the following:

- Inadequate followup on unpaid accounts. The National Finance Center sends the demand letter on or about the 56th day rather than immediately following the 30th day after a receivable has been established.

- Interest not charged on past due accounts. An estimated \$750,000 in interest charges has been lost during the last 2 years.

- Collection responsibilities not specified.

- Management reports not identifying accounts needing collection action or on which no action has been taken.

- Accounts that have been determined uncollectible not removed from the receivables category.

The Center implemented a re-design of its system for centralized billings and collections in March 1982. The new system was scheduled to generate bills to customers on April 1, 1982. To encourage prompt payment, bills advised customers that accounts delinquent for over 30 days would be billed interest.

The new system, according to the Center's design, will provide for:

-- Management of USDA accounts receivable, using modern commercial business practices.

-- Billing interest on delinquent accounts.

-- Reports on aged accounts receivable for improved debt management.

-- Procedures for regular review and writeoff of bad debts when warranted.

The new system should correct most areas of concern. OIG believes it prudent, however, for management to give the new system attention to assure monthly turnover of Department accounts receivable to provide a continual cash flow to the Treasury.

#### Agricultural Stabilization and Conservation Service and the Commodity Credit Corporation

A basic problem with debt management in the Agricultural Stabilization and Conservation Service and the Commodity Credit Corporation is a lack of accurate and timely information to managers. The present centralized automatic data processing system is designed primarily to produce financial reports. It does not provide data to help monitor collection efforts. Likewise, improved internal controls are needed to better assure accurate handling of accounts. Several problems result from these weaknesses:

1. The system fails to validate interest and storage charges on loan repayments. OIG's audit of such payments in two States found \$50,000 in erroneous computations. A statistical sample in six midwestern States projected errors of \$6.1 million.

2. The system does not monitor loan servicing. The six-State statistical sample projected loan collateral shortages of \$67 million, for which storage of \$13 million had been paid. An effective system of spot checks by county offices could have detected these shortages, leading to the abatement of erroneous payments.

3. Records of unpaid loans past maturity are inaccurate. The system reported 3,300 commodity loans totaling \$26 million which were at least 3 months past maturity. The audit found that these loans were repaid or properly transferred and current under subsequent programs. Such inaccuracies affect the servicing of past-due loans. Similarly, storage facility loan reports do not indicate delinquent amounts by loan identification number. The Agricultural Stabilization and Conservation Service estimates that as much as \$5.8 million in storage facility loans might be overdue.

4. The system does not always issue invoices in a timely manner. In one case, five sales of Commodity Credit Corporation-owned commodities were not invoiced after the contract for periods ranging from 7 to 16 months. Associated interest costs totaled about \$151,000.

5. The system does not have the capability to offset amounts owed against current program payments. Likewise, the system is not geared to offset debts due other agencies in the Department. OIG previously identified potential offsets totaling about \$1.1 million that could have been recovered by offset capability.

Page 57 of this report contains a list of total debts owed the Department of Agriculture.

#### PROJECTS OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

OIG has been extensively involved in 13 initiatives of the President's Council on Integrity and Efficiency. The Department of Agriculture is the lead agency for "identifying and verifying significant underreporting of income in federally assisted benefit programs." This project is designed to identify recipients who obtain Federal benefits by underreporting income. Food Stamp Program files are being matched by computer against State wage files, the files of other State systems, and those of the Social Security Administration.

Primary elements of the project involve cooperating with State and local governments to:

- Identify Food Stamp Program participants receiving unallowable or excessive benefits.
- Remove ineligibles from food stamp rolls and establish claims.
- Coordinate efforts with other Federal Offices of Inspectors General to enable them to determine overpayments in the programs of their departments.
- Develop cases for prosecution.

The metropolitan areas planned for inclusion in the project are Atlanta, Chicago, Cleveland, Detroit, Houston, Miami, New York City, New Orleans, Philadelphia, Los Angeles, St. Louis, and Washington, D.C.

OIG performed for the President's Council a survey of cash management practices related to the Federal payroll. The purpose was to determine if significant savings could be realized by revising procedures for processing and delivery. The survey determined that changing Federal civilian pay periods from 2 to 4 weeks and military pay periods from semimonthly to monthly would save over \$180 million in annual interest, processing, and delivery costs. These changes would present some hardship for employees, yet OIG believes they offer viable cost-cutting tools and a preferable alternative to involuntary furloughs or reductions in force. OIG forwarded its survey report to the President's Council, suggesting that processing and delivery systems deserve further study.

OIG also proposed in a position paper to the Council two governmentwide actions to enhance debt management practices. One would require agencies to report systematically to both debtors and the Internal Revenue Service debts forgiven or written off as uncollectible. These debts would be included in debtors' taxable incomes. The second proposal would be to require the Internal Revenue Service to offset bad debts against debtors' Federal income tax refunds.

The fact that the IRS could become involved would encourage defaulters to make debt repayments. Deductions from tax refunds would increase collections of past-due amounts. Collections and savings could total an estimated \$400 million annually. OIG suggested that the Council recommend that Congress commission a study group to develop procedures and guidelines for implementation.

#### Department of Justice Food Stamp Task Force

In September 1981, the Attorney General announced formation of a task force to combat Food Stamp Program weaknesses previously identified by OIG in audits and investigations. The Department of Justice coordinates the task force, which includes OIG representatives as well as personnel from the Federal Bureau of Investigation, the Secret Service, and the Postal Service. The task force focuses on duplicate issuance, issuance agents, mail theft, and suspected caseworker fraud. It will also help OIG follow up on the 12-city computer matching effort described earlier by serving as a mechanism for coordinating investigations and prosecutions.

#### COMPUTER MATCHING

##### Verification of Eligibility

As discussed in prior semiannual Inspector General reports, major Department activities like the Food Stamp Program need better controls implemented on a day-to-day basis to maintain integrity in handling and disbursing public funds.

One improvement that OIG has recommended for the Food Stamp Program is additional verification of the eligibility information that recipients report. Reconciliation and matching procedures should be integral parts of operating control. They are essential to efficient management of food stamp and other Government programs based on need. OIG hopes its matching efforts serve as a catalyst by demonstrating a need to halt the large financial losses now occurring through verifying eligibility before applicants begin to participate.

A review of quality control data shows the need for matching and for better verification methods. Food stamps totaling approximately \$900 million are issued each month. Quality control reviews indicate that stamps amounting to about \$90 million, or slightly over 10 percent, are overissued. Forty-three percent of the overissued stamps result from misstated income. That works out to between \$35 million to \$45 million each month.

Wage matching by State food stamp agencies is at present optional. The Agriculture and Food Act of 1981 will make it mandatory as of January 1, 1983. Currently, 33

States have some sort of matching program. Matching in the Aid to Families with Dependent Children Program was mandated on October 1, 1979 (P.L. 95-216).

OIG disclosed in its last semiannual report that it identified about 1,600 cases in Tennessee of underreporting of income by \$100 or more a month. It determined these through computer matches of State wage information with income reported on food stamp applications. That Federal-State joint effort led to the State's establishing \$1.3 million in claims against 934 households for food stamp losses and about \$406,000 in claims against about 337 households for Aid to Families with Dependent Children (AFDC) losses. Additionally, 89 persons were indicted in Federal court and 114 in State courts. When all cases have been reviewed, detected losses in Tennessee are expected to total \$2.5 million for the Food Stamp Program and about \$500,000 for the AFDC Program. Future losses will be avoided, as well, since unauthorized benefits are being terminated. Media publicity of cases prosecuted has served as a deterrent.

OIG also issued a recent report based on computer matching of wage information and income reported by food stamp applicants in Jefferson County, Alabama (Birmingham). Representatives of the Inspectors General for the Departments of Health and Human Services and of Housing and Urban Development also participated in the audit. The report showed that unreported wages had resulted in overpayments estimated at \$1 million in food stamps and excessive benefits for many of those participating in Health and Human Services and Housing and Urban Development programs. A comparison of wages reported by food stamp recipients with employment security wage information in the files of the Alabama Department of Industrial Relations disclosed 1,013 cases of suspected food stamp fraud.

By the end of OIG's audit, Alabama had completed claims for 193 food stamp cases and for 36 of 303 AFDC suspected fraud cases. Housing and Urban Development auditors had determined that 42 of 116 related cases they reviewed were apparently fraudulent and have referred them to their investigation office for monetary determinations.

In Alabama, based on statistical projections, understated income had led to overissuances totaling about \$12.5 million for a 6-month period. The State agreed to integrate income matching techniques into its computer system.

In Chicago, computer matching detected suspected cases of duplicate participation in food stamp and other public assistance programs. Since matching began in early 1981, 25 persons have been indicted for fraudulently receiving food stamp and public assistance benefits totaling about \$857,000. More indictments are expected. As of March 31, 1982, nine cases that have gone before the Illinois State court resulted in convictions. Sentences ranged from imprisonment for 12 days to 2 years. The Food and Nutrition Service established food stamp claims totaling about \$11,000 in three cases and will proceed to establish additional claims.

Following is the status as of March 31, 1982, of the remainder of the duplicate participation cases identified by OIG's Chicago computer matches:

-- Six cases are pending prosecution or are under investigation. These recipients may have fraudulently received about \$17,000 in food stamp benefits and \$47,000 in AFDC benefits.



-- One hundred and seven cases have been referred or are to be referred to the Food and Nutrition Service and the State of Illinois for claims action. About \$236,000 in improper food stamp benefits and \$626,000 in improper AFDC benefits have been identified over an 18-month period.

-- Forty-two cases are to be referred for further investigation. These recipients may have fraudulently received about \$100,000 in food stamp benefits and \$242,000 in AFDC benefits over an 18-month period.

-- Fifty-six cases involving AFDC only have been referred to the Health and Human Services Office of Inspector General. These recipients may have fraudulently received \$154,000 in AFDC benefits over an 18-month period.

Computer matching was used extensively in a recent audit of the California Food Stamp Program. The matches disclosed that 5,654 participants may have received duplicate benefits. OIG identified 162 cases that received duplicate benefits because Los Angeles County re-used the same case number for different aid programs. Statistically selected from the remaining 5,492 participants were 175 cases for review. Auditors found 53 cases of suspected fraud and 17 cases of excessive redemption of "Authorization to Participate" cards. Using both actual and projected figures, auditors calculated that about \$321,000 had been lost through duplicate participation. All but about \$112,000 represented stamps that had been overissued in August 1980.

In addition, OIG identified:

-- Supplemental Security Income recipients receiving food stamps as well as cash for food.

-- "Authorization To Participate" cards or direct mail issuance coupons sent to addresses outside issuing counties.

-- "Authorization To Participate" cards redeemed outside authorized periods, but reported by counties as authorized issuances. The dollar value involved was about \$498,000, with all but about \$23,000 applying to August 1980.

#### Assistance to Sanctioned States

To encourage matching, OIG has offered technical assistance to 14 States that were recently notified by the Food and Nutrition Service that they were subject to fiscal sanctions because of high Food Stamp Program error rates. State governors were notified that initial sanctions would be waived if their States implemented an acceptable program to improve administration and reduce program costs by April 1, 1982.

Corrective action plans and methodologies for reducing state error rates have not met with significant success in the past. The current nationwide average error rate of 13.3 percent is greater than the 12.6 percent error rate for the base period applicable to current legislation (April 1979 through March 1980). At the current error rate, overissuances of stamps represent more than \$1 billion in Federal expenditures per year.

OIG does not believe these losses need to continue. The Department must require that sanctioned States and other States with high error rates take specific actions before program participants are approved to purge food stamp rolls of ineligible participants while significantly reducing overissuances to eligible households. OIG has offered to assist the Food and Nutrition Service and State governments in either beginning or improving computer matching programs. OIG believes that a combined Federal, State, and local effort can drastically reduce the current high level of fraud and abuse in the Food Stamp Program.

#### AUDIT FOLLOWUP

OIG has continued to emphasize audit resolutions and to monitor claims establishment and collection. Presently, OIG has six audit reports still unresolved, which were over 6 months old as of March 31, 1982. The reports are listed below with the reason for the delay given:

| <u>Agency</u> | <u>Date Issued</u> | <u>Title of Report</u>                   | <u>Dollar Value Unresolved</u> | <u>Status</u>  |
|---------------|--------------------|--|--------------------------------|--|
| FNS           | 2-10-81            | WIC Program Delivery System              | -0-                            | Waiting for final Letter of Determination                                    |
| ASCS/<br>CCC  | 8-7-81             | GFA Peanut Assoc.                        | -0-                            | Waiting for more complete response from GFA                                  |
| FCIC          | 9-22-81            | Collection and Debt Management           | -0-                            | Waiting for responses that FCIC will comply with Claims Collection Standards |
| FmHA          | 2-6-81             | Emergency Livestock Loan, Curry, Co., NM | -0-                            | Under investigation  |
| FmHA          | 6-16-81            | Kansas State Coordinated Audit           | \$822,000                      | Referred to Under Secy. for policy decision                                  |
| ES            | 11-28-79           | Tenn. Cooperative Extension Service      | -0-                            | Waiting for Univ. of Tenn. Corrective Action Plan                            |

Under Department procedures for resolving audits and establishing claims, OIG periodically evaluates agency followup systems and validates collection reports. During the October 1, 1981, to March 31, 1982, report period, OIG audited policies and procedures used by the Farmers Home Administration and the Agricultural Stabilization and Conservation Service for resolving and replying to audit reports. The reviews also covered each agency's systems for establishing and collecting claims that result from audits.

OIG reported that administrative controls of the Farmers Home Administration were not adequate to assure audit resolution within legislated time frames. Since February 1981, the agency has implemented a tracking system for monitoring audit

report resolution and closure and has issued directives to field offices emphasizing the need for prompt and responsive action on audit recommendations. . . . .  
OIG found, though, that neither agency regulations nor any other directives contain procedures for establishing in accounting records debts that result from audits. Our review showed that as of March 19, 1981, debts of about \$58 million reported in audits had not been established as receivables in accounting records. Subsequently, the Farmers Home Administration agreed to implement a debt-claims collection system.

OIG's audit of the Agricultural Stabilization and Conservation Service disclosed that the agency did not have an effective system to resolve audit findings in a timely manner and record disbursed program funds that had been disallowed as accounts receivable in agency accounting records. Contrary to the Federal claims collection standards, the agency forgave to producers about \$5.9 million in potential overdisbursed funds without first attempting to make collection.

Most audit resolution and claims collection problems resulted because those functions had not been given sufficient priority and because of gaps in agency procedures. The claims docket of the Commodity Credit Corporation, for instance, advocates compliance with Federal Claims Collection Standards, but it excludes certain sections covering indebtedness and overpayments. Also, the Agricultural Stabilization and Conservation Service makes certain distinctions between debts and claims and enters neither in accounting records before it initiates adjustment, compromise, or termination actions, as standards require. The agency has acknowledged these inconsistencies and has agreed to revise its administrative controls.

#### IMPLEMENTATION OF OMB CIRCULAR A-102

Attachment P to Office of Management and Budget Circular A-102 requires State and local governments and Indian tribal governments that receive Federal assistance to arrange for organizationwide financial and compliance audits. These are to be performed at least once every 2 years by independent State and local government auditors or independent public accountants. These audits are meant to determine whether:

--Financial operations are conducted properly.

--Financial statements are presented fairly and the organization has complied with laws and regulations governing Federal expenditures.

--Internal procedures have been established to meet objectives of Federally assisted programs.

--Financial reports to the Federal Government contain accurate information.

The Office of Management and Budget intends that these single audits meet the needs of all parties concerned and that no additional audit requirements be placed upon recipients except where specifically required by law or approved by the Office of Management and Budget. These audits replace grant-by-grant audits, and must be

performed according to the standards of the General Accounting Office and the American Institute of Certified Public Accountants, the Guidelines for Financial and Compliance Audits of the General Accounting Office, and approved compliance supplements of the Office of Management and Budget.

Potential benefits of the single audits are great, and OIG has committed significant resources to them. Funding, as well as resource issues raised by State audit organizations, however, have hindered implementation.

During the report period, the Department issued regulations that required recipients and sub-recipients of USDA-administered Federal assistance to implement the single audit procedure. Federal cognizant committees have provided necessary audit coordination and a unified Federal position.

To date, 14 State agencies have audits either scheduled or in progress. Six reports have been issued--reports of the Georgia Forestry Commission, Wisconsin Department of Agriculture, Iowa State Soil Conservation Committee, Alaska State Department of Education, White Earth Reservation, and the city of Long Beach, California.

**SIGNIFICANT OPERATIONS**  
**(Audit and Investigations)**

**DOMESTIC FOOD ASSISTANCE PROGRAMS**

Food assistance programs administered by the Food and Nutrition Service (FNS) involve large Federal expenditures. FNS obligated \$16.2 billion in fiscal year 1981. Funds appropriated for fiscal year 1982 are about \$14.3 billion, although the agency's budget submission estimated that the Food Stamp Program would need supplemental appropriations of over \$1 billion. Budget estimates for fiscal year 1983 are currently set at about \$13.4 billion. Since food assistance dollar amounts are large and since vulnerability to fraud and abuse in these programs continues, OIG expends a significant share of its audit and investigative resources on them.

Food Stamp Program

Food Stamp Program expenditures in fiscal year 1981 amounted to \$11.3 billion. The current appropriation for fiscal year 1982 is about \$10.3 billion. The program is administered by FNS in cooperation with State welfare agencies. The program issues food stamps to persons and families with low incomes to enable them to purchase food in retail stores and, thereby, improve their diets. The program continues to receive more OIG attention than any other single program in the Department.

Several legislative changes in food assistance programs have been enacted to reduce costs. FNS faces a variety of budget constraints, and timely revision and implementation of revised regulations are needed to help keep operations within current funding levels.

Implementation of Food Stamp Legislation

OIG has been auditing FNS implementation of the six key food stamp provisions of the 1981 Omnibus Reconciliation Act. These provisions were initially estimated to save about \$815 million if fully implemented by October 1, 1981. FNS subsequently reduced this estimate by \$205 million, based on an assumption that all States would not implement the provisions by that time.

OIG's review found that FNS developed and issued regulations for changes required by the six provisions in a very short time. The legislative changes were enacted August 13, 1981. FNS published regulations on September 4, 1981, for the States to implement by October 1, 1981.

FNS granted 22 States an additional 30 days for implementing new provisions related to gross income eligibility and up to 60 days for implementing provisions that required proration of the first month's benefits. Six State agencies were granted additional extensions. Even with the extensions, three New York counties and the Oregon State agency failed to implement the provisions on time. The lack of compliance in these States will further reduce projected program savings.

Several additional legislative initiatives enacted during 1980 and 1981 have not yet been implemented by FNS. One provision of the Food Stamp Act Amendments of 1980, enacted May 26, 1980, gave States the option to require periodic reporting and retrospective accounting for households. Under it, households would periodically report income, and eligibility determinations would be based on past and anticipated income. FNS expects to issue proposed rules in May of 1982.

The 1980 legislation also requires that income and financial resources of ineligible aliens living in participating households be considered in determining the eligibility of other household members, and that any member of a household who is in violation of the Immigration and Nationality Act be reported to the Immigration and Naturalization Service. FNS issued final rules for these provisions on April 23, 1982.

FNS has not implemented the provision allowing reimbursement of 75 percent of costs incurred by State agencies in the installation of new computer systems. The agency expects to issue final rules in May or June of 1982.

Finally, the Food Stamp and Commodity Distribution Amendments of 1981, enacted December 22, 1981, as part of the Agriculture and Food Act of 1981, contain 35 separate amendments to the Food Stamp Act of 1977. Not yet drafted are rules for the provision to count income and resources of sponsors on an alien's food stamp application. Drafted but not yet issued are rules requiring State agencies to hold food stamp issuers liable for duplicate issuance in areas using photo identification cards. During April 1982, FNS expected to publish rules to require that State food stamp agencies request and use information from the Social Security Administration and from agencies administering State unemployment compensation laws.

On January 27, 1981, FNS issued interim regulations governing operations during disaster situations, required by the 1977 Food Stamp Act. The agency has not yet finalized them.

#### Clarity of Regulations

Regulations issued on mass changes in participant income and the use of social security numbers did not make it clear that States must make mass changes when possible and must enter social security numbers into their computer data bases. FNS has informed OIG that it is considering changing its regulations on mass changes and that it will issue rules requiring States to include social security numbers in their computer systems.

Since January 1980, food stamp regulations have required that mass changes be made when States have computer capability to reduce food stamp benefits for increases in other Federal benefits, such as Social Security and Supplemental Security Income. Past OIG audits have reported significant losses because food stamp benefits were not reduced in a timely manner.

Nevertheless, the recent OIG audit in Alabama found that regulations were written in a manner that allowed unnecessary delays in making mass adjustments in recipient income records. Regulations require immediate mass change only if the State agency's computer system can identify affected recipients and the amount of income



change. State agencies without such computer capabilities and State agencies that have difficulties with automated conversion have an option to schedule affected households for recertification within 4 months of the change. The State does not have to justify delays to FNS. Our audit in Alabama statistically projected that delay in one project area with computer capability cost the Food Stamp Program about \$265,000 in 1981. Over 10,000 households participated from 1 to 4 months before adjustments in social security or supplemental security income benefits were made.

In 1981, FNS did allow States with computer capabilities to process July changes by using a flat percentage factor increase. About half the States used that method. FNS is again offering States this option during 1982. However, FNS needs to clarify its regulations to require any State agency or project area with a computer system to implement mass income changes the first month the changes become effective. Regulations should allow extensions only for project areas with systems that are not automated. FNS shares the costs of developing and operating automatic data processing systems. Computers should, therefore, be used to reduce Food Stamp Program costs.

Also needing clarification is the regulation requiring that households receiving or applying for food stamps provide State agencies with the social security numbers of each household member. A recent audit disclosed that not all State agencies or local project areas enter social security numbers of food stamp participants into their computer data bases. They technically comply with regulations by obtaining the number, but do not use the numbers to verify reported income. Yet, effective January 1, 1983, State agencies will be required to match food stamp data with wage data.

FNS has agreed that the absence of social security numbers in computer systems keeps States from effectively verifying certification data and from conducting computer matches. The agency stated that it could not force States to include the numbers in computer systems until it issues regulations to require it. FNS has inserted the requirement into new regulations that it expects to issue in April of 1982.

#### Alien-Refugee Participation - Florida and California

In Florida, OIG statistically projected that food stamps totaling \$558,248 (midpoint estimate) had been issued to 5,440 households with ineligible refugees in August of 1980. The Immigration and Naturalization Service had no record of alien status for 21 of the 125-case sample.

The statistical sample also resulted in an estimate that 18.82 percent of the households with refugees participating in December of 1980 understated their income. This was true despite the State's implementation of an income verification system. The study projected that 4,664 households had been overissued \$347,621 (midpoint estimate) in the same month.

Florida's effort to implement its income verification system was not fully effective. Project office personnel completed only about 50 percent of reviews

required for the entire State. The low completion rate resulted because the State agency did not require that review procedures be used for households not showing up for re-certification.

During the course of OIG's audit, Dade County (Miami) certification offices could not locate 43 of 295 case files requested. Statistically, those cases project to 2,331 households receiving unsupported issuances of \$261,120 in August of 1980 and 291 households receiving unsupported issuances of \$18,364 in December of 1980. For 32 of the missing files, there was evidence that the households existed, but there was no documentation to support issuances.

In California, a combination of actions and lack of action by the State, FNS, and the Immigration and Naturalization Service allowed ineligible aliens to participate in the Food Stamp Program. An OIG audit brought the situation to light in June of 1979. The problem was not promptly resolved by FNS, and it grew to the point of almost \$1 million a month in coupons being issued to persons of questionable alien status.

The Food Stamp Act of 1977 states that ineligible aliens (as defined in the act) cannot participate in the Food Stamp Program as members of a household. The act prevents aliens whose status is being questioned from participating in the program until eligibility is verified. California, however, permitted aliens who could not prove legal status to participate pending verification of status from the Immigration and Naturalization Service. The State maintained that since the program allows self-declaration for citizenship and household composition, it should also allow it for alien status.

The FNS regional office issued an informal warning to the State in January of 1981 and a formal warning on May 26, 1981. Starting in June of 1981, FNS suspended \$14,342 in administrative funds each month. After the State was given until December 31 to comply or face a change in the amount suspended, it stopped new certifications of undocumented aliens. FNS then gave the State until January 31, 1982, to terminate previously certified undocumented aliens whose participation extended past the December 31 deadline.

These actions were taken in response to OIG findings that Immigration and Naturalization Service offices in San Francisco, Los Angeles, and San Diego were experiencing extensive backlogs in processing Alien Status Verification Form CA-6. The Immigration and Naturalization Service had stopped processing Forms CA-6 after a lawsuit in April of 1981 by the American Civil Liberties Union against Los Angeles County Department of Social Services concerning procedures for referring cases of questionable alien status. The county still sends forms, however. Based on Forms CA-6 processed by the three Immigration and Naturalization Service districts, the percentage of aliens determined to be ineligible for food stamps (including those who did not show up for an interview) runs at about 70 percent. The OIG review of this situation is continuing.

#### Continuation of Food Stamps Beyond the Certification Period (Rollovers)

During recent audits, OIG found that food stamps were being issued to recipients whose eligibility had not been re-determined after the certification periods for

the households had expired. In New York City, stamps issued in this manner amounted to \$4.2 million, and in Alabama, \$5.3 million. OIG expanded its review to 17 other locations and found the problem existing in three other locations. In Washington, D.C., OIG determined that stamps totaling \$2.3 million had been issued to recipients after their eligibility had expired. In Cleveland and Massachusetts, OIG identified over \$15 million in food stamps that had been improperly issued.

After a 14-day transitworker strike in April of 1980, officials in New York City decided without FNS approval to "rollover" re-certifications scheduled during that period. In May of 1980, they also eliminated an automatic computer closing of cases of recipients who failed to appear for re-certification. OIG's analysis indicated that as of August of 1980, at least 8,509 households were receiving benefits even though their certification periods had expired.

In Alabama, OIG found that certification periods had been extended for 16,687 participating households in 8 counties. None of these recipient households was entitled to food stamps because their continued eligibility had not been determined. Subsequent re-determinations of eligibility by the State in one county indicated that all but \$700,000 of \$4.5 million involved would have been allowable had the State made timely re-determinations. The State is also re-determining eligibility in the seven other counties where OIG found \$854,000 in improperly issued benefits. The work is continuing at 3 of the 17 Alabama locations OIG audited.

OIG has not yet issued an overall report summarizing findings. However, it appears that procedures are needed to require that computer systems contain an edit check to automatically terminate households for whom eligibility for continuation of benefits has not been determined.

#### Food Stamp Redemptions

After grocers receive food stamps, they deposit them at their banks and the bank credits the value of the coupons to the grocers' accounts. FNS regulations require that grocers complete a redemption certificate form showing the amount of food stamps accompanying their deposits.

After grocers deposit stamps there is no reconciliation between the redemption certificate and the bank's deposit document. Banks send redemption certificates to the FNS Minneapolis field center. This office uses information on the forms to monitor grocery store redemption ratios for program compliance. Banks separate food stamps from redemption certificates and send the stamps to a Federal Reserve bank which counts and destroys them. The Federal Reserve bills the U.S. Treasury for the amount of the food stamps.

In fiscal year 1979, the Federal Reserve System reported receiving a monthly average of \$1.4 million more in coupons than FNS could account for from retailer redemption records. By fiscal year 1981, the monthly average discrepancy had risen to \$16 million.

FNS and the Federal Reserve Bank in Atlanta cooperated in an experiment to attempt to reconcile these discrepancies and learn their causes. They re-designed

the redemption certificate to require bank tellers to enter the total value of the food stamps on the form below the grocer's figures after counting the stamps. They also required that bank deposit documents list the value of each redemption certificate. All documents were sent to the Federal Reserve Bank in Atlanta, which reconciled them and then transmitted the redemption certificates and deposit documents to Minneapolis.

These modifications virtually eliminated discrepancies between the food stamp value and the amounts shown on redemption certificates. The system also provided:

- Improved data on retailer redemption patterns to target noncompliance.
- A clear trail of stamp accountability for audits.
- Tracking of stamp value from grocer deposits to stamp destruction.
- A way to trace improperly deposited coupons.

The pilot project's success caused FNS, with the full support of OIG, to propose extending the system nationwide. The Federal Reserve Board is considering USDA's proposal.

#### Food Stamp Program Investigative Activities

In view of the high vulnerability of the Food Stamp Program to fraud and abuse, OIG continues to expend more than 40 percent of its investigative resources in this area. The results run from indictments for misdemeanors and petty larceny of single participants to prosecution of significant and sophisticated defalcations committed by individuals and groups.

Four employees of the Government Development Bank of Puerto Rico, for instance, were arrested in March of 1982 for stealing in 1 day \$40,000 in food stamps from the destruction facility at the bank. The Government Development Bank of Puerto Rico acts as the agent of the Federal Reserve bank to count and destroy cancelled food stamps. One of the arrested employees told investigators that the group had stolen similar amounts almost every day for 4 years. The employees said that they looked for stamps with light cancellation markings. They either bleached the cancellation marks or resold the stamps at a discount to the merchant who had originally redeemed them. If continued investigations verify this testimony, the loss may amount to millions of dollars.

OIG continues to coordinate its investigations of food stamp trafficking with other law enforcement agencies. In Dallas, Tex., seven retailers have been indicted to date, and other cases are pending. In Denver, Colo., 18 individuals were indicted; in eastern Tennessee, 19. All accepted food stamps from undercover agents in exchange for cash, drugs, guns, and other major merchandise.

Four Brooklyn meat markets and 17 persons were involved in a scheme to redeem more than \$3 million in mostly illegally obtained food stamps. Every involved party pled guilty. Sentences ran as high as 9 years imprisonment and fines of \$20,000. One person is still a fugitive, and one is in prison in Italy. Several were also involved in major narcotics trafficking.

In a joint OIG-FNS Compliance Branch investigation during March 1982 undercover agents sold \$100,000 in food stamps for \$20,000 cash to the proprietor of a Massachusetts variety store. The owner was armed, resisted arrest, and had to be subdued by agents. The owner's son was also arrested. All food stamps and cash were recovered.

Kentucky authorities provided OIG information that an individual was selling arms, explosives, and pornography for food stamps. During the investigation, he sold weapons and dynamite to OIG agents for food stamps. He later sold to Kentucky officers the services of two teenage boys for prostitution purposes for cash and \$6,000 in food stamps. He was arrested on those charges. Prosecution is pending.

#### Food Stamp Audit Guide

During fiscal year 1981, OIG developed a draft audit guide for the Food Stamp Program. It included for the first time legislative and regulatory responsibilities of state agencies. The guide specifies audit methods to obtain sufficient, competent, and relevant evidence to support claims.

An audit to test the draft guide in Alabama resulted in the following findings:

-- Underreported income resulted in overissuance of about \$12.5 million.

-- The state was not taking prompt and aggressive action to establish and collect about \$5 million in actual and potential claims against program recipients.

-- The use of certified mail in 15 counties could have reduced mail losses and saved USDA about \$387,000 in an 18-month period.

-- Counterfeit, altered, stolen, duplicated or expired "Authorization To Participate" cards could go undetected under the system in operation. Several counties had not reconciled redeemed cards with the record master file showing household issuances, as required by FNS regulations. One county had not reconciled any of 224,000 cards redeemed for about \$27.7 million during a 14-month period.

-- Internal controls were either nonexistent, ineffective, or ignored. The most significant weaknesses were in mail issuance procedures, separation of duties, security and accountability over sensitive and negotiable documents, and physical security.

#### National School Lunch Program

The National School Lunch Act authorizes Federal assistance for States to serve nutritious lunches to children in participating schools. During fiscal year 1982, an estimated 23 million daily school lunches are being served, and program expenditures are expected to total more than \$2 billion.

OIG's last semiannual report showed that in May of 1980 about 3 million children who were not entitled received free or reduced-price lunches. Approximately 80 percent of those children were members of families that underreported income on

free and reduced-price meal applications. The remaining 20 percent of the cases were attributed to incorrect meal authorizations by schools.

The Omnibus Reconciliation Act of 1981, P.L. 97-35, which was signed on August 13, 1981, addressed many of the problems identified by OIG. FNS has drafted regulations but has not issued them.

FNS has developed a sample application form that requires households to report the sources and amounts of their incomes and social security numbers for all adults in the household. The form also warns parents that the information provided on free and reduced-price meal applications is subject to verification by school food authorities.

The use of the form was optional for the 1981-82 school year, yet it appears to have provided a deterrent. The Department reported that free school lunches dropped by 1 million meals per day between October 1980 and October 1981. The Department added that if this trend continues, 173 million fewer free meals will be served this year. Several factors contributed to this reduction, yet the threat that income verification contributed was significant.

FNS plans to publish income verification procedures for public comment so that some verification requirements are in place for the 1982-83 school year. In OIG's view, it is extremely important that new regulations be issued immediately. OIG is continuing to monitor the situation.

#### Investigative Activity

Following are examples of recent investigations of the National School Lunch Program:

-- A high school lunchroom manager in Alabama misused funds and submitted false claims. The manager overclaimed more than 5,590 meals valued at over \$5,000 and used the funds for personal gain. She also purchased with school lunch funds 400 dollars worth of food not served to students. The manager was indicted on five counts of submitting false reports. She pled guilty to one count, was sentenced to serve 3 months of a 2-year sentence, and was placed on probation for 3 years.

-- Eight officials of a Texas school district and five officials of a dairy company falsified milk delivery records to file false school lunch claims of \$511,000. False invoices paid to the dairy for nondelivered milk resulted in a credit balance in favor of the school district at the dairy. Trial testimony showed that the school district used this credit balance to purchase other products not eligible for reimbursement. The products were used to cater private parties and events in the school district's cafeteria. Of 14 persons indicted, 8 pled guilty, 3 were convicted at jury trials, 2 were placed on pretrial diversion, and 1 had charges dismissed.

-- A joint project with the Federal Bureau of Investigation revealed that a large wholesale produce firm had submitted inflated bills to the Milwaukee Public School System. Overbillings amounted to between \$10,000 and \$12,000. The owner of the firm was indicted on four counts of violating the National School Lunch Act and seven counts of submitting false reports. Trial is pending.

## Child Care Food Program

The Child Care Food Program provides grants to help States initiate, maintain, and/or expand food service programs for children in nonresidential public or private nonprofit child care centers and day care homes. In fiscal year 1982, expenditures will total approximately \$277 million.

OIG is presently auditing the largest home day care operation in the Nation, which sponsors about 5,700 day care homes in 7 midwestern States. Reimbursements to the sponsor during fiscal year 1981 totaled over \$12.7 million, or about 16 percent of the \$81 million expended nationwide for home day care service.

About 70 percent of the children attending these day-care homes are not from "needy" families, yet the sponsor was reimbursed for all lunches at a flat rate of 93.5 cents per lunch, 78 percent of the free school lunch rate. Federal reimbursement at 93.5 cents a lunch occurred because family income eligibility standards were discontinued in favor of a flat rate. OIG's audit projected that if the Food and Nutrition Service had required use of school lunch income guidelines, reimbursements to the sponsor would have been reduced by about \$5.3 million in fiscal year 1981.

The Department's fiscal year 1983 budget submissions provide for block grants to States for school breakfast and child care programs at 80 percent of fiscal year 1982 funding levels. Should Congress decide to fund family day care operations, however, OIG recommends reinstating family income eligibility criteria for day-care homes. OIG has made this recommendation to FNS.

### Dual Funding

OIG's last semiannual report noted that Federal agencies lack effective methods for preventing grantees from charging the same expenses to more than one Federal agency. Details of this concern are contained in a joint Inspectors General report on multiple-funded agencies, issued to the Office of Management and Budget on January 19, 1982. Since then, OIG completed an investigation of a dual funding case that involved a child care center and detected dual funding in the Summer Food Service Program.

A Los Angeles child care center had received funding through State and local agencies from the Community Services Administration and the Department of Agriculture. OIG's investigation revealed that during a 17-month period the director listed himself under one program for 50 percent of the time, drawing \$800 to \$853 per month in salary, and under the other program 100 percent of the time, drawing from \$1,032 to \$1,041 per month. He also listed his wife under both programs. Under one program she drew \$700 to \$750 per month for full-time work, using her married name. Under her maiden name she was drawing \$746 to \$752 per month for working 100 percent of the time under the other program.

From January of 1979 through June of 1980, the director wrote \$3,178 in duplicate checks under each program for the same goods and services. He wrote checks in the amount of \$1,943 for personal property billed as program expenses, \$439 for steaks and pork chops not appearing on any menu served to children, and \$1,776 for

overclaimed milk purchases. Although the director submitted reimbursement claims based on an average of 43 children a day, his employees reported that attendance averaged not more than 20 to 30 children a day.

The director was indicted on ten counts of theft of public money and one count of submitting false statements to a Government agency. He pled guilty to two counts of theft and one count of false reporting. He was sentenced to 6 months in jail, fined \$10,000, placed on probation for 3 years, and ordered to make restitution.

OIG recently reported to FNS that dual funding exists in the Summer Food Service Program and the Department of Education's Upward Bound Program. In 1981, 437 colleges and universities participated in the Upward Bound Program. According to Department of Education officials, the policy was to reimburse those institutions for all costs associated with the program, including room and board. Some institutions, however, also participated in the Summer Food Service Program and received reimbursements for food costs.

In New York State, we found that 7 of 19 institutions participating in Upward Bound also participated in the Summer Food Service Program. These institutions received 1981 Department of Agriculture reimbursements totaling \$52,000 and failed to report on the Summer Food Service Program claims for reimbursement that they had received funds from Upward Bound. Two reported on their initial applications that they received funds from the Department of Education, but FNS failed to use that information to determine if they were eligible to receive 1981 Summer Food Service reimbursements of \$13,672. Significantly, the controller for one of these institutions returned a check for \$6,110, stating that the institution through Upward Bound received 100 percent funding for all costs including meals.

OIG recommended to FNS that it develop a policy and establish controls to prohibit Upward Bound Program institutions from participating in the fiscal year 1982 Summer Food Service Program. OIG also recommended that FNS identify sponsors that in fiscal year 1980 and 1981 participated in both Upward Bound and the Summer Food Service Program and recover overpayments.

After receiving OIG's report and recommendations, FNS officials met with officials from the Department of Education and agreed to the following arrangements:

-- The Department of Education will provide FNS with a list of fiscal year 1982 Upward Bound grantees.

-- FNS will advise State agencies administering the Summer Food Service Program of Upward Bound grantees in their States.

-- State agencies will alert FNS to any Upward Bound grantees applying as Summer Food Service Program sponsors.

-- FNS and the Department of Education will cooperate in reviewing Upward Bound budgets in dual participation cases.

These arrangements seem to provide helpful interim procedures. A more effective solution, however, would be for Congress or the Office of Management and Budget to



exclude Upward Bound grantees from participating in the Summer Food Service Program.

#### FARM PROGRAMS AND COMMODITY CREDIT CORPORATION ACTIVITIES

The Agricultural Stabilization and Conservation Service (ASCS) administers specific commodity and related land use programs designed for voluntary production adjustment; resource protection; and price, market, and farm income stabilization. ASCS also administers Commodity Credit Corporation (CCC) programs. CCC is a wholly owned Government corporation that has programs for price support, supply, storage facility, and commodity export activities. Fiscal year 1982 outlays for ASCS are estimated at \$591 million and for CCC at \$10.4 billion.

#### Surplus Commodities

Last spring, in both its semiannual report and testimony before the Senate Appropriations Subcommittee on Agriculture and Related Agencies, OIG recommended that the CCC develop a comprehensive plan to provide a more orderly and less costly system for managing its commodity inventory.

The OIG position is well illustrated by the surplus cheese situation. The uncommitted inventory is about 547 million pounds of cheese, and acquisitions continue under the 1982 price-support provisions. CCC sought additional domestic outlets for the surplus. On December 22, 1981, President Reagan authorized release of 30 million pounds of cheese for donation to needy persons through State agencies and charitable nonprofit organizations. In February of 1982, the Federal Government made an additional 70 million pounds of CCC owned surplus cheese available for needy persons. By February 28, 1982, however, uncommitted inventories of cheese had increased to over 584 million pounds.

The current distribution of cheese has been orderly and beneficial, yet OIG is concerned about: (1) the condition, age, and quantity still in the inventory; (2) associated storage costs of about \$19 million annually; and (3) a lack of definitive long-range plans for inventory management. OIG recognizes that many inventory problems result from statutory requirements beyond CCC's control. This is especially true for the dairy product inventory. A Department task force is now studying the dairy situation and expects to come up with solutions. At any rate, OIG believes that CCC needs to improve its planning and management of the various commodities in its inventories.

#### Farm Storage and Drying Equipment Loan Program

ASCS makes farm storage and drying equipment loans to eligible producers for purchasing, constructing, erecting, installing, and remodeling farm storage facilities and/or drying equipment. These loans are intended to encourage low-cost, on-the-farm commodity storage, and reduce the storage burden on commercial facilities.

The number of outstanding loans has increased from 64,000 in September of 1977 to 200,000 in early 1982. Loan values outstanding during the same period increased from \$235 million to over \$1.3 billion. This rapid growth led OIG to conduct a

recent audit to appraise the adequacy and effectiveness of the program's administration.

Over the years, prior audits have shown continual problems, such as: (1) loans being based on incorrect cost data, (2) loans being made on multipurpose structures that do not meet program specifications, and (3) facilities and equipment being purchased from unapproved suppliers. OIG audits frequently have disclosed that required offsets from other program payments for due and payable or delinquent annual installments were not made.

This audit was conducted in 6 randomly selected county units in each of the 10 States that accounted for about 75 percent of outstanding loans. In the second stage of the statistical sample, OIG selected 5 loans per unit or a total of 300 loans.

The audit disclosed that about \$88.8 million of about \$711.3 million was disbursed for questionable loans during the period from October 1, 1979, to March 31, 1980. If a portion of a loan was determined questionable, the entire loan amount was considered questionable. In addition, OIG estimated that about \$1.1 million in due and payable loans and delinquent annual installment payments were not offset from program payments or loan proceeds. This resulted in ASCS incurring unnecessary interest costs.

ASCS replied that it was planning to take satisfactory corrective actions. OIG requested a timetable for implementation to permit tracking of corrective actions.

#### Monitoring of USSR Grain Suspension

In its fall 1981 semiannual report, OIG described results of the audit of the suspension of grain sales to the Soviet Union. The report included recommendations on CCC management procedures and on adjustments to exporters' claims. CCC made these adjustments, saving the Government over \$10 million. A number of claims are still not resolved.

During this report period, OIG participated in arbitration proceedings concerning three exporters. Under dispute were adjustments that had been recommended by audit. The adjustments would increase by about \$4.7 million determinations of pretax exporter profit deductions on contracts assumed by CCC. The CCC withheld this amount from final settlements pending arbitration results. The CCC Exporter Agreement provides that all decisions of the Board of Arbitration are final and conclusive. Neither CCC nor exporters can appeal.

The Board of Arbitration recently issued a ruling on one of the cases. In favor of the exporter, it required that CCC return about \$1.1 million plus interest. The Board of Arbitration has the remaining two cases under advisement. To the extent that the board does not uphold CCC's position, savings reported in the last semiannual report will be reduced. Additionally, overall program costs will increase by those amounts, and profit margin deductions will be much smaller.

## Aerial Photography Field Office

The Aerial Photography Field Office provides photographs for ASCS county offices to use in measuring acreages for program compliance purposes. The office provides new photographs as needed and is authorized to make aerial photographs available to other Federal agencies, to local and State governments, and to the general public. OIG audit coverage included reviewing operational activities, aerial photograph sales, and service to Government agencies and the public.

OIG found that the Aerial Photography Field Office was contracting for new aerial photography even though the same coverage was available from the National High Altitude Photography Program. Use of those photographs could save about \$750,000 per year. ASCS officials, however, are reluctant to make a financial commitment to that program until they are satisfied that it would meet agency needs.

Interagency duplication in photography occurs between ASCS and the Soil Conservation Service. Both agencies sometimes use the same scale or nearly the same scale and could use the same flying seasons, exposure stations, and flight lines. If both agencies coordinated efforts, USDA could save about \$238,000 in contract costs in 105 counties.

ASCS officials replied that for the most part they had or would implement OIG recommendations. They advised that ASCS would become a cooperator and commit funds for the National High Altitude Photography Program in fiscal years 1982 and 1983.

## ASCS Investigative Activities

Some OIG investigative activities in ASCS and CCC programs are highlighted below:

-- The operator of a grain warehouse in Kansas pled guilty to three counts of a ten-count felony indictment that charged him with making false statements to a State-chartered credit union, making false warehouse charges to CCC, and with converting grain pledged to CCC. The operator sold obligated grain stored in his warehouse to pay for losses from speculative trading on the commodity futures market. To conceal the sale from State warehouse examiners, he altered company books and submitted false monthly grain position reports. He also admitted that he issued warehouse receipts on nonexistent grain to obtain loans and advance money. Sentencing is pending.

-- During the 1978 and 1979 crop seasons, a Tennessee farmer obtained three CCC loans totaling nearly \$59,000 to store about 15,000 bushels of soybeans on his farm. ASCS personnel inspected his grain storage bins in June of 1980 and found that two of the three storage bins had been false-packed with wheat straw. The third was false-packed with sunflower seeds. ASCS estimated that the three bins contained only 800 bushels of soybeans. The farmer was named in a ten-count indictment charging him with making false statements about his grain and conversion. Trial is pending.

-- Ten persons, including the Nation's largest independent tobacco dealers and a former assistant commissioner of agriculture for the State of Kentucky, were named in a 15-count indictment for filing false reports and conspiracy to file false reports of tobacco sales with the U.S. Department of Agriculture during the 1978 tobacco marketing season.

The scheme allegedly involved scale manipulation at a Kentucky tobacco warehouse that resulted in systematic short-weighting of producer tobacco crops. Alleged payoffs went to the then director of the Kentucky State Division of Weights and Measures in return for protection and notification before scheduled inspections. According to the indictment, the tobacco that had been short-weighted at the scales during the day was removed from baskets at night and subsequently resold through the warehouse on the dealer's tobacco card. Trial is pending.

#### RURAL DEVELOPMENT PROGRAMS OF THE FARMERS HOME ADMINISTRATION

The Department has a dual responsibility in agricultural credit and rural development. On the one hand, it improves the rural economy by refinancing debts, easing eligibility requirements for loans, and rescheduling repayments. On the other hand, it implements the Administration's financial improvement initiatives for collecting debts, transferring credit sources to the private sector, and making sure only eligible applicants receive benefits.

The Farmers Home Administration (FmHA) is the Department's credit agency for agricultural and rural development. As of September 30, 1981, FmHA had about 1.4 million active loan borrowers and a loan portfolio of about \$55 billion.

#### Rural Rental Housing Program

During the report period, OIG completed an audit of FmHA's Rural Rental Housing Program. The audit involved reviewing program operations at FmHA's national office, 8 State offices, and 28 district offices. The indepth review of 43 loans totaling about \$44.6 million focused primarily on loan processing, loan supervision and servicing, project management, and tenant eligibility. The audit covered the period from October 1, 1978, through December 18, 1981.

For the most part, the audit found that recent projects have increased in size. Some are serving urban areas, and some are inhabited by ineligible tenants. The program is tending to lose the rural characteristics Congress intended. Escalating construction costs and the proposed reduction in rental assistance increases rental rates and makes construction of projects in economically depressed areas unfeasible. The audit found that large projects located in densely populated areas tended to serve tenants of questionable eligibility, while large projects in predominantly rural areas sometimes had high vacancy rates. Unless FmHA reverses the trend toward large projects with high unit costs it will not meet program objectives and serve the intended clientele.

OIG also found that rural rental housing tenants received excessive subsidies because of unreported incomes, management company errors, incorrect household sizes, and a lack of tenant re-certification after social security increases. We found some tenants receiving interest credit and/or rental assistance subsidies who had assets valued at \$10,000 or more.

Borrowers were able to increase profits by forming management, development, and construction firms. Management firms appeared to charge excessive fees for 20 of 32 projects. Excessive fees and high construction costs caused program costs to increase. Additionally, borrowers and management firms had not established accounts or maintained records required for proper program administration.

OIG's audit report offered 26 recommendations for legislative, regulatory, and policy changes to assure that the program meets the intent of Congress. OIG recommended that FmHA develop strategies to assist low income families, improve verification of tenant incomes and net worth, reduce size and cost of projects, and improve borrowers' recordkeeping systems. FmHA included many OIG recommendations in its newly revised rural rental housing instructions.

#### FmHA Investigative Activities

Investigative activities in FmHA programs are highlighted below:

-- A Federal grand jury indicted the majority leader of the Tennessee House of Representatives on five counts of making false statements relative to approximately \$900,000 in loans he had received from FmHA. Legal proceedings are pending.

-- A Rock Island, Ill., attorney at law and FmHA-designated attorney for real estate loan closings failed to disburse FmHA-supplied money intended for removing prior liens on property acquired or pledged by borrowers. He made false statements about borrowers' eligibility and about the true price of property sold by his firm. He was indicted on three counts of embezzling from the United States and one count of making a false statement to FmHA. Legal proceedings are pending.

-- A Bastrop, La., farmer and his wife received an FmHA farm operating loan of over \$89,000. FmHA issued checks for materials, repair service, and farm labor to individuals who did not furnish materials or did not receive the amount of money shown on the checks. The farmer's wife admitted she prepared invoices, submitted them to FmHA, and endorsed the payee's name to checks issued by FmHA. The farmer and his wife were indicted on 11 counts of forgery, aiding and abetting, and making false statements to FmHA. No trial date has been set at this time.

-- A Como, Tex., farmer secured two operating loans totaling \$84,000 to buy dairy cattle. Seventeen months after obtaining the first loan he abandoned his cattle and filed for bankruptcy. He admitted that he had sold FmHA mortgaged cattle without applying the proceeds to his FmHA account and that he lied to enhance his chances to qualify for loans by telling FmHA officials that he owned 34 heifers when he did not own any cattle. He was indicted on 18 counts of converting mortgaged property and 1 count of making false statements to FmHA. A trial date has not been set at this time.

#### DEPARTMENTAL ADMINISTRATION

##### Property Management

OIG made a followup review of the Department's management and procurement of office furniture and equipment since the governmentwide procurement moratorium was rescinded in March of 1981. The review disclosed that USDA agencies had significantly eased the controls which had been established to correct the serious inefficiencies of 1979-80. As a result, OIG recommended, and the Secretary directed, that within the Washington, D.C., area the Office of Administration would:

-- Coordinate with the Office of Budget and Program Analysis to establish a specific office furniture and equipment budget line item for agencies and a system to track expenditures readily.

-- Assume control and develop a central inventory of unused and excess furniture and equipment regardless of item costs.

-- Coordinate with the General Services Administration in locating excess items in other Federal agencies to fill Department needs.

-- Certify before purchase that new procurements could not have been met by using similar items from Department or other Federal excess inventories.

-- Conduct an expanded repair and rehabilitation program.

-- Establish procedures and devote resources to an effective centralized system, including internal controls to prevent misuse. OIG will continue monitoring the Department's progress to assure timely implementation of corrective action.

#### Food and Nutrition Service Procurement and Yearend Spending

OIG has recently completed field work on an audit of fiscal year 1981 procurement and yearend spending. During the course of the audit, the Food and Nutrition Service performed an internal procurement review. The review covered procurement and assistance transactions that were active, as well as those planned for fiscal years 1982 and 1983. As a result, the agency terminated five contracts and four grants with potential savings of \$2.7 million. It identified for further review and possible termination three additional contracts with potential savings totaling over \$3.3 million. Of nine active contracts and grants scheduled for termination, two were included in OIG's review.

According to the Food and Nutrition Service, ongoing research projects have been reduced from 48 to 34 since January of 1981. During the same period the cost of ongoing contracts and grants has declined from \$37.8 million to \$23.6 million. The agency states that it achieved these reductions by carefully scrutinizing new projects and by canceling efforts of marginal value to the agency.

The OIG audit disclosed that in several instances agency program staff made procurement decisions that were questionable, undocumented, or not appropriate under the circumstances. In addition, no formal procedures or guidelines existed at the Department or agency level to control awarding discretionary funds. OIG also found that the Food and Nutrition Service had not fully and effectively implemented P.L. 95-224, the Federal Grant and Cooperative Agreement Act of 1977. That legislation establishes criteria for distinguishing between procurement transactions (contracts) and assistance transactions (grants and cooperative agreements).

#### Cash Management

OIG audits normally review cash management practices throughout the Department. With the initiation of the financial priorities program, OIG has increased its emphasis on these audits.

## Agricultural Stabilization and Conservation Service's Management of County Office Cash Collections

Agricultural Stabilization and Conservation Service county offices receive money from producers for commodity loan repayments, facility loan repayments, refund of program payments, claim collections, and miscellaneous collections. OIG undertook an audit to evaluate whether the agency efficiently and economically processes collections to minimize interest costs to the Government. OIG found delays in depositing county office cash receipts and weaknesses in instructions that resulted in unnecessary interest expenses to the Commodity Credit Corporation. County offices averaged 5.6 days to deposit Commodity Credit Corporation funds. An estimated \$1.3 million could be saved for each day deposits are accelerated. OIG based its estimates on fiscal year 1980 collections of over \$4.1 billion and a 12 percent interest rate.

The main problems were the following:

-- The Commodity Credit Corporation stopped interest charges to commodity loan borrowers based on date of postmark rather than on the date received in the county office, and county offices held funds after receipt.

-- County offices did not always use the Federal Reserve bank offering the fastest service, and Federal Reserve banks did not always credit collections promptly.

-- County offices did not always give special handling to large deposits, typically over \$1 million. Also, the Agricultural Stabilization and Conservation Service had not amended loan agreements for large loans so that borrowers would be required to use electronic funds transfer.

Agency officials agreed with the findings, and listed in their initial reply the corrective actions they would take. Generally, planned actions conformed with OIG recommendations, although agency officials are considering alternatives for two of the seven OIG recommendations.

### Interest Rates Charged by the Commodity Credit Corporation

The Commodity Credit Corporation is a Government-owned corporation operating within the U.S. Department of Agriculture. It has a promissory note with the U.S. Treasury authorizing it to borrow up to \$20 billion. The Treasury sets and announces the interest rate it will charge the Corporation for funds it borrows during a given month.

An OIG review found that the Commodity Credit Corporation was not periodically adjusting interest rates on commodity and equipment loans to reflect Treasury borrowing rates. As a result, interest costs for 1980 exceeded interest payments from borrowers by more than \$24.5 million. OIG recommended establishing procedures to ensure that the costs of borrowing from the Treasury are being recovered.

The Commodity Credit Corporation revised its policy on January 1, 1982, to adjust interest rates on new loans each month to reflect Treasury rates and to adjust interest rates on established loans on January 1 of each year.

## Advanced Storage Payments

An OIG audit of the Commodity Loan Program disclosed that the advanced storage provision of the Grain Reserve Program cost the Government about \$26.6 million in interest expenses for fiscal years 1978 through 1980. The advanced storage provision allows farmers to place farm-stored grain under loan and receive storage payments at the time of enrollment for a 1-year period. This in effect causes withdrawals from the Treasury to pay for services not yet received.

An additional \$8.2 million in interest expenses resulted from unearned storage payments that were not promptly refunded in fiscal year 1981. The Agricultural Stabilization and Conservation Service had called the loans when market prices reached specified call levels before the end of the period for which advance storage was paid. As of September 1981, producers had not refunded about \$14.9 million in unearned 1980 storage payments. These unearned storage payments continue to cost the Government about \$6,200 in daily interest. In addition, OIG estimates that the advance storage provision will cost the Government about \$60 million in interest, \$30 million each for the 1981 and 1982 reserves. This will continue until the market price of grain reaches the call level at which producers can remove the grain without penalty.

OIG recommended that the agency issue instructions to collect unearned storage on commodities for which storage earnings have stopped, and eliminate or modify advance storage provisions.

Agency officials have not accepted OIG recommendations. They cite the discretionary provisions of the 1981 Farm Bill which authorizes the Secretary to make advance storage payments as incentives to encourage producer participation. They also believe that many producers would not financially be able to refund payments when not selling grain. This is especially true for producers with warehouse-stored reserve grain. The issues have been referred to the Deputy Secretary of Agriculture.

## Fiscal Year Closings

Agricultural Stabilization and Conservation Service fiscal year closing instructions authorized county offices to deposit unused balances of allocated administrative funds into their local bank accounts at the end of the year. This gave county offices account balances in excess of immediate biweekly needs. Nationwide, county office expenses for a biweekly period average about \$7 million. However, bank balances at the close of fiscal years were:

| <u>Year</u>      | <u>Yearend Bank Balance</u> |
|------------------|-----------------------------|
| 1978             | \$20,335,000                |
| 1979             | 10,045,000                  |
| 1980             | 18,495,000                  |
| 1981 (Estimated) | 24,740,000                  |

OIG estimated that this procedure cost the Government over \$600,000 in interest in fiscal years 1978, 1979, and 1980. After discussions, the agency revised its instructions. As a result, OIG estimates savings of \$186,000 in fiscal year 1982.



## Farmers Home Administration Credit Report Fees

In March 1978, OIG reported that the Farmers Home Administration credit report expenses escalated from \$130,000 in fiscal year 1972 to a projected annual rate of \$1 million in fiscal year 1977. These costs resulted largely from a 1972 change in the Farmers Home procedure of no longer requiring unsuccessful loan applicants to pay for credit reports. If the agency had implemented OIG recommendations, it would have saved about \$5.8 million during fiscal years 1978 through 1981.

Further, fees charged successful applicants are not always large enough to recover the amounts charged by credit report companies (contractors). Farmers Home Administration procedures are designed to preclude unnecessary and overstated charges for credit reports, yet these procedures are not always observed by field personnel when they order credit reports and review amounts that contractors charge.

## Improper Interest Rates

A review of interest rates assigned to Farmers Home Administration emergency, economic emergency, and operating loans after consolidation, re-scheduling, or re-amortization, identified 291 cases with incorrect interest rates. As a result, during the first year of these loans, underpayments to the agency totaled about \$213,000. Overpayments were about \$5,500. OIG noted that unless corrected, these wrong rates will continue for the remainder of loan periods, normally 7 years. Finance office computer systems lack internal controls to detect interest rate errors in revised loan obligations.

## Processing Collections

Interest loss caused by delays in depositing collections continues as a serious problem at the Farmers Home Administration finance office. OIG has been reporting this condition since December of 1980.

FmHA has reduced backlogs to acceptable levels on several occasions. Corrective action, however, has not permanently eliminated the problem. OIG recently reported interest loss for two periods because of delays in deposits as follows:

|                | <u>Average Delay</u> | <u>Interest Loss</u> |
|----------------|----------------------|----------------------|
| September 1981 | 21 days              | \$ 378,000           |
| January 1982   | <u>15 days</u>       | <u>675,000</u>       |
| TOTAL LOSS     | 36 days              | \$1,053,000          |
| Daily Average  |                      | \$ 29,250            |

OIG found that the finance office significantly reduced backlogs later in January of 1982, but the problem resurfaced again during the first 10 days of March, with related interest costs of about \$100,000. March delays occurred despite a marked reduction in collection volume.

## USDA Imprest Funds

As part of a project initiated by the President's Council on Integrity and Efficiency, OIG performed a survey of controls over Departmental imprest funds. As of July 31, 1981, the Department had 1,120 funds with authorized balances totaling \$2,165,000. During 1981, the Department expended a total of \$10,828,000 through these funds.

The review compared authorized levels for each fund in November of 1981 to average disbursements in the 3-month period from September through November of that year. The comparison found that 777 of the 1,120 funds had balances which were \$300 or more in excess of the average disbursements for the 3-month period.

Excesses totaled about \$876,100. The condition was caused mainly by an absence of periodic activity analysis. OIG recommended immediate reductions and that the finance office institute controls to preclude excessive balances.

### Automatic Data Processing--Systems Development Activities

OIG monitors selected systems development activities, reviews operational systems, and analyzes agency adherence to Departmental, General Services Administration, and Office of Management and Budget guidelines.

During the report period OIG reviewed the Department's implementation of Office of Management and Budget Circular A-71, which establishes policy and responsibilities for developing and implementing computer security programs. The Department has certain security measures in place, but it was not in full compliance with Circular A-71 requirements or related Departmental information processing standards. As a result, automatic data processing operations that handle and control loan portfolios of \$44.3 billion, annual disbursements of \$24.9 billion, and annual collections of \$10.4 billion are not adequately protected against fraud, waste, or abuse.

Also, the Department's hardware and software assets valued in the millions of dollars are not adequately protected against theft, manipulation, and sabotage. A potential also exists for the disclosure of data protected by the Privacy Act of 1974. These weaknesses result mainly because the Department has assigned inadequate priority to security and because it lacks sufficient staff to monitor and enforce security requirements effectively.

The Department's Office of Information Resources Management is charged with overseeing automatic data processing. It has not recommended corrective action on security weaknesses nor followed up to ensure correction. OIG is currently working with the office to correct reported deficiencies.

OIG reviewed the Food and Nutrition Service's design and development of a quality control system for its Food Stamp Program. The review found that the agency initiated the work without sufficient review to insure that it selected the most cost effective approach. The Food and Nutrition Service designed the system to use a nationwide telecommunications network tied to a centralized computer. It did not determine, however, the telecommunication and computer processing costs associated with such a system. OIG estimated these costs as high as \$3 million a year.

OIG recommended that the Food and Nutrition Service test its system in four to six States before going nationwide with it. By April 21 of this year, however, the agency had the system operating at 21 State agency sites. In OIG's opinion the agency needs to make additional tests of alternative systems to determine the most cost-effective approach.

The billing and collection system of the Department's National Finance Center handles billings to vendors for various inspection services. To date, OIG has issued five reports covering redesign development problems such as: (1) the design and programming concurrently performed; (2) delayed processing of disputed bills; (3) the requirement to better consider user needs; (4) the need to develop a program to reconcile general ledger and accounts receivable files; and (5) the need to track and account for time spent developing the system. The National Finance Center is correcting some of these problems. OIG will continue monitoring the system and report on problems needing correction. The system was scheduled to become operational in April 1982.

A review of the Agricultural Stabilization and Conservation Service county office administrative expense system disclosed internal control weaknesses. The system monitors and controls administrative expenses totaling over \$250 million annually, yet it did not verify the accuracy of salaries computed by county office employees. Nor did it identify employees who may have improperly received salary or travel payments. The employee master file also contained numerous inaccuracies in employment data. The agency has agreed with our findings and plans to redesign the system.

#### Employee Integrity

In the last semiannual report, OIG reported an ongoing survey of administrative operations and personnel activity. This survey was designed to detect existing or potential problems involving employee honesty, integrity, and conduct.

The survey found that Department employees generally perform their duties in a highly professional and ethical manner. The survey, however, noted two areas of concern involving employees of the Agricultural Stabilization and Conservation Service that have been referred for appropriate action. Some members of county committees were actively involved in selling crop insurance, which presents a potential conflict of interest. The survey also found nepotism; some county office employees were family members or close relatives of county executive directors. OIG found no evidence of wrongdoing or abuse and requested that agency officials resolve the situations and issue instructions to preclude future recurrences.

OIG has extended its survey to validate all social security numbers for USDA employees listed on centralized payroll files. OIG provided a computer file containing numbers for all USDA employees for the Social Security Administration to perform a match. Of 178,407 social security numbers, 9,747 could not be validated. To find out the reason for the errors and to be certain that no serious problems existed (i.e. fictitious employees on the Department's payroll), OIG asked applicable agencies to perform an independent review of unvalidated numbers. The review will be completed by June of 1982, and results will be included in OIG's next semiannual report.

## Contracting for Audit Services

Presently, OIG has 14 certified public accounting (CPA) firms under contract to perform a variety of audits. The majority of these are financial and compliance-type audits.

During the October 1, 1981, to March 31, 1982, period, OIG issued 202 CPA-produced audit reports that pertained primarily to the Summer Food Service Program and the Child Care Food Program. Some reports contained only administrative findings. A number, however, contained monetary findings totaling \$344,573. That represents significant improvement in CPA audit performance. Earlier CPA audits had been contracted for by the Food and Nutrition Service and were not subject to OIG guidance and quality control.

## MISCELLANEOUS PROGRAMS

### Forest Service

#### Yazoo-Little Tallahatchie Flood Prevention Project

Congress authorized the Yazoo-Little Tallahatchie Project through the Flood Control Act of 1944 (P.L. 534). The project covers private lands that had been seriously depleted and eroded through improper land use in an area that includes all or parts of 19 northern Mississippi counties. Tree planting has been a major erosion control measure of the project. The Forest Service is responsible for this activity, with the Soil Conservation Service authorizing areas to be planted and allocating P.L. 534 funds for installation. Forest Service reports indicate that tree planting has transformed thousands of acres of barren, eroded land into pine forests, stabilizing watersheds and expanding the resource base for the timber industry. However, an OIG audit of the tree planting program disclosed that the primary objective -- stabilizing severely eroding land -- had been achieved several years earlier.

Termination of Forest Service involvement in the project had been considered as early as 1966, but the program was continued for various reasons. Termination efforts were renewed in 1976, but not until April 1979 did the Forest Service develop a phaseout plan. The agency's Washington office approved the plan in October 1980.

In early 1980, a budget was prepared for the phaseout plan. It provided for spending \$5.7 million from fiscal year 1982 through termination in fiscal year 1985. This amount included \$2.8 million for planting 30,000 acres. The audit found, however, that most of the trees planted in recent years had been on land that had stabilized naturally through grass and hardwood growth.

OIG recommended terminating tree planting. The Forest Service and the Soil Conservation Service agreed to reduce remaining tree planting from 30,000 to 600 acres and to terminate the activity this fiscal year. Thus, most costs for tree planting will be saved. The major Forest Service effort between now and fiscal year 1985 will be technical assistance to protect the Government's investment in existing plantations and technology transfer to the Mississippi Forestry Commission. The commission will assume responsibility for technical assistance as the Forest Service phases out its efforts.

## Extension Service

### Compliance with Civil Rights Laws

OIG's previous semiannual report noted that a followup review had disclosed that the Virginia Cooperative Extension Service had not fully implemented a plan for compliance to correct deficiencies reported in a 1979 OIG audit. The audit showed a lack of compliance with title VI of the Civil Rights Act of 1964 and title IX of the Education Amendments of 1972. The Department agreed with the results of the followup review and recently wrote the President of the university, detailing findings and corrective actions required. The Department also established a task force to monitor corrective action. The Department stated its intent to refer the matter to the Department of Justice for formal enforcement action should the Virginia Cooperative Extension Service fail to act promptly to achieve compliance.

OIG's previous report also cited a similar situation concerning the Tennessee Cooperative Extension Service. The Tennessee agency disputed some audit findings and declined to act on related parts of the Department's corrective action plan. The Department delayed further action on advice of the General Counsel pending the outcome of the Virginia dispute.

Now that the Department has determined its position in the Virginia case, OIG has renewed followup efforts to get the Department to pursue vigorously compliance with civil rights provisions in the case of the Tennessee Cooperative Extension Service. The Department is drafting a letter to the University of Tennessee similar to the Virginia letter.

## Food Safety and Inspection Service

The major objective of the Food Safety and Inspection Service (FSIS) is to ensure that the Nation's commercial supply of meat and poultry products are safe, wholesome, and correctly labeled and packaged, as required by the Federal Meat Inspection Act and the Poultry Products inspection Act. The agency's fiscal year 1982 appropriation is \$328.2 million.

A recent audit of FSIS' Foreign Meat Inspection Program found weaknesses in controls to ensure the integrity of meat and meat products entering the United States. FSIS has responded to the audit and subsequent disclosures, and has made improvements in its control programs.

Federal laws prohibit meat and meat product imports unless they come from countries that have inspection laws, regulations, and policies equal to those of the United States. The foreign processing plants involved must comply with United States requirements. FSIS foreign program officers conduct periodic reviews of certified plants to ensure compliance with United States standards. Currently, 43 countries are eligible to import meat and meat products into the United States. Also, imported meat and meat products are subject to inspection in the United States before they receive domestic processing and distribution.

OIG's last semiannual report recounted how an alert USDA meat processing inspector in San Diego, Calif., discovered that an Australian meat exporter had substituted horse and kangaroo meat for boneless beef. In addition to an extensive

investigation by Australian police, OIG initiated five investigations to determine whether Americans were involved. OIG domestic investigations have uncovered no evidence that U.S. persons or firms committed conspiracy or fraud. Officials in both nations believe that the illegal substitution of meat food products from Australia has ceased.

Both the United States and Australia have instituted controls to guard against recurrence. FSIS has re-instituted a program to sample randomly domestic and imported beef for species determination -- a practice discontinued in 1975 since no problems with compliance had been experienced during the preceding 10-year period. Also, FSIS has tightened reviews of foreign inspection systems and import inspections.

Australia has developed and implemented a new system to monitor and control meat product processing and shipment to the United States. FSIS has reviewed and approved the new Australian system, and the agency continues to work with American importers to ensure that they dispose of unacceptable products properly.

FSIS established a formal board of inquiry to examine all aspects of its import inspection system. The board analyzed foreign review systems, U.S. port of entry procedures, various Australian systems and U.S. domestic inspection systems, as well as proposed improvements. Its report contains a number of recommendations.

The illegal substitution operations involving meat from Australia severely tested the Food Safety and Inspection Service's public health protection and regulatory control mechanisms. The agency responded quickly by searching nationwide for all products from Australian plants. Its control program isolated some 66 million pounds of meat, removed potentially hazardous products, and permitted release of wholesome and properly labeled boneless beef. Nevertheless, before-the-fact measures to deter species substitutions or detect those that occurred could have prevented a widespread, disruptive, and potentially hazardous incident. The expanded controls the agency has instituted are justified and appear adequate to address shortcomings.

Another investigation in the meat inspection field resulted in a Federal grand jury in San Francisco returning a five-count indictment charging a meat packing firm and three of its principal officers and employees with various violations of the Federal Meat Inspection Act and the U.S. Criminal Code. The indictment states that the defendants defrauded customers by conspiring to sell unsound, unhealthy, and unwholesome meat products that contained excessive amounts of water. Additional counts in the indictment include fraudulent use of the mails, bribery involving a USDA meat inspector, and tampering with evidence during the execution of a search warrant.

The defendants carried out a continuing scheme of deception which included using rigged plant scales and lookouts for inspectors and processing products when inspectors were not present. The Departments of Agriculture, Commerce, and Labor, plus the Federal Bureau of Investigation and the U.S. Marshals Office were involved in the 1-1/2-year investigation.

In another investigation OIG looked into allegations that a meat inspector had falsified time and attendance reports. During the inquiry, investigators learned that the inspector had been offered and accepted meat and cash payments from officials of a meat packing firm in Swanton, Vt. After confrontation, the meat inspector agreed to cooperate with OIG and helped obtain evidence of several additional payments.

The investigation also disclosed that plant officials had smuggled meat products, cooking oil, and paper products into the United States from Canada without proper documentation or required inspection. An indictment has been returned against the firm and four of its officers and employees. It charges various violations of bribery, conspiracy, aiding and abetting, smuggling, and fraud by wire. Trial is pending. The meat inspector has resigned.

### Federal Crop Insurance Corporation

The Federal Crop Insurance Corporation (FCIC) is a wholly owned Government corporation created to carry out provisions of the Federal Crop Insurance Act, as amended.

The act will eliminate crop disaster provisions from Agricultural Stabilization and Conservation Service programs by 1982, and ends some restrictive features of prior legislation.

OIG has assigned a high priority to audit coverage of FCIC since insurance premiums, insurance in force, and coverage doubled in the year following passage of the Federal Crop Insurance Act of 1980. Premiums increased from \$157.6 to \$331.1 million, insurance in force from \$3 to \$6 billion, and acreage insured from 26.6 to 46.8 million acres for the 1981 crop year. Corporation officials expect insurance in force to increase by \$5 billion for the 1983 crop year and area coverage by another 45.2 million acres.

### Marketing Operations

Based on an audit of 1981 crop insurance marketing activities, OIG recommended that FCIC enhance its application processing procedure and improve agent supervision. This would result in more effective handling of the increased volume of applications and in fewer errors. FCIC corrected the situation by using master contracting for 1982 with re-insurance agreements and agency sales and service agreements. OIG's audit of re-insurance activities is continuing, with initial results reported to the FCIC chairman.

OIG reported that the servicing association for re-insurance companies lacked batch control procedures to make sure that source documents are processed and that each document is processed only once. No edits existed to identify insurees attempting to insure the same crop with more than one company. Also, no controls existed to assure that losses would first be credited to premium balances due. OIG noted also that at the time of the review neither the re-insurance companies nor their servicing association had historical information on current policyholders or debtors.

OIG concluded that these weaknesses can be expected with an interim system heavily dependent on manual verification of data. FCIC needs better controls to prevent fraud and waste. FCIC does not believe that the servicing company should control the companies for which it works, and the companies are not required to use the service. OIG believes that FCIC, then, should enforce stronger controls over the re-insurance program.

OIG audited the marketing sales application used as a part of FCIC's automatic data processing system. The audit disclosed generally adequate controls for processing marketing sales data in a timely, accurate, and complete manner. OIG found, however, that:

-- Documentation did not comply fully with applicable requirements.

-- Error suspension rates increased from 7 to 20 percent because contract agents were incorrectly completing source documents.

-- The policy of denying crop insurance to Agricultural Stabilization and Conservation Service debtors might not be legally enforceable.

-- Controls to identify those debtors needed strengthening.

Corporation officials agreed with OIG's recommendation to reduce the high error rate percentage for the marketing sales process. FCIC reported recently that the suspension ratio dropped to between 2 and 5 percent. Currently, FCIC is:

-- Using the last five digits of social security numbers as policyholder contract numbers.

-- Returning to the multicrop document rather than the single crop document for processing new applications.

-- Planning to implement an error tracking feature into the marketing sales process to better control typical errors.

FCIC also intends to comply with documentation standards as soon as it has dealt with personnel shortages and mandatory program changes.

#### Contract Service Operations

The OIG audit focused on the effectiveness of contract service operations at 6 FCIC regional offices and about 60 field locations. OIG has completed field work based on a statistical sample of 1980 loss claims. The error rate appears to be in the 30-to 35-percent range. Tentative findings have been submitted for review to FCIC regional directors. They have been asked to comment on conditions that seem to indicate weaknesses or the absence of controls to assure claims accuracy. Also, OIG believes conditions indicate FCIC could use a system to automatically verify computations of the claims that contract loss adjusters make for services or for checking for duplicate payments.



## LEGISLATIVE INITIATIVES

The Office of Inspector General has devoted additional attention to legislative and regulatory review both within and outside the context of audits and investigations. A brief synopsis of this activity follows.

### FOOD AND NUTRITION SERVICE PROGRAMS

OIG reviewed the Department's draft legislation to implement the fiscal year 1983 budget proposals in Food and Nutrition Service Programs. The review covered the Food Stamp Amendments of 1982 and the Food and Nutrition Consolidation Act of 1982. OIG offered a number of suggestions for the Food Stamp Amendments and refinements to both the Food and Nutrition Consolidation Act and the Child Nutrition Amendments.

Legislation now provides, for example, that contracts with those who issue food stamps hold them liable for the value of stamps they issue when they are presented with a stolen "Authorization To Participate" card and they have not checked the photo identification card and recorded its number on the "Authorization To Participate" card. OIG urges Congress to establish issuer liability when nonphoto as well as photo identification cards are used.

### EXPEDITED SERVICES

The 1977 Food Stamp Act requires that households with no income receive coupons on an expedited basis. The Food and Nutrition Service requires that State agencies identify at the time of application households eligible for expedited service. States must process expedited applications so that they can mail food stamp authorizations no later than the close of business on the second day following the application date, or so that they can have the authorizations available to be picked up at the start of business on the third day.

To facilitate the processing of expedited cases, the regulations allow State agencies to postpone verification of household eligibility, except that States must make a reasonable effort to verify income. Benefits, however, cannot be delayed beyond 2 working days after the application has been made. If the State has not completed verification within 30 days, it must not issue any further benefits.

Recent investigations have disclosed that the expedited benefits provision could easily be abused. In cooperation with local welfare investigators, for instance, OIG determined that an individual obtained food stamps in six counties in Minnesota, four counties in Iowa, two counties in Wisconsin, and one county each in both North and South Dakota between January 1, 1981, and December 31, 1981. The value of the stamps totaled \$8,135. The individual applied under expedited service provisions. He would check into a local motel for one night, alter the receipt to show more persons staying at the motel, and use the receipt to show residence. He was indicted, pled guilty, and was sentenced to 3 years in prison.

In another example, OIG based an investigation on a referral from the Texas Department of Human Resources. The investigation revealed that an individual who had obtained food stamps in at least five counties in Texas had also applied for and received food stamps in approximately 20 other States. Between January of 1980 and September of 1981, the individual had received approximately \$13,000 in food stamps and other benefits. The subject applied under expedited service provisions and used fraudulent identification.

Because of the potential for abuse, OIG believes that expedited service provisions should be changed by extending the maximum time for processing expedited applications from 2 days to 7 days and requiring State agencies to complete regular verification before issuing food stamps. General assistance programs in most states should be able to meet food needs during the waiting period. Another alternative would be for State agencies to issue only enough food stamps for 1 week while they complete regular verification. The Food and Nutrition Service has informed OIG that it expects to publish rules in May 1982 to change the processing time for expedited cases to 7 days.

#### LAW ENFORCEMENT AUTHORITY

For a number of years, OIG had been seeking full law enforcement authority under the Criminal Code Reform Act. The passage of this act is still pending, but OIG has meanwhile gained full law enforcement authority under the Agriculture and Food Act of 1981 (7 U.S.C. 2270). Criminal investigators in OIG can now carry firearms; make arrests without warrants in criminal and felony cases; and execute warrants for arrests, searches, and seizures. The Secretary published regulations regarding exercise of these authorities in the Federal Register on January 14, 1982.

All OIG special agents have undergone basic criminal investigative training at the Federal Law Enforcement Training Center in Glynco, Ga. OIG has conducted refresher training courses in arrest, search, and seizure laws and techniques, and is scheduling firearms re-qualification tests in each office. OIG hopes to complete the necessary directives and firearms re-qualifications to exercise the new law enforcement authority by June 1, 1982.

## SECURITY

### PHYSICAL SECURITY

At the direction of the Secretary of Agriculture, OIG developed and implemented a physical security program to maintain the Department's physical facilities security and its emergency self-protection systems, to provide security for the Secretary, to ensure the safety of Department personnel, and to protect Government and personal property in the Washington, D.C., complex.

Prior to implementing the new program, numerous reports of assaults on employees, armed robberies, and thefts of Government property caused fear among employees and concern among Department leaders. In the 12-month period prior to August of 1981, thefts of Government property averaged more than \$9,000 per month. In 1 day, an agency lost office equipment valued at over \$2,300.

OIG's new security program provides an effective identification system for employees and visitors, controlled access to the headquarters complex, and a property pass system that controls removal of Government property from the complex. The program also includes a contract guard system that effectively controls the movement of persons and property into and out of the complex.

The security program has been successful. Since August of 1981:

-- No reports of assaults or attacks on employees within the complex have been made.

-- Losses from thefts of Government property have dropped by 90 percent to an average of about \$900 per month.

-- Losses from thefts of employee personal property are down by 70 percent to an average of about \$270 per month.

Arrests made for noncompliance with security regulations in several instances resulted in the discovery of narcotic violations, and a number of criminal investigations resulted from security incidents. Security inspections in the Washington complex led also to recovery of stolen and missing property.

During the next 6 months, OIG will institute two additional measures to enhance security. The installation of perimeter security devices will reduce the number of guards needed, and the initiation of a new system for crime report analysis should identify high crime areas and related problems in the complex.

### WHISTLEBLOWER COMPLAINTS

The Inspector General Act of 1978 (P.L. 95-452) provides that the Inspector General shall receive and investigate complaints or information concerning possible violations of laws, rules, or regulations; mismanagement; gross waste of funds; abuse of authority; or substantial and specific danger to public health and safety.

In response to this law, the Inspector General set up a "Hotline" in February of 1979.

OIG opened 201 "whistleblower" cases during this report period, a substantial increase over the same period last year. Contributing to the increase was the added emphasis the President has given to the importance of this activity. Also, Congressmen and Senators have publicized OIG's toll-free hotline number in constituent newsletters. Local newspapers, radio stations, and television stations have published and broadcasted the number. Many citizens who directly and indirectly benefit from Department programs are taking active roles in reporting what they believe to be improper program discrepancies.

From October 1, 1981, through March 31, 1982, action was completed on 179 cases. The table below shows numbers of completed cases in each of the last four fiscal years.

| <u>Fiscal Year</u> | <u>Substantiated<br/>Complaints</u> | <u>Unsubstantiated<br/>Complaints</u> | <u>Cases Closed</u> |
|--------------------|-------------------------------------|---------------------------------------|---------------------|
| 1979               | 2                                   | 1                                     | 3                   |
| 1980               | 1                                   | 2                                     | 3                   |
| 1981               | 18                                  | 78                                    | 96                  |
| 1982*              | 13                                  | 64                                    | 77                  |

\*First 6 months only.

**INTERNATIONAL CRIMINAL POLICE ORGANIZATION-U.S. NATIONAL CENTRAL  
BUREAU (INTERPOL-USNCB)**

OIG recently became a fully participating law enforcement member agency in INTERPOL-USNCB in the U.S. Department of Justice, the U.S. liaison agency with INTERPOL.

All foreign criminal leads stemming from OIG investigations of Department domestic and foreign programs will be referred to INTERPOL-USNCB. Leads can then be checked with any of 133 member countries' national central bureaus. Responses will be more complete and timely than otherwise possible.

## USDA VULNERABILITY STUDIES

Office of Management and Budget Circular A-123, Internal Control Systems, issued October 28, 1981, requires Federal departments to perform vulnerability assessments. The purpose is to determine the susceptibility of agencies and programs to loss of resources or their unauthorized use, errors in reports and information, illegal or unethical acts, and adverse or unfavorable public opinion. Agencies of the Department were to complete plans for vulnerability assessments covering agency components by March 31, 1982. Plans were to include initial assessments and improvements and documentation of agency reviews.

The Office of Inspector General will review internal control documentation, systems, and compliance in conjunction with internal audits and determine whether agencies are implementing Circular A-123 properly. Also, the Inspector General, as the designated chairman of the Investigations and Auditing Committee of the Secretary's Policy and Coordination Council, has been assigned the responsibility for coordinating and monitoring Department vulnerability assessments. OIG established a new organizational division to assist and emphasize efforts to detect program vulnerability to fraud, waste and abuse.

Vulnerability assessment criteria have been established and agency assessment plans have been finalized. The agencies were scheduled to begin vulnerability assessments of major program components by April 15, 1982. OIG will monitor progress and work with the agencies to better ensure adequacy of assessments and facilitate corrective action.

**DEBTS OWED TO THE DEPARTMENT OF AGRICULTURE**  
(in thousands of dollars)

| Agency               | As of September 30, 1981 |                    |                                   | As of December 31, 1981 |                    | Estimate<br>As of March 31, 1982 |                    |                                    |
|----------------------|--------------------------|--------------------|-----------------------------------|-------------------------|--------------------|----------------------------------|--------------------|------------------------------------|
|                      | Owed                     | Overdue            | Written off<br>4/1/81-<br>9/30/81 | Owed                    | Overdue            | Owed                             | Overdue            | Written off<br>10/1/81-<br>3/30/82 |
| FmHA                 | \$56,089,489             | \$1,695,936        | \$ 20,153                         | \$ 56,198,796           | \$1,622,302        | \$ 53,419,605                    | \$3,650,000        | \$10,437                           |
| REA                  | 23,106,455               | ---                | ---                               | 24,530,384              | 202                | 24,940,981                       | 308                | ---                                |
| ASCS/CCC             | 14,242,833               | 123,600            | 2,446                             | 18,710,420              | 141,366            | 21,858,159                       | 230,879            | 1,283                              |
| FCIC                 | 187,900                  | 7,300              | (25)                              | 187,370                 | 6,021              | 92,047                           | 5,062              | 379                                |
| FNS                  | 169,625                  | 105,600            | 111,181                           | 172,827                 | 171,539            | 210,266                          | 210,266            | 10                                 |
| FS                   | 61,451                   | 28,258             | 11,858                            | 62,829                  | 45,076             | 55,008                           | 39,617             | 4,539                              |
| FSIS                 | 16,300                   | 10,626             | ---                               | 4,578                   | 1,220              | 3,009                            | 1,953              | ---                                |
| SCS                  | 6,134                    | 2,000              | 97                                | 5,828                   | 1,787              | 5,343                            | 1,044              | 43                                 |
| FGIS                 | 3,974                    | 708                | 50                                | 4,734                   | 561                | 4,873                            | 1,312              | ---                                |
| APHIS                | 1,305                    | 920                | 9                                 | 589                     | 435                | 177                              | 171                | ---                                |
| S&E                  | 617                      | 377                | 3                                 | 194                     | 182                | 228                              | 126                | ---                                |
| AMS                  | 205                      | 24                 | ---                               | 4,750                   | 107                | 2,880                            | 456                | ---                                |
| OICD                 | 190                      | 90                 | ---                               | 2,084                   | 1,817              | 3,818                            | 3,573              | ---                                |
| SRS                  | 145                      | 78                 | ---                               | 41                      | 41                 | 74                               | 35                 | ---                                |
| Dep. Adm/SEC         | 130                      | 128                | ---                               | 118                     | 118                | 97                               | 97                 | ---                                |
| OIG                  | 5                        | 4                  | ---                               | 5                       | 4                  | 4                                | 4                  | ---                                |
| FAS                  | 2                        | 2                  | ---                               | 54                      | 51                 | 54                               | 54                 | ---                                |
| Working Cap.<br>Fund | ---                      | ---                | ---                               | 26                      | 26                 | 255                              | 255                | ---                                |
| OT                   | 2                        | ---                | ---                               | ---                     | ---                | ---                              | ---                | ---                                |
| OGC                  | ---                      | ---                | ---                               | ---                     | ---                | 21                               | 21                 | ---                                |
| <b>TOTALS</b>        | <b>\$93,886,762</b>      | <b>\$1,975,651</b> | <b>\$145,772</b>                  | <b>\$ 99,885,627</b>    | <b>\$1,992,855</b> | <b>\$100,596,899</b>             | <b>\$4,145,233</b> | <b>\$16,691</b>                    |