United States Department of Agriculture

Office of Inspector General

Semiannual Report Office of Inspector General

April 1, 1982 - September 30, 1982

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

November 30, 1982

To The President of the Senate and the
Speaker of the House of Representatives

Pursuant to Public Law 95-452, I am transmitting the Semiannual Report of the Inspector General, covering the period April 1 to September 30, 1982.

The report projects the Inspector General's continuing efforts to ensure that the Department operates its programs efficiently and effectively. I have repeatedly emphasized to Congress, Departmental management, and the heads of the Department agencies my firm support of Inspector General activities. This has led to an excellent relationship between all parties concerned which is reflected in the close coordination and cooperation evidenced throughout the audit and investigative processes, the resolution of findings, and the followup activities.

The audits resolved during this reporting period resulted in disallowances by program agencies of over $39 million. Agencies established 274 new accounts receivable for claims arising from audits in the amount of $5.4 million, and actually collected $4.6 million against these and older claims during the last 6 months.

The Inspector General's activities demonstrate an aggressive program for fraud detection as evidenced by the considerable increase in successful investigations. This has culminated in 1,020 indictments, 414 convictions, and $13.4 million in claims, savings, fines, judgments and other recoveries. For the full fiscal year, this represents a 32 percent increase over fiscal year 1981 in the total number of indictments, and an even greater increase, 46 percent, in indictments in the Food Stamp Program. These successful investigations should have a significant effect in reducing fraud in the Food Stamp Program. This deterrent effect, together with considerable progress made toward strengthening internal controls in the program, should help to prevent future program losses.

This coordination between the Office of Inspector General and the other Department agencies extends also to conducting vulnerability assessments and recommending legislative and regulatory changes. Particular emphasis is given to tightening internal controls and other preventive measures designed to enhance the effectiveness of Department operations and activities and to decrease the incidence of fraud, abuse and mismanagement in our programs.

Sincerely,

John R Block

John R. Block
Secretary

Enclosures

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SUMMARY

During the period from April 1 to September 30, 1982, the Office of Inspector General (OIG) of the Department of Agriculture issued 436 audit reports, including 275 executed under contract by certified public accounting firms and five organizationwide audits conducted by State auditors under OIG cognizance. Questioned costs and loans associated with these audits amounted to approximately $453 million.

During the 6-month period, OIG resolved 574 audits. Resolved audits resulted in disallowances and claims referred for recovery of $39 million. In addition, estimated cost avoidances and savings of $296 million should result if program officials implement the recommendations agreed to at the time of report resolution.

Agencies of the Department of Agriculture also established 274 new claims during the period covered by this report that arose from OIG activities. These amounted to $5.4 million, with $4.6 million collected against these and other claims and $15.4 million waived, compromised, or reduced because of post-resolution justifications.

OIG completed 1261 investigations. These led to 1020 indictments and 414 convictions and resulted in fines, recoveries, and collections of $3.8 million; claims of approximately $9 million; and savings of about $600,000. Exercising newly gained authority to make arrests, execute warrants, and carry firearms, OIG agents made 123 arrests and executed 14 search warrants. For the entire fiscal year, indictments numbered 1392, a 32 percent increase over fiscal year 1981 totals. The largest increase came in food stamp indictments totaling 1,170, a 46 percent increase over last year's 799. These investigations should have a deterrent effect in reducing food stamp fraud.

Seven-Day Letter

OIG issued a "7-day letter" report to the Secretary which he forwarded to Congress in accordance with Section 5(d) of the Inspector General Act of 1978. Based on information in that report, the Secretary instructed the Food and Nutrition Service to cancel $30 million worth of proposed contracts for job search activities in the Food Stamp Program.

OIG Priorities

During the second half of the fiscal year, OIG continued to emphasize congressionally mandated activities, projects of the President's Council on Integrity and Efficiency, and priorities of the Secretary of Agriculture. We also continued to direct considerable resources to those USDA program areas most vulnerable to fraud, abuse, and mismanagement. These include the large expenditure programs administered by the Food and Nutrition Service, the Farmers Home Administration, and the Agricultural Stabilization and Conservation Service.

Following are highlights of OIG's significant operations related to the program areas and administration of the Department.

Food and Consumer Services

Food assistance programs remained a major OIG concern. Past and current OIG audits and investigations continue to detect large losses from waste, fraud, and abuse. Accordingly, OIG expends nearly 40 percent of its resources on auditing and investigating these programs.

For the period covered by this report, we are able to continue to report positive results from our investigations. In fact, indictments related to the Food Stamp Program have tripled over a period of 3 fiscal years.

Criminal investigators broke two drug rings in Baltimore that sold narcotics for food stamps. OIG investigators also gathered evidence for indictments for food stamp trafficking in Atlanta, Georgia; South Carolina; Gainesville, Florida; Statesboro, Georgia; Cincinnati, Ohio; Indianapolis, Indiana; Houston, Texas; Salt Lake City, Utah; the Quad Cities area of Iowa and Illinois; and Las Vegas, Nevada.

OIG investigators uncovered recipient fraud in Baltimore, Maryland; Toledo, Ohio; and Indianapolis, Indiana. In Baltimore and Toledo, food stamp caseworkers had been involved in fraud.

OIG has continued its work as lead agency in the President's Council on Integrity and Efficiency's project to use computer matching to detect underreporting of income in federal benefit programs.

Effective January 1, 1983, Federal law requires States to match computer data on the wages that food stamp recipients report against wage data in social security or State unemployment compensation files. These computer matches should decrease certification errors and avoid overpayments by detecting underreported income.

So far, the Federal computer matching project has identified 30,000 cases of underreported income, 8,000 of which involve $3 million in fraudulent benefits. We have expectations of detecting another $5.7 million.

In Illinois, a computer match identified 182 Federal employees who had not reported or who had significantly underreported income to receive food stamps and public assistance benefits estimated to exceed $1 million. So far, eight persons have been indicted and two arrested.

OIG's nationwide audit of State agency recertification procedures disclosed that many households with expired certification periods continue to receive food stamps without State agencies reestablishing their eligibility. Through retroactive recertification, State agencies will reduce considerably the $29 million that our audit originally questioned. In 9 out of the 12 locations that we examined, however, we established actual losses of $3.5 million.

In addition to computer matches, OIG has focused audit attention on strengthening internal controls in such areas as improving identification procedures and tightening controls over bank redemptions.

The Immigration and Naturalization Service, for instance, is implementing our recommendation for a new, secure "Immigrant Parolee" identification card to make it more difficult for illegal aliens to fraudulently participate in food stamp, welfare, and other social benefit programs.

OIG has been monitoring implementation of photo identification cards in 17 urban areas mandated by Congress. Thirteen areas are in the process of implementing or have implemented photo identification or other acceptable alternatives. Of the remaining, the Food and Nutrition Service has granted one waiver to which OIG objects, and OIG questions three pending waivers.

OIG recommendations led the Food and Nutrition Service to propose regulations to cut from 90 to 30 days the time food stamp applicants have to get a social security number while receiving coupons in the meantime. This change will make wage/benefit computer matches possible sooner.

Another OIG recommendation would improve identification of retailers to make more difficult the creation of "phantom stores" for laundering stolen food stamps. Under this recommendation, retailers would be required to give their State vendors license or sales tax numbers so that food stamp officials could check them against State records.

OIG activities resulted in tightening controls over bank redemptions of food stamps. A new system of redesigned documents and changed document flow was tested and proved to be successful in Atlanta. The Food and Nutrition Service is implementing it nationwide.

We directed effort towards seeking a less costly system of procuring and distributing infant formula. Based on a review of infant formula purchases in the Special Supplemental Food Program for Women, Infants, and Children, OIG has recommended direct purchase and distribution of infant formula, rather than have mothers in the program use vouchers to obtain formula from retail outlets. Direct purchase and distribution is projected to save more than $110 million per year, or allow an additional 355,000 participants to be included in the program.

OIG completed an audit of the largest home day-care operation in the Nation and found major problems in its financial management system. We repeated recommendations to reinstate a family income criterion for participation in the program. According to our computations, that change could save more than $30 million a year, well over 40 percent of program costs.

Small Community and Rural Development

During the period covered by this report, OIG completed a nationwide audit of the Farmers Home Administration that concentrated on graduating rural housing loan borrowers to private sector credit and on borrower eligibility for five types of loans. The audit used statistically selected samples of State and county offices and of program activities. It complemented statistical samples with field survey and finance office data base analysis. The nationwide audit of the Farmers Home Administration identified potential interest savings of $100 million based on $1.3 billion in rural housing loans with potential for graduation to private sector lending institutions. The audit projected that nationwide more than 9,000 loans with a projected total value of over $375 million may be questionable.

OIG also completed a nationwide audit of the Farmers Home Administration's Business and Industrial Loan Program. The audit focused on liquidations and the status of the active loan caseload. We found problems in liquidation processing and servicing that caused estimated losses of nearly $23 million in 144 liquidated accounts. These problems resulted from inadequate procedural and regulatory guidelines. Our audit report recommended 15 improvements.

OIG followup on whether action had been taken on previous audits of the Farmers Home Administration found that the agency had begun to implement most of the recommendations from our audit of the Rural Rental Housing Program. Also, the Farmers Home Administration has responded positively to OIG audits of its claim procedures and of community program loans. However, the agency had not yet implemented our recommendations for savings in interest credit. Delay resulted in estimated monthly losses of $10.7 million.

OIG investigations led to a guilty plea by a former South Carolina State representative who had been twice named the Nation's outstanding young farmer. He pled guilty to converting property mortgaged to the Farmers Home Administration, falsely applying for disaster payments from the Agricultural Stabilization and Conservation Service, and falsely claiming crop insurance indemnities from the Federal Crop Insurance Corporation. He agreed to repay the Government $704,000 plus interest. Also, an investigation of money order stealing in the Farmers Home Administration's national finance office identified deficiencies in handling cash, checks, and money orders that OIG brought to the attention of management officials.

OIG conducted audits of the rapidly expanding and recently reorganized Federal Crop Insurance Corporation that covered contract service operators and alleged sales misrepresentations in southeastern Colorado. We found evidence that 1980 losses were overstated by more than $1 million and that the Corporation did not use information in its data system to comply with established spot check and performance requirements. We found no evidence, however, of sales misrepresentation.

International Affairs and Commodity Programs

OIG completed its auditing and monitoring of the partial embargo of agricultural exports to the Soviet Union by issuing a supplemental report to our earlier report released in November of 1981. OIG's activity in this area resulted in savings of over $10 million from recommended changes in management procedures and in adjustments to claims. Since the November report, an arbitration board settled adjustments proposed by OIG that three exporters had disputed. Two judgments, totaling $3.6 million, favor the Commodity Credit Corporation, and one, totaling $1.1 million, favors the exporter.

OIG used computer data base analyses of payments to review the Agricultural Stabilization and Conservation Service's controls over sight drafts. We found that blank sight drafts are vulnerable to theft and unauthorized use and that the agency lacks automated controls to identify payments to producers who have invalid identification or social security numbers. This weakens automated controls over the payment maximum producers may receive in a year, and results in inaccurate reports to the Internal Revenue Service. During the last 4 years, we identified 7,000 payments totaling $5.8 million that went to producers with invalid social security numbers.

In response to a recommendation made by OIG in an earlier audit, the Agricultural Stabilization and Conservation Service has become a cooperator in the National High Altitude Photograph Program. We estimate that the use of photographs from that program will save $750,000 per year. OIG believes that Agricultural Stabilization and Conservation Service's action on our previous audit of the Farm Storage and Drying Equipment Loan Program will correct the deficiencies noted. A followup audit of the Upland Cotton Program indicated that 15 of 18 counties checked in Arkansas and Texas had not fully implemented new instructions to correct computations of farm yields that a previous audit showed had resulted in cotton producers receiving unwarranted low-yield disaster payments.

In another review, OIG investigations of the Upland Cotton Program in Texas led to total summary judgment of over $6.6 million plus interest against two individuals. In South Carolina, an OIG investigation led to the indictment of a former executive director of the Agricultural Stabilization and Conservation Service's State office for making false statements about his corn production to receive assistance. In Illinois, an elevator operator and his wife were charged with mail fraud and theft to defraud the Commodity Credit Corporation and dozens of farmers of $1.5 million.

In line with the Secretary of Agriculture's priority on agriculture exports, OIG responded to a Foreign Agricultural Service request to conduct a comprehensive study of cooperator oversight activities in the Joint Government and Industry Cooperator Program. We recommended centralizing funding and payment responsibility, eliminating or reducing pre-audits of vendors, and eliminating duplicative reporting and reports of minimal value. Program officials have initiated action on the recommendations. These changes when completed would ease the burden of regulation and paperwork on cooperators, reduce program administrative costs, and allow staff to devote more time to market development.

Marketing and Inspection Services

Over the years OIG has investigated and audited USDA programs for inspecting foreign meat and poultry imported into the United States--including recent activity in the Australian meat substitution case, audit and investigation of Guatemalan meat exports, and ongoing investigation of irregularities in meat imports from Central America. These have resulted in several recommendations to eliminate inspection weaknesses. During the period covered by this report, OIG investigations led to the indictment in Miami of officials of the United Beef Packers, Inc., for importing adulterated meat from Costa Rica and Guatemala.

OIG audited a project of the Animal and Plant Health Inspection Service to develop a national brucellosis information system. We found that the project team had not identified design problems until after the agency began to implement the system. The agency has accepted our recommendations that it make a feasibility study to determine information needs and conduct a cost-benefit analysis.

OIG conducted an audit of the implementation of the agreement between the Federal government and the State of California for sharing costs of the project to eradicate the Mediterranean fruit fly in California. We found overpayments to the State of $828,841 and claims of $2.3 million accepted from the State for expenditures not authorized by the cost-sharing agreement. The Animal and Plant Health Inspection Service advised that the State corrected the overpayments in later billings and that the State has been requested to substantiate or modify the questioned claims.

Natural Resources and Environment

A recently completed OIG audit of road construction in national forests estimated that the Forest Service could have saved at least $28 million in one of its regions during a 39-month period. The main problem was inadequate preconstruction planning and a lack of specified road standards. The audit also showed that in response to an earlier OIG audit, the Forest Service has made great improvement in the administration of the road construction phase.

The Forest Service is ahead of schedule in implementing an OIG recommendation to terminate the tree-planting phase of the Yazoo-Little Tallahatchie Flood Control Project and relocate personnel. This meant that the Forest Service could return over $250,000 to the Soil Conservation Service. Adding this to the previous budget reduction brings total savings to date to about $2.5 million with additional savings likely in the future.

Science and Education

Information furnished OIG during the period covered by this report indicates that the Virginia Cooperative Extension Service is making positive efforts to comply with civil rights laws. Also, Department officials have met with representatives of the Tennessee Agricultural Extension Service to discuss university compliance with civil rights laws. The Department intends to check whether the data and policy upon which OIG based a critical 1979 audit are still valid.

OIG audits in fiscal year 1982 of programs funded by the Extension Service and the Cooperative State Research Service at two State universities found problems of accountability and control of Federal funds. We have recommended that USDA recover about $3 million, including $1.88 million in prematurely drawn funds by a university plus the interest the money earned.

Departmental Administration

OIG has completed 5 of 10 reviews of agency internal control systems and found weaknesses in the overall guidance and review of internal control procedures. Additionally, the Department is conducting vulnerability assessments under Office of Management and Budget Circular A-123, scheduled for completion on December 31, 1982.

OIG worked with the Department to develop a plan to implement the recommendation of the President's Council on Integrity and Efficiency for agencies to analyze unliquidated obligations. The plan called for reviewing obligations of more than $1 million that have had no payment activity for 15 months and resulted in identification of about $50 million for deobligation. OIG is evaluating these reviews, and our questions led the Farmers Home Administration to identify for deobligation an additional $6.7 million and earmark another $15.7 million for possible deobligation.

OIG continued to review the Department's debt management. We estimated that $7 million in increased annual revenues to the Department of Treasury and related interest savings would result if agencies systematically reported debts they write off to the Internal Revenue Service for inclusion in the debtor's taxable income.

We analyzed further the backlog of 10,000 cases agencies have referred to the Office of General Counsel. They represent more than $550 million in claims, most involving foreclosures in Farmers Home Administration programs. The Department's debt management study of 2 years ago had recommended passage of a nonjudicial foreclosure act and USDA's obtaining authority to engage private sector attorneys. Numbers of cases referred more than doubled between fiscal years 1980 and 1981, and referrals are expected to continue to grow because of increased loan volume. A lack of improvement in expediting these cases could lead to increased costs and the loss of millions of dollars.

Cash management continued to be a top OIG priority during the period covered by this report. Our reviews showed that the Farmers Home Administration could save about $19 million annually by eliminating delays between the dates it receives payments and the dates it deposits them. We also found that improper use of the Farmers Home Administration's loan disbursement system by its county offices is costing more than $20 million annually in increased interest. In another recommendation for cash management improvment, OIG pointed out that the National Finance Center and the Soil Conservation Service could reduce annual interest costs by $360,000 and $400,000, respectively if they reduced premature payments. Program officials have agreed to improve their systems.

We also recommended that agencies with high cash receipts implement the Department of the Treasury's system of electronic funds transfer instead of using the mail and manually processing receipts. Accelerating by 3 days the Treasury Department's access to USDA deposits would save about $23 million per year in interest costs.

Other Activities

OIG opened 262 whistleblower cases during the period covered by this report bringing the total for the year to 463. OIG has already closed 287 of these, with about 15 percent being substantiated.

Early in 1982, OIG decided to contract out USDA equal employment opportunity investigations. This resulted in savings of $185,000 or 8 agent years during the last quarter of the fiscal year.

OIG commented on and provided information on a number of legislative proposals during the period covered by this report. Those comments included support for simplifying the food stamp application process and opposition to returning to a purchase requirement for food stamps. In addition to these legislative proposals, the Inspector General and his principal assistants provided oversight testimony on the Department's programs before the House and Senate Appropriation Committees and the House Subcommittee on Department Operations, Research and Foreign Agriculture.

STATISTICAL DATA

AUDIT ACTIVITIES

Audit Reports Issued

During the period April 1 through September 30, 1982, the Office of Inspector General issued 436 audit reports, including 275 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....................................	$ 13,027,964
Collection Conditional....................................	7,654,131
Projected for Program Impact Purposes--Collection Not Intended..	172,233,661
Improper Expenditures--Collection Inappropriate...........	6,111,483
SUBTOTAL..................	$199,027,239

Questioned Loans

Collection/Cancellation Recommended.......................	$ 65,985,624
Collection/Cancellation Conditional.......................	27,500,923
Projected for Program Impact Purposes--Collection/ Cancellation Not Intended................................	158,028,350
Improper Loans--Collection/Cancellation Inappropriate.....	2,813,557
SUBTOTAL..................	$254,328,454
TOTAL QUESTIONED COSTS AND LOANS..................	$453,355,693

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

Audit Reports Resolved

OIG resolved 574 reports during the period covered by this report. 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........	$ 95,646,583
Questioned Costs and Loans Not Intended for Collection....	599,440,442
TOTAL...	$695,087,025

At Time of Report Resolution

Costs and Loans Referred for Collection..................	$ 39,047,031
Postaudit Justifications Accepted by OIG..................	(57,677,128)
Disallowed Costs and Loans Not Intended for Collection....	536,840,570
Savings and Management Improvements**....................	295,620,626
Sanctions**..	-0-
TOTAL...	$871,508,227

**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.

INVESTIGATIVE ACTIVITIES

Between April 1, 1982, and September 30, 1982, OIG completed 1,261 investigations, 1,151 of which involved criminal violations. OIG referred 842 cases to the Department of Justice.

During the 6-month period, investigations led to 1,020 indictments and 414 convictions. Fines, recoveries, and collections resulting from investigations during this period totaled about $3.8 million. Claims approximated $9 million and savings came to about $600,000.

Since late July when OIG Agents began exercising law enforcement authorities granted by the Agriculture and Food Act of 1981, OIG Agents have made 123 felony arrests and executed 14 search warrants.

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

AGENCY	April-September 1982 Indictments	April-September 1982 Convictions	Total for FY 1982 Indictments	Total for FY 1982 Convictions
Agricultural Marketing Service	0	0	0	3
Agricultural Stabilization and Conservation Service	56	34	100	66
Animal and Plant Health Inspection Service	0	0	2	2
Farmers Home Administration	29	17	48	30
Federal Crop Insurance Corporation	1	1	2	1
Food and Nutrition Service	919	345	1211	726
Food Safety and Inspection Service	10	12	16	20
Forest Service	0	1	4	3
Rural Electrification Administration	1	0	1	0
Science and Education	0	0	2	1
Multiple Agencies (two or more agencies)	4	4	4	4
TOTALS	1020	414	1390	856

Note: Since the time necessary to get court disposition on indictments varies widely, convictions may not correspond to indictments within the input period.

F O O D A N D C O N S U M E R S E R V I C E S

FOOD AND NUTRITION SERVICE

The Food and Nutrition Service (FNS) administers five programs--Food Stamps, Child Nutrition, Special Milk, Special Supplemental Food for Women, Infants, and Children, and Food Donations. Funds appropriated for fiscal year 1982 total about $15.3 billion. The President's budget request for fiscal year 1983 is approximately $13.4 billion. These programs are delivered through State and local government agencies. Delivery systems are complex, difficult to administer, and highly vulnerable to fraud and waste. Consequently, the Office of Inspector General devotes nearly 40 percent of its resources to food assistance activities.

FOOD STAMP PROGRAM

The Food Stamp Program is the largest food assistance program. Over 21 million persons receive stamps to purchase food in retail stores. Fiscal year 1981 expenditures amounted to $11.3 billion and are expected to reach the same level for 1982. The budget request for fiscal year 1983 is $9.5 billion. The planned decrease in funding reflects new eligibility standards mandated by Congress that concentrate assistance to those most in need.

Computer Matching to Detect Underreported Income

In its last semiannual report, OIG discussed its role as the lead agency in a project of the President's Council on Integrity and Efficiency designed to identify and verify significant underreporting of income in federally assisted benefit programs. The project has so far disclosed over 30,000 cases of underreported income in nine metropolitan areas. OIG and State agencies are working to follow up on over 8,000 cases of significant income underreporting. So far, we have identified $3 million in fraudulent benefit overpayments and estimate that we will detect at least $5.7 million in additional overissuances.

Of 1,900 cases referred to the Department of Health and Human Services, 1,695 were participating in that Department's programs. To date, Health and Human Services has identified 971 cases with excess benefits of $663,586 as violating program eligibility limits. In addition, we referred 1,788 cases to the Department of Housing and Urban Development. Of these cases, 260 were subsequently identified with excessive benefits of nearly $160,000.

Information from a statewide wage match in New Jersey for the first quarter of 1981 resulted in closing over 2,000 food stamp cases and rebudgeting and adjusting another 2,000. New Jersey reports that it saved $900,000 per month in public assistance for those cases closed. New York City reports that from January through June 1982, it closed 1,500 cases and rebudgeted 10,000 cases. New York City's fraud unit projects over $10 million annual savings from these adjustments.

Federal Employees Receiving Public Assistance

OIG, in cooperation with the Office of Personnel Management, arranged for a computer match with State of Illinois data to test for Federal employees receiving food stamps and public assistance. The match identified 758 Federal employees as receiving food stamps. OIG selected 414 cases for indepth review and requested detailed wage data from appropriate Federal agencies. We found 182 cases in which recipients had not reported wages or had significantly underreported them. During the 18-month period reviewed, these recipients had received ineligible food stamp benefits of $182,116 and public assistance benefits of $441,370.

Forty-eight of the 182 cases are under investigation. We have already referred 10 to the State for benefit redetermination and appropriate action, and we are in the process of referring 124. On September 22, 1982, State attorneys for Cook and Lake Counties announced eight indictments and two arrests for theft and perjury involving over $28,000 in food stamp benefits and over $126,000 in public assistance benefits. We estimate that total ineligible benefits in these 182 cases will exceed $1 million.

Extension of Certification Periods

In a nationwide audit of certification, OIG reviewed procedures used by 17 sample State agencies. It disclosed that at 12 locations within 5 States, food stamps in excess of $29 million had been issued to either public assistance or nonpublic assistance households for which continued eligibility had not been reestablished. Retroactive certifications at 9 of the 12 locations subsequently determined actual losses at about $3.5 million of $19 million originally questioned. These losses resulted from extensions of benefits by State agencies to households that were actually ineligible. For the remaining three locations where we questioned issuances of $10 million, State agencies are performing retroactive certifications or the FNS is determining the action to be taken.

FNS advised us that it will consider establishing negligence liability claims against the five States in which our audit disclosed excess issuances if the General Counsel will support a negligence determination based on failure to recertify public assistance and nonpublic assistance cases. However, the

General Counsel maintains that the public assistance households did not have to be recertified for food stamps until recertification was required for the basic public assistance grant. In effect, this interpretation allows an open ended certification period. Recipients could receive food stamps for up to 6 additional months without having their eligibility redetermined. OIG believes that the legislative history of the Food Stamp Act reflects the intent of Congress that food stamp benefits be based on distinct periods of entitlement. We will pursue the issue with the General Counsel so that the audit can be resolved.

FNS advised us that it will revise its regulations to eliminate references to indefinite certification periods, and to require that food stamp eligibility notices contain exact expiration dates. In essence, all public assistance households will have to be recertified for food stamp benefits no later than 30 days following the public assistance redetermination date regardless of continued eligibility for public assistance.

Food Stamp Applicants Without Social Security Numbers

Federal law now calls for each member of food stamp households to provide social security numbers, not just wage earners as before, and the Food and Nutrition Service is developing regulations. This will make the present practice of allowing delays of up to 90 days even more significant.

These delays are to allow time for the Social Security Administration to deliver cards. During the delay period, households receive food stamps. Without the social security numbers, however, State agencies are unable to reduce potential fraud by running wage/benefit matches and other verifications.

In April of 1982, the Social Security Administration introduced a new process that substantially reduced the time applicants must wait for cards. In 85 percent of the cases, cards are issued within 10 days.

In May of 1982, OIG recommended that food stamp regulations take advantage of this improvement. We suggested that food stamp applicants without social security numbers be certified for 30-day periods only, and thereafter benefits cease and not be reinstituted until applicants provide the social security number. This would reduce fraud by allowing wage/benefit checks sooner.

The Food and Nutrition Service informed us that it will issue a final rule in November of 1982. The rule will provide that applicants must have social security numbers or give proof that they have applied for them before they can be certified. Applicants who have applied for social security numbers will be certified for a 30-day period and will not be recertified unless they provide a number or show cause why they have not gotten one.

Alien Identification Documents

The November of 1976 "Report of the Federal Advisory Committee on False Identification" estimated the cost of illegal aliens to taxpayers to be over $12 billion annually. It attributed a substantial part of this cost to the use by aliens of fraudulent and false documents. In particular, aliens have fraudulently used Immigration and Naturalization Service Form I-94 to illegally obtain federal benefits, including food stamps, aid to families with dependent children, unemployment benefits, and social security numbers.

The Immigration and Naturalization Service developed Form I-94 solely for statistical purposes, but gradually several Federal agencies, including FNS, authorized it for sole identification. The form, however, is merely a public use document, and, as such, is freely available for purchase from the Government Printing Office and from airlines and travel agencies in the United States and overseas. It has no security features. It is not printed on safety paper, carries no photo or signature, and is not sequentially numbered.

A recent FNS study showed that the fraudulent use of the Form I-94 to obtain food stamp benefits is widespread. Recent interagency meetings have also revealed fraudulent use of Form I-94 in programs operated by the Department of Housing and Urban Development, the Department of Labor, and the Department of Health and Human Services. Also, most States accept Form I-94 as a sole identifier for issuing drivers licenses.

For the past 2 years, OIG has encouraged the Immigration and Naturalization Service to replace Form I-94 and issue new and secure identification cards to nonresident aliens. Also, FNS has participated in the interagency task force effort to improve alien identification documents and made suggestions to the Immigration and Naturalization Service for improving its identification card.

In July of 1982, the Immigration and Naturalization Service notified Federal inspectors general, the State Department, and State motor vehicle commissioners that Form I-94 should not be accepted as a means of identification.

In August of 1982, the Immigration and Naturalization Service announced it had begun issuing a new, secure "Immigrant Parolee" identification card to replace Form I-94. This card has many safety features, including the individual's photograph, signature, and thumbprint. At present, distribution is limited to Haitians being released from detention under Federal court order. As soon as possible, however, only the new card will be used for nonresident aliens eligible for Federal benefits. Affected Federal agencies, including FNS, will amend their regulations accordingly.

Participation by Ineligible Aliens

OIG is continuing to monitor closely State agency efforts in Florida and California to prevent ineligible aliens from participating in the Food Stamp Program and to remove them from rolls after they are confirmed to be ineligible. In response to recommendations in the recent OIG audit of Florida, the State agency reported taking action on cases cited in the report. It is strengthening procedures to prevent certification and recertification errors, and it is referring questioned cases for fraud investigation and claims action.

In California, we expected the audit to disclose significant losses because counties were not promptly verifying alien status and removing ineligibles from rolls. We applied criteria suggested by the Office of General Counsel based on FNS approval of California's administrative procedures. We found, however, losses of only approximately $60,000. FNS is considering claims action against the State for this amount.

Photo Identification

The Office of Inspector General (OIG), the Postal Service, and the Department of Justice strongly urged better identification of food stamp recipients and charging issuance outlets for improperly negotiated Authorizations to Participate. In 1980, Congress passed an amendment to the Food Stamp Act which allows the Secretary of Agriculture, in consultation with the Inspector General, to require photo identification cards in those project areas or parts of project areas where he deems that photo identification cards would be useful to protect program integrity. FNS, after consultation with OIG, issued regulations in October of 1981 that mandated at the beginning of the fiscal year photo identification in all project areas with more than 100,000 participants. The Department can, at a later time, designate additional project areas for photo identification if needed.

Seventeen project areas had over 100,000 participants at the time the regulations were issued. The regulations allowed designated project areas to request waivers if they had direct mail issuance, a very low level of duplicate issuance, or an alternate identification system. Implementation was set for November 1, 1982.

Of the 17 project areas, 6 (Miami, District of Columbia, Baltimore, Newark, Pittsburgh, and Philadelphia) already had photo identification cards. Two (New York City and Boston) had requested photo identification. One (San Diego) used direct mail issuance and was granted a waiver. Four (Los Angeles, Cleveland, San Antonio, and Houston) received waivers, with the concurrence of OIG, for alternate identification systems. One (New Orleans) received a waiver because of low duplicate issuances. This waiver was granted over objections by OIG. On three waiver requests (Chicago, Memphis, and Detroit) that are still pending, OIG and FNS are not in agreement.

OIG believes that careful identification is essential to ensure program integrity. We do not believe that duplicate issuance rates should be the sole measure of cost efficiency in large urban areas. Photo identification and the provision for charging food stamp issuers for duplicate issuances should result in a lower loss rate from replacements and have a general deterrent effect on recipient violations and internal fraud.

Retailer Identification

OIG recently recommended to FNS a method of making more difficult the use of "phantom stores," through which criminals redeem food stamps by fraudulently representing themselves as legitimate food retailers.

All States require that vendors obtain numbered retail business or sales tax licenses. We have recommended that all currently authorized food stamp stores and all new applicants provide State retail vendor identification numbers to FNS as evidence of compliance with State retail vendor laws. This information can be matched against State license records to ensure continuity of compliance. The method of verification would be consistent with Section 9(c) of the Food Stamp Act of 1977 in that information disclosures would be limited to those directly administering and enforcing the act.

The Food and Nutrition Service advised that a special work group will fully explore implementing the recommendation nationwide.

Food Stamp Redemptions

In its last semiannual report, OIG pointed out that a reconciliation problem existed between food stamp deposits and the redemption certificates FNS uses to monitor retail store activity. In fiscal year 1980, for example, the Federal Reserve System reported receiving $177 million in food stamps that could not be accounted for by retailer redemption certificates. The total discrepancy for fiscal year 1981 amounted to $222 million. Redemption certificates have never been considered accountable documents, and no means existed to ensure that bankers submit them.

Also in our last report, we described the successful test that FNS and the Federal Reserve Bank in Atlanta conducted. The test reduced redemption discrepancies by using redesigned documents and a changed document flow. Following the Atlanta success, the agency slated the new system for implementation nationwide. Formal approval is expected very soon with national implementation to begin early in 1983. If forecasts are correct, the new controls should make food stamp trafficking less profitable and easier to detect.

Michigan On-line Issuance System

OIG has previously reported on major Food Stamp Program problems in the largest project office of Michigan's Wayne County. A central system was used to produce and mail paper authorizations to clients. Under this procedure, however, authorizations were lost in the mail, stolen from mailboxes, or lost by clients. These losses, plus fraudulent claims by participants that they had not received authorizations, led to large numbers of duplicate participations and excessive issuances of benefits each month.

In September of 1981, Wayne County implemented an on-line issuance system. It automatically checks eligibility, generates authorization cards, and posts food stamp transactions in a host computer. Food stamp issuance sites have transaction terminals and tabletop printers. Transaction terminals read plastic cards that contain identifying client information and transmit it to the host computer. The host computer checks against stored client records and issues authorizations or denials. Since the computer logs each transaction, clients cannot obtain additional authorizations at other centers.

The on-line issuance system in Wayne County accounts for about 40 percent of the food stamp participation in the State. Our analysis verified that the system was operating effectively. It has improved reporting capabilities, and the system quickly and easily identifies problems. Our review covered the system's security, access capabilities, and controls over changes to system files, as well as the system's reporting capabilities in identifying duplicate participation, unauthorized issuances, and counterfeit documents.

The value of the on-line issuance system is illustrated by a dramatic reduction in duplicate issuances in Wayne County. For the months of April, May, and June of 1982, duplicate authorizations averaged 33 per month for an excessive issuance of over $3,000. Under the old system, duplicate authorizations averaged 1,000 per month with an excessive issuance of about $95,000. Net savings in issuances run at $92,000 per month and savings in transaction fees, postage, paper, and clerical salaries at $80,000 for total monthly savings of $172,000.

The on-line issuance system costs about $100,000 per month. Thus, the new system provides net savings of about $72,000 per month. The system is currently operational in five counties and is scheduled to be implemented for the remainder of the heavily populated areas in Michigan by September of 1983. We will monitor system changes and enhancements during the coming fiscal year.

Continuing Problems in the Dade County (Miami) Food Stamp Program

OIG has completed another audit in Dade County, Florida, at FNS's request. In a prior audit report, we had found unacceptable error rates and overissuances of food coupons.

Using statistical sampling in our recent audit, we found a 18.2-percent allotment error rate in June of 1981. We projected that in that 1 month, food stamp officials had overissued about $2.1 million in food stamps to about 38,000 households that had misrepresented their incomes. Eligibility workers had not detected the income understatements.

The State agency had implemented a special plan to reduce errors and to establish better accountability. The plan included modifications of the statewide income verification system, but these measures have proven to be largely ineffective.

Before our audit, the State agency had attempted to reconcile automated issuance records with case files in three food stamp offices. They had been unable to locate 3,389 case files supporting food stamp issuances of more than $3.6 million. To determine the extent of this problem, we selected a statistical sample of cases from automated records in the 13 food stamp offices in Dade County. Our sample led to a projection that the files of more than 14,000 cases supporting issuances of over $16 million are probably missing in the Miami district. In prior audits, we found that many of the households where case files could not be located were fictitious. Subsequently, FNS informed us that as of October 15, 1982, the State agency either found or reconstructed the majority of the missing files in our statistical sample. Therefore, it appears the number of missing files in the Miami district may be substantially less than projected. We plan to reassess the situation based on the recent developments.

Unredeemed Food Stamp Credit Slips

OIG informed FNS officials that nationwide retail grocery stores had retained food stamp money estimated at $30 million that was intended to benefit low-income households. Former regulations had created this situation by prohibiting food stamp recipients from receiving cash change and authorizing retailers to issue credit slips or tokens instead. Those regulations, however, made no provisions for USDA to collect the value of unused credit slips.

From 1964 through 1978, regulations authorized retail food stores to give food stamp customers credit slips for change of less than 50 cents. Customers could use credit slips later for food purchases at the store or chain of stores from which they had received them. Since many credit slips were never used, retailers received reimbursement for the original food stamps in excess of the value of food provided to recipients. The California State Controller's Office had identified four retail food businesses with unredeemed credit slip values totaling $742,756.

Regulations in effect prior to late 1978 provided that credit slips or tokens could not bear expiration dates and that retail food stores or meal services could not refuse to accept credit slips because they were not redeemed within a specified time limit. Regulations dated September 22, 1978, eliminated credit slips by providing that stores should give change of less than $1 in cash.

FNS became aware that unredeemed credit slips had accumulated when the California State Controller's Office audited retail grocery stores under the State's escheat law. Under the law, the State may claim all property that cannot be returned to rightful owners because the owners either cannot be located or are not identifiable, as is the case with credit slips. As a pilot project, FNS is negotiating with the State of California to act on behalf of the Federal Government in collecting the value of unredeemed credit slips accumulated by retail grocery stores. California has been offered 25 percent retention of the total funds collected. The State is to respond with a proposal by November 1, 1982. FNS plans to assess the cost effectiveness of this project before deciding whether to pursue a national recovery effort.

In a followup of the California controllers review, OIG found that all States have escheat laws, except Colorado and Mississippi. As far as we know, only California has attempted to claim funds from credit slips.

As previously stated, regulations in effect at the time specifically prohibited establishing expiration dates for credit slips, and credit slips have not been issued since 1978. Regulations do not address the issue of how to settle accounts for credit slips that have not been redeemed for years and probably never will be. Therefore, to protect the interest of the Federal Government, we have recommended that FNS issue regulations that establish a cutoff date for redeeming credit slips and provide that retailers return to the Federal Government the value of credit slips not redeemed by the cutoff date.

Department of Justice Task Force

After extensive national publicity regarding fraud in the Food Stamp Program, the Attorney General in September of 1981 announced formation of a Department of Justice task force on food stamp fraud. Its purpose is to increase investigations and prosecutions by designating an assistant U.S. Attorney in each of 12 major cities to coordinate investigations and conduct prosecutions. Federal agencies primarily responsible for investigating most types of food stamp abuse are receiving information and field support from the Federal Bureau of Investigation and the U.S. Secret Service. Joint investiga- tions have resulted so far in 178 food stamp fraud indictments or charges being brought against individuals in Newark (2), New York (12), Boston (11), Chicago (48), Detroit (27), Cleveland (33), the District of Columbia (1), New Orleans (42), and St. Louis (2).

These cases include 80 participants, 5 individuals who worked for local food stamp offices and obtained benefits fraudulently, and 93 persons who trafficked in food stamps or authorizations to participate.

In addition to cases worked with the task force, OIG conducted numerous other investigations of food stamp violations, frequently using a task force approach in conjunction with other local or Federal law enforcement agencies. These are highlighted below.

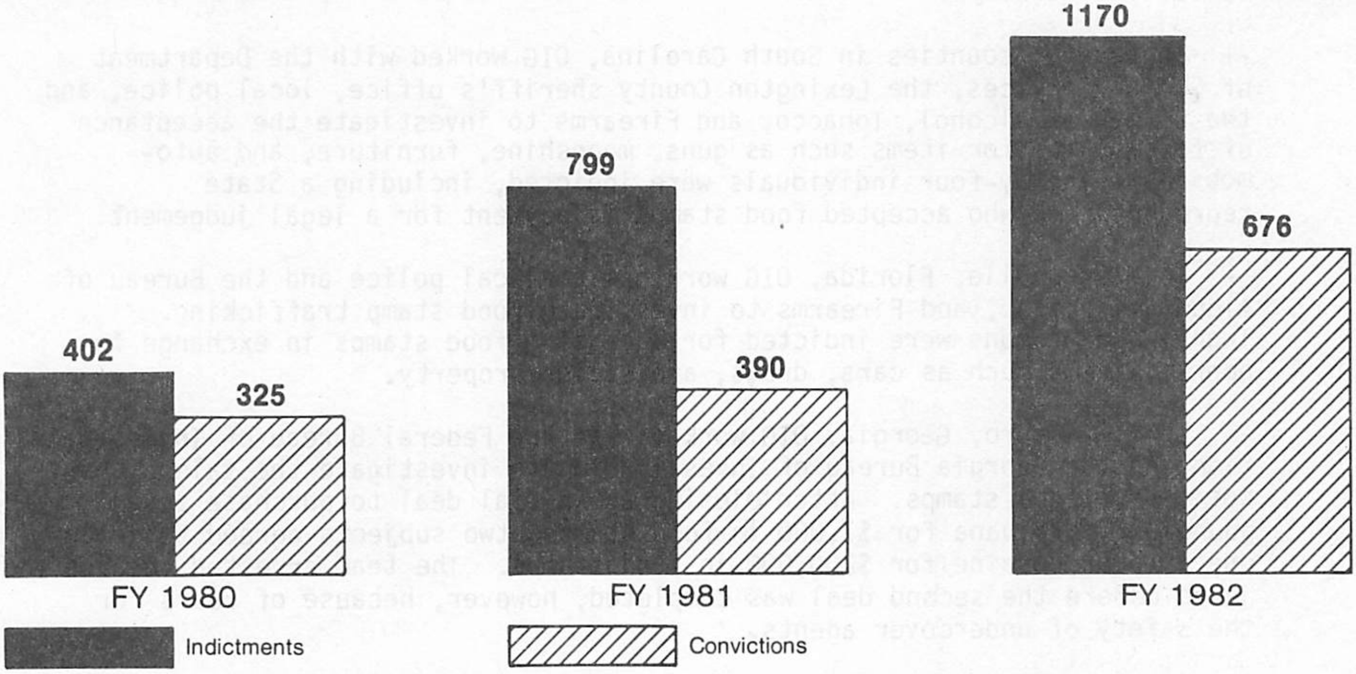
Food Stamp Investigation Activities

OIG conducted many investigations of Food Stamp violations, frequently using a task force approach in working with State, local, and Federal law enforcement agencies. As a result of OIG investigations, 1,170 individuals were indicted for food stamp violations this fiscal year. This is a 46-percent increase over the previous fiscal year and represents a threefold increase since fiscal year 1980. (See chart on page 16a.) Monetary results of investigations have also been positive. (See chart on page 16a.)

Some major investigative efforts were:

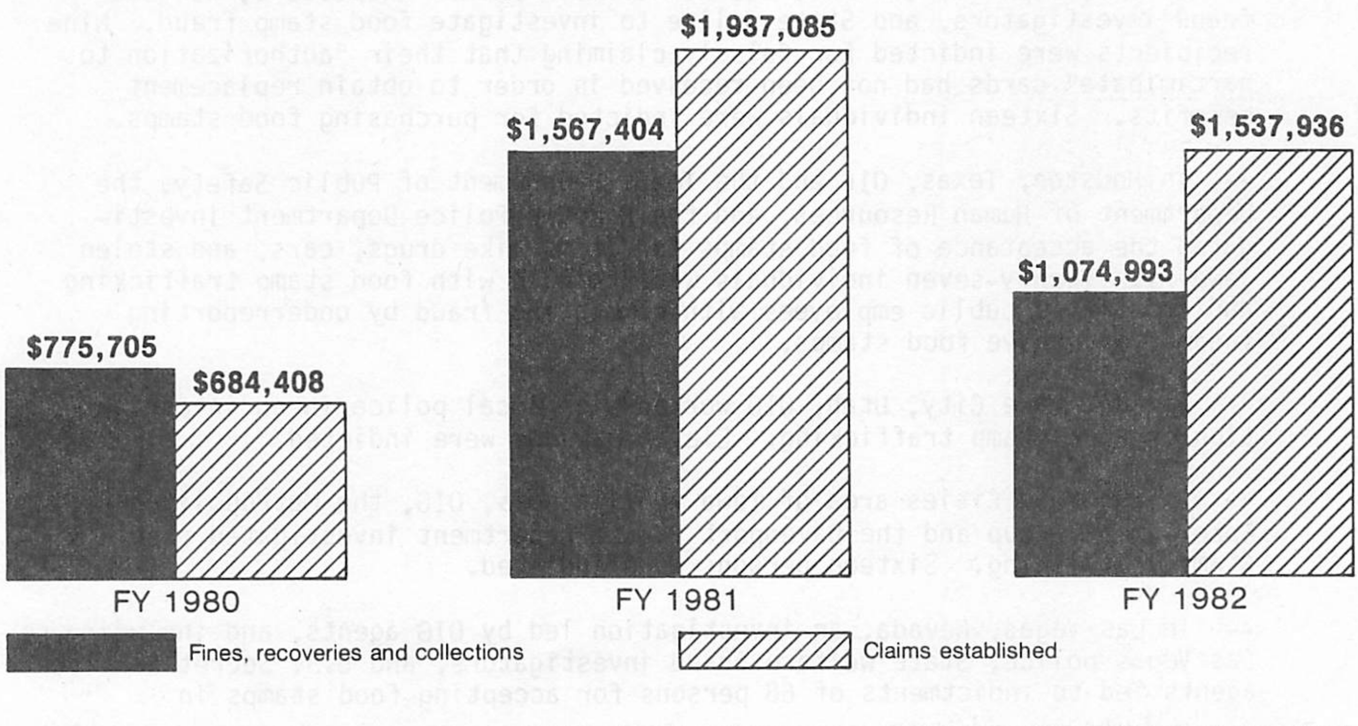
-- In Baltimore, Maryland, OIG worked with postal inspection and Department of Social Services agents to investigate certification fraud. Fifty-two recipients and five caseworkers were charged with illegally obtaining benefits. OIG simultaneously worked with the Baltimore City Police Department and the Drug Enforcement Administration in an investigation of selling narcotics for food stamps. Twenty persons were charged with accepting food stamps for heroin. These people belonged to two separate drug dealer organizations that police believe had been responsible for up to 40 percent of Baltimore's heroin traffic.

Food Stamp Program
Indictments and Convictions*



* Due to time requirements for court action on indictments and the use of other legal alternatives, convictions are not equal to or directly related to indictments.

Food Stamp Program
Monetary Results of Investigations



-- In Atlanta, Georgia, OIG worked with police and the Bureau of Alcohol, Tobacco, and Firearms to investigate the exchange of guns, drugs, stolen checks, bonds, credit cards, and other items for food stamps. Thirty-two individuals were indicted, among them two escaped felons and one fugitive. In addition, investigators solved five burglaries, two thefts, and prevented one robbery.

-- In several counties in South Carolina, OIG worked with the Department of Social Services, the Lexington County sheriff's office, local police, and the Bureau of Alcohol, Tobacco, and Firearms to investigate the acceptance of food stamps for items such as guns, moonshine, furniture, and automobiles. Thirty-four individuals were indicted, including a State representative who accepted food stamps in payment for a legal judgement.

-- In Gainesville, Florida, OIG worked with local police and the Bureau of Alcohol, Tobacco, and Firearms to investigate food stamp trafficking. Twenty-one persons were indicted for accepting food stamps in exchange for nonfood items such as cars, drugs, and stolen property.

-- In Statesboro, Georgia, OIG worked with the Federal Bureau of Investigation and the Georgia Bureau of Investigation to investigate the sale of narcotics for food stamps. After closing an initial deal to purchase seven pounds of marijuana for $7,000 in food stamps, two subjects agreed to sell one kilo of cocaine for $200,000 in food stamps. The team arrested the subjects before the second deal was completed, however, because of fears for the safety of undercover agents.

-- In Cincinnati, Ohio, 11 individuals were indicted for purchasing food stamps at less than face value from undercover agents.

-- In Toledo, Ohio, OIG worked with county fraud investigators to uncover a scheme that involved a caseworker who set up fraudulent food stamp cases on behalf of co-conspirators. Fourteen persons have been indicted to date.

-- In Indianapolis, Indiana, OIG worked with postal inspectors, welfare fraud investigators, and State police to investigate food stamp fraud. Nine recipients were indicted for falsely claiming that their "authorization to participate" cards had not been received in order to obtain replacement benefits. Sixteen individuals were indicted for purchasing food stamps.

-- In Houston, Texas, OIG and the Texas Department of Public Safety, the Department of Human Resources, and the Houston Police Department investigated the acceptance of food stamps for items like drugs, cars, and stolen jewelry. Twenty-seven individuals were charged with food stamp trafficking and another 27 public employees with committing fraud by underreporting income to receive food stamps.

-- In Salt Lake City, Utah, OIG worked with local police in an investigation of food stamp trafficking. Eleven persons were indicted.

-- In the Quad Cities area of Iowa and Illinois, OIG, the Metropolitan Enforcement Group and the Davenport Police Department investigated food stamp trafficking. Sixteen persons were indicted.

-- In Las Vegas, Nevada, an investigation led by OIG agents, and including Las Vegas police, State welfare fraud investigators, and U.S. Secret Service agents led to indictments of 68 persons for accepting food stamps in exchange for items such as cars, drugs, a macaw parrot, and the equity value of a house. In addition, 76 persons were charged with failing to report income when applying for food stamps.

State Agency Training

Training of State agencies by OIG is important, of course, because the parallel functioning of States can help USDA achieve its missions. We continued our food stamp fraud training for State and local welfare fraud investigators with sessions in Wisconsin, Indiana, and Minnesota. We also gave presentations at the national conferences of the United Counsel on Welfare Fraud and the National Welfare Fraud Association.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN

Authorized by P.L. 92-433 on September 26, 1972, the Special Supplemental Food Program for Women, Infants and Children (WIC) is intended to provide nutritious supplemental foods to pregnant, postpartum, and breastfeeding women, to infants, and to children up to their fifth birthday who are determined by competent professionals to be at "nutritional risk" because of inadequate nutrition and inadequate income.

Special Supplemental Food Program for Women, Infants and Children - Illinois

OIG's recent audit of the Illinois Department of Public Health's administration of WIC disclosed a need for substantial improvement in its accounting system and related internal controls. This is needed to ensure that WIC funds are properly controlled and reported, and drawn only when needed for valid expenditures. As of September 30, 1981, local agencies had about $4.3 million of unobligated prior years' WIC funds on hand. The State agency had reported and drawn about $1.5 million under its letter of credit for unallowable and unsupported costs during fiscal years 1977 through 1979. We advised FNS to consider terminating the State agency's letter of credit unless it made considerable and timely improvements in its financial accounting system.

FNS advised us that the $4.3 million was recovered during the annual grant closeout. Also, FNS is working with the State to develop a central payment system that will eliminate cash advances to local agencies for food costs.

Purchase of Infant Formula for WIC

OIG completed a review of potential benefits from requiring bulk purchase and direct distribution of infant formula to WIC recipients in lieu of the present food voucher system. This review determined that if the States or USDA purchased infant formula directly from manufacturers and delivered it to recipients' homes, either $111 million could be saved or 355,000 participants annually could be added. This would represent a 16 percent increase. Both USDA and the States at present have authority to make such direct purchases. Both Vermont and Maryland have operated such programs for years and proven their effectiveness and low cost. While FNS has offered some guidance to all States on operating home delivery and direct distribution systems, more encouragement to use these methods should be made.

Approximately 95 percent of the infant formula provided under the WIC program is purchased directly by recipients using food vouchers at retail outlets. The remaining 5 percent is delivered to homes in Maryland and Vermont, and through a bulk distribution system in Mississippi.

Between January and May of 1982, a monthly average of nearly 620,000 infants participated in WIC, up from about 589,000 for the same period the year before. Based on current data, we estimate that the program will spend 28 percent, or $206 million, of its $767 million food budget for fiscal year 1982 on infant formula, making it by far the largest food item purchased.

We recommended to FNS that it immediately develop, in conjunction with States, the necessary expertise and procedures to implement direct purchase and distribution of infant formula nationwide. Agency officials indicated intentions of moving forward speedily on this suggestion.

CHILD CARE FOOD PROGRAM

The Child Care Food Program provides States with grants to help initiate, maintain, and 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 $227 million.

OIG's last semiannual report mentioned that we had an audit in process of the largest home day care operation in the Nation. This firm sponsors about 6,000 day care homes in seven Midwestern States. Reimbursements to the firm during fiscal year 1981 exceeded $12.7 million, nearly 16 percent of the $81 million expended nationwide for home day care. Early during our audit, we recommended that FNS reinstate family income eligibility criteria for day care homes. We based this recommendation on income data obtained during the audit showing that only about 30 percent of the children attending are from "needy" families. The sponsor, however, was being reimbursed for all lunches at a flat rate of 93.5 cents per lunch. This is about 80 percent of the free school lunch rate. FNS has agreed to consider parental income tests for family day care homes if it retains the current structure of the program.

OIG has completed the audit and still believes that the legislative change that became effective on May 1, 1980, allowing day care homes to be reimbursed at a flat rate regardless of parent income has unnecessarily increased program costs. If reimbursements had been based on the income criteria in effect prior to May 1, 1980, potential program savings in reimbursements to the firm audited would have totalled $5.8 million in fiscal year 1981. Projections suggest that over $30 million per year would have been saved for the entire program, more than a third of total program expenditures. We again have recommended that FNS reinstate family income eligibility criteria for day care homes.

FNS has proposed that the General Nutrition Assistance Grant Act be enacted to target benefits to those most in need and to provide States increased flexibility. If this legislation is not enacted, FNS intends to propose legislation which would impose income eligibility criteria for the families of all participants in family day care homes.

We also audited the sponsor's financial management systems and its administrative cost claims. Our report includes several recommendations for improving the sponsor's financial management systems, and it identifies about $60,000 in questionable costs claimed and about $80,000 that appeared to have been improperly allocated. OIG also recommends that FNS take an organizationwide approach to budgets and audits of all multi-State sponsors instead of a State-by-State approach. The recommended approach would improve program controls to reduce or eliminate similar problems with other multi-State sponsors in the future.

As a result of meetings with State agencies and with OIG, FNS has issued a policy memorandum, dated September 20, 1982, to implement an organizationwide approach to budgets of multi-State sponsors.

Investigations of Child Care Food Program cases resulted in the following:

-- The owner of a child day care center in Jackson, Mississippi, who was also a candidate for a county judgeship, was named in a 12-count indictment that charged him with fraud against the Government. The owner had submitted false claims for reimbursement for at least 1,600 meals not served during 1980. Trial is pending.

-- In Harvey, Illinois, the program director of a school for the handicapped was indicted on 24 counts for various violations of the National School Lunch Act (Summer Food Service Program for Children) and the Comprehensive Employment and Training Act. The director had inflated meal counts and cashed payroll checks made out to fictitious employees. Trial is pending.

-- The administrator of a day camp pled guilty to double billing and submitting false claims in two concurrent summer programs at the same site from 1979 through 1981. The director of the day camp pled guilty to two misdemeanor counts for submitting false claims on 17 separate occasions. In a civil action, the parent organization of the day camp signed a consent order agreeing to repay the Government $656,000 in damages and penalties. This represents one of the largest damage settlements in a case of this type.

SMALL COMMUNITY AND RURAL DEVELOPMENT

FARMERS HOME ADMINISTRATION

The Department holds responsibility for improving the rural economy through making and guaranteeing loans for farming, housing, community facilities, and business and industrial development. USDA also implements financial improvement initiatives for debt collection, transferring credit to the private sector, and making certain that only eligible applicants receive loans and grants.

The Farmers Home Administration (FmHA), as the Department's credit agency for agriculture and rural development, had about 1.5 million active borrowers and a loan portfolio of nearly $59 billion as of June 30, 1982.

Business and Industrial Loan Program

Under the Rural Development Act of 1972, FmHA added in fiscal year 1974 new programs to encourage business and industrial development that strengthens rural employment opportunities. Under these programs, FmHA backs loans made by commercial lenders to private individuals or companies. FmHA's guarantee is to repay up to 90 percent of losses.

During the period covered by this report, OIG completed a nationwide audit of the business and industrial loan program. We focused the audit on two major topics: loan account (borrower) liquidations and the status of the active loan caseload. Identified as of June 30, 1981 were 251 loan accounts in process of liquidation with original loan principal of $214.2 million, and 144 liquidated loan accounts with original principal of $77 million. Losses on the 144 liquidated loan accounts amounted to nearly $40 million, or 51.8 percent of original principal. We selected two random samples of loan accounts to be audited--30 of 144 liquidated loan accounts and 300 of 3,145 active and supposedly not delinquent loan accounts.

The audit of 30 liquidated accounts found problems in liquidation processing and servicing that directly or indirectly increased FmHA's losses by $6.8 million. Some were direct losses, as in the case of ineligible expenses claimed and of unreported or misused liquidation proceeds. The largest losses, however, were in the areas of inadequate collateral, unaccounted for collateral, misuse of loan funds, and unaccounted for use of loan funds. We believe that these could have been avoided had servicing and liquidation actions been conducted more efficiently and economically.

We estimate $22.7 million of the $39.9 million total losses were caused by problems in liquidation processing and servicing. These losses occurred in an estimated 122 of the 144 accounts liquidated to date. Following are our major findings:

-- Enforceability of Guarantees: FmHA had no procedure for reviewing the enforceability of loan guarantees. A procedure was needed to prohibit paying losses caused by lender negligence or lender's failure to perform contractual loan servicing responsibilities. In 19 of the 30 loan accounts audited, we found conditions which could have been used to render FmHA's guarantees partially or totally unenforceable. These included inadequate and unaccounted for collateral, as well as misuse and unaccounted for use of loan funds.

-- Preliquidation Servicing: FmHA instructions require that lenders service business and industrial loans. They are responsible for seeing that proper and adequate collateral is obtained and maintained and that records are kept to protect lenders, holders, and FmHA. Our audit did not uncover one case of preliquidation servicing in which a lender had obtained additional collateral or other security when other loan deliquencies and adverse conditions made the need apparent. In fact, servicing actions taken by lenders often diminished FmHA's security position.

-- Liquidation Plans: Liquidation plans submitted by the servicing lender in 26 loan accounts audited failed to provide adequate internal controls over liquidation processes. We found that plans had either not been submitted or submitted late. Many plans included inadequate asset lists and/or appraisals. Many did not adequately address liquidation costs and protective advances by amount, type, classification, or eligibility. Finally, we found that plans contained inadequate proposals for disposing of collateral. We are 95 percent confident that inadequate internal control existed in 122 of the 144 liquidated loan accounts.

-- Liquidation Servicing: Twenty-one lenders had not adequately serviced loan accounts during liquidation. We found problems in protecting collateral at auction, pursuing personal or corporate guarantees, making transfers and assumptions as a means of liquidation, misusing liquidation sale proceeds, and delaying the liquidation process.

-- Postliquidation Audits: FmHA had not conducted adequate postliquidation audits in 25 of 30 liquidated accounts that we audited. FmHA had already reviewed and paid losses to lenders, yet we found total dollar discrepancies of $6.8 million, including $4.1 million that we consider recoverable or potentially recoverable. Our best estimate is that $15.3 million is potentially recoverable in 105 of the 144 liquidated loan accounts.

OIG feels that these deficiencies resulted because procedural and regulatory guidelines were inadequate and because underqualified personnel were employed in key positions. Additionally, FmHA did not identify in an efficient and timely fashion those loan accounts that needed servicing.

We found a continuing problem with using personnel with agricultural backgrounds in key business and industrial loan positions. In our sample, personnel with academic backgrounds in agriculture had loss rates 2.27 times greater than personnel with training in business education. Both OIG and the General Accounting Office have previously reported this problem. OIG also found that there had been a 33 percent turnover in key staff positions (that is, chief, loan specialist, and technician) between June of 1981 and June of 1982. Seventeen of the 46 State offices had no personnel experienced in business and industrial loans or only one experienced person on staff as of June of 1982. These same 17 offices had 59 loan accounts in liquidation as of May 25, 1982, with guaranteed loan principals totaling over $65.6 million.

OIG found that FmHA's information-gathering systems and procedures did not provide adequate caseload status data. Lack of data impairs the ability of managers to direct servicing activities. As of June 30, 1981, we found that the caseload of delinquent and problem loan accounts and loan accounts being liquidated reported by FmHA had been understated by an estimated 322 accounts or 48.9 percent. These accounts need to be identified and serviced to reduce or prevent USDA losses. According to our figures, the number of loan accounts with problems, delinquent, and being liquidated as of June 30, 1981, was 27.7 percent of FmHA's entire caseload.

Unless FmHA improves procedural and regulatory guidelines and provides sufficient qualified personnel, losses on future liquidations will very likely continue in unacceptable amounts. Losses in the 251 loan accounts totaling over $214 million which were in liquidation at June 30, 1981, could reach $100 million.

OIG's audit report made 15 recommendations for regulatory and procedural changes. These would strengthen FmHA controls over liquidation actions and improve FmHA identification and management of delinquent and problem loan accounts. They include a recommendation that FmHA refer liquidation losses to OIG for audit of loss claims.

In its response to our audit, FmHA stated that it will implement new State office procedures to determine the enforceability of guarantees, and that it will establish policies to protect collateral. FmHA replied that it has developed handouts for lenders to use in liquidation cases and made other program changes.

Nationwide Audit

OIG's last semiannual report noted that we had completed audit fieldwork for the preventive audit of FmHA. The approach is based largely on statistical samples of loan program activities. Statistical samples result in statewide and nationwide projections on which FmHA can base corrective action. We have now issued 10 State and 150 county reports. We have drafted a national report that we will soon discuss with agency officials.

The audit concentrated on FmHA's servicing of rural housing loan borrowers for graduation to private sector financing and on the agency's determination of new loan eligibility during fiscal year 1980 under the Rural Housing, Economic Emergency, Farm Ownership, Farm Operating, and Limited Resource Loan Programs. The results will provide an overall picture of problems facing management.

State and county audits disclosed failure to graduate rural housing borrowers, borrowers who were ineligible, and economic emergency loans being used for unauthorized purposes and at improper rates and terms. These are discussed below.

The audit reports statistically project about $100 million in potential interest savings based on $1.3 billion in rural housing loans which have a high potential for graduation to private sector lending institutions. FmHA has already begun to take corrective action. During the audit, the administrator of Farmers Home Administration issued an administrative notice emphasizing that graduation of borrowers to the private sector should be a high priority. Replies from the State and county units to date show that many borrowers identified as having a high potential to graduate have successfully obtained commercial financing. For the nationwide audit, we will update the projection of those able to graduate and recommend to the agency procedural, regulatory, or legislative changes to provide incentives to graduate borrowers.

OIG found that rural housing borrowers were ineligible because their incomes were excessive and because credit was available from other sources. FmHA made economic emergency loans to borrowers who were not bona fide farmers and who could have obtained credit elsewhere. Also, individuals received loans when in business as partnerships. FmHA made farm ownership and operating loans to borrowers who could have obtained credit from other lenders and who would not be able to reduce substantially off-farm income within 3 years of the loan. Limited resource loans were made to borrowers who could have repaid their loans at regular rates of interest or could have obtained credit from other sources.

The audit revealed the following questionable loans:

	Total - FY 1980		Projected Questionable		
	Loans	Amount (Millions)	Loans	Amount (Millions)	Percent
Rural Housing	96,958	$2,800	2,128	$ 62.8	2.3
Economic Emergency	40,409	1,800	3,223	174.4	9.7
Farm Ownership	7,676	460	507	23.6	5.2
Farm Operating	27,608	700	1,382	24.5	3.6
Limited Resource	12,552	600	2,331	90.0	15.0

FmHA has begun corrective action on most of the loans specifically questioned by OIG. Because of staff limitations, however, FmHA is reluctant to initiate broad, overall action to identify and correct additional questionable loans. Though FmHA may not have resources to review all loan programs included in our audit, we recommend that it establish an internal review function to identify and correct ineligible loans.

We plan to cover FmHA's corrective action in our next semiannual report.

Audit Followup

OIG followed up on audits reported previously. Below are summaries of actions taken on our previous audits of the Rural Rental Housing Program, FmHA Claims, and the Community Program Loans.

Rural Rental Housing Program

In 1982, OIG completed an audit of FmHA's Rural Rental Housing Program. The audit report recommended legislative, regulatory, and policy changes to assure that the program will meet congressional intent.

Our followup found that FmHA had begun to implement most of OIG's recommendations. FmHA is:

-- Revising various instructions.

-- Establishing claims against tenants identified as receiving excessive subsidies.

-- Working with Congress to develop alternatives to meet program objectives relative to low income families.

-- Intensifying personnel training and program reviews by its national office.

-- Requiring that tenant assets be considered when determining eligibility for occupancy.

-- Issuing several administrative notices or providing training to State and county offices on the eligibility of handicapped persons to occupy rental units, the monitoring of rental assistance funds, and on agency supervisory reviews.

Claims Audit

OIG previously reported that FmHA did not have agency regulations or any other directives that outline procedures to establish in accounting records debts that result from audits. Our review showed that as of March 19, 1981, FmHA had not established debts of about $58 million as receivables in its accounting records. The agency expects to put a new accounting system in operation within two years. It is designing the system to identify claims that arise from audits. In the interim, the department has granted FmHA a waiver from the requirement to identify and record claims from audits. FmHA has a manual system which can provide the information needed until the new system is developed.

FmHA also developed regulations covering the handling of illegal or improper farm loans. OIG recommended that the agency broaden these regulations to cover all its loan programs. Broadened regulations are now in process of gaining administrative approval.

Community Program Loans

OIG surveyed the community program loan area during the period covered by this report to determine whether FmHA had taken action to correct the serious problems reported in our previous audit. We interviewed FmHA officials from the national and Kentucky offices and reviewed regulations, policies, announcements, and proposed amendments issued by FmHA since the audit.

OIG's previous audit had questioned expenditures of $13 million in 47 projects randomly selected nationwide. Major deficiencies found included projects that improperly served above-moderate income citizens in densely populated areas, overbuilding or planning that resulted in excessive costs, inadequate FmHA supervision of borrowers, excessive service fees, excessive obligation of loan funds, and improper actions by contractors and engineers that led to excessive costs. We recommended that FmHA research available data to assure that loans and grants primarily benefit rural residents, that FmHA not approve applications from applicants with incomes high enough to finance proposed projects with their own resources or private financing, and that FmHA revise its instructions to see that loan officers use current population and income information when significant changes have occurred since the last census.

Our survey indicated that FmHA has revised its regulations so that it will make low interest rate (5 percent) loans only to communities where the median family income is below the poverty level for nonfarm families. FmHA has also directed that aid be given to communities truly rural in character and reduce the priority of areas outside but adjacent to urban areas. Further, FmHA will base grant assistance on the median family income in the applicant's service area. This will place an income ceiling above which applicants will not be able to meet grant eligibility requirements.

Our survey indicated that FmHA's positive approach to audit report recommendations should lead to a more effective and economical program.

Cost Reductions Resulting From Followup Audits

Our prior semiannual reports addressed losses incurred by FmHA from excessive interest credit and noncollection of credit report fees.

An audit released in September of 1980 showed that over a 2-year period, excessive interest credit had escalated from the $50.3 million we reported in 1977 to at least $190.7 million. FmHA had rejected our recommendations in 1977. In September of 1981, audit resolution of our followup report resulted in adoption of our recommendation for 1-year agreements. However, implementation was delayed from April of 1982 and is now targeted for October of 1982 at an estimated loss of $10.7 million monthly.

An audit released in March of 1982 showed that the annual expense for credit reports had escalated from the $1.0 million we reported in 1978 to $1.8 million, and that FmHA had incurred an expense of $5.8 million for credit reports since our prior audit. This expense resulted primarily from an FmHA decision in 1972 that only successful loan applicants would be charged a credit report fee. FmHA rejected our recommendation in 1978 to charge all applicants an appropriate fee to cover the cost of the credit report. In August of 1982 FmHA agreed to revise regulations and require that all applicants be charged a nonrefundable fee.

Investigation Activities

OIG conducted investigations related to FmHA programs that lead to the following results:

-- A former South Carolina State representative, twice named the Nation's outstanding young farmer, pled guilty to converting property mortgaged to FmHA, falsely applying for over $48,000 in low-yield disaster payments from the Agricultural Stabilization and Conservation Service, and falsely claiming crop insurance indemnities in excess of $124,000 from Federal Crop Insurance Corporation. In exchange for the guilty pleas, the Federal Government agreed not to prosecute 91 additional counts that involved selling mortgaged crops and making false statements. The producer also agreed to repay the Government about $704,000 plus interest. He was sentenced to three concurrent 5-year prison terms.

-- An attorney, designated by FmHA to handle real estate loan closings in Illinois, was found guilty on three counts of embezzling from the United States and one count of making a false statement to FmHA. The attorney had failed to disburse FmHA-supplied funds intended to pay to remove prior liens on property acquired or pledged by borrowers, and had made false statements about borrowers' eligibility and the true price of property sold by his law firm. The attorney was sentenced to concurrent 5 and 10 year prison terms.

-- A cash clerk employed at FmHA's National Finance Office in St. Louis, Missouri, admitted stealing a money order sent to her unit as payment on an FmHA loan. OIG's investigation into the theft identified deficiencies in handling cash, checks and money orders submitted to the National Finance Office. We brought these deficiencies to the attention of FmHA management for corrective action.

-- A Wisconsin borrower pled guilty to two counts of making false statements to FmHA to obtain an interest credit rural housing loan. The borrower rented the FmHA-financed house to another party the day before her loan was closed and received about $2,500 in improper interest credit assistance as a result. She was sentenced to 2 years probation and fined $1,000.

-- A FmHA operating loan borrower from Texas failed to report $56,000 in income in order to qualify for FmHA assistance and failed to account for his mortgaged property and sales proceeds after he obtained the loan. He was indicted on five counts of converting mortgaged property, three counts of making false statements, and one count of embezzlement. The borrower failed to appear at his arraignment, and an arrest warrant was issued. The borrower is considered a fugitive from justice and has reportedly fled the country.

FEDERAL CROP INSURANCE CORPORATION

The Federal Crop Insurance Corporation (FCIC) is wholly owned by the Federal Government and was created to carry out provisions of the Federal Crop Insurance Act, as amended. The first act was passed in 1938. Legislation in 1980 removed existing legal limitations on the rate of crop insurance expansion into new areas and on the number of insurable commodities. Significant features included a Federal subsidy for premiums and use of the private insurance sector, including a reinsurance program. As of June 30, 1982, the corporation reported farmer premiums of $321.2 million for the 1981 crop year, excluding hail discounts of $1.3 million. This was an increase of $163.5 million over the 1980 crop year. Adding a Federal subsidy of $46 million results in a total premium income of $367.2 million for the 1981 crop year.

A reorganization of FCIC was announced in April of 1982 to improve central planning, coordination, analysis, and operations. A single director was put in charge of the Kansas City office, and the reinsurance and program development divisions were incorporated into other divisions.

A synopsis of our major audits follows:

-- Contract Service Operations: OIG reviewed contract service operations records and activities at 62 offices and at the office of operations, Kansas City. Based on our statistical sample, we are 95 pecent certain that 1980 losses are overstated by at least $1.06 million for the six field offices included in our audit. Eighteen field offices were operating at the time. The audit disclosed that loss adjustments personnel had not properly determined either 1980 acreage, insured's share, area classification, cropping practice or production data for 69 of the 201 "loss" contracts. Details were provided which will permit collection of more than $30,000 in overpayments.

We also found that the corporation did not effectively use information already contained in its data system so that it could comply with established spot check and performance requirements. FCIC did not furnish its field offices with the data on loss claims that FCIC employees, contractors, or agents had filed. As a result, the field offices did not see that some required spotchecks were performed.

-- Alleged Sales Misrepresentations: OIG conducted an inquiry of alleged 1981 crop insurance sales misrepresentation in southeastern Colorado. We found no evidence to support the allegations. However, we did identify problems resulting from irrigated practice provisions in the insurance policy not being compatible with the canal type irrigation system used in the area, and an unwritten FCIC policy under which agents failed to make clear that drought would not be an insurable cause of loss when the crop should have been irrigated.

Our review disclosed that the lack of spring rains had forced farmers to stop planting or to switch from corn to more "drought" resistant crops, such as grain sorghum. The lack of rain also caused farmers to use storage water earlier and faster than normal. As a result, some crops were never irrigated. In other cases, crops planted later, such as grain sorghum, were abandoned, and farmers used available water on crops that were up and growing. While these actions reflected decisions on the part of those insured, they also reflected normal irrigation practices in the area.

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

The Agricultural Stabilization and Conservation Service (ASCS) administers commodity and related land use programs designed for voluntary production adjustment; resource protection; and price, market, and income stabilization. ASCS also administers the Commodity Credit Corporation (CCC), a corporation which is wholly owned by the Federal Government and funds most of the programs administered by ASCS. CCC stores commodities and products that it acquires, or immediately sends them to available outlets.

The sale, donation, or transfer of CCC commodities is handled by the ASCS Kansas City field office and its branch offices in Houston, Texas, and Portland, Oregon. CCC promotes agricultural exports through sales, payments, guarantee of credit, and other operations. Fiscal year 1982 outlays for ASCS are estimated at $304.9 million and for CCC at $11.7 billion. A summary of OIG major audits in the past 6 months follows.

Sight Draft and Social Security Number Accountability

ASCS needs to strengthen its controls over blank sight drafts. CCC sight drafts are prenumbered forms printed by a private contractor. ASCS uses them primarily to distribute program payments to producers through approximately 2,750 county offices. They are honored for payment by financial institutions.

OIG's review found that:

-- Storage areas for blank drafts were accessible to unauthorized persons.

-- Controls over drafts scheduled for shredding were inadequate.

-- Inventory records were not being properly maintained.

-- The sight draft accounting system did not have controls to detect drafts that had been issued and cashed yet reported as missing or destroyed.

Weaknesses in security also make blank drafts vulnerable to theft and unauthorized use. OIG used computerized data base analysis to review payments made from 1978 through 1981. We found that sight drafts had been issued and cashed though they had been reported missing or destroyed. The Kansas City field office reported 321 sight drafts as shredded, yet 304 had been issued and cashed. The printing contractor reported 41 sight drafts as missing, yet they were issued and cashed. State and county offices reported 7 sight drafts missing that had been issued and cashed. Our analysis also identified 16 sight drafts with State codes other than those of the States to which they had been shipped.

In addition, we found that the system had no automated controls to identify payments made to producers with invalid identification numbers. OIG developed a computer appplication to compare producer identification numbers or social security numbers to data obtained from the Social Security Administration. We identified over 7,000 payments in the last 4 years, totaling about $5.8 million, which ASCS had made to producers with invalid social security numbers. This weakens automated payment limitation controls (the maximum amount a producer may receive in a year) and results in inaccurate reports to the Internal Revenue Service.

ASCS officials have agreed to take corrective action.

Use of Automated Data Processing Resources at Kansas City

OIG concluded that ASCS needs to improve its management of automatic data processing at its Kansas City field office. Our reviews are not complete, yet two interim reports identify the following problems:

-- County offices are not notifying the Kansas City office to cancel applicable drafts, and the Kansas City office is not properly recording canceled draft reports into the sight draft accounting system. We identified over

3,500 drafts totaling approximately $1.6 million which had not been negotiated for over 7 months. As a result, financial accounts appear to be overstated, and the data in the producer payment reporting system is inaccurate. We are trying to determine why these drafts were not timely negotiated.

-- Lost, stolen, or destroyed sight drafts are not always identified in the sight draft accounting system. As a result, ASCS cannot promptly identify negotiated drafts that are reported lost, stolen, or destroyed.

-- The Kansas City field office could not always determine the names and addresses of producers receiving ASCS program payments and refunds. In 1980, it could not associate 1,303 payments and refunds totaling over $1.3 million with producers. Subsequently, it could not report these payments to producers and the Internal Revenue Service at yearend. For 1981, we estimate that unmatched payments would exceed $23 million.

-- The field office has not enforced security procedures to control access to computer production programs and data. It has not maintained the separation of duties necessary to prevent alteration of production data. Nor are controls over tapes sufficient to preclude unauthorized assessing or accidental blanking. Therefore, the office cannot assure the quality of its output.

-- The field office uses current production data files as input to perform acceptance testing. This could delay the normal production processing that involves these files. Also, the repeated use of production tape files significantly increases chances of tape failure.

-- A significant number of production jobs appear to require rerunning. The high rerun rate increases the demand for computer time, which is limited, and often creates additional exception listings that require further research. The field office needs to improve its efficiency in using computers.

Procurement from Small and Disadvantaged Businesses

ASCS encourages the development of small and disadvantaged businesses through a procedure known informally as "set-aside," reserving a portion of Government procurements for exclusive award to eligible small and disadvantaged vendors. During 1980, ASCS set-aside awards to small businesses totaled about $73 million. OIG found that instructions provided by ASCS to its Kansas City commodity office allowed four different methods of evaluating bids. Each method, however, established a different basis for set-aside contract awards and each treated vendors differently.

We determined that over a 17-month period ASCS made questionable payments totaling approximately $1.4 million to a vendor of export soybean products. In other cases, small businesses did not receive all of the benefits intended under set-aside regulations. This occurred because ASCS instructions for set-aside awards for export soybean products required that, in arriving at the unit price for set-aside awards, an adjustment for differences in delivery costs (ocean freight) be added to the non-set-aside award amount. However, ASCS did not make a similar adjustment for freight when making set-aside awards for export cereal products and domestic soybean products. Our report questioned whether adding ocean freight differentials was within the intent of set-aside regulations and in the best interest of ASCS.

ASCS replied that, effective with the May of 1982 export soybean oil procurement, it had replaced the partial set-aside method in effect at the time of our audit with a total small business set-aside procedure. ASCS agreed to issue general guidelines to the Kansas City commodity office concerning set-aside awards for domestic soybean products and export cereal products.

Monitoring of USSR Grain Suspension

In its last five semiannual reports, OIG described results of audit and monitoring activities regarding the partial embargo of agricultural exports to the Soviet Union from January 4, 1980, to April 24, 1981. These reports included recommendations on CCC management procedures and on adjustments to claims. As a result of OIG's early involvement and subsequent audit and monitoring activity, USDA saved over $10 million.

During the period covered by this report, OIG issued a supplemental report that updated our November of 1981 "Report of the Inspector General on the Suspension of Exports to the USSR (1-4-80 to 4-24-81)." In our November of 1981 report, we stated that certain of our proposed adjustments totaling over $4.7 million were disputed by three exporters and were therefore submitted by CCC for arbitration. The arbitration board has completed its review and issued three judgments: two of the judgments, totaling nearly $3.6 million, favor CCC's position; and one, totaling more than $1.1 million, favors the exporter's position.

In issuing its supplemental report, OIG completed audit and monitoring activities of the suspension of agricultural exports to the USSR.

Denaturing Nonfat Dry Milk for Animal Feed

In May 1982, USDA announced plans to sell more "out-of-condition" nonfat dry milk for animal feed. By reducing the selling price to 46 cents per pound, an estimated 150 million pounds could be sold annually. However, since the Commodity Credit Corporation supports the product's price at 94 cents per pound, the price-per-pound differential provides a potential for fraud and abuse. If non-fat dry milk is not properly denatured (a process by which the nonfat dry milk is rendered unfit for human consumption without preventing its use for animal feed), unscrupulous buyers could reintroduce it into regular commerce and might even resell it to CCC.

To prevent such opportunities for fraud, OIG conducted a review of the Department's related administrative procedures. In addition to finding some weaknesses and inconsistencies, we found a lack of an officially accepted method for denaturing nonfat dry milk.

The Agricultural Research Service has agreed to develop a denaturing system that is quick, positive, and economical, and results should be available by December 1. The new method is expected to be incorporated into the general revision of the Department's administrative procedures now in progress.

Audit Followup

A report of OIG followup on ASCS/CCC audits conducted during prior reporting periods follows.

Aerial Photography Field Office

In its last semiannual report, OIG noted that the ASCS aerial photography field office had been contracting for new aerial photography even though the same coverage was available from the National High Altitude Photograph Program sponsored by the Geological Survey. We estimated that the use of those photographs could save about $750,000 per year. ASCS officials replied that for the most part they had or would implement our recommendations.

ASCS is now a cooperator in the program. The Geological Survey, the Soil Conservation Service, the Forest Service, and ASCS utilize the same aerial photography. Improvements in the use of 35 millimeter slides in aerial compliance allow county offices to use the photographs with no substantial problems.

Farm Storage and Drying Facility Equipment Loan Program

In the semiannual report of May 1981, OIG summarized the results of the Farm Storage and Drying Equipment Loan Program audit that we conducted in 10 states. The audit disclosed that ASCS had disbursed questionable loans of approximately $89 million out of a total of about $711 million awarded between October 1, 1979, and March 31, 1980.

ASCS has taken the following actions in response to audit findings and recommendations:

-- Requiring borrowers to certify downpayments and actual delivery dates of components purchased.

-- Preparing a computer report to aid States and counties in obtaining payments on past-due loans.

-- Assessing late payment charges against borrowers who do not make payments when due.

-- Requiring State and counties offices to inspect all ASCS employee loans for propriety.

We believe these actions will correct the deficiencies found.

Emergency Feed Program

A year ago our semiannual report contained a brief synopsis of OIG's audit of the Emergency Feed Program. We cited statistically projected savings of $21.7 million of $60.9 million paid producers in 9 States. In our opinion, the methods used by ASCS to determine pasture losses, livestock feed requirements, and normal feed purchases allowed producers to obtain unrealistic benefits. ASCS disagreed to some extent with OIG's position, and we resolved the audit based on the agency's advice that it would form a study group to determine the best way to account for normal purchases. In addition, we requested a legal opinion on ASCS's policy of not counting at time of the application purchased feed on hand. On March 16, 1982, ASCS advised us that the study group would convene if the Secretary reinstated the Emergency Feed Program. The program, however, was terminated March 9, 1982.

Commodity Loan and Grain Reserve Loan Program

A year ago OIG reported results of a statistical sample of ASCS farm-stored corn and soybean loans in six States from October of 1979 through September of 1980. We reported that ASCS program spot checks were not always effective in detecting collateral shortages and that ASCS had levied penalties on producers in only a few cases. ASCS concurred with what we reported and strengthened controls over problem cases, spot checked unsettled matured loans, and added penalties for late payment.

We are now conducting a review of the loan program in 11 States. This audit should be completed during fiscal year 1983. It involves visiting 140 counties and checking statistically selected loans to determine whether they are secured by sufficient collateral.

Upland Cotton Program

In OIG's semiannual report for the period ending March 31, 1981, we reported that cotton producers in west Texas had received unwarranted low-yield disaster payments because ASCS had established farm yields too high. ASCS data showed that about 6,000 producers in 14 counties had received payments in at least 4 of 6 years that totaled over $80 million. We made no recommendations in this audit since ASCS issued new instructions for establishing program yields.

On August 31, 1982, we presented to the Arkansas and Texas ASCS State offices the results of a followup audit in 18 counties. Our tentative conclusions are that the new instructions were not fully implemented in 15 of the 18 county offices visited. In addition, we are finding in our current audit that instructions for establishing yields have been again changed. In our view these new liberalized procedures are resulting in questionable yield figures.

Investigation Activities

Several OIG investigation activities in ASCS and CCC programs are highlighted below:

-- As a result of OIG investigations involving ASCS's Upland Cotton Program in Texas, the U.S. District Court for the northern district of Texas entered a total summary judgment in June 1982 of over $6.6 million plus interest against two individuals. Our investigations focused on paper manipulation of farm sizes and on transfers of acreage allotments between farms that ultimately increased the dollar value of program benefits.

-- A former State executive director of the South Carolina ASCS office was indicted by a Federal grand jury for making false statements about his 1980 corn production and for receiving more than $3.5 million in CCC assistance to which he was not entitled. Trial is pending.

-- A Kentucky State representative obtained three CCC loans totaling over $44,000. These were based on storing on his farm wheat, corn, and soybean produced in 1980. A subsequent inspection by ASCS personnel disclosed that the farm storage bins were empty. A Federal grand jury charged the representative with unauthorized removal of mortgaged property. Trial is pending.

-- An Illinois elevator operator and his wife were charged in a 15-count indictment with mail fraud and theft in a $1.5 million series of acts to defraud CCC and dozens of La Salle County, Illinois, farmers. The indictment charged that the couple sold grain that had been deposited in their warehouse for storage and failed to pay farmers for grain sold by the elevator on the farmers' behalf. CCC owned some of the grain sold, and farmers had pledged some of it as collateral for CCC loans. Trial is pending.

State Agency Training

An OIG special agent presented a 2-day training session on elevator grain shortages to a group of special agents from the Kansas Bureau of Investigation. The bureau requested training because of a growing concern in the farming community over storing of "liability" agricultural products. The training centered on successfully detecting fraudulent methods some warehousemen use to cheat grain depositors. OIG gave a similar course on warehouse shortages to a group of Missouri State warehouse examiners. We also plan to present the course to a group of county and State prosecutors in Nebraska.

FOREIGN AGRICULTURAL SERVICE

The magnitude of U.S. farm exports makes the programs of the Foreign Agricultural Service (FAS) important to agricultural prosperity and the national economy. The agency maintains a worldwide agricultural intelligence and reporting service, analyzes agricultural information on foreign supply and demand, develops foreign markets for U.S. farm products, directs and coordinates USDA participation in trade programs and agreements, and formulates and administers commodity export programs.

Foreign Market Development Cooperator Study

The Secretary of Agriculture has placed a priority on developing, maintaining, and expanding export markets for agricultural products with the Joint Government/Industry Cooperator Program administered by FAS as an integral part of that effort. Since 1956, the first year of the program's existence, commercial exports of agricultural products increased from about $2 billion to almost $44 billion in 1981. The agency requested OIG to conduct a comprehensive study of its cooperator oversight activities with objectives of reducing Government staff years devoted to cooperator control and of streamlining inefficient operations. Our study concluded that program modifications can achieve these objectives. The extent to which the agency can reduce resources, however, will be influenced by the degree of internal control its management deems necessary.

OIG and the Foreign Agricultural Service estimated that FAS will devote 42 staff years in fiscal year 1982 to controlling the program and administering its operations. For fiscal year 1982, FAS will also reimburse to the Department of State an estimated $100,000 for shared administrative costs of reviewing and processing cooperator vouchers in the 10 most active market development posts. This represents 75 percent of the total program. The program was funded at approximately $22 million for fiscal year 1982, and involved 93 cooperators, States, and industry groups in activities directed towards more than 70 foreign markets.

Following is a summary of the study's key conclusions and findings:

-- Study results rendered considerable support for centralizing funding and payment responsibilities in the United States, particularly for cooperators without overseas offices. The present decentralized system is cumbersome, costly, and time consuming. It creates an added workload for agency and embassy budget and management officials that leads to delayed reimbursements to cooperators.

-- Results gave broad-based support for eliminating or reducing pre-audits of cooperator vouchers. The present process is not considered cost beneficial since pre-audit exceptions are relatively minor compared to the staffing, time, and costs involved.

-- OIG received several comments that supported a need to revise regulatory requirements. The comments focused on eliminating duplicate reporting requirements and reports of minimal value.

Modifications suggested in the report are consistent with Government initiatives designed to eliminate or reduce excessive regulation and paperwork. Implementing them should also reduce administrative costs and allow staff to devote more time to higher priority market development work. Agency officials have expressed appreciation for the report and plan to implement several of its recommended modifications.

M A R K E T I N G   A N D   I N S P E C T I O N   S E R V I C E S

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The Animal and Plant Health Inspection Service (APHIS) controls and eradicates various diseases and pests in animals and plants. Veterinary Services is responsible for animal disease control, with its largest program being the National Brucellosis Eradication Program. Brucellosis primarily infects cattle, reducing milk production, causing abortions and sterility, and reducing weight gains. Losses to the cattle industry from brucellosis exceed $33 million annually.

National Brucellosis Eradication Program

To help control and eradicate brucellosis, Veterinary Services is working with the Fort Collins computer center and APHIS's automated data systems staff in attempting to automate program records and develop a national brucellosis information system. Automating and maintaining program records promises to improve the speed and accuracy of tests, retests, herd certifications, indemnity payments, and tracebacks to the herds of the diseased animals. A steering committee has been set up and a project team assembled and charged with developing the system.

OIG conducted an audit to determine whether the project team had adhered to procedures governing the system development life cycle process and whether the system will meet planned objectives. We found that APHIS had not followed existing Departmental and Federal standards and had not required a feasibility study or cost-benefit analysis. As a result, it had not identified design problems until after it had implemented the system. APHIS had to halt subsystem development while the project team completed additional analyses. In addition, APHIS could not ensure that it had chosen the most effective and cost-efficient development alternative.

We also found that the steering committee had not clearly defined lines of authority for the project team, had not delegated sufficient authority to the project manager, and had not ensured sufficient analysis to determine user and data collection requirements. Consequently, lacking were coordination between the three groups in the project team, an understanding of responsibilities, and central authority to ensure that groups carried out their responsibilities. In addition, the project team was not able to develop an adequate overall data base design and to design adequately data entry programs for the system.

We also found that the brucellosis identification system may not be able to fully meet stated objectives because States were not required to use the national eartag numbering system as the primary animal identifier, and because APHIS had not obtained commitments from all States, especially high-incidence States, to implement the system.

We recommended that APHIS comply with Departmental standards for developing automated systems. These include performing feasibility studies for all future developments. Also, we recommended that APHIS perform a cost-benefit analysis for the brucellosis identification system. We recommended, in addition, that APHIS strengthen accounting controls to document costs of developing and implementing the system.

APHIS accepted our recommendations and informed us that a feasibility study is in progress to determine specific information requirements. Also, a cost-benefit analysis of the system will be available by March 31, 1982.

Mediterranean Fruit Fly Eradication Project in California

During this reporting period, OIG performed an audit survey to determine how effectively the California Department of Food and Agriculture implemented its agreement with APHIS concerning the manner in which both agencies would share the costs of the Mediterranean fruit fly eradication project in California.

We found that the Federal Government overpaid the State of California $828,841 and accepted claims for $2.3 million worth of expenditures that were not authorized in the cost-sharing agreement. APHIS officials subsequently informed us that the claims of $2.3 million were for expenditures that were authorized orally, and that the cost-sharing agreement had not been correctly written because their contract specialist did not assist in its preparation.

The $828,841 overpayment occurred because the California Department of Food and Agriculture did not exercise sufficient internal control over its financial records to accurately account for all program expenditures eligible for Federal reimbursement.

We recommended that the overpayment be reconciled and treated as an advance to the State and that the unauthorized expenditures be disallowed.

APHIS informed us the overpayment was corrected in subsequent billings from the State. Measures have been taken by the State to assure reliability of financial records and to establish internal accounting controls. The State has been requested either to provide additional data to substantiate claims for unauthorized expenditures or to modify the claims.

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 was $333.3 million. The fiscal year 1983 budget estimate is $319.8 million.

Inspection of Imported Meat Products

Over the years OIG has conducted several investigations and audits involving programs for inspecting foreign meat and poultry. More recently, there have been investigations such as the Australian meat substitution operation, the Guatemalan meat export program audit/investigation, plus evidence developed in an ongoing investigation into meat import program irregularities in Central America. All of these actions have resulted in recommendations to FSIS to alleviate weaknesses in the program. FSIS has now instituted a number of changes including emergency rulemaking to decrease the likelihood that adulterated or misbranded meat and poultry products will enter into U.S. commerce. Among the actions being taken are improvements in reporting on shipments that have been "refused entry" into the United States, and notification to the country of origin concerning such shipments. Also, FSIS has instituted prohibitions on:

-- The application of the "U.S. Inspected and Passed" markings on meat and poultry products prior to final import inspection.

-- The subdivision of lots of "refused entry" products into smaller lots for separate disposition.

-- The movement of "refused entry" product between ports without the provision of specific data to program officers.

-- The movement of any "refused entry" product within the United States except under seal.

-- The sale of "refused entry" product, except to a foreign consignee for direct and immediate exportation.

This rulemaking would also increase the time limit that owners or consignees have to dispose of "refused entry" products from 30 to 45 days, while restricting the circumstances for which extension of the time can be granted. In this regard, FSIS is in the process of improving its working relationship with the U.S. Customs Service to further ensure proper disposition of "refused entry" products.

The General Accounting Office is also conducting an independent survey/audit of imported meat food product inspection procedures. Preliminary indications are that its survey is coming up with findings similar to those surfaced by OIG.

Central American Meat Fraud Investigation

An investigation resulted in a Federal grand jury in Miami, Florida returning a 5-count indictment charging United Beef Packers, Inc., a meat importer, and eight of its principal officers and employees with various violations of the Federal Meat Inspection Act and the U.S. Criminal Code.

The indictment alleges that the defendants conspired to circumvent the Federal Meat Inspection Act by switching meat samples chosen by USDA inspectors and by selling adulterated and uninspected meat into U.S. commerce. It further alleges that the defendants carried out a continuing scheme of deception which included using counterfeit and simulated official USDA inspection stamps. These stamps were used to mark boxes of meat imported from Costa Rica and Guatemala as being USDA inspected and passed.

This complex and intricate investigation required extensive work by USDA officials at the highest Government levels in both the United States and Costa Rica.

NATURAL RESOURCES AND ENVIRONMENT

FOREST SERVICE

Timber Purchaser Road Construction

The Forest Service has, for over three quarters of a century, constructed roads on National Forest lands to facilitate timber harvesting and forest resource management. An inventory of about 270,000 miles of road and a construction rate of 10,000 miles per year makes the Forest Service one of the Government's largest public road administrators. Many of these roads are built or contracted for by timber purchasers. Roads in National Forests are required by law to be constructed as economically as possible, considering safety, cost of transportation, and impact on land and resources.

OIG recently completed an audit of road construction relating to timber purchasers. Audit objectives were to identify opportunities to reduce road credit expenditures, determine whether the Forest Service planned the minimum roads needed to serve timber sales, and determine whether the roads accepted and paid for were built to specifications. The audit involved randomly selecting from the 1,329 timber sales in the Pacific Northwest Region (Region 6) between January 1, 1978 and March 31, 1981, a sample of 50 sales and examining in detail the 250 roads related to the these 50 sales.

We used statistical analytical techniques to project our sample findings over total timber sale road construction in the region. This led to an estimate that the region could have saved at least $28.9 million on roads built during the 39-month period. Potential savings were foregone mainly during preconstruction phases. Responsible officials did not accurately identify minimum road standards needed to serve the timber sales and did not closely review planning. These weaknesses in preconstructon planning resulted in:

-- Unneeded road reconstruction.

-- Roads wider than necessary for critical using vehicle (e.g., logging yarders).

-- Unneeded surfaced turnarounds and landings.

-- More surfacing on roads than needed.

-- Road designs that required higher survey precision and construction tolerances than needed.

-- Turnouts that were either too short or unnecessarily long.

-- Excessive road costs for such items as excavation, rip rap, gates, and culverts.

Since our audit, the Forest Service has implemented changes in policy and direction that are intended to reduce road costs. Region 6, for example, implemented value engineering techniques. We believe that there are further opportunities for savings, however, and have recommended additional measures. These include making more effective use of economic analytical techniques and improving accountability, documentation, and the review and approval process.

Some of the losses we identified occurred in the construction phase. Roads were being accepted and paid for though contractors had not completed work to design requirements. Our review found these were not a major problem, however, considering the small ratio of losses to total expenditures. The small loss rate is due, we believe, to the emphasis the Forest Service has placed on construction administration. The agency began this emphasis in response to an earlier OIG timber purchaser road construction audit. That audit determined that the Forest Service often had not received the road quality for which it had contracted and paid. Results of our current audit confirm the effectiveness of corrective action and indicate that the agency should continue to emphasize construction administration and should place new emphasis on preconstruction administration.

Yazoo-Little Tallahatchie Flood Prevention Project

OIG's last semiannual report included results from an audit of the Yazoo-Little Tallahatchie Flood Prevention Project. We reported that the tree planting objectives for the project had been met and recommended that this phase of the project be terminated. The Forest Service concurred and developed a plan to reduce planting in fiscal year 1982 from 30,000 to 600 critical acres, to phase out all personnel, and complete the transfer of responsibility and technology to the Mississippi Forestry Commission in fiscal year 1985.

The agency is ahead of schedule on personnel placements and found it necessary to plant only about 500 acres in fiscal year 1982. The Forest Service was, therefore, able to return over $250,000 to the Soil Conservation Service. If the Forest Service continues ahead of schedule, additional savings will likely occur. To date, termination of the project has meant a $2.25 million budget reduction that, when added to the $250,000 return of funds, amounts to total savings of about $2.5 million.

S C I E N C E   A N D   E D U C A T I O N

EXTENSION SERVICE

Compliance with Civil Rights Laws

OIG's last semiannual report described USDA actions to get the Virginia Cooperative Extension Service to comply with applicable civil rights laws. These actions came after a 1979 OIG audit and a 1981 followup review which disclosed compliance deficiencies. Information furnished OIG during the period covered by this report indicates that the Virginia Service is making positive efforts to comply. The Department is continuing to monitor its efforts.

We also reported that the Department needed to take vigorous action to resolve a similar situation with the Tennessee Agricultural Extension Service. Department officials have recently met with university officials to discuss what the Tennessee Extension Service must do to comply. The Department's Office of Minority Affairs will visit Tennessee to determine whether the data and policy upon which OIG based the 1979 audit report are still valid. A recent Federal district court decision, concerning another State extension service, may affect applicable USDA regulations and the actions needed to bring the Tennessee Extension Service into compliance. OIG will continue to monitor this situaton.

EXTENSION SERVICE/COOPERATIVE STATE RESEARCH SERVICE

In fiscal year 1982, OIG conducted audits of programs funded by the Extension Service and Cooperative State Research Service at two State universities. We found problems in the accountability and control of Federal funds and have recommended that about $3 million in USDA funds be recovered. Audit findings included:

-- Overcharges for salaries, fringe benefits, equipment, vehicles, and indirect costs.

-- Retention of excess program funds after grants had expired.

-- Unreliable and untimely financial status reporting.

-- Inadequate accountability of Federal funds and property.

Officials at one university had prematurely drawn $1.88 million from the U.S. Treasury during the fiscal years 1979 through 1981 to construct a research facility. The funds had not been obligated, and university officials now question whether the building is needed. We recommended immediate return to the Federal Government of the $1.88 million. We also recommended recovering the interest that the university earned while holding the funds in a State account. Interest earned at the time of disclosure totaled about $395,000.

D E P A R T M E N T A L   A D M I N I S T R A T I O N

Internal Controls

OIG is currently surveying the internal control systems of 10 agencies. We are concentrating our review on documentation of internal control procedures in agency manuals and directives, internal reviews conducted by the agencies, and on overall automated data processing control procedures.

We have completed reviews in 5 of the 10 agencies and have initiated reviews in 4 other agencies. The survey has disclosed weaknesses in the overall guidance and review of internal control procedures. Not all agencies have:

-- Management committees to review operations for determining needs for automated data processing and to monitor system development.

-- Documentation of sufficient procedures to control system development and to ensure that adequate edit checks and audit trails are part of automated data processing systems.

-- Adequate procedures to control and analyze transactions processed.

-- Assurances that agency manuals and directives cover all necessary internal control procedures.

-- Internal reviews to ensure that internal controls have been implemented or are functioning as management prescribes.

-- Periodic internal reviews of all agency operations rather than just those requested by management.

-- Internal review staffs independent of operations under review for enhanced objectivity.

The Department's Office of Finance and Management issued a directive in May of 1982 that states USDA procedures for implementing Office of Management and Budget Circular A-123. The directive outlines the responsibilities of the agency heads and provides guidelines for performing vulnerability assessments and internal control reviews.

All agencies are now in the process of conducting vulnerability assessments. These are scheduled to be completed by December 31, 1982. OIG plans for internal control surveys in the future will be based, in part, on the results of these assessments.

Unliquidated Obligations

The President's Council on Integrity and Efficiency conducted a Federal Governmentwide review last year of the propriety of unliquidated obligations for construction-related projects. The Council recommended that each Department develop a plan to analyze further the validity and viability of unliquidated obligations and to ensure that procedures and controls are in place over obligational authority. OIG worked with representatives of the Department to develop USDA's plan. The plan provided guidelines for performing and evaluating project reviews and called for selecting construction projects that obligate more than $1 million and that have had no payment activity for 15 months or more. These include projects of the Farmers Home Administration, the Rural Electrification Administration, and the Soil Conservation Service that totaled more than $1 billion in obligations. The Department's reviews identified more than $50 million for deobligation. Since obligations represent current or long-term payables, deobligation would result in direct reductions in Government liabilities.

OIG is currently evaluating the results of these reviews. Our preliminary questions and concerns led the Farmers Home Administration to identify an additional $6.7 million for deobligation and earmark another $15.7 million for possible deobligation. We have recommended implementation of a suspense system that would facilitate the timely monitoring of projects and ensure prompt deobligations of projects that do not warrant retention. OIG intends to perform selected onsite reviews and will expand the scope of the survey should results so dictate.

Debt Management

During this reporting period, OIG has continued to review the Department's debt management activities. Although significant improvement has been achieved since our last report, basic problems continue at operating levels. Audits are still disclosing weaknesses in agency accounting and reporting systems, instructions, and work priorities. There is need for more guidance in the areas of:

- -- Advance payments
- -- Demand letters
- -- Personal and telephone contacts with debtors
- -- Setoffs governmentwide and the Army holdup list
- -- Suspension of services
- -- Interest penalties
- -- Service charges
- -- IRS locator services
- -- Small claims courts
- -- Incentives for early payment

Referral of Debts for Legal Action

OIG has analyzed further the previously reported backlog of 10,000 cases referred by agencies to the Office of General Counsel. These cases involved claims totaling more than $550 million. The majority were Farmers Home Administration loans for which foreclosure action was necessary or in which borrowers had filed for bankruptcy. Because of work volume, priorities, and other factors, these cases had been delayed at the Office of General Counsel or the Justice Department from a few weeks to several years. Approximately 1,500 of the cases had been referred more than 1 1/2 years ago, with some dating back to 1971.

The Farmers Home Administration estimates that it costs over $400 per month in lost interest, taxes, maintenance, and the like to maintain a house during foreclosure. The Office of General Counsel does not have a management information system to provide data on the type of cases, the length of time cases have been pending, or on their status. This makes it difficult to estimate the cost of excessive delays, though we expect that referral backlog expenses may total several million dollars.

USDA's debt management study completed over 2 years ago recommended passage of a nonjudicial foreclosure act and that USDA obtain authority from the Justice Department to engage attorneys from the private sector for judicial property foreclosures. The study also recommended that if Justice denies approval, USDA should seek direct statutory authority. Farmers Home Administration studies have shown that nonjudicial foreclosures cost approximately $1,900 less per case than judicial foreclosures. Therefore, a nonjudicial foreclosure act could produce significant savings. However, none of the recommended actions have been achieved.

OIG's review of pending cases showed that the workload had more than doubled between fiscal years 1980 and 1981. We expect continued increases in the number of cases referred for legal action since the loan volume has increased. Farmers Home annual loanmaking grew from $1.6 billion in fiscal year 1970 to $14.6 billion in fiscal year 1979, and total outstanding loans increased from about $35 billion at the end of fiscal year 1979 to about $59 billion 3 years later. Unless improvements like nonjudicial foreclosure and the use of private sector attorneys are allowed, delays are likely to increase. That would mean increased costs and the loss of millions of dollars.

Reporting Written Off and Forgiven Debts to IRS

The Internal Revenue Code generally requires that debtors include discharged debts as part of their gross incomes. OIG's review disclosed, however, that the Department has no requirement for agencies to report to the Internal Revenue Service debts that they write off as uncollectible or otherwise forgive. As a result, agencies are not reporting this information. For fiscal year 1981 alone, we estimated that increased tax revenues and related interest cost savings of over $7 million could have been achieved.

It is our opinion that reporting discharged debts would serve as an effective debt collection tool. Defaulters could be notified in advance that discharged debts would be reported to the Internal Revenue Service as income. Many might be inclined to make total repayments rather than have such reports forwarded.

We recommended that the Department require agencies to systematically report all debts written off as uncollectible or otherwise forgiven to both the debtors and the Internal Revenue Service for inclusion in the debtors' taxable incomes, and that agencies be required to develop uniform procedures and criteria for implementation.

Implementation of Prior Recommendations

Past studies of debt management made by the Department resulted in several recommendations. Although some actions remain to be implemented, the Department has achieved a number of improvements since our last semiannual report.

USDA's national finance center implemented a new billing and collection system on April 1, 1982. The system provides for charging interest on amounts past due as of May 1, 1982, as well as for other enhancements. The system is expected to save at least $500,000 annually. The Agricultural Stabilization and Conservation Service, the Rural Electrification Administration, and the Farmers Home Administration are modifying their computer systems for greater economy and efficiency. The Department is also developing a USDA debt management directive, and several agencies have revised collection procedures.

OIG recognizes that implementation of recommendations is not easy and that several proposed changes needed further study. However, it has been over 2 years since the Department completed the studies, and the length of time for implementation concerns us. The Department recommended, for example, that the Farmers Home Administration study whether it should charge the Department of the Treasury's interest rate on delinquent payments in lieu of the usually lower contractual rate. The study was not complete when we finished our audit nearly 2 years later. The Farmers Home Administration, though, has recently researched this matter and identified some potential legislative restrictions. We continue to maintain, however, that sufficient flexibility exists to provide incentives to encourage timely payment. As of March 31, 1982, past-due installments owed the Farmers Home Administration totaled over $3 billion.

Our audit of debt management also showed that types of collection actions varied widely between agencies, as did their quality. We also noted that collection actions were not always prompt and aggressive. Agencies have since reported emphasizing timely and aggressive collection actions. For example, the Animal and Plant Health Inspection Service reported that action on 38 accounts for which the agency had not received payments since prior to October of 1980 led to the collection of $102,000 of the $168,000 owed. The Agricultural Stabilization and Conservation Service reported expediting billings of claims against carriers, a step that should save an estimated $150,000 annually.

OIG plans to continue evaluating debt management within the Department. During ongoing and followup audits, we expect also to make evaluations of the extent of corrective actions taken.

Cash Management

During this reporting period OIG continued to make cash management a top priority.

OIG's review of Farmers Home Administration cash management practices disclosed significant delays in collection deposits, a condition we reported in December of 1980. Contributing to delays are untimely transmittal of collections from Farmers Home Administration field offices, mail delays, and untimely processing by the agency's finance office of collections for deposit.

Our review disclosed that the agency could save about $19 million in interest costs yearly by eliminating delays between the dates when payments are received and when they are deposited. The Farmers Home Administration has initiated a joint study with the Department of Treasury to change all aspects of its collection cycle and to reduce substantially deposit delays. This study is scheduled for completion in March of 1983.

Our review also revealed that county offices were not properly utilizing the agency's loan disbursement system. Implemented in 1977, this system was designed to minimize interest costs for both the Government and borrowers by making multiple disbursements of loan funds as needed. OIG first reported deficiencies in October of 1979, yet the current audit disclosed that county offices were still:

-- Primarily using multiple advances only when construction is involved.

-- Not scheduling check requests to coincide with the need for funds.

-- Allowing borrowers to decide whether they want loan funds in single or multiple advances.

We estimate that improper use of the loan disbursement system is costing more than $20 million annually in increased interest. The Farmers Home Administration is presently conducting a pilot test of an automated system which is aimed at precluding the disbursement of early advances and withholding the release of funds to county offices until they are needed.

Paying obligations before the due date was another cash management weakness OIG discovered. The National Finance Center and the Soil Conservation Service made premature payments routinely. We estimated that by targeting payments closer to due dates, the National Finance Center could reduce interest costs by $360,000 annually and that the Soil Conservation Service could reduce interest costs by $400,000. Soil Conservation Service agreed to change its procedures, and the National Finance Center is developing a change in its payment system that will ensure that payments are made in a more timely manner and will compute cost benefits from taking purchase discounts.

Acceleration of USDA Deposits

OIG also conducted a cash management study to determine if advanced collection and deposit mechanisms used by the U.S. Treasury should be applied within USDA. We limited our review to agencies with large dollar receipts and specifically concentrated on program activities that generate large dollar transactions.

We found that several cash receipt processes met all the criteria of the Department of the Treasury's financial communications system, a method of electronic funds transfer. We determined that USDA managers used the system only to a limited extent because they were not aware of its availability or because there were no requirements that it be used. The system gives Treasury immediate access to deposited funds. With agencies, however, mailing and bank clearing procedures cause delays that average 3 to 5 days. The Treasury system allows payments to be executed directly from the payor's bank to the Treasury account and additionally avoids significant collection and deposit processing time. We found that most collections remain with agencies 3 to 10 days or longer before being deposited. A summary of our findings follows:

-- The Rural Electrification Administration, the only agency currently using the Treasury system for cash receipts, could save the Federal Government about $400,000 annually for each day of accelerated deposits if it expanded the system to include all loan repayments.

-- The Forest Service could readily convert many collection activities, such as timber sales, concessionaires, and mineral leasing, to the system. Annual interest cost savings involving timber sales collections alone would approximate $310,000 per day.

-- The system is specifically geared to handle large dollar transactions like those of the Agricultural Stabilization and Conservation Service/ Commodity Credit Corporation. For example, we estimated that annual savings of about $306,000 could be gained for each day of expedited producer loan repayments and commodity sales payments.

We concluded that if total USDA collections and deposits could be accelerated by just 3 days--a reasonable goal in our opinion--annual savings of about $23 million would accrue. We recommended that the Department's Debt Management Policy Committee, which is also responsible for cash management initiatives, encourage use of the Treasury system wherever appropriate, subject to Treasury approval. The Department agreed that cash management practices needed improvement and that it will study applications of the Treasury system. We also forwarded a copy of our report to the Inspector General, Department of Treasury, with a recommendation that he propose a Governmentwide audit to the President's Council on Integrity and Efficiency. Such a review was then scheduled for fiscal year 1983.

We intend to continue audit coverage of this area to ensure that the problems noted are corrected and to seek new and innovative ways to improve USDA's cash management.

Yearend Spending

In July of 1980, the Senate Subcommitte on Government Oversight and Management recommended that inspectors general review obligations made at the end of fiscal years 1980 and 1981. The purpose of the reviews was to determine whether yearend expenditures were made under technical compliance with laws and regulations for bona fide needs and after sufficient competition.

During the period covered by this report, OIG performed a followup review of actions taken on fiscal year 1980 audit recommendations, evaluated about $5.7 million in fiscal year 1981 yearend obligations made by three agency procurement offices located in Washington, D.C., and reviewed a number of Food and Nutrition Service contracts scheduled for award before September 30, 1982.

Some major improvements in contract operations had been made since our fiscal year 1980 audit. We found, however, that the following problems continued:

-- Agencies had not yet established adequate advance procurement planning systems. OIG recommended these in its fiscal year 1980 report, and the Office of Federal Procurement Policy's Policy letter 81-1 and Departmental Notice 5000-12 requires them. The Departmental notice, issued in March of 1982, requires that agencies develop procedures for preparing advance procurement plans, obtain Departmental approval, and have plans operational by October 1, 1982. However, only 9 of 15 agencies required to submit advance procurement plans had done so, and only one plan had actually been approved.

When fully implemented, advance procurement plans should improve procurement management and significantly reduce needless and wasteful yearend spending. We recommended that the Department place more emphasis on getting plans for approval from agencies as soon as possible.

-- USDA agencies made six yearend procurements totaling $37,000 without evidence of competition, justification for sole source award, or a determination that prices were fair and reasonable.

-- Two procurement offices purchased new furniture and office equipment totaling $55,600 without first determining whether the items were available from the Department's excess property pool. Employees were not able to explain why they did not first check the excess property pool.

-- A contract that had been terminated in December of 1981 for the convenience of the Government had an unliquidated obligation of $104,260 remaining on accounting records. Since all bills had been paid, we recommended the amount be deobligated.

-- One agency obligated $1.1 million at the end of the year but had no organized documentation to support that action. The agency is reconstructing the records for our review.

-- One agency had not properly reported $2.6 million in the Federal procurement data system.

-- Two Food and Nutrition Service contracts were questionable. These contracts totaled almost $2 million and were to be awarded for research that appeared to be overpriced or already available. We shared our concern with the Assistant Secretary.

During fiscal year 1983, OIG will periodically audit procurement activities, including following up on corrective actions taken in response to our fiscal year 1981 recommendations.

M I S C E L L A N E O U S A C T I V I T I E S

Contracting for Audit Services

OIG has 11 certified public accounting firms under contract to perform audits. During the April 1 to September 30, 1982 period, we released 275 certified public accounting firm audit reports. At the time of issuance, these reports challenged nearly $803,000.

During the same period, OIG closed 269 contracted reports, most of which had recently been issued. Their resolution resulted in claims for over $292,000, plus over $40,000 in savings. Eighty-seven reports remain unresolved.

Our ability to work with accounting firms has improved and, as a result, the quality of the audits has as well.

Audits of Contracts

During fiscal year 1982, OIG performed audits of 41 pricing proposals, cost reimbursement contracts, and contractor claims totaling over $47 million. Nine other audits coming to nearly $2.2 million have been started and are in various stages of completion. Thirty-seven of the completed audits were significant. Seventeen of these, representing over $26 million, pertained to pricing proposals for cost reimbursement contracts submitted under the Office of Management and Budget Circular A-76 process. This circular calls for making comparisons between the cost of operating commercial and industrial-type activities in-house and the cost of contracting out such activities. The other 20 significant audits completed involved over $20 million and resulted in estimated savings of over $876,000.

Implementation of Office of Management and Budget Circular A-102

Attachment P to Office of Management and Budget Circular A-102 requires that State, local, and Indian tribal governments receiving Federal assistance 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. They replace grant-by-grant audits, and must be performed according to standards of the General Accounting Office and the American Institute of Certified Public Accountants, and according to approved compliance supplements of the Office of Management and Budget.

OIG has committed considerable resources to implementing the single audit concept. Funding for the audits, however, continues to be the largest obstacle for grantees to overcome.

To date, OIG has distributed 15 A-102 reports, and 24 State agencies have audits in process.

Audit Resolution and Followup

Continued close coordination and cooperation between the Office of Inspector General and the program agencies has resulted in timely resolution of nearly all of OIG audits.

As of October 1, 1982, there were only 10 reports in our system for which we had not met the mandated 6-month deadline for resolution. Of these, three have since been resolved, leaving a total of seven overdue. Two of these are old audits which had already been reported as overdue in our last semiannual report. Every effort is being made to resolve them, and the Department's followup official has been asked to mediate the remaining dispute.

Below is a listing of the seven overdue audits:

Agency	Date Issued	Title of Report	Dollar Value Unresolved	Status
FmHA	06-16-81	Kansas Coordinated State Audit (403-33-KC)	$ 822,000	Referred to the Under Secretary for policy decision.
FmHA	03-31-82	Interest Rates Assigned to Rescheduled EE/OL/EM Loans (4632-3-KC)	218,000	FmHA preparing Letters of Determination for individual borrowers.
FmHA	02-12-82	Preventive Audit, Wasco County Office, Oregon (411-394-SF)	80,000	Waiting for more complete response from agency.
FAS	03-19-82	PL 480, Title I; Commissions, Fees, and Other Payments (36030-1-FO)	120,000	Referred to the Under Secretary. Immediate resolution expected.
ASCS	10-22-81	Low Yield Appraisals in Montana (399-29-KC)	3,000+	Awaiting additional action by agency. Dollar value of exceptions may increase considerably after agency review of more cases.
FNS	02-11-82	NYC Food Stamp Program (2717-1-NY)	4,700,000	FNS ready to bill New york provided OGC agreed. OGC believes case would not stand up in court. Decision from the Assistant Secretary expected soon.
ES	11-28-79	Impact of 1964 Civil Rights Act-Univ. of Tennessee (6605-1-Hy)	-0-	University has disputed some findings on civil rights compliance. USDA Office of Minority Affairs handling.

For agencies' establishment of claims and status of collections, see page 1.

For detailed followup of specific audits, see pages 25-27 and 33-34.

S E C U R I T Y

Physical Security

OIG instituted a program to increase security in the USDA Washington building complex during the summer of 1981. The system includes requiring that employee photo ID card be worn; stationing private security guards at entrances, exits, and parking courts; stressing employee awareness of security, and consolidating administration of building security. After these steps were taken, losses to the government fell from an average of $9,086 per month to an average of $944 per month. More importantly, employees experienced no physical assaults in the Washington building complex.

Protection of the Secretary

For the period covered by this report, OIG special agents continued to provide protection for the Secretary of Agriculture and other high-level officials on both foreign and domestic trips. During that period, those protected experienced no acts of physical violence.

Whistleblower Complaints

As provided in the Inspector General Act of 1978, the Inspector General established a hotline to receive complaints or information concerning possible violations of laws, rules, or regulations; mismanagement; gross waste of funds; abuse of authority; and substantial and specific danger to public health and safety.

OIG opened 262 whistleblower cases during the period of this report from complaints received by mail, telephone, OMB referral, GAO referral, and in person.

Whistleblower cases have increased substantially this fiscal year. Of the 463 cases opened since the beginning of the fiscal year, 287 have already been closed, and OIG performs a continuous followup on all open whistleblower case files.

Though the number of complaints received has increased, the number of substantiated complaints has not. We attribute this to a lack of sufficient evidence from those complaining. Often what callers believe to be wrongdoing turns out to be proper. Of the 287 cases closed, only about 15 percent were substantiated.

Equal Employment Opportunity Investigation Activities

OIG has conducted USDA equal employment opportunity investigations since the passage of the Civil Rights Act of 1964 without additional resources. OIG has spent annually on these investigations an estimated 20 agent years. In January of 1982, the Deputy Secretary of Agriculture notified all general officers of the Department that starting with fiscal year 1982 complaints would be processed on a reimbursable basis.
Early in 1982, OIG decided that it would be more cost and resource effective to contract out USDA's equal employment opportunity complaints. Approximately 175 OIG investigations of these complaints were pending at the time of this decision.

The first investigations went to contract in June of 1982. As of September 8, 1982, approximately 72 investigations had been completed by in-house investigators, practically all during the first three quarters of fiscal year 1982. During the last quarter of the fiscal year, approximately 83 cases were assigned to six different contractors. Four were successful bidders and two were minority firms. By the end of this period, contractors had delivered, in final form, reports of 27 investigations at a cost of about 55 percent of what the in-house cost would have been.

Contracting equal employment opportunity investigations has resulted in savings of over $185,000 or 8 agent years during the last quarter of fiscal year 1982. As an added benefit, these eight criminal investigators became available for OIG's primary mission of fighting fraud, waste, and abuse.

ANALYSIS AND EVALUATION

Automated Data Processing

Fourteen States have enacted legislation specifically aimed at computer crime, four additional States have legislation to protect electronic funds transfer, and Congress is considering legislation. OIG researches and analyzes State laws and follows hearings on Federal legislation to provide information to our audit and investigation staffs. This helps them to be aware of how computer crime is committed and how it is discovered so as to obtain evidence for prosecution.

Within the department, OIG promptly investigates reported violations of computer security and misuses of departmental facilities. OIG's audit staff monitors major USDA systems development projects and equipment acquisitions to assure that regulations are followed, and that internal controls are included. This enables OIG early to help minimize the risk of fraud, waste, and mismanagement in Federal and State systems.

Statistical Sampling

OIG recently completed a nationwide audit of Farmers Home Administration loans and borrowers. We used a three-stage sample with stratification that produced statistically valid results. The sample involved randomly selecting in stages, States stratified by size of loan activity, county offices within the selected States, and loans or borrowers within the selected counties.

Using this sampling approach we could audit multiple loan programs within each of the selected counties and thus minimize travel costs. The sample provided State estimates for the selected States and national statistics on most major Farmers Home Administration loan programs.

OIG plans to expand the use of statistical sampling. Since the sample is random, it gives managers a useful estimate of program problems. Sample results also help identify records that have a high potential for error. This enables managers to take corrective action before taxpayer dollars are spent.

USDA Vulnerability Studies

Office of Management and Budget Circular A-123, Internal Control Systems, issued October 28, 1981, requires that Federal departments perform vulnerability assessments 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. By action of the Secretary, the Investigations and Auditing Committee, chaired by the Inspector General, is responsible for coordinating and monitoring Department vulnerability assessments.

In accordance with the circular, the Department submitted a vulnerability assessment plan to the Office of Management and Budget that includes all the Department's agencies. The plan is scheduled to be accomplished by December 31, 1982, and is required at least biennially thereafter. Under the Department's plan, individual agencies designed plans to accomplish assessments for their functions and programs. OIG is monitoring the agencies to ensure that the assessments are adequate and to facilitate corrective action.

Based on OIG audit findings, the Inspector General has recommended that the Administration Committee of the Secretary's Policy and Coordination Council initiate an internal control review of discretionary assistance. A Federal Assistance/Procurement Internal Control Review is now well underway.

A D M I N I S T R A T I O N

LEGISLATIVE AND REGULATORY REVIEW ACTIVITIES

Responsibility for the review, analysis, and coordination of legislative and regulatory recommendations is carried out by a new Policy and Liaison Staff, under the Assistant Inspector General for Administration. This staff functions as the control point for OIG's formal comments on USDA's draft legislation, on draft legislation circulated for comments by the Office of Management and Budget and the President's Council on Integrity and Efficiency, on bills introduced in Congress, and on proposed regulations.

Recent Food Stamp Legislation

OIG made several comments during the period covered by this report on proposals to amend the Food Stamp Act considered in the Senate and House of Representatives. In general, OIG supported the need to simplify application processing and recipient certification. OIG agreed, for example, that an October 1 date for changing adjustments to income deductions and to the Thrifty Food Plan costs would simplify program operation, especially for eligible workers. OIG suggested that all energy payments, whether from the Federal, State or local government, be treated the same in determining income--that is, either all should be included or all excluded.

OIG also provided information from past OIG findings on proposed amendments. One proposal, for instance, would reinstate the purchase requirement under which households paid 30 percent of their income and received coupons to buy food for the month. In the past, OIG found that the purchase requirement led to food stamp issuers depositing money late or not depositing it at all. Also, problems developed with the reconciliation of money collected and bank deposits. The Food Stamp Program is larger today and these problems might have a larger impact if the purchase requirement were reinstated.

Proposed Food Stamp Regulations on Fraud Disqualification and Claims Collections

OIG recently commented on proposals by the Food and Nutrition Service that would change regulations for conducting administrative disqualification hearings and recovering overpaid benefits. OIG pointed out that, to be effective, the proposed disqualification reporting system containing information on persons disqualified from the program must be used during certification or recertification and when courts or administrative hearings assign disqualification periods. OIG also suggested that households be given the option to waive disqualification hearings before hearings are scheduled. This would give States time to schedule other recipients for hearing time made available by those who waive hearings.

Proposed Food Stamp Wage Matching Regulations

For Food and Nutrition Service regulations to require wage matching, OIG urged minimum checking and corrective action procedures. These would assure that information revealed in wage matches is checked.

Application and Verification for the National School Lunch Program

In July, OIG provided comments to the Food and Nutrition Service on proposed regulations for verifying eligiblity for free and reduced price meals served in the School Lunch and School Breakfast Programs. OIG suggested providing additional guidance to State agencies and school food authorities on more cost-efficient ways to verify income other than direct contacts with parents and employees. One such method would be to check income against existing food stamp or wage data.

Prompt Payment Act

In July, OIG reviewed and commented on the proposed Office of Management and Budget Circular A-125 implementing the Prompt Payment Act (P.L. 97-177). The act requires that Federal agencies pay for most purchases and services not later than 30 days after receiving an invoice, with interest penalties assessed for payments made 15 days after the due date. Payment for meat and meat products, however, must be made not later than 7 days after date of delivery, with interest penalties assessed 4 days after the due date.

Invoices for meat and meat product purchases arrive on the average 8 days after USDA takes delivery. The Agricultural Marketing Service estimates that the payment provision could cost the Department approximately $500,000 for the 1981-82 school year if the Department follows the accepted practice of paying only after receiving an invoice. According to law this money would come from section 32 funds for removing surplus agricultural commodities from the market and from section 4 funds provided for under the National School Lunch Act.

OIG feels that payment prior to receiving a proper invoice is contrary to accepted business practices and also to the standard operating procedures adhered to by both the business and auditing communities. We recommend that the act be amended for payment after receiving a proper invoice. OIG has conveyed its suggestion to the Senate Committee on Governmental Affairs and the House Committee on Government Operations.

Waste and Abuse Information Collection Act

OIG opposed enactment of the Waste and Abuse Information Collection Act (H.R. 6266), which provides for cash awards to individuals disclosing information on fraud, waste, and abuse committed by recipients of Federal funds; protecting those individuals from reprisal; and for disclosing information to informants on progress made in investigating their complaints.

Availability of potential cash rewards could encourage individuals to question many management decisions in hopes of receiving remuneration. Determinations of fraud are relatively easy to make. Determinations of abuse and waste, however, are more difficult, especially considering the policy, cost/quality, and construction/operating cost tradeoffs managers make. Fear of indiscriminate and misguided whistleblowing could discourage contractors from bidding on Government projects, eligible individuals from participating in Government loan programs, and qualified individuals from applying for research grants.

The proposed legislation would require investigation of each allegation. This could have a negative impact on the discretion of the inspectors general to prioritize investigative caseloads. The bill would also dictate the information inspectors general would be required to disclose to individuals reporting alleged incidents of fraud, waste, or abuse, and possibly endanger chances for success in prosecutions.

The Omnibus Budget Reconciliation Act of 1982

OIG has reviewed the Omnibus Budget Reconciliation Act of 1982 and determined that it will not affect its operations and resources in any major way. OIG resources are already committed to two of the important areas affected by the legislation, programs of the Agricultural Stabilization and Conservation Service and the Food Stamp Program of the Food and Nutrition Service. Implementing regulations and program procedures will be monitored as they are developed. If the dairy collections, donation of dairy stocks, or export promotion programs appear highly vulnerable to fraud and abuse after they are implemented, we will then commit audit and investigative resources as needed.

FREEDOM OF INFORMATION AND PRIVACY ACT ACTIVITIES

The volume of requests under the Freedom of Information Act and the Privacy Act has leveled off to a fairly constant and continuous demand. During the period from April 1 through September 30, OIG processed 290 Freedom of Information Act requests, releasing 306 audit, investigative, and other OIG reports plus 7 sets of workpapers. OIG estimates the costs of this work at $125,000 annually in salaries, although costs are difficult to calculate, given problems in measuring time spent by field staff, supervisors, and clerical personnel.

L E G A L D E V E L O P M E N T S

Administrative Subpoenas

During the previous 6 months, the Inspector General issued three administrative subpoenas under section 6(a)(4) of the Inspector General Act. In each instance, those subpoenaed complied fully with the terms of the subpoenas.

Law Enforcement Authorities

Virtually all OIG criminal investigators are now empowered to make arrests, execute warrants, and carry firearms during investigations of suspected USDA felony violations, as provided under the Agriculture and Food Act of 1981 (7 U.S.C. 2270). OIG has published directives on arrests, searches and seizures, and firearms, and has requalified its special agents in the use of firearms. The Attorney General has accepted all special agent designations of the Inspector General.

Since June 1, 1982, when the first agents began exercising these authorities, OIG special agents arrested or assisted other law enforcement officials in arresting 123 individuals and have executed 14 search warrants.

All OIG special agents are periodically required to requalify for firearms proficiency. Beginning in October of 1982, we will require each agent to review a biweekly legal update on developments in criminal law.

Seven-Day Letter

Under section 5(d) of the Inspector General Act, inspectors general must report immediately to their agency heads "particularly serious or flagrant problems, abuses, or deficiencies." The Secretary, in turn, must transmit such reports, with the Secretary's comments, to appropriate congressional committees and subcommittees within 7 calendar days.

On August 24, 1982, the Inspector General sent a section 5(d) report (commonly known as a "7-day letter") to the Secretary. It identified serious problems with a $30 million request for job search activities in the Food Stamp Program. Among the issues the report raised were potential violations of the Budget and Impoundment Control Act and the Anti-Deficiency Act, inadequacies in sole-source and nonseverable need justifications, and the possibility of non-participation by some States in a statutorily required program. The report recommended that no funds be obligated until the concerns mentioned had been satisfactorily addressed.

In transmitting the 7-day letter to Congress, the Secretary indicated that because of the problems, he would not obligate funds for job search activities. He sent the report to the congressional Committees on Agriculture, Appropriations, and Government Operations (Affairs) as well as to subcommittees that oversee the Food Stamp Program.

We believe that our report to the Secretary marks the first time an inspector general has used a 7-day letter to alert an agency and Congress to major substantive and program operating problems. We understand that 7-day letters have been used twice by other inspectors general to report problems with staffing and resources within their respective offices.

Congress intended that 7-day letters be used sparingly. In this case, use of the mechanism made officials responsible for funding and administering the Food Stamp Program fully and quickly aware of issues needing resolution, and forestalled an improper obligation of $30 million.

DEBTS OWED TO THE DEPARTMENT OF AGRICULTURE
(In Thousands of Dollars)

AGENCY	AS OF MARCH 31, 1982 OWED	OVERDUE	WRITTEN OFF 10/1/81 - 3/31/82	AS OF JUNE 30, 1982 OWED	OVERDUE	ESTIMATE AS OF SEPTEMBER 30, 1982 OWED	OVERDUE	WRITTEN OFF 4/1/82 - 9/30/82
Farmers Home Administration	$ 56,561,582	$ 3,654,482	$13,068	$ 58,770,838	$3,561,550	$ 59,466,714	$2,700,000	$ 7,718
Rural Electrification Administration	27,824,689	308	-0-	29,474,636	435	30,562,318	435	-0-
Agricultural Stabilization and Conservation Service/ Commodity Credit Corporation	22,334,015	135,114	1,484	21,875,174	144,370	20,741,116	447,523	2,682
Federal Crop Insurance Corporation	91,904	5,062	398	62,862	4,650	246,729	26,183	104
Food and Nutrition Service	210,266	210,266	10	209,016	206,701	193,666	192,837	89
Forest Service	55,008	39,617	4,623	66,630	55,803	54,870	47,997	4,771
Soil Conservation Service	4,964	826	43	5,829	823	6,044	1,137	22
Agricultural Marketing Service	2,880	456	-0-	3,912	3,290	7,996	4,014	-0-
Federal Grain Inspection Service	4,873	1,312	-0-	5,176	5,045	5,524	2,762	-0-
Food Safety and Inspection Service	3,009	1,953	-0-	2,894	455	3,266	873	-0-
Office of International Cooperation and Development	3,818	3,573	-0-	4,015	3,839	5,936	5,881	-0-
Animal and Plant Health Inspection Service	177	171	-0-	463	328	1,096	613	-0-
Science and Education	228	126	-0-	1,008	76	211	85	-0-
Department Administration and Office of Secretary	97	97	-0-	97	35	98	98	-0-
Foreign Agricultural Service	54	54	-0-	51	51	55	55	-0-
Statistical Reporting Service	44	5	-0-	41	37	55	46	-0-
Working Capital Fund	255	255	-0-	341	341	387	358	-0-
Office of General Counsel	21	21	-0-	-0-	-0-	21	21	-0-
Economics Management Staff	30	30	-0-	27	27	25	25	-0-
Office of Inspector General	4	4	-0-	6	6	4	4	-0-
TOTAL	$107,097,918	$4,053,732	$19,626	$110,483,016	$3,987,862	$111,296,131	$3,430,947	$15,386

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