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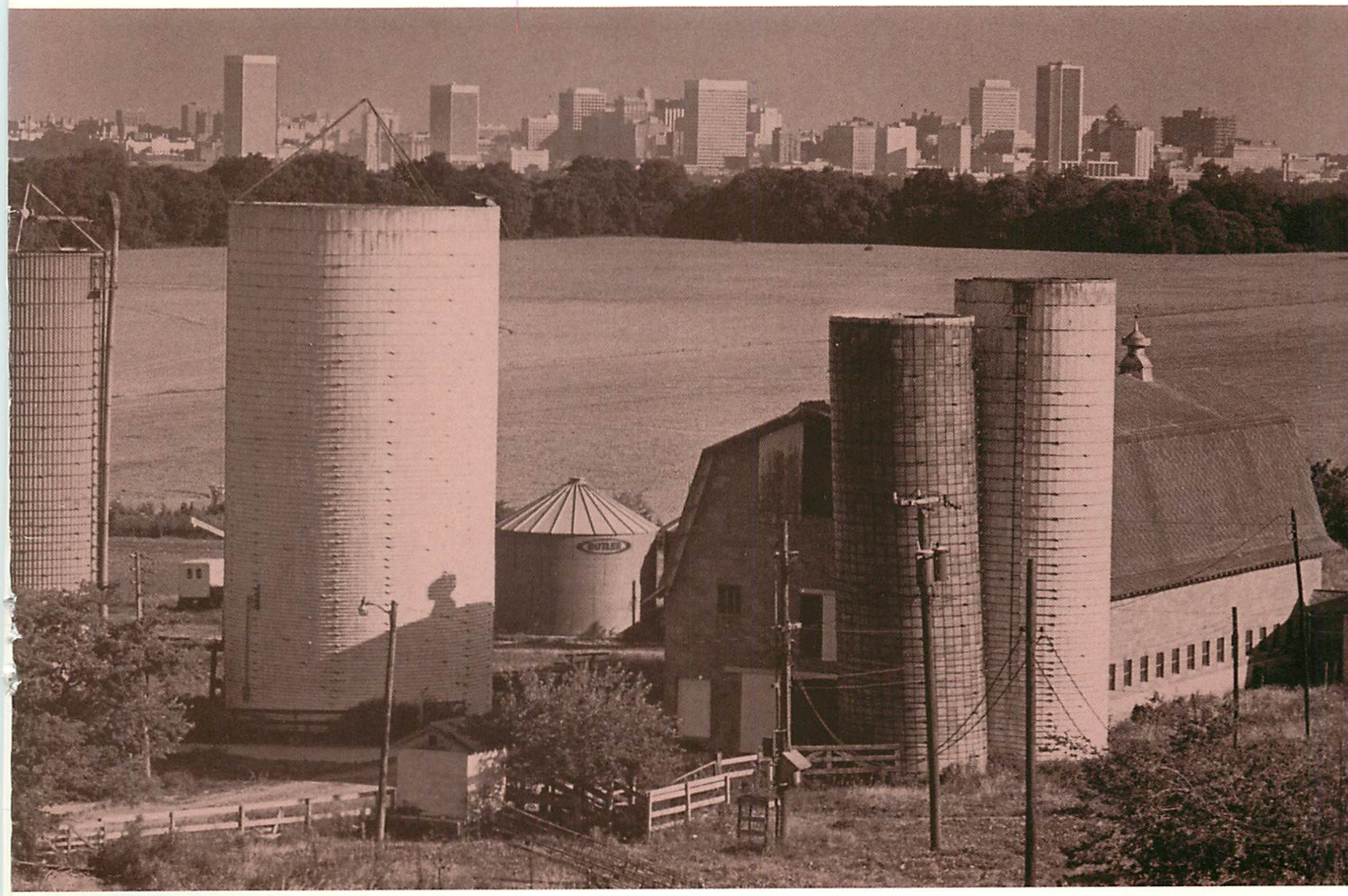
FY 1991- Second Half



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On the cover: Tree Hill Farm, located in Henrico County, Virginia. The farm is separated from the city of Richmond, seen in the background, by the James River. USDA programs touch the lives of both rural and urban America. USDA photo.

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

WASHINGTON, D.C. 20250

October 29, 1991

Honorable Edward Madigan
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

I respectfully submit the Office of Inspector General's Semiannual Report to Congress, summarizing our activities for the 6-month period ending September 30, 1991.

During this period, our audit and investigative efforts identified $26.7 million in recoveries and collections, $300 million in management commitments to put funds to better use, and $8.8 million in fines and restitutions. We also identified $80 million in questioned costs that cannot be recovered. Our investigative efforts resulted in 447 indictments and 399 convictions.

This report describes the results of our most significant audits and investigations. During this reporting period, we continued our audit work in the area of farm debt restructuring, and analyzed the impact of new legislation on payment limitations for deficiency payments. We also reviewed rural housing interest policies, laboratory monitoring by the Food Safety and Inspection Service, and food stamp claims processing at the Food and Nutrition Service. Our investigative activities focused on food stamp fraud, and fraud in the Department's farm and commodity loan programs.

We also began work during this period to implement the provisions of the Chief Financial Officer Act. As you know, this Department was selected as one of five pilot agencies in government to produce audited financial statements for fiscal year 1990. During this period, we completed three financial statement audits for FY 1990, and initiated seven more that will be required for FY 1991. Of the three audits completed, two resulted in unqualified ("clean") opinions, and one in a qualified opinion. The qualification resulted from long-standing internal control weaknesses in the Farmers Home Administration Acquired Property Accounting System. Because of these weaknesses, the system could not be relied on to provide accurate data on the values of properties in the agency's inventory. Program managers have agreed to implement corrective actions on the problems we noted.

I appreciate the cooperation this office has received from the Department's management team, and look forward to your continued support.

Sincerely,

Leon Snead
LEON SNEAD
Inspector General

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EXECUTIVE SUMMARY

This is the 26th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452) and Section 106 of the Inspector General Act Amendments (Public Law 100-504). This report covers the period April 1, 1991, through September 30, 1991.

The following excerpts summarize the results of our work, as reported in this Semiannual Report.

FmHA Could Potentially Realize Significant Yearly Savings on Interest Subsidies

Under its rural housing loan programs, the Farmers Home Administration (FmHA) subsidizes interest payments on certain low-income borrowers' loans. By modifying its interest subsidy policies to reflect tighter requirements on eligibility and interest rates, FmHA could save a significant amount of its subsidy costs. FmHA could achieve further savings by updating interest credit agreements to reflect changes in borrowers' assets and income.

Some Borrowers Received Excess Benefits from Debt Restructuring

Farm borrowers who had their debts written down or written off by FmHA under the Agricultural Credit Act of 1987 were not eligible for all the debt relief that they received. Our audits found that borrowers received $13 million in excessive writedowns and writeoffs. In some cases, borrowers did not provide FmHA with complete and accurate information. In other cases, borrowers had large, complex farming operations that made it difficult for FmHA to analyze the borrowers' financial positions within the short timeframe mandated by Congress. For example, FmHA did not consider a significant amount of income, assets, and liabilities for an entity comprised of related partnerships and corporations. As a result, FmHA forgave $800,000 more of this borrower's debt than warranted under restructuring procedures.

FCIC Could Recover $2 Million in Insurance Agent Commissions

Farm program participants are required by law to buy Federal crop insurance to qualify for disaster assistance. When private agents handle these insurance policies, the law further requires the Federal Crop Insurance Corporation (FCIC) to reduce the agent's commissions because, since the crop insurance is required, the insurance companies only have to service the policies. The criterion used by FCIC to identify policies for commission reductions was flawed because it excluded many policies. Correcting this criterion could more than double FCIC's recoveries from about $1.6 million to $3.6 million.

Grocer Charged With Illegally Redeeming Over $7.2 Million in Food Stamps

A grocer who had been permanently barred from the Food Stamp Program in 1984 was charged with illegally redeeming over $7.2 million in food stamps. The indictment alleged the grocer continued to redeem food stamps after he was barred from the program by having one of his employees obtain a store authorization from the Food and Nutrition Service (FNS) as if he had bought the business. The grocer nevertheless continued to own and operate the store.

Backlogged Claims Against FNS Program Recipients Exceed $271 Million

In their actions against FNS program recipients, States were not processing referrals promptly or recouping claims as required. Backlogs existed at every stage of the claims process nationwide: 600,000 cases of possible overissuances, of which 241,000 were determined overissuances but had no claims established; and 22,000 established claims had no payments made. Potential recoveries for unworked cases exceeded $271 million. Additional program losses were incurred because the States had not always disqualified program violators.

Civil Claim for FSP Losses Settled for $4 Million

In a prior report we gave details about the conviction of four employees of the Government Development Bank for Puerto Rico who were found guilty of embezzling food stamps from the bank. As a result of that investigation, the Department of Justice filed a civil suit against the bank to recover losses which resulted from the employees' theft of food stamps. Recently, the U.S. Department of Justice and the bank agreed to settle the civil claim for $4 million.

Food Company Conspired To Rig Bids To Obtain Contracts in the National School Lunch Program

An investigation disclosed that a food service company, one of its former employees, and another individual conspired to rig bids to obtain contracts in the National School Lunch Program. The company and both individuals pled guilty to rigging bids to obtain contracts to supply food to school districts in Texas over a 4-year period. The company paid a $2 million fine. The two individuals also paid fines.

Producers Continue To Avoid Payment Limit Through Legislative Loopholes and Undetected Schemes

Some producers continue to reorganize their farms to circumvent the $50,000 payment limit. Although Congress tried to close payment limit loopholes by setting new rules in its 1987 amendments to the Food Security Act, these new rules appear to have created their own loopholes. Many large farming operations were able to satisfy the new requirements merely by transferring ownership among their corporate partners. All of the 16 farm reorganizations we reviewed this period took advantage of the loopholes and constituted "schemes" to circumvent the rules.

Congress believed it would save $73 million annually under the new rules, but an Agricultural Stabilization and Conservation Service study found that these rules saved only $3.4 million in 1989. The estimated savings evaporated through continuing attempts by producers to qualify new "persons" for payment. For example, one farm we reviewed consisted of 18 partners, only 6 of whom actually ran the farm. This farm received $600,000 for 1989, whereas its actual management would have entitled it to only $300,000.

Seed Company Pleads Guilty on Export Fraud

A seed company and five individuals obtained $2.1 million in export credit guarantees by misrepresenting foreign-origin seeds as domestic-origin seeds for delivery to Iraq. Some of the seeds were illegally imported from South Africa. The company pled guilty and the individuals are awaiting trial.

FSIS' Administration of Laboratory Accreditation Was Not Cost Effective

The Food Safety and Inspection Service (FSIS) allows meat and poultry companies to have their samples analyzed by commercial laboratories it accredits, rather than requiring them to wait for an available FSIS laboratory to do the work. We found that it cost FSIS more to monitor the performance of the accredited laboratories than to run the tests itself, and FSIS was not charging a user's fee to recover these costs (estimated at $1 million annually). FSIS was also not enforcing performance standards at the commercial laboratories. About half of the laboratories in the program did not perform tests accurately and should have been on probation or removed from the program.

FS Needs To Better Monitor Timber Sales To Detect Bid-Rigging and Theft

In response to prior audits on bid-rigging and timber theft, the Forest Service (FS) agreed to strengthen its operations in these areas. Our followup audits disclosed that the FS did not complete all corrective actions. It still needed to train personnel in the detection of antitrust activity and to computerize bid data to monitor suspicious patterns of bidding. Also, one FS region with a previously high incidence of timber theft had still not assigned more staff to monitor timber sales and had not increased security over logs left at remote millyards.

Audits of Three Agencies' Financial Statements Completed; One Resulted in Qualified Opinion for FmHA

Under the Chief Financial Officer (CFO) Act of 1990, all USDA agencies are required to prepare financial statements, and OIG is required to audit these statements. During this period we audited statements for FCIC, FmHA, and the Rural Electrification Administration (REA). We issued unqualified (clean) opinions for REA and FCIC. However, we qualified our opinion of FmHA's statements because its Acquired Property Tracking System contained inaccurate data, which affected the agency's reported assets. FmHA needed to improve its controls over this system.

Implementation of the audit provisions of the CFO Act has required the commitment of a significant portion of OIG's resources. If additional funds are not provided for this effort, audit work in other critical program areas of the Department will be seriously impacted.

Audit Questions Major ADP Acquisitions

FmHA purchased computer equipment and software before it identified its automation needs or performed cost-benefit analyses. About $13.7 million was spent on the purchase of software that the agency has rarely used since it was acquired 2 years ago. In addition, about $32.5 million was spent to upgrade hardware even though FmHA studies showed the equipment was not needed in the smaller county offices. Based on the studies, we believe that $19 million of this amount could have been deferred until workload requirements increased at these offices.

SUMMARY OF AUDIT ACTIVITIES

Audit Reports Issued

Reports Issued		237
Audits Performed by OIG	80	
Audits Performed Under the Single Audit Act	87	
Audits Performed by Others	70	

Management Decisions Made

Number of Reports		217
Number of Recommendations		1,064

Dollar Impact (millions)

Questioned/Unsupported Costs		$95
Recommended for Recovery	$14.8[ab]	
Not Recommended for Recovery	$80.2[c]	
Funds To Be Put To Better Use		$299.1[a]
Total		$394.1

[a]These were the amounts the auditees agreed to at the time of management decision.
[b]The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.
[c]These costs have been expended erroneously or improperly due to agency action, and their recovery is not possible.

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	681
Cases Opened	850
Cases Closed	793
Cases Referred for Prosecution	414

Impact of Investigations

Indictments	447
Convictions	399[a]

Dollar Impact (millions)

Recoveries	$11.9[b]
Restitutions	$4.6[c]
Fines	$4.2[d]
Cost Avoidance	$1.3[e]

Administrative Sanctions

Employees	43
Business/Persons	258

[a]These include convictions and pretrial diversions.
[b]In this category is all money received by USDA or other Government agencies as a result of OIG investigations.
[c]Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[d]Fines are court-ordered penalties.
[e]This category consists of loans or benefits not granted as the result of an OIG investigation.

SMALL COMMUNITY AND RURAL DEVELOPMENT

FARMERS HOME ADMINISTRATION (FmHA)

FmHA is the largest direct lending institution in the Federal Government. The agency makes farm, housing, community program, and rural development loans to individuals and entities who cannot obtain credit elsewhere. Interest rates on loans may be subsidized, and a wide range of servicing options are available to borrowers who are unable to meet their debt obligations in a timely manner. As of June 1, 1991, FmHA had about 1 million active borrowers and a loan portfolio of over $51 billion. In addition, FmHA had guaranteed loans totaling $5.4 billion made by private lending institutions to 40,000 borrowers. FmHA administers its programs through the national office and a network of 46 State offices, 260 district offices, and 1,900 county offices.

Significant Savings Could Be Realized in Overhaul of Interest Credit Policies

Under section 502 of the 1949 Housing Act, FmHA provides housing loans for low- and moderate-income families in rural areas. In some cases, FmHA grants interest credit on the loans to help qualified low-income borrowers. Through interest credit, FmHA subsidizes a portion of the interest payments on the loans.

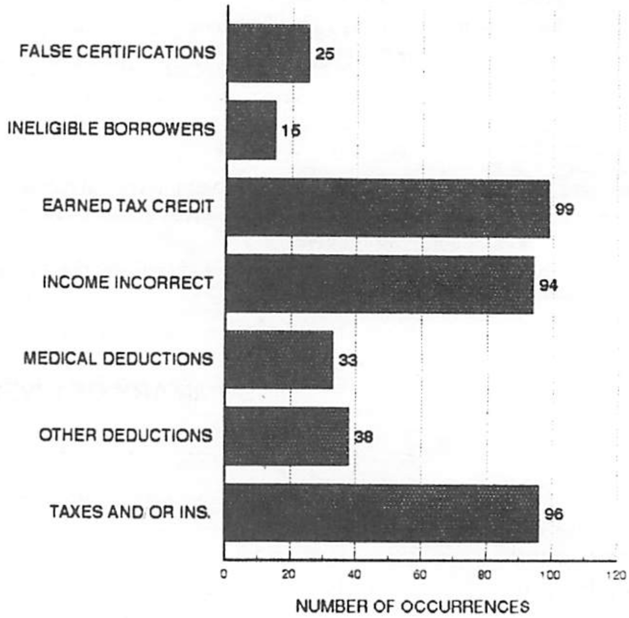
We reviewed FmHA policies and procedures regarding interest credit. FmHA had over 356,000 borrowers with approximately $725 million in annual subsidies as of July 23, 1990. As part of our review, we compared FmHA's policies to those set by other Federal agencies, as well as other programs within FmHA. We used statistical sampling techniques to determine if FmHA could realize savings by implementing several other housing program provisions and if county offices accurately processed interest credit agreements.

Our review found that FmHA could not provide us with any documentation showing the basis for program criteria used to develop current interest credit policies. Our review disclosed significant differences between FmHA's and these other programs' interest credit policies. For example, FmHA requires rural borrowers to pay 20 percent of their adjusted gross income for mortgage expenses, while its Rural Rental Housing Loan Program uses a 30 percent level in determining rental assistance subsidies. Further, FmHA's interest credit assistance can cut the effective interest rate of the loan down to 1 percent, while its Guaranteed Rural Housing Loan Program subsidy can only cut the rate to 3 percent. Although we recognize variances in these programs, we estimate that significant savings annually could be realized. No legislation impedes FmHA's adoption of these policies.

Our review also found that errors were made by county-level personnel in the processing of interest credit agreements. We estimated that the county offices granted excessive interest credit totaling over $11.7 million, and should have provided additional interest credit which totaled about $154,000. Figure 1 illustrates the number and types of errors.

Figure 1

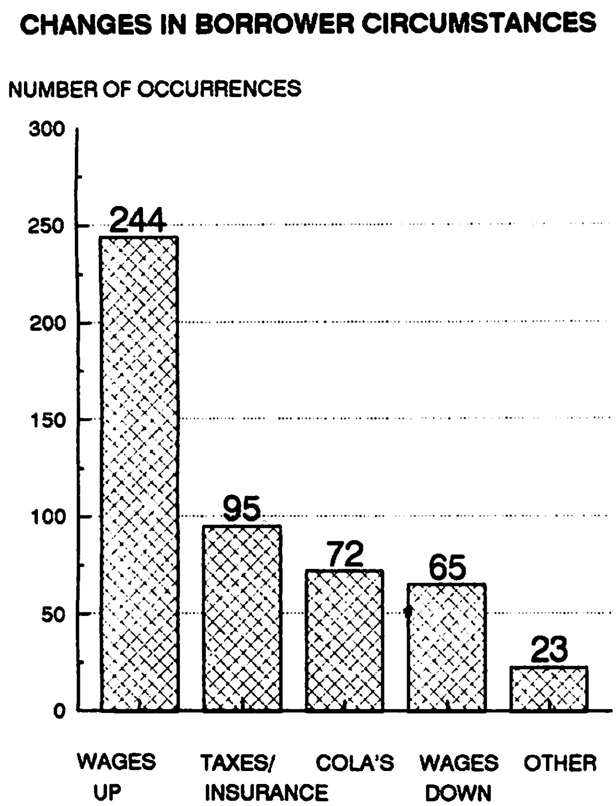
TYPES OF ERRORS



In addition, during the period of their interest credit agreements, over 65 percent of the 404 borrowers we sampled experienced changes in their circumstances which should have affected their agreements. Figure 2 illustrates the types of changes we found for an estimated 32,000 borrowers. If these borrowers had been required to report these changes, and if FmHA had corrected the agreements to recognize the changes, FmHA would have saved over $4.7 million.

We recommended that FmHA determine the changes needed in the calculation of interest credit to make the program similar to other FmHA and Federal housing programs. We also recommended that FmHA process interest credit agreements accurately, require borrowers to report changes in circumstances, and require its county offices to correct the agreements when necessary. FmHA officials agreed with most of

Figure 2



our recommendations or proposed acceptable alternatives, and are in the process of taking corrective actions. They stated that they are studying various aspects of interest credit assistance to see where it is possible to reduce costs, and to comply with the need to serve low- and very-low-income applicants. We are continuing to work with them on this issue.

Agricultural Credit Act of 1987

The Agricultural Credit Act of 1987 provides assistance to farm borrowers who are delinquent on their FmHA loan payments. The act requires FmHA to restructure these borrowers' loans to the maximum extent possible to avoid losses to the Government and to ensure that borrowers are able to continue farming operations. It requires FmHA to modify the loan amounts, rates, and terms by using any combination of servicing, including consolidating, rescheduling, reamortizing, lowering interest rates, deferring payments, or writing down debts. The act also allows financial institutions to write down loans that are guaranteed by FmHA and to receive a payment from FmHA for up to 90 percent of their losses.

- **Direct Loan Borrowers Received $13 Million in Excess Debt-Restructuring Benefits**

Using data from the Farm and Home Plan, FmHA determines the servicing options that would provide the optimum solution for the borrower and the Government. To complete the required servicing actions within the timeframes established by the act, FmHA developed an automated system called the Debt and Loan Restructuring System (DALR$).

We released two reports covering debt-restructuring of direct loans during this period. In the first, we reviewed 33 of the first borrowers whose loans were serviced under the act; in the second, we focused on a sample of 38 borrowers who had received large dollar writedowns or who had complex farming arrangements. We evaluated the propriety of the debt-restructuring decisions for these 71 borrowers by determining whether the borrowers had complied with program requirements and had provided FmHA with complete and accurate information.

We questioned one or more of FmHA's actions for 67 of the 71 borrowers reviewed. These questioned actions resulted in approximately $13 million of excessive debt-restructuring benefits for 45 of the borrowers. FmHA officials have agreed to reevaluate the decisions in these cases; consequently, the amount in question may change. Of the 45 borrowers, 27 received debt writedowns totaling $45 million. Figure 3 compares the amount owed after FmHA's writedown and the amount we established.

Figure 3

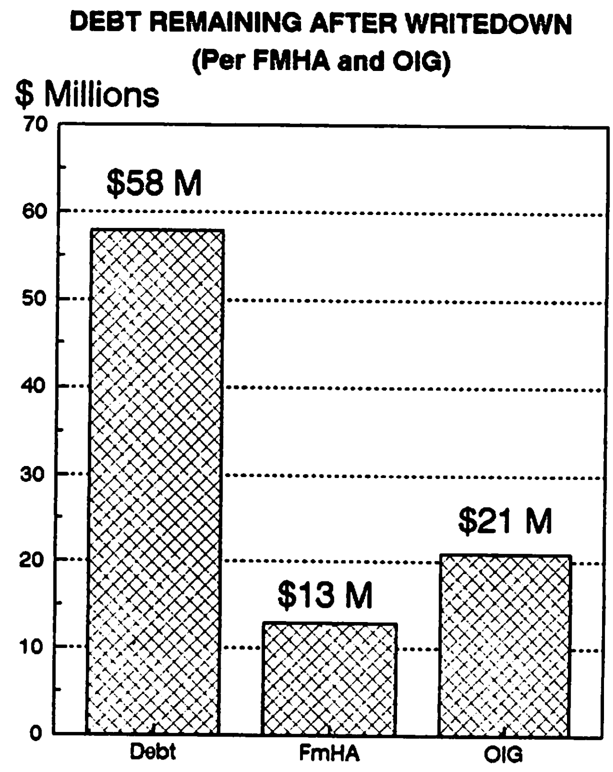
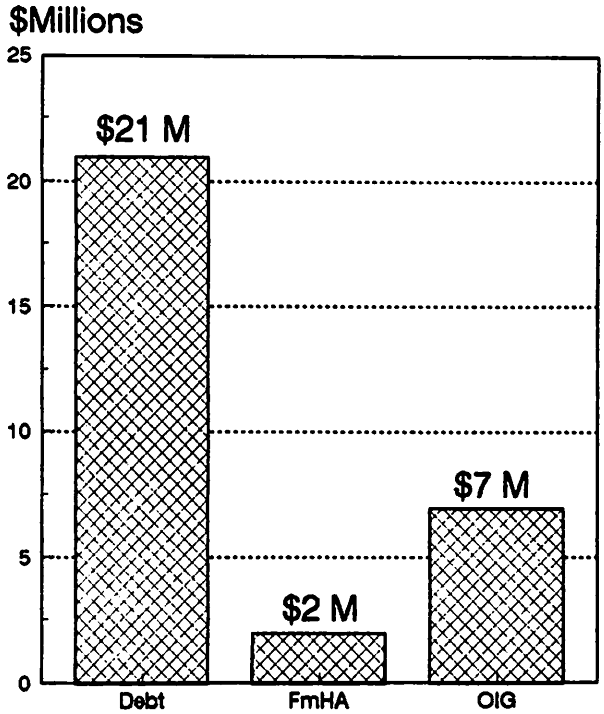


Figure 4

PAYMENTS RECOVERABLE THROUGH WRITEOFFS (Per FMHA and OIG)



The remaining 18 borrowers received debt writeoffs totaling $21 million. That is, FmHA eliminated the total debt in return for $2 million (a payment FmHA determined equal to the current property value minus liquidation costs). Figure 4 compares the amount recovered by FmHA and the amount we determined as recoverable.

Although the servicing error rate in our samples was high, we recognize that some conditions under which servicing took place were beyond FmHA's control. Under the stringent timeframes mandated by Congress, county offices were faced with implementing complex and untested regulations that did not always provide clear guidance on some of the situations that arose. Furthermore, the DALR$ program itself was a complex mathematical model in which minor variations in estimates of any data could have a major impact on the debt-restructuring decision.

One of the major causes of the problems we noted was that borrowers did not always provide county offices with complete or accurate information on their farming operations. An accurate portrayal of the borrower's financial position is critical to the debt-restructuring process because, in general, a difference of $1 in the borrower's financial position will result in a difference of $10 in the writedown calculated by DALR$.

One borrower, for example, did not report about $35,000 cash and over 1,200 acres of real estate in which he had an ownership interest. The borrower contended that the cash and land belonged to other entities. We determined that the cash belonged to the borrower because he reported the interest income on his individual tax return and kept the money in a separate personal bank account. We also determined that the borrower had a 55-percent ownership interest in the land and received at least $11,000 of the $20,000 in lease income that the land generated. If the $46,000 in cash and lease income had been included in the borrower's funds available to repay FmHA debt, the borrower would have received a $536,000 writedown instead of the $1 million writedown he received.

The size and complexity of some borrower operations made it difficult for FmHA to determine the financial arrangements of the operations or even understand their structure. For example, one borrower operated as a partnership which ran both crop and livestock operations through several related partnerships and corporations. This borrower received a $5.6 million writedown on a $9.9 million debt. In this case, FmHA officials did not adequately consider income and assets of $2.9 million and liabilities of $1.7 million. Adjusting for the items questioned during the audit, we reran the DALR$ program and concluded that the borrower should have received a debt writedown of about $4.8 million instead of $5.6 million. As a result, the borrower received benefits of about $800,000 to which he was not entitled. FmHA agreed in this case to reinstate this amount of the debt.

We recommended that FmHA recover the appropriate amounts by which the writedowns were overstated. We also recommended that for borrowers with large debts or complex farming operations, State or district office staffs perform more thorough reviews of the decisions, including the use of supporting documentation, before the debt-restructuring offers are approved. Finally, we recommended that FmHA pursue a legislative change to require borrowers with large debts or complex farming operations to submit audited financial statements. FmHA officials agreed with all of our recommendations except one and are taking corrective actions. Regarding this one recommendation, they have not yet decided whether to seek legislation requiring audited financial statements. We are continuing to work with them on this issue.

- **Debt-Restructuring Procedures Do Not Control Losses From Farmer Program Guaranteed Loans**

As of December 31, 1990, there had been 63 payments totaling $5.5 million to banks for the guaranteed portion of loans to farmers. This represented almost a threefold increase over the number of these payments made just 9 months earlier. Because this increase occurred in a relatively new program area (debt restructuring of guaranteed loans began in 1989), we performed an audit to determine the potential for losses to the Government. We reviewed three loans with a total outstanding balance of $713,000. These loans received writedowns totaling over $400,000, and the lenders received payments totaling $290,000, representing the guaranteed portion of the loans. We found that FmHA had not provided its personnel or lenders with adequate regulations or policy directives to implement the debt-restructuring provisions of the act for guaranteed loans. Debt restructurings have been improperly determined, and the potential exists for significant losses to the Government.

For example, in one State the borrower's repayment ability was determined using a 15-year repayment term even though the lender could offer only a 6-year term. Thus, the borrower appeared able to afford the payments when in fact he could not. Also, the shared appreciation agreement was prepared incorrectly, resulting in an excess recovery of $10,000 by the lender and FmHA. As a result of these errors, the borrower was ineligible for the total $138,000 writedown, and the lender was ineligible for the loss payment of $77,000.

In addition to recommending that the erroneous writedowns be corrected, we recommended that FmHA require lenders to show how they arrive at the value of restructured loans and assets. We also recommended that directives be issued to FmHA State, district, and county offices showing how to determine the value of restructured guaranteed loans and assets.

Because of the problems we found, we plan to conduct future audits of restructured guaranteed loans.

FmHA officials disagreed with our recommendations, stating that the shared appreciation agreement represented an agreement between the lender and the borrower and thus no repayment was warranted. They further stated that the determination and computation of the present value is the lender's responsibility and further regulatory guidance is not needed. We are continuing to work with FmHA on these matters to achieve management decision.

FmHA Needs To Improve Its Monitoring of Rural Rental Housing (RRH) Project Operations

Under the RRH Program, FmHA approves loans for rental or cooperative housing in rural areas to provide living units for persons with low and moderate incomes. RRH loans can be made to individuals or groups that show they cannot get other financing to provide moderate-cost rental units. After the projects begin operations, the borrowers must maintain reserve accounts and submit yearend financial statements to FmHA for analysis.

We reviewed State and district office monitoring of RRH loans, with emphasis on the performance of supervisory visits and yearend analyses of borrower financial information. We also reviewed the records of several RRH projects to evaluate borrower compliance with their loan agreements concerning reserve accounts and expenses charged against the projects.

We found that State offices did not adequately monitor district offices and that district offices in turn were not performing the required supervisory visits and annual analyses of borrower financial information. Only 43 percent of the required annual analyses (241 of 555) had been performed by the district offices that we visited. In the absence of these reviews, FmHA was unaware that borrowers had underfunded their RRH project reserve accounts. We found that 112 of the 246 accounts we analyzed were underfunded by a total of $2.4 million. See figure 5 on the next page.

We also found that management companies in two States improperly charged expenses totaling over $300,000 to RRH projects and received fees of about $19,000 in excess of the amounts specified in the management agreements.

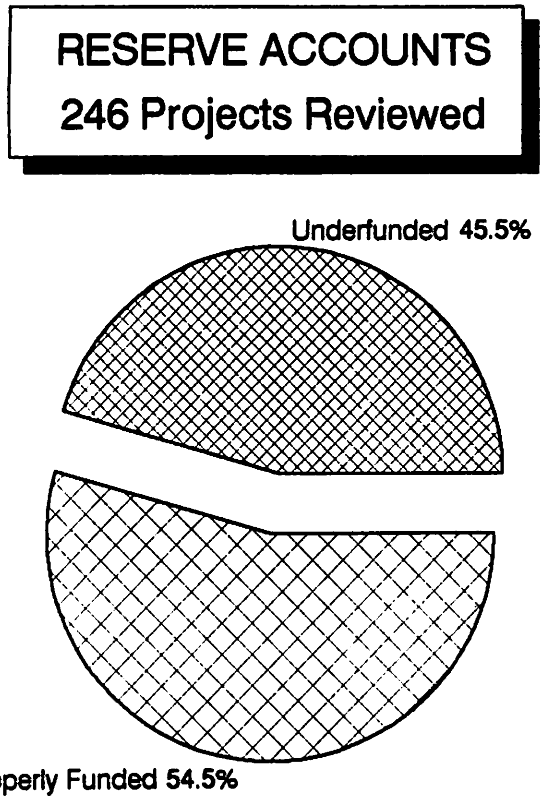
FmHA's ability to manage the RRH program in general was also lessened because borrowers did not always submit complete management plans and agreements. Again, district office monitoring was not sufficient to ensure this submission.

Because of these problems, we recommended that FmHA strengthen its operations in these important areas. FmHA officials agreed with our recommendations and plan to take corrective actions.

Borrower Illegally Converted RRH Reserve Funds

An investigation of a borrower in Kansas who owned

Figure 5



and managed several rental housing developments subsidized by FmHA and HUD resulted in an indictment on 13 counts of converting FmHA project reserve funds to his own use when he made 16 unauthorized loans to himself totaling over $180,000. He was also indicted on one count of making false statements to FmHA when he falsified information to conceal his unauthorized loans. Immediately after his interview by an OIG agent, the borrower repaid approximately $73,000 of the amount he had taken from one of the FmHA projects' reserve accounts. The investigation also revealed he had taken over $185,000 from HUD-financed projects. The defendant pled guilty to two of the counts of conversion of FmHA property and was sentenced to 5 years' probation and ordered to pay about $52,000 in restitution.

FmHA Had Not Secured Its Rights as Lienholder To Crops and Livestock Securing Loans

An audit completed this period found that FmHA's administrative controls were not sufficient to ensure that it had recourse against buyers of crops or livestock to which it was lienholder, even though the Food Security Act of 1985 allows such recourse. The act requires lienholders to notify potential buyers beforehand of liens, if lienholders want to enforce their secured interest in the farm. Lienholders can meet this notification requirement by either registering liens with a State's automated central filing system or furnishing written notice directly to potential buyers on a yearly basis.

When a borrower improperly sells the crops or livestock he or she pledged as security for an FmHA loan, FmHA seeks restitution from the borrower rather than from the purchaser. Because FmHA has not implemented the provision of the act that allows it to pursue purchasers, it has no recourse against purchasers in 37 States. It does not register liens in 4 of the 17 States with automated central filing systems, and it does not notify potential buyers beforehand in the other 33 States where direct written notice is required.

Approximately 89 percent of the borrowers of FmHA's $20 billion Farmer Program loan portfolio pledged crops or livestock as security for their loans. FmHA should use all available options to protect its security interests.

We recommended that FmHA determine the costs and benefits of pursuing recovery from purchasers of crops and livestock pledged as collateral. FmHA officials agreed and are taking corrective actions.

Farmer Sells FmHA-Mortgaged Cattle and Equipment To Buy Drugs

An Arkansas dairy farmer sold approximately $19,000 worth of dairy cattle and dairy equipment, all of which was mortgaged to FmHA. The farmer confessed to the OIG agent that he had sold the collateral and admitted using most of the proceeds to purchase cocaine. The farmer pled guilty in U.S. district court to three *felony* counts of illegal sales of collateral. He was sentenced to pay the $19,000 in restitution to FmHA and serve 5 years' probation, 4 months of which would be in a halfway house.

County Supervisor and Assistant Commit Fraud

A Virginia FmHA county supervisor and a county office assistant pled guilty to conspiring to make a Rural Housing loan totaling $55,000 to a fictitious borrower and converting the loan proceeds to their own use. The two employees prepared a loan application using a false Social Security number, address, and employment records. The employees forged the name of the fictitious borrower on the FmHA check and split the proceeds. As part of their guilty plea, they agreed to make restitution of $29,000. Sentencing is pending.

Marketing of Acquired Single-Family Houses Does Not Maximize Recovery of Costs

When FmHA acquires single-family housing property through liquidation of loans, it determines whether the houses should be retained in the program or not. If they are retained, FmHA is to renovate them to program condition; that is, decent, safe, and in good condition. Nonprogram houses are to be sold in the same condition as when acquired. In September 1991, FmHA had almost 5,200 single family houses in inventory.

We reviewed acquired housing properties sold in fiscal year (FY) 1990 and found that FmHA expenditures for repairs and renovations generally were not recovered. We analyzed the transactions for 38 houses taken into inventory and found that expenditures of about $4,500 per property had not been recovered when 31 of the houses were sold. FmHA has a practice of renovating houses to a "like new" condition rather than to a less costly marketable condition; it does not analyze how much of the renovation costs are likely to be recovered; it has no procedure in place to monitor losses on sales of single-family housing properties; and it does not ensure its data base contains complete or accurate data regarding gains and losses on sales of acquired properties.

We recommended that FmHA issue guidance to help State and county officials determine when and to what extent inventoried properties should be repaired or renovated. We also recommended that FmHA's data base capture all costs of acquiring, managing, and selling properties so that agency officials can analyze the reasons for losses.

FmHA officials agreed and have issued guidance clarifying expenditures for the repair and renovation of acquired single-family houses. They also agreed to modify their data base to capture the cost data associated with the sale of properties.

Unneeded Funds Not Deobligated in a Timely Manner

FmHA administers several rural community loan and grant programs, such as Water and Waste Disposal, that require the creation of unliquidated obligations that may be retained for several years before liquidation or deobligation is possible. FmHA State directors certify twice a year to the national finance office which inactive outstanding obligations should be retained. Nationwide, at the end of FY 1990, FmHA had about 1,700 borrowers and grantees of community programs with 2,600 unliquidated obligations totaling over $1.2 billion.

We conducted an audit in 2 States and reviewed 101 judgmentally selected obligations totaling about $47.5 million. We found that FmHA had not deobligated over $3 million not needed to complete 16 of these projects. The unliquidated funds resulted from project cancellations, funds received from other sources, and differences between estimated and actual funds needed for a project. In three projects, funds were used (or planned) for project expansions which were not part of the original approval. One longstanding project had little chance of ever being started, yet the obligation was still made.

We recommended that the unneeded funds be deobligated and that controls be strengthened to ensure that future deobligations occur promptly. In response, FmHA deobligated over $1 million of the amount we questioned and provided documentation to support the retention of the remainder. In addition, FmHA took action to improve controls over this area.

FEDERAL CROP INSURANCE CORPORATION (FCIC)

FCIC, a wholly owned Government corporation, was created in 1938 to improve the economic stability of agriculture through a system of crop insurance. The Federal Crop Insurance Act of 1980 amended the prior program by expanding the coverage, authorizing the use of private insurance companies to sell and service policies, increasing coverage levels, and providing for a reinsurance program. Eighty-nine percent of the policies are sold by private insurance companies reinsured by FCIC, and 11 percent are sold by vendors under contract to FCIC.

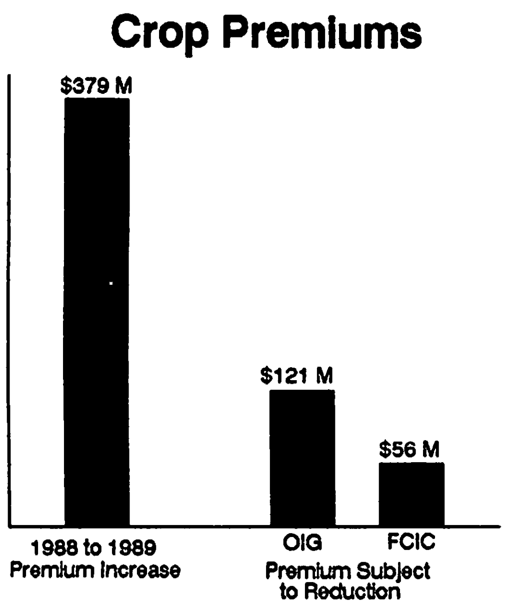
Commission Reductions Were Not Always Made as Required by the Disaster Assistance Acts

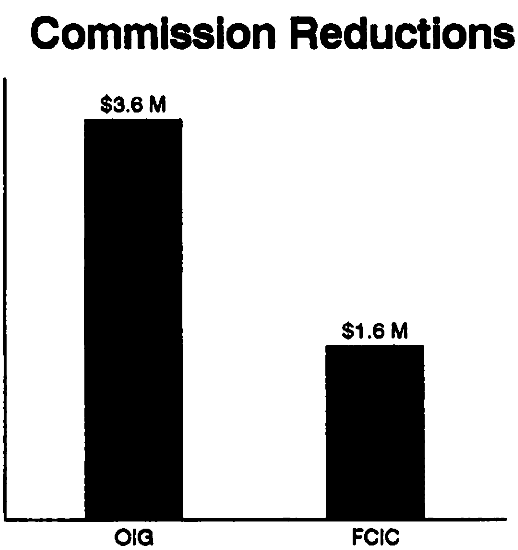
We reviewed FCIC's handling of the administrative expense reductions required by the 1988 and 1989 Disaster Assistance Acts. Under these acts, disaster program participants are required by the Agricultural Stabilization and Conservation Service (ASCS) to purchase FCIC insurance. The acts specify that commissions paid to insurance agents on these policies should be reduced because they only require servicing by the agents. Accordingly, FCIC reduced the commission by 3 percent of the gross premium of these policies. To obtain information on producers participating in the disaster program, FCIC entered into an agreement with ASCS. With this information, FCIC could identify policies to reduce the commissions.

We examined a random sample of 500 1989 insurance policies to determine if FCIC properly reduced the commissions on all policies subject to the reductions. Our sample was selected from a universe of policies with gross premiums totaling about $666 million. Our analysis showed that FCIC did not reduce the commissions on all 1989 policies subject to this requirement. We estimated that commissions should have been reduced by a total of about $3.6 million, or about $2 million more than the amount FCIC recovered from the companies.

FCIC reduced the commissions on policies that were dated 1 day or more after the date of the certification of crop insurance at the ASCS office. Under this criterion, FCIC excluded those policies that had been sold on or before the producers signed the ASCS certification. Many policies fell into this category because ASCS required producers who did not have 1988 crop insurance to purchase 1989 crop insurance before they could receive 1988 disaster assistance benefits. (The number of crop insurance policies more than doubled from 1988 to 1989.) Since many policies were dated prior to or on the date of certification, FCIC's criterion did not include all required policies, and the commissions on these policies were not reduced.

Figure 6





The charts in figure 6 show the relationship between the premium increase for all 1989 policies and the premiums determined subject to commission reduction by FCIC and OIG.

We recommended that FCIC recover overpaid commissions made on 1989 and 1990 insurance policies that producers were required to purchase by ASCS. We also recommended that FCIC develop other methods of reducing commissions on policies purchased as a result of a mandatory insurance provision in future disaster programs. FCIC officials did not agree with our recommendations because they believe they used a reasonable commission reduction criterion. We are continuing to work with departmental officials to reach an acceptable management decision.

Improved Controls Needed To Ensure Accuracy of Indemnity Payments

We performed an audit of the controls designed to ensure the accuracy of crop-share certifications and the payment of indemnities. Our tests found that these controls were not always functioning as intended. We identified 55 incorrect crop-share certifications and 1 duplicate indemnity payment involving $146,000. We also identified weaknesses in the procedures for reconciling accounting report information, for reviewing established claims, and for using notarized statements to certify alternate crop shares.

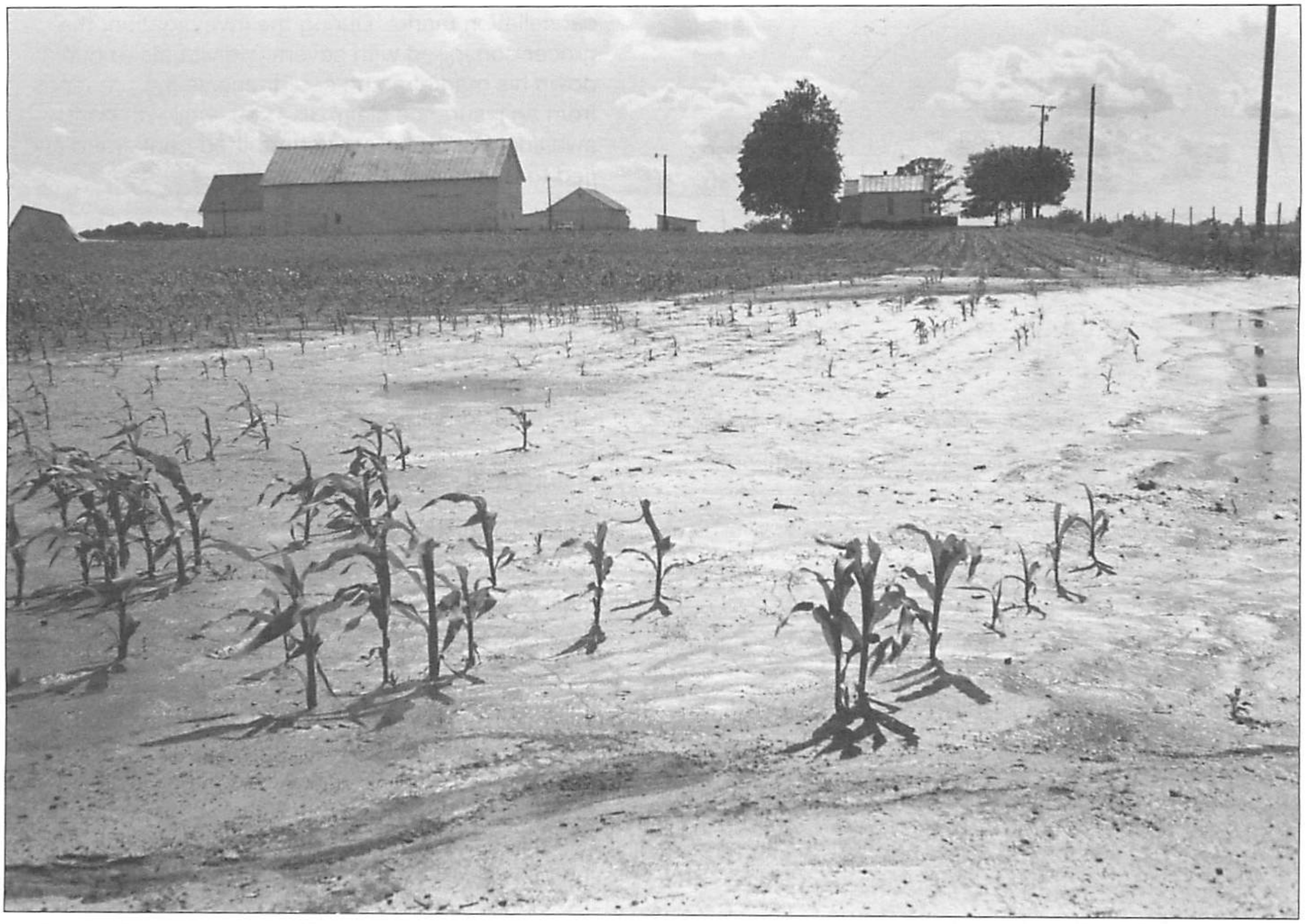
We recommended that FCIC collect overpaid amounts and correct the accounting reports for the policies cited with incorrect crop shares. We also recommended that FCIC show loss adjusters how to verify crop-share certifications and reconcile discrepancies, and that it evaluate the effectiveness of notarized statements to certify crop shares and the procedures requiring reconciliation of monthly accounting reports. FCIC now requires the signatures of all interested parties on notarized statements to certify alternate crop shares, and it has expanded requirements for reconciling accounting reports. However, FCIC determined that it was not cost beneficial to collect the individual questionable claims. We are continuing to work with agency officials on this matter.

Louisiana Farmer Convicted for Multiple Insuring of Crops

A Louisiana rice and soybean farmer pled guilty to making 18 false crop insurance claims with both FCIC and a reinsurance company. The farmer used different names to double- and triple-insure his crops, enabling him to obtain multiple insurance indemnity payments. FCIC withheld payment on 11 of the claims after a reinsurance adjuster found that the farmer submitted several claims for the same crop acreage. The farmer would have received indemnity payments totaling about $227,000 had the adjuster not uncovered the scheme. As part of the plea agreement, the farmer paid $60,000 restitution to FCIC, which represented the improper payments received. The farmer was sentenced to serve 4 months in a halfway house, given 12 months' probation, and fined $5,000.

Former FCIC Employee Convicted in Reinsurance Fraud

The president of a Nebraska crop insurance sales firm, who at one time was an employee at FCIC, was convicted by a Federal jury on charges involving wire and mail fraud, theft of public money, and false statements. The investigation originated from a complaint to the OIG Hotline and was jointly investigated by OIG and FCIC compliance investigators. The firm's president submitted reinsurance claims with no proof of loss, deleted share designations from production records, doubled and tripled claims, and falsified grower yield certifications. Sentencing is pending.



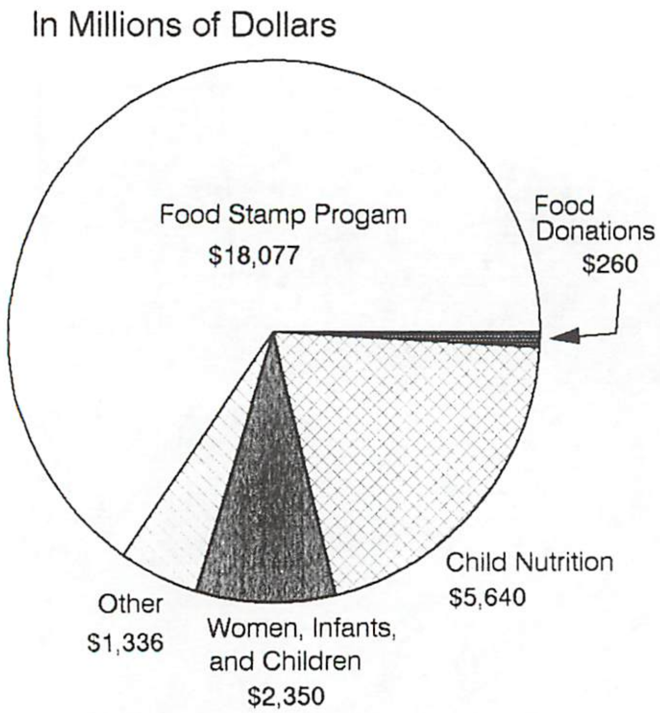
Corn crops damaged by flooding. Crop insurance and disaster payments help farmers recover from natural disasters. USDA photo.

FOOD AND CONSUMER SERVICES

FOOD AND NUTRITION SERVICE (FNS)

FNS administers 13 programs, including the Food Stamp Program, the Child Nutrition Programs, and the Special Supplemental Food Program for Women, Infants, and Children. Figure 7 shows the estimated spending for FY 1991.

Figure 7



FOOD STAMP PROGRAM (FSP)

Grocers Charged with Illegally Redeeming Food Stamps

- In Toledo, Ohio, the owner of a grocery store was charged with illegally redeeming over $7.2 million in food stamps. The owner had been permanently barred from participating in the FSP after he was convicted of buying food stamps in 1984. After the owner was convicted and disqualified from participating in the FSP, one of his employee's presented evidence to FNS that he had purchased the store. The indictment charged that the disqualified grocer continued to own the store and illegally redeem the stamps from the date of his disqualification to the month before his indictment. The owner was also charged with redeeming over $3 million more in food stamps than the total sales of the store during the period of disqualification. Trial is pending.

- A California retail grocer was sentenced to serve 16 years and 8 months in prison and ordered to pay restitution of approximately $466,000 after pleading guilty to charges of arson, bank fraud, and unlawful redemption of food stamps. The grocer was originally indicted in 1988 and charged in a scheme to accept previously cancelled food stamps. A joint investigation conducted with other Federal and local law enforcement agencies disclosed that approximately $324,000 in food stamps were stolen from a major San Francisco bank and were later treated with a bleaching agent to remove the cancellation marks. During the investigation, the grocer conspired with several individuals to burn down his market so he could receive the proceeds from an insurance claim. In 1989, while on bond awaiting trial, the grocer committed bank fraud and fled to Australia. He was later apprehended by authorities and returned to the United States to stand trial.

Food Stamp Trafficking

- As a result of a joint Federal, State, and local law enforcement investigation, 22 persons were charged with trafficking in crack cocaine and food stamps in Falls County, Texas. During the investigation, food stamps and cash were used to purchase crack cocaine from drug dealers. The U.S. Attorney's Office asked OIG to lead the investigation, named "Operation Falls Down," in response to numerous local complaints and news media reports that narcotics dealers had overwhelmed local law enforcement resources.

- In Albany, New York, 15 individuals associated with 8 grocery stores were arrested for food stamp trafficking. The individuals were charged with exchanging $20,000 in food stamps for narcotics and cash. Six have pled guilty and the remaining individuals are awaiting trial.

- In Trenton, New Jersey, OIG special agents arrested two business partners who were owners of a retail store authorized by FNS to accept food stamps. During the investigation the partners purchased about $149,000 in food stamps for $75,000 in cash. The investigation identified seven additional authorized retail stores that laundered the food stamps. Both partners and a store employee have pled guilty and will be sentenced in the near future.

- In New York City, 25 individuals were charged with food stamp trafficking. The individuals were charged with exchanging $165,000 in food stamps for $75,000 cash, narcotics paraphernalia, two vehicles, and some small appliances. Six have pled guilty, and the remaining individuals are awaiting trial.

- In Harrisburg, Pennsylvania, charges were filed in both Federal and State courts against 15 individuals for food stamp and drug trafficking violations. These charges culminated a series of joint investigations over the past 2 years by OIG and the York and Harrisburg Police Departments. The investigations focused on the illegal exchange of food stamps for currency and narcotics. These cases have resulted in a total of 50 indictments and 33 convictions to date. Among those convicted of trafficking were the owners of three retail grocery stores. Trials are pending for the 15 individuals charged in these cases. Two more individuals have yet to be arrested.
- As previously reported, a New Jersey real estate broker sold a house to an OIG Special Agent for $30,000 in food stamps. The broker accepted $1,000 in food stamps as a downpayment for the house. The sale was completed when the broker accepted a final payment of $29,000 in food stamps and delivered the keys to the Agent. The individual has pled guilty to charges of food stamp trafficking in U.S. district court and was sentenced to 8 months in prison and fined $5,300.

States Were Not Promptly Establishing or Collecting Recipient Claims Estimated at $271 Million

Prior OIG audits have reported nationwide weaknesses in how FNS establishes recipient claims, recoups claim amounts through reduction of monthly food stamp benefits, and disqualifies intentional violators from the program. From the results of our current audit, we concluded that the corrective actions taken by FNS in response to the prior audits have not been effective.

We found that States were neither processing claims referrals promptly nor recouping claims as required. We projected that the States had accumulated backlogs of over 600,000 cases of possible overissuances, with a value in excess of $271 million. Of these, we estimated that about 241,000 involved participating households that States determined had indeed received overissuances. If these claims were established and recouped at the minimum monthly amount of $10, collections could be increased by about $2.4 million monthly. For households against which claims had been established, we projected that no payments had been made on about 22,000 claims. If these claims had been recouped at the minimum monthly amount, collections could have been increased by $223,000 monthly.

We concluded that the States' referral processes were inefficient because FNS had not required claims accounting systems to provide adequate management information on unworked cases, had not emphasized referrals in its management evaluation reviews, and had not established timeframes for processing referrals. Claims accounting systems in 5 of 22 States reviewed did not effectively identify households with delinquent claims for recoupment; systems in 9 States did not "flag" files of households which were no longer participating but against which collection could be pursued should the household apply for recertification; and 6 States did not initiate recoupment in a timely manner.

We also projected that because States had not always disqualified individuals who intentionally violated the program, an estimated 366,000 program violators with unpaid claims totaling over $216 million were still receiving benefits. FNS had not adequately enforced controls, and the States, in turn, placed a low priority on disqualifying violators. We recommended that FNS establish timeframes for processing claims, require States to expedite the processing of unworked claims, and increase claims coverage in its management evaluation reviews. FNS officials agreed with our recommendations and proposed acceptable corrective actions. They said that rather than impose additional requirements, they would help States reduce backlogs. The officials also advised that they would target claims processing in FY 1992 management evaluations, and would emphasize to States the need for recoupment and disqualification.

Security and Accountability Over Food Stamps Need Strengthening

FNS contracts with a company to print and distribute food stamps to various issuance points nationwide. The printing company is responsible for safeguarding food stamps from theft and misuse, from the time they are printed to the time they are delivered. Food stamps represent an obligation of the Federal Government similar to currency and therefore require the same protection. Some State agencies also contract with companies to distribute food stamps to recipients within their States. During this reporting period, we conducted two audits which disclosed a need for tighter security and accountability over food stamps. Some of the problems noted follow:

- Our audit of the contractor who printed food stamps for FNS disclosed that the contractor did not properly account for the food stamps printed and did not provide the security as stated in the contract. FNS had not established effective followup procedures to ensure that the contractor promptly corrected any operational deficiencies FNS identified in its monitoring reviews. In one instance, FNS officials had not recovered over $2.9 million in food stamps that they identified as missing in a 1989 monitoring review of the printer's operations, nor did they report the discovery to OIG. The review determined that the contractor's count of food stamps was higher than FNS' count, and that the contractor's records were altered to match FNS' records. Our review confirmed the shortage.

We also found that the food stamp accountability plans submitted to FNS by the contractor did not show how the contractor was going to account for the food stamps at each stage of the printing process. Our review indicated that the contractor had little or no accountability over the printing process since the current contract had been in effect. In addition, the contractor had not performed required quarterly audits and consequently had no internal means to detect theft or accountability deficiencies.

We recommended that FNS settle the $2.9 million that was originally identified in 1989. We also recommended improved internal controls relating to security and accountability during the printing of food stamps. FNS officials agreed and are in the process of taking corrective actions.

- At the request of an FNS Regional Administrator, we reviewed a State agency's security and controls over a contractor's food stamp mail issuance operations. The audit was requested, in part, because two employees of the contractor pled guilty to stealing large amounts of food stamps. Our review disclosed that the thefts occurred because security and controls were weak, providing an environment where food stamps could be stolen and the theft not detected. The State agency had neither required the contractor to maintain adequate security over food stamps nor established sufficient controls itself to safeguard and account for food stamps mailed to recipients in care of the county food stamp offices.

The contractor had one person performing accountability duties over a range of issuance operations, including the maintenance of inventory records, the preparation of issuance and accountability reports to the State agency, and the collection of undelivered mailings returned to the post office. Another person was responsible for the physical security of the food coupons. This person prepared the trays containing the envelopes for delivery to the post office, loaded the trays onto the truck, delivered the mailings unassisted to the post office, and unloaded the coupons unobserved and without post office verification. During the period November 1, 1989, to March 31, 1991, the State agency reported that food stamps worth $1.2 million were lost in the mail. We could not determine how much of this amount was actually stolen by employees of the contractor before delivery to the post office.

The State agency did not reconcile the amount of food stamp mail issuances, as reported by the contractor, to its records of authorized issuances. The State agency relied on the contractor to prepare food stamp accountability reports and did not periodically test their accuracy. Reconciliation of the actual amount of issuances to the authorized amount is one of the most critical controls for ensuring the propriety of issuance operations. We recommended that FNS initiate the sanction process against the State agency and require it to (1) reconcile authorized issuances to actual issuances monthly, and (2) establish physical security and accounting controls over issuance operations. FNS agreed with our recommendations and will hold the State liable for issuance losses and require it to tighten physical security and internal controls over food stamp operations.

$4 Million Paid To Settle Civil Claim for FSP Losses

We previously reported the conviction of four employees of the Government Development Bank (GDB) for Puerto Rico for stealing food coupons from the bank. The Territorial Government of Puerto Rico established and financially backed the GDB. The bank redeemed food coupons from commercial banks under contract with the Federal Reserve Bank. Rather than destroying the food coupons, the bank employees stole the used food coupons and sold them.

Two of the GDB employees estimated the four had stolen about $20,000 in food coupons per week. All four were convicted, fined, and sentenced to prison terms, including 18 years for the "ringleader."

Based on our investigation, the Department of Justice filed a civil suit against the bank, seeking punitive damages. The suit alleged the bank had failed to cancel redeemed food coupons properly and to ensure the destruction of the food coupons. In September 1991, the bank paid $4 million to settle this matter.

FINANCIAL MANAGEMENT

Financial Management Weaknesses at One Regional Office Result in Excessive Cash Balances at State Agencies and $1.1 Million in Unnecessary Interest

FNS regional offices manage day-to-day financial operations of assistance programs in the seven regions nationwide. We looked at how one regional office established State agency letters of credit; monitored cash drawdowns, advances, and program closeouts; awarded regional office contracts; and collected claims against State agencies and retailers.

We found that annual financial reconciliations and closeouts had not been performed accurately or in a timely manner. Also, although FNS procedures require periodic reviews of State agency drawdowns, the regional office did not perform these reviews for over 2 years and therefore failed to discover undisclosed, premature drawdowns of Federal funds. (Three State agencies had excess cash balances of $16.5 million, which cost the Government about $1.1 million in unnecessary interest.) Moreover, the regional office had not established accounts receivable on a timely basis, pursued debts aggressively, detected and eliminated duplicate accounts, segregated closed accounts, or classified accounts receivable properly. Receivables in excess of $2.7 million were mishandled during this period, resulting in an additional $21,000 in preventable interest charges.

We recommended that the regional office provide training to financial management staff performing annual reconciliations and closeouts and that staff be supervised closely. We further recommended that better controls be established over accounts receivable, and that the regional office monitor State agencies to ensure that drawdowns of letters of credit are only for current cash needs.

FNS regional officials agreed with our recommendations and have completed corrective actions. We are continuing our effort in this area and plan to conduct reviews at the other regional offices to evaluate the overall administration of financial management operations in FNS.

CHILD NUTRITION PROGRAMS

Food Company Fined $2 Million for Bid-Rigging

An investigation in Texas found that a food service company, one former employee, and another individual conspired to rig bids for contracts to supply wholesale grocery products to 31 public school districts participating in the National School Lunch Program. According to the criminal information, the conspiracy lasted from late 1986 through May 1990, and also involved bids for contracts with two hospitals and two other public entities.

The company and both individuals pled guilty to violations of the Sherman Antitrust Act. The company paid a $2 million fine. The former employee paid a $5,000 fine, and the other individual paid a $10,000 fine. The case was prosecuted by the Antitrust Division, U.S. Department of Justice.

School District May Have Overclaimed About $387,000 Due to Inadequate Meal Accountability Procedures

School districts that participate in the National School Lunch Program are reimbursed by FNS for lunches served to students. We reviewed reimbursement claims for meals served by a large school district that received over $15 million in Federal reimbursements for the 1989-90 school year. We statistically sampled 40 of the district's 260 schools and found meal accountability inadequate at 10 of them. Specifically, the district tallied meal counts before the children actually received their meals; meal counts on daily rosters did not match the figures on weekly claims reports; and onsite meal counts taken by OIG auditors did not agree with meal counts performed by school staff. We estimated the district may have received excess reimbursements of over $387,000.

We also found that the district had not fully implemented accountability regulations published in 1989. These regulations require school district officials to visit each school once a year and follow up on any problems identified, compare each school's daily meal count using various analytical tools to identify overclaims, and keep source documents to support the claim for a period of 3 years. However, district officials had documented neither their followup visits to schools nor the corrective actions taken to resolve problems identified during their yearly reviews. Moreover, the school district had not been comparing daily meal counts with other data and was destroying meal tickets and rosters upon receipt. We recommended that the State agency require the district to implement the 1989 food accountability regulations, and State agency officials agreed to do so.

USDA's School Lunch Program provides nutritious meals to over 24 million children each day. USDA photo.

FOOD DISTRIBUTION PROGRAM

Food Processor Fails To Meet Contractual Yield Requirement for Donated Cheese

Under the Food Distribution Program, FNS permits States to enter into agreements with private contractors to process and distribute USDA-donated commodities to eligible recipient agencies. Contracts specify what quantities must be placed into production and what quantities must be contained in the final products. Final products that use commodities like cheese and flour must meet the 100 percent yield requirement. Under this requirement, inventory can be drawn down only for the actual amount of donated food contained in the products. The processor must purchase commercial product to replace any manufacturing losses.

We audited a food processor to determine whether the proper amount of USDA-donated cheese was put into production to make pizzas which met contractual yield requirements. We found that the processor put less cheese into production than required under the USDA contract. The processor contended that his company met yield requirements and that its contract production losses were overstated; however, we found the processor's quality control staff noted pizzas with cheese weight below target. During our review period, the processor's pizzas were shorted by approximately 69,700 pounds of cheese, valued at about $104,000. We recommended that FNS recover this amount and require the processor to strengthen its quality control process. FNS has agreed to implement our recommended corrective actions.

CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

Sponsors' Poor Internal Controls Cause $342,000 in Questionable Reimbursements

FNS provides cash and commodities, either directly or through a sponsor, to nonresidential day care centers so they can serve meals to their enrollees. OIG continues to contract with certified public accounting firms to perform audits of child and adult care institutions that receive reimbursement for the CACFP directly from FNS. During this reporting period, the audits of 59 sponsors in one State questioned $342,000 in costs. These institutions either reported enrollment inaccurately, claimed meals in excess of licensed capacity, claimed more meals than their attendance reports showed, submitted inaccurate claims, or were not approved by FNS to operate in the program.

We recommended that FNS recover excess reimbursements and require sponsors to strengthen controls. FNS officials agreed with our recommendations and are taking corrective action.

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

ASCS administers farm commodity, conservation, environmental protection, and emergency programs. These programs provide for commodity loans and price support payments to farmers, commodity purchases from farmers and processors, commodity storage and handling, acreage reduction, cropland set-aside and other means of production adjustment, conservation cost-sharing, and emergency assistance. Financing for ASCS commodity programs comes through the Commodity Credit Corporation (CCC), a Government corporation.

For FY 1991, ASCS estimated outlays at $2 billion for the traditional conservation programs and the Conservation Reserve Program. CCC funds all other ASCS program operations, with estimated outlays of $10.6 billion, an increase of $4.2 billion over FY 1990.

Some Producers Continue To Circumvent the Payment Limitation Through Legislative Loopholes and Undetected Schemes

In 1980, Congress established an annual $50,000 payment limitation per "person" for certain deficiency and land diversion payments to wheat, feed grain, cotton, and rice producers. However, as farm subsidy payments increased during the 1980's, many producers who were already at the $50,000 limit reorganized their farms to qualify new "persons" by creating large partnerships with numerous corporate partners. Each corporate partner qualified for a $50,000 payment, and there was no limit to the number of entities in which an individual, with his or her own $50,000 limit, could have an interest. In many cases, the newly created entities did not lend any additional resources to the actual operation of the farming practices, but merely increased the producer's total subsidy by qualifying more "persons" for payment.

In 1987, Congress amended the 1985 Food Security Act to tighten controls over payment limitation eligibility. These provisions, effective for the 1989 crop year, limited payments to (1) individuals participating in no more than three entities, and (2) individuals and entities that were actively engaged in farming (that is, were contributing certain resources to the farming operation). These new provisions also allowed producers to reorganize their farming operations in 1989 as long as they did not increase the number of "persons" above the number organized in 1988. Therefore, many large partnerships, with more than enough "persons" to maximize payments, merely transferred ownership between the corporate partners to satisfy the requirements.

OIG audits have historically reported that, as new restrictive rules have been implemented, producers continued to reorganize their farming operations to avoid the limits. For our current audit, we selected for review 23 large farms that reorganized in 1989. During this period, we completed our review of 16 of these farms, which received payments totaling about $6.7 million in 1989.

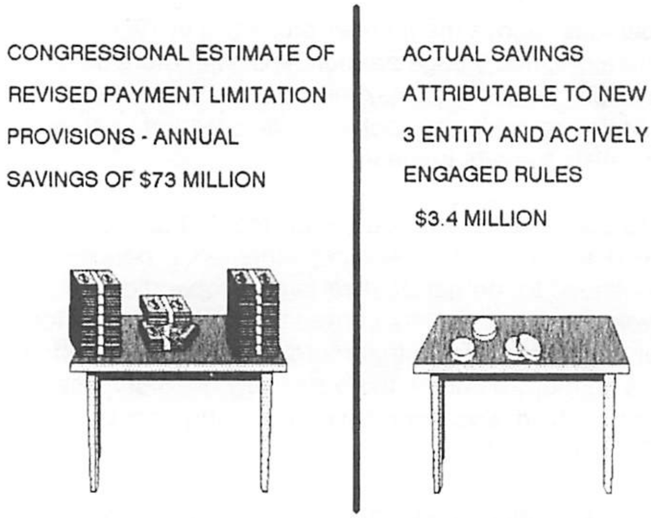
Our audit determined that all of these operations, each of which was already a partnership, reorganized to create 205 partners, 158 of whom were corporations, not individuals. We concluded that although these corporate partners were legally organized on paper, most of them were merely "shells" organized to qualify additional "persons" for payment. Without these arrangements, they would have received $2 million in 1989, or about 70 percent less. Our analysis of the partnerships and their "shell" corporate partners identified the following irregularities.

- Partners did not always provide management critical to the profitability of the operations.
- Partners did not always contribute significant capital or own any assets, and had little or no net worth.
- A number of owners were passive stockholders who did not contribute any labor or management.
- The actual farm owners in many of the partnerships received about $9.9 million through land and equipment leases and salaries while the partnerships incurred net operating losses of about $5.6 million. These "shells" became a conduit for passing ASCS program payments to principal owners.

We concluded that the more restrictive provisions in the 1987 act did not effectively reduce the use of multiple entities and passive stockholders to qualify maximum "persons" for payment and did not achieve the $73 million in savings estimated by Congress. A cost study performed by ASCS showed that only $3.4 million in savings for 1989 was attributable to the new rules, as shown in figure 8 on the next page.

Figure 8

ESTIMATED VS. ACTUAL SAVINGS



In addition to taking advantage of loopholes in legislation, each of the 16 operations reorganized in a manner that constituted a "scheme" to circumvent payment limitation rules. In total, these operations received improper program payments of about $11 million for 1989 and 1990. The following examples illustrate the problems we identified.

- One operation was an 18-member interlocking partnership that consisted of 6 individual partners and 12 corporate partners. The 6 individuals contributed management expertise to the partnership to demonstrate active involvement in the farming operation for all 18 partners. Each of the six individuals was a 50-percent stockholder in two of the corporate partners, and the remaining stock shares were owned by four passive individuals.

  Figure 9 shows the interlocking partnership and how program payments were passed on to the six individual partners.

  All 18 partners qualified as separate "persons" based on the management contributions of the 6 individuals who actually ran the farming operation. The 18 "persons" received equal payments of about $33,000, or a total of $600,000 for 1989. They would have been entitled to only $300,000 if they were paid according to how they ran the farming operation.

- Another partnership reorganized its corporate partners for 1989. In carrying out the reorganization, the managing partner had used seven related family members as new stockholders of the corporate partners. The county committee approved the reorganization and determined that the 23 "persons," mostly corporations, were actively engaged in the farm operations and eligible for payment. However, during our audit, officials of a local bank disclosed that the managing partner had arranged with the bank to obtain 1-year loans totaling $505,000 for the seven family members to buy the stock of the corporate partners. The managing partner also guaranteed the loans to assure bank officials of the repayment ability of the other family members. Interviews with five of the family members confirmed that they did not know how much stock they owned, the names of the corporations in which they owned stock, or who had received the money from the bank loans (they had signed blank checks).

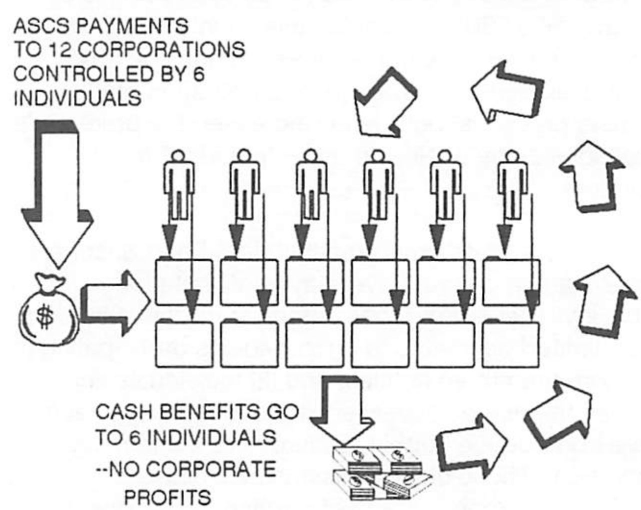
  We concluded the managing partner took these actions to maintain ASCS program payments through a manipulation of stock and loan transactions. These transactions concealed information relevant to the county committee's "person" determinations for 1989. ASCS officials confirmed that these actions constituted a scheme. This partnership received payments in 1989 and 1990 totaling over $2.3 million.

The above schemes and others went undetected, in part, because ASCS' yearend review process focused on individual producers and landowners. Large partnerships had little chance of being reviewed.

In two other audits performed in this period, we found that 10 individuals and corporations were not separate "persons" and were not entitled to $739,000 in

Figure 9

INDIVIDUAL PARTNERS PROVIDE MANAGEMENT TO QUALIFY MULTIPLE CORPORATIONS



payments. In an investigation of a farming corporation in Iowa, we determined that the corporation's officers and agents made false statements to exceed the payment limitation. The corporation enlisted farmers to sign-up for the program and pretend to receive the payments, while the corporation received the payments for itself. The corporation pled guilty to illegally evading the $50,000 limit. The corporation was both fined and ordered to pay restitution of over $500,000.

Because the continued proliferation of "shell" corporations and schemes jeopardizes the integrity of the program, we recommended that ASCS seek legislation to eliminate the loopholes identified. Also, we recommended ASCS modify its yearend review process to focus on large partnership operations.

ASCS officials agreed to modify the yearend review process. While they did not agree with all of our recommendations, they supported our recommendation for legislation to limit program payments to individuals rather than "persons." Proper structuring of this legislation and the implementing regulations would curb the proliferation of "shell" corporations as well as simplify and improve the effectiveness of payment limitation provisions. We are working with ASCS officials to accomplish these changes.

Improper Disaster Payments of $1.2 Million Paid to Producers in Three States

The Disaster Assistance Acts of 1988 and 1989 provided for financial assistance to producers who suffered crop losses due to disaster conditions. Payments were made to producers who lost more than 35 percent of their crops. Eligibility determinations were made by ASCS personnel based on information furnished by the applicants.

We reviewed payments made in three States and found that producers received ineligible disaster assistance of $1.2 million.

- In one State, 10 producers portrayed themselves to be separate and distinct individuals to obtain disaster payments in excess of the $100,000 payment limitation. The producers presented fictitious sales documents, seed and fertilizer receipts, certifications of crop production, and land lease agreements to obtain over $550,000 in benefits to which they were not entitled. The claims were made for 1988 and 1989 losses on crops which were not planted or for losses which were substantially overstated.

- In another State, ASCS county office personnel made incorrect disaster payments to 12 farms totaling over $225,000. The county office personnel also had not established claims to collect over $17,000 due the Government as a result of previously identified disaster overpayments.

- In the third State, three producers either signed up after the filing date for 1989 disaster benefits or did not sign their applications. Another producer was not eligible for 1988 benefits because his income of $7 million exceeded the $2 million limit for eligibility. For another three producers, the county office staff made errors in determining 1989 production, rates, or yield. These seven producers were overpaid about $397,000.

We recommended that ASCS collect the overpayments. ASCS is in the process of doing so.

Unauthorized Disposal of Mortgaged Property

- A Missouri farmer pled guilty to selling more than 100,000 bushels of soybeans that had been mortgaged to CCC. The conversion took place over a 7-month period in 1986. As a result of the plea, the producer was ordered to make restitution and pay fines exceeding $800,000.

- An Iowa farmer pled guilty to converting CCC-mortgaged grain valued at $166,000, illegally obtaining $77,000 in grain storage payments, and claiming and receiving $35,000 in fraudulent crop disaster payments. The producer was sentenced to serve 13 months in prison, and ordered to pay $282,000 in restitution.

Employee Embezzles Government Funds

In California, an ASCS employee fraudulently issued a CCC check totaling about $48,000 and illegally negotiated the program checks of two producers totaling about $14,000. The CCC check was cashed by an associate of the employee, and the proceeds were split between them. The employee negotiated the other checks after forging the signature of the producers. Both individuals pled guilty to conspiracy charges and are awaiting sentencing.

ASCS Controls Over the Tobacco Loan Program Need Strengthening

We reviewed the program operations of a cooperative association in one State. We found that the association conducted its operations in a satisfactory manner but did note that some improvements were needed.

- During crop-year 1989, marketing penalties of over $83,000 were not collected on certain warehouse assessments submitted to the association after the deadlines. In addition, association personnel did not submit the late assessments to the State ASCS committees and performed no followup action on cases submitted to the State ASCS committees.

- ASCS' monitoring and supervision of tobacco price support activities at the association and at the bank needed strengthening. The bank provides financial services for the association, maintains the records of loan activity, and prepares reports for CCC. We found that the association's bank had weak or nonexistent controls over financial, accounting, and reporting services. For example, we noted that the bank did not verify computations supplied by the association to make accounting entries and prepare reports to CCC. Nor did the bank verify tobacco sales with the association to ensure that all sales proceeds were remitted to the bank for transmission to CCC.

  If the association had not had strong controls, weak controls at ASCS and the bank could have resulted in significant losses to the program. Improper management decisions based upon faulty, unverified information could also have resulted.

- The association allocated over $286,000 in excess overhead costs to the program during preparation of the budget for its fiscal year ending April 30, 1990. The association's management officials said that they used improper formulas but that the allocation was not critical because the association pays nearly all overhead costs. We believe the allocations are indeed important because the association can request loan funds for reimbursement of overhead costs for any crop-year back to 1976, and because ASCS personnel use the budgets to evaluate these requests.

We recommended that ASCS require the association to obtain information on 50 warehouses, so that marketing penalties can be assessed. We also recommended that ASCS improve its monitoring of the program and require the association to allocate its overhead properly. ASCS agreed to implement the recommended corrective actions.

Cost Verifications Need To Be Obtained in Cost-Share Programs

We reviewed the Forestry Incentives Program, through which ASCS helps owners of private forest land plant or improve timber crops by sharing the improvement costs. Our audit in 4 States found that 32 of 99 producers reviewed could not support the total costs they claim to have paid for improving forest land. While ASCS regulations require participants to make a substantial contribution to the total conservation practice costs, the regulations do not require producers to provide evidence to ASCS of the costs actually paid. The 32 producers received cost-share payments totaling about $126,000, of which $49,600 was unsupported. We also found that other ASCS cost-share programs do not require evidence of costs actually paid by producers.

Our audit showed that 21 producers enrolled land in the Forestry Incentives Program and received cost shares of about $100,000, but were not the sole owners of the enrolled property. In 19 cases, ASCS county office records showed this. Additionally, cost shares were overpaid by about $12,000 to 12 producers because program acreages were overstated. ASCS did not verify acreage determinations, although its county offices had aerial photos and slides which documented the cited acreage errors.

We recommended that ASCS require evidence of costs paid by producers for all cost-share programs, and revise its procedures to require verification of land ownership and acreage. ASCS officials are considering implementation of a spot-check process to verify costs actually paid by producers, and they agreed to use aerial photography to spot-check acreage determinations. They did not agree to revise procedures to require a verification of land ownership. We continue to work with ASCS to achieve acceptable management decisions on these issues.

FOREIGN AGRICULTURAL SERVICE (FAS)

Seed Company Pleads Guilty to Export Fraud

A seed company in California pled guilty to violations relating to shipment of foreign-origin seeds under FAS guarantees. Five individuals were also charged with offenses related to this case.

Our investigation found that the company shipped foreign-origin seeds to Iraq under the FAS Export Credit Guarantee Program. The company obtained the loan guarantees, worth $2.1 million, by submitting false statements to FAS, stating that the seeds were of U.S. origin. Some of the seeds were illegally imported from South Africa, in violation of the Anti-Apartheid Act. False statements were also made to the U.S. Customs Service.

Sentencing for the company is pending, and trial dates have been set for the individuals involved. This investigation was conducted jointly by OIG and U.S. Customs Service investigators.

MARKETING AND INSPECTION SERVICES

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

FSIS administers the Department's meat and poultry inspection program under the Federal Meat Inspection Act and the Poultry Products Inspection Act. The program's objective is to ensure that meat and poultry products produced in or imported to the United States for human consumption are safe, wholesome, and accurately labeled. FSIS accomplishes this, in part, by sampling and analyzing meat and poultry products for protein, moisture, fat, and salt content, and for the presence of unacceptable levels of residues from pesticides, animal drugs, and potentially hazardous chemicals.

User Fees for Laboratory Accreditation Could Save Nearly $1 Million Annually

In response to industry's requests for more rapid test results, FSIS implemented the Accredited Laboratory Program. FSIS believed the program would be cost effective and provide more efficient service by permitting the industry to contract directly with non-Federal laboratories for analytical tests rather than use FSIS laboratories to conduct all the tests. FSIS saw this not only as a means of reducing the cost of operating the mandatory inspection program but also as a way to benefit industry and the general public.

- We found that the costs to administer the program were greater than the costs for FSIS to run the tests itself. Once a laboratory was accredited, FSIS monitored performance by collecting and analyzing product samples for food chemistry and chemical residues, and by making periodic onsite reviews of methods and procedures. FSIS performed these reviews whether a laboratory tested any samples or not, and about one-third of the 310 accredited laboratories did not test samples or were rarely used by meat and poultry processors. FSIS estimated that the cost of this program for FY 1991 would total about $1 million. Although FSIS had recognized the need for user fees, it did not believe it had the authority to assess them.

- About half of the 310 accredited laboratories were not meeting required program performance standards. Samples used by FSIS to monitor laboratory performance indicated that 154 laboratories were not performing tests accurately and, according to the regulations, should have been placed on probation or had their accreditation revoked. From January to July 1990, over 50 percent of official food chemistry tests were done by 68 of the 154 laboratories which had not met established quality control standards. During the audit, FSIS began reviews of these laboratories and placed more than 150 of them on probation (some have since improved and were reinstated).

- FSIS did not always use the results of split sampling to monitor laboratory performance. Split sampling is the division of a sample into two portions. One portion is analyzed by the accredited laboratory and the other by an FSIS laboratory. This procedure serves as a control that laboratories will accurately analyze product samples on all tests. FSIS had not compared split-sampling results for 12 of the food chemistry laboratories or for any of the 82 chemical residue laboratories.

We recommended that FSIS reduce program costs to a level below its own analytical costs or assess user fees. We also recommended that FSIS complete its review of laboratories not meeting performance standards and improve its monitoring of laboratory performance.

FSIS officials agreed with our audit recommendations and have initiated corrective actions.

FSIS' Residue Monitoring Process Needs To Be Strengthened

FSIS conducts the National Residue Program to identify and prevent the marketing of meat and poultry products with unacceptable levels of residues. The U.S. Environmental Protection Agency establishes the acceptable residue levels for pesticides, and the U.S. Food and Drug Administration (FDA) establishes the acceptable residue levels for animal drugs. Samples of meat and poultry tissues are collected at slaughterhouses and analyzed at field laboratories. FSIS also conducts in-plant testing for antibiotics and sulfonamides.

We audited aspects of the National Residue Program and found that FSIS could improve its operations by developing a more structured review process, by analyzing chemical compounds in a more timely manner, and by ensuring the use of in-plant tests by inspectors.

- We reviewed FSIS' procedures for evaluating chemical compounds to be included in the program. The procedures did not ensure the timely review of these compounds. Of 467 compounds identified by FSIS at the time of our review as either a drug, pesticide, or environmental contaminant, 351 had not been evaluated for possible inclusion in the program. Furthermore, of the FDA's list of 55 top-selling animal drugs, 25 had not been evaluated. Although FSIS officials were able to provide explanations for their review activities, they added to or removed chemical compounds from testing without documenting their reasons for doing so.

- Following laboratory testing for drugs, FSIS did not follow up on or adequately document actions on two responses that may indicate potential contaminants: unidentified microbial inhibitors and unidentified analytical responses. The inhibitors indicate the presence of an unknown compound. When a laboratory cannot determine what a compound is, it refers the case to the Microbiology Division, which evaluates the data. Officials stated that the division had received over 2,300 cases from October 1988 to January 1991, and that all of them had been evaluated. Although division officials stated these cases were reviewed, they did not maintain any documentation, except for January 1991 (the time of our field work). Our review of 15 unidentified microbial inhibitors disclosed that only 7 had been evaluated. Like inhibitors, analytical responses indicate the presence of an unknown compound. Laboratories identified 290 of these responses in 1990. Again documentation was not always available to determine whether proper followup actions were taken.

- FSIS did not ensure that inspectors used available in-plant tests to detect antibiotics and sulfonamides in cattle and swine. Swab Tests On Premises and Sulfa-On-Site tests were not fully used at 11 of the 25 plants we visited. Inspectors either were not properly trained to apply the tests or did not have the time to use them; and the inspectors' activities were not adequately monitored by regional residue officers.

We recommended that FSIS officials develop a more structured review process by establishing goals annually on the number of compounds to be reviewed and developing criteria to be used in prioritizing compounds. We also recommended that FSIS officials ensure that reasons for including or removing compounds from the program are documented, that unidentified responses from laboratory analysis are evaluated and documented, and that in-plant tests are properly used. FSIS officials agreed with our recommendations and are taking corrective actions.

Sale of Mislabeled Meat Results in Conviction

The owner of a wholesale meat distribution company in Oregon was convicted for misrepresenting ungraded meat products as graded USDA Choice in violation of the Federal Meat Inspection Act. The company sold the meat to the University of Oregon, as well as restaurants, clubs, and retirement homes in the States of Washington and Oregon. The mislabeled meat enabled the owner to underbid all of his competitors and still make a substantial profit. The owner was sentenced to pay a fine and make restitution totaling about $13,000. He was also sentenced to 3 years' probation. This investigation was conducted with FSIS Compliance Officers.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Screwworm Eradication Program Continues To Have Administrative Weaknesses

The Screwworm Eradication Program was established in 1972 as a cooperative agreement between USDA and the Mexican Department of Agriculture to eliminate the screwworm in both countries. Program operations are carried out by a joint commission based in Mexico City.

Although the program has successfully eradicated the screwworm from Mexico, it continues to have many administrative weaknesses. In our most recent review we found the following:

- Employees did not always allow full and open competition on procurements. They awarded procurements without following procedures for advertising and competitive bidding; they issued multiple concurrent purchase orders to circumvent bidding requirements for major procurements; and they did not always award orders to the lowest bidder. Altogether, there was no competition on approximately $41 million worth of purchases in 1989 and 1990. We referred those irregularities under Mexican jurisdiction to the appropriate officials of the Mexican Department of Agriculture.

- The program paid over $1.4 million (1988-1990) in Mexican taxes when the commission should have been exempt from taxation.

- The program's financial statements did not accurately reflect its financial position.

- Although APHIS had improved its efforts to ensure that Mexico contributed its negotiated share of program costs, Mexico was delinquent over $117,000 in employee benefit contributions and over $50,000 in matching contributions.

- The program paid over $16,000 in premiums during 1990 and 1991 to insure vehicles that were no longer in inventory or were unserviceable. It was also not requesting refunds for premiums paid on damaged or unserviceable vehicles. The program did not receive over $10,000 due in insurance premium refunds in 1990.

We recommended that APHIS ensure that all personnel follow the Commission's purchasing procedures on advertising, awarding to low bidders, and limiting purchase orders to small procurements. We also recommended that the program request tax refunds, improve the reporting for assets and inventories, and conduct inventories of vehicles and cancel unnecessary insurance policies.

APHIS officials agreed with our recommendations and stated they would implement them. Delinquent Mexican contributions had already been collected, and vehicles had been inventoried.

Financial Management Systems and Administrative Controls Need Strengthening

In FY 1989, the first year of the pseudorabies eradication program, Congress appropriated $2.6 million to administer the program. That same year, APHIS provided an extra $400,000 for the program by shifting funds from other programs.

We reviewed APHIS' accounting system for identifying and classifying administrative and overhead expenses in the pseudorabies budget. Our audit found that general and administrative (G&A) expenses, although valid and reasonable, were not correctly identified or properly recorded and reported. APHIS did not consider G&A expenses to include such costs as headquarters building security, central services (including the APHIS shuttle service), and miscellaneous program charges. In FY 1989, APHIS reported $123,000 as program administrative costs but had no category for G&A expenses; we found that APHIS should have reported $315,000 (11.7 percent of program costs) as G&A expenses. As a result, expenses charged to the pseudorabies program were understated.

Because APHIS did not capture actual cost data on a program level, it could not always determine and support actual dollars spent on the pseudorabies program and could not support its interprogram reallocation of budgeted funds. We also found that when APHIS shifted funds from other programs to the pseudorabies program, it did not have the required approval and thus spent more on the pseudorabies program in FY 1989 than authorized by Congress.

We recommended that APHIS define costs considered as G&A and report them as such in the accounting records. We also recommended that the agency record both actual costs by program and support cost allocation revisions, and get required approval before reprogramming funds.

APHIS officials agreed with our recommendations and are taking appropriate corrective actions.

Pet Store Owner Sentenced for Bird Smuggling

A pet store owner in New Jersey was sentenced in U.S. district court to 5 months' imprisonment, an additional 5 months' home confinement, and 3 years' supervised probation for illegally smuggling birds into the United States. The smuggling of exotic birds can cause a significant threat to the domestic poultry industry because certain imported parrots are prone to Exotic New Castle Disease. This disease is deadly and is not found in the domestic bird population. Once introduced, it could spread rapidly. The pet store owner purchased 42 exotic parrots (originally smuggled into the U.S.) from an OIG undercover agent.

AGRICULTURAL MARKETING SERVICE (AMS)

Agencies Do Not Consistently Enforce Domestic-Origin Requirements for Commodities

AMS, the Agricultural Stabilization and Conservation Service (ASCS), and the Foreign Agricultural Service (FAS) all issue announcements to private contractors or exporters, soliciting offers to provide agricultural commodities or guaranteeing payment for the delivery of agricultural commodities abroad. All three agencies require that the commodities involved be produced in the United States or its possessions and that products made from them be processed in the United States. The total value of the commodities purchased or guaranteed for use in domestic and export programs under domestic-origin requirements was approximately $6.9 billion for FY 1989.

Our audit reviewed the procedures these three agencies used to ensure that agricultural products purchased or guaranteed for use in these programs met domestic-origin requirements. We found that some contractors and exporters included in their products commodities that were not of domestic origin. One agency permitted its contractors and exporters to deliver commingled domestic and foreign-source products under certain circumstances and when sufficient domestic quantities were in inventory during the contract period. We questioned this practice because the Food, Agriculture, and Conservation and Trade Act of 1990 appears to require that domestic-origin commodities be used.

The agencies had also not developed a coordinated approach to ensure that domestic-origin requirements were met; the contracts generally did not require the contractors or their subcontractors to certify that domestic-origin requirements were met; two agencies had not fully used compliance review staffs to test contractor compliance; and AMS needed to ensure through grading and certification that products purchased for use in domestic programs met domestic-origin requirements.

We recommended that the agencies obtain legal clarification on whether they could permit the use of commingled foreign and domestic-source products, considering the legislative provisions of the Food, Agriculture, Conservation, and Trade Act of 1990. We also recommended that the agencies establish consistent procedures for determining contractor or exporter compliance with domestic-origin requirements.

Agency officials agreed to obtain a legal opinion on the use of commingled foreign and domestic-source commodities. However, they believe their respective roles are significantly different and require different procedures for determining compliance with domestic-origin requirements. They did generally agree to specify the type of records to be maintained by their contractors and to improve their oversight reviews. Officials for two of the agencies agreed to include domestic-origin requirements in contracts with their suppliers and subcontractors and have them certify compliance.

AMS Employee Resigns After Pleading Guilty To Theft of Food Stamp Benefits

An AMS employee pled guilty in U.S. district court to theft of public assistance and food stamp benefits, and was sentenced to 1 month of home detention and ordered to pay about $3,800 in restitution. The employee fraudulently concealed her AMS income to obtain benefits to which she was not entitled.

Our investigation determined that the employee had applied for and received public assistance and food stamp benefits from the City of New York. She convinced a coworker to sign a letter as her "supervisor" stating that she had not received any income from her USDA employment during a 12-month period when, in fact, the employee had received income. During two previous interviews with city eligibility workers to periodically redetermine benefits, the employee made false statements about her income. However, an eligibility worker, during a routine income verification contact with the employee's actual supervisor, determined that the employee had received income during the time she received public assistance and food stamps. Both the employee and coworker resigned.

NATURAL RESOURCES AND ENVIRONMENT

FOREST SERVICE (FS)

The FS manages over 191 million acres of the National Forest System, conducts a State and private forestry program, and provides national leadership in forest and range research. For FY 1991, the FS appropriation was about $3.1 billion, and timber sales and other receipts were estimated at about $1.6 billion.

The FS Needs To Fully Implement Audit Recommendations To Identify Bid-Rigging Violations and Reduce Timber Theft

We completed two audits in this reporting period to determine whether the FS had corrected problems we noted in 1986 and 1989 audits. These audits reported that the FS needed to improve its operations to identify instances of collusion or bid-rigging during timber sale bidding and to detect and prevent timber theft. In response to our audits, FS officials agreed to strengthen their operations in these two areas. However, our followup audits disclosed that the corrective actions were not fully implemented.

- In a 1986 audit, we reported that FS units in five regions did not adequately monitor timber sales or identify instances of bid-rigging. The audit identified 18 instances of potential bid-rigging with estimated losses of $12 million.

  Our followup audit found that the FS had not completed two important corrective actions: it had not provided antitrust training to staff in all regions, and had not developed and implemented a computerized timber sale bid-monitoring system. In the 5 years since our last audit, only one potential antitrust case had been referred for investigation as a result of bid-monitoring efforts in one region previously audited. Bid-monitoring plans in that region continued to be incomplete and out of date. Without trained personnel, workable monitoring plans, and a computerized process to identify suspicious patterns in bid data, the FS could not ensure that it would detect potential antitrust violations.

  We recommended that the FS complete antitrust training and quickly implement an effective computerized bid-monitoring system. We also recommended that the FS ensure that regional bid-monitoring plans are completed, up to date, and properly executed.

  FS officials agreed with our recommendations and are implementing them.

- In a 1989 audit, we estimated that timber theft losses in one FS region could be as high as $5.3 million for the 3 years preceding the audit. Recognizing the problem, in 1988 the region issued timber theft prevention plans to establish a system of controls to detect and prevent timber theft. Our audit recommended additional controls to ensure that the region had adequate timber sale administrators, that it performed and monitored truck inspections, that it would track and report timber sale infractions, and that it would monitor after-hour log deliveries.

  Our followup audit found that the region had not completed these corrective actions. Most importantly, it had not increased security over loads of logs left overnight at forest millyards. The region also needed a system to track sale infractions by purchasers, and procedures to ensure that it assigned enough administrators to active sales and completed truck inspections for each sale. Some of the national forests in the region had not even implemented procedures contained in the region's own timber theft prevention plans. Unless these controls are in place and operating, regional managers have limited assurance that timber theft is being detected or prevented. FS officials stated that corrective action on the prior audit recommendations had been delayed because of the amount of resources needed to address the spotted owl issue. They have directed the region to have its forests fully implement timber theft prevention controls by January 1992.

Changes Needed on Adjustments To Timber Sale Billings

On timber sales in the Western United States, the FS adjusts billings to timber purchasers based on fluctuations in the market price of timber. The FS increases billings by 50 percent of any increase in the market price of timber and decreases billings by the full amount of any decrease. The FS established this policy to protect purchasers from extraordinary market fluctuations in prices of wood products and to promote the orderly harvesting of timber on FS lands. In the past, this policy was generally effective because the FS timber sale contract period averaged 4 to 5 years, and prices could fluctuate significantly in that time.

Our review found that the need for billings adjustments has diminished due to the shorter periods of recent FS timber sale contracts (now averaging 2 to 3 years). Furthermore, only one other Federal agency selling timber in the Western United States adjusts billings for changes in the market price of timber, but its procedures do so more equitably than the FS. Officials at the agencies that make no adjustments said the adjustments were unnecessary because the timber contract periods were relatively short (2 years or less).

The FS recently provided additional protection to purchasers from significant declines in timber prices by implementing market-related contract extensions.

We recommended that the FS reconsider the policy of billings adjustments in light of the changes in contract terms, or revise the current pricing formula to provide for equitable adjustments. FS officials agreed with our recommendation and will work with all regions to complete an analysis of their options by January 1992.

FINANCIAL, ADMINISTRATIVE, AND AUTOMATED DATA PROCESSING SYSTEMS

The passage of the Chief Financial Officer (CFO) Act of 1990 has triggered widespread attention on the state of Government financial systems and the need for reform. The act emphasizes improving the quality and timeliness of Federal financial data and brings together the requirements for integrated financial systems, including internal accounting controls, annual financial reporting, and audited financial statements. The act strengthens existing requirements for Federal financial management, and adds new responsibilities for both managers and auditors.

During this reporting period, OIG began to implement the auditing provisions of the act. In addition, it continued its reviews of internal controls over program operations and security and control over ADP systems.

FINANCIAL MANAGEMENT

USDA was designated as one of five pilot Federal agencies to implement the CFO Act. As such, the Department is required, beginning for FY 1990, to prepare financial statements for all revolving and trust funds and substantial commercial functions. The act also requires that the Inspector General audit the statements and stipulates dates by which the audit reports must be issued.

OIG has shifted its audit emphasis in the financial management area to respond to the requirements of the act, and is in the process of auditing the Department's FY 1990 and 1991 financial statements. During this reporting period, we completed audits of FY 1990 financial statements for three agencies: The Farmers Home Administration (FmHA), the Rural Electrification Administration (REA), and the Federal Crop Insurance Corporation (FCIC). We requested, and were granted, a waiver from OMB for completion of the audit of the FY 1990 departmentwide financial statement. We have consistently estimated that $7.8 million annually will be required to complete the financial statement audits required by the CFO Act. To date, no funds have been appropriated for this effort. If additional funds are not provided to meet this new requirement, audit resources will have to be shifted away from other critical program areas of the Department.

- We audited FmHA's financial statements and issued a qualified opinion because significant accounting control weaknesses in the Acquired Property Tracking System resulted in the reporting of inaccurate data. Specifically, we found that FmHA officials did not properly reconcile system data with detailed acquired property files at the field offices.

  We also noted that FmHA's Loan Classification System was not functioning as designed. In addition, field offices submitted inaccurate and outdated information to the system, and finance office personnel made calculation and data entry errors. As a result, FmHA officials could not rely upon the data to estimate loan losses. Although this was a material accounting control weakness, it did not result in further qualifications to our opinion because FmHA used alternative procedures to arrive at the account balance.

  In addition, we noted several other areas where improvements to the accounting systems and the financial reporting process could be made. These areas related to cash collections, State office oversight, the methods of estimating guaranteed loan losses, and the provision for loan losses.

  We recommended that FmHA reconcile the Acquired Property Tracking System reports with detailed files each fiscal year and that county offices reconcile estimated loss information from the Loan Classification System to the detailed files. We also recommended improvements in the methods of estimating guaranteed loan losses, the provisions for loan losses, cash collections, and State office oversight. FmHA officials agreed with our recommendations and are taking corrective actions.

- We audited REA's financial statements and issued an unqualified (clean) opinion. However, we found two accounting control weaknesses which could adversely affect the organization's ability to record, process, summarize, and report financial data. First, there were no procedures to transfer the responsibility for monitoring a troubled borrower from the REA team that specialized in servicing these borrowers to its routine operating personnel once a troubled loan was restructured. In addition, REA officials did not monitor all accounting functions performed at the Office of Finance and Management's National Finance Center, where the majority of day-to-day accounting was performed.

  We recommended that REA develop procedures to transfer borrower monitoring responsibility and increase its monitoring of processing performed at the National Finance Center. REA officials agreed with the recommendations and are taking the necessary actions to implement them.

- We audited FCIC's financial statements and issued an unqualified (clean) opinion. However, we noted several areas which could adversely affect FCIC's ability to record, process, summarize, and report financial information. FCIC's internal review process did not ensure timely analysis and resolution of the issues identified and reported; procedures were not in place to ensure the accurate processing of all transactions sent to the Office of Finance and Management's National Finance Center; and extended delays continued between the end of the fiscal year and the completion of the financial reporting process. We recommended that FCIC take action to correct these and the other conditions noted in the audit. FCIC officials have agreed to do so.

AUTOMATED DATA PROCESSING (ADP) SYSTEMS

Security and control over ADP systems are high priorities, both for the Department's two major computer centers and for the many systems distributed throughout the agencies. USDA agencies continue to expand and upgrade their systems using personal computer equipment distributed to thousands of work-sites nationwide. These systems are managed through a variety of computer networks. Because such an environment could be vulnerable to unauthorized access, it requires careful review by both management and audit staffs. We have focused our ADP audit efforts on the following security and control issues.

Increased Security and Additional Management Controls Needed for Headquarters Network

The USDA Headquarters local area network (LAN) is managed by the Office of Information Resources Management (OIRM) and operated by a contractor. We reviewed the security in place to protect the LAN and its users.

OIRM had not conducted a formal risk assessment to identify and evaluate the potential impact of system vulnerabilities, its officials believing that LAN operations did not involve the kind of security requiring a risk assessment. We found, however, that sensitive data, such as user ID's and passwords, were being transmitted over the LAN and could have been disclosed to unauthorized persons. Without a formal risk assessment, OIRM also was unable to develop a contingency plan for the LAN.

In addition, OIRM had not developed adequate procedures to control access to the LAN system by unauthorized users. Procedures for physical security over LAN equipment were inadequate or were not in place, and contractor personnel did not possess adequate security clearances. As a result, the system was vulnerable to unauthorized access or disruption.

We recommended that OIRM conduct a risk assessment and strengthen security controls over LAN equipment. OIRM officials agreed to implement the corrective actions recommended.

DEBT MANAGEMENT

Improvements Needed in the Collection of Debts Owed to ASCS and CCC

We reviewed the Agricultural Stabilization and Conservation Service's (ASCS) and the Commodity Credit Corporation's (CCC) management of receivables due from non-Federal debtors. We also reviewed the agencies' implementation of collection initiatives established by the Office of Management and Budget (OMB) and the U.S. Department of the Treasury. Our review identified the following areas where ASCS and CCC need to improve their management and collection of delinquent debts.

- **Credit Bureau Reporting.** ASCS and CCC need to improve their reporting of delinquent debtors to credit bureaus. Information regarding payment histories on about 37,800 delinquent accounts totaling about $307 million had not been sent. Credit bureau reporting encourages delinquent debtors to pay, discourages debtors from becoming delinquent, and provides information on contract, grant, and loan applicants who are delinquent on Federal debts.

- **Commercial Collection Activities.** Neither ASCS nor CCC had used private collection agencies to collect delinquent debts totaling about $127 million. The use of private agencies provides a low-cost means to expand collection resources because collection costs may be passed to the debtor.

- **Federal Income Tax Refund Offset.** Neither ASCS nor CCC had fully implemented a Federal tax refund offset program to recover delinquent debts. As a result, about 9,800 delinquent debts totaling about $104 million were not screened for Federal income tax refund offsets. Federal tax refund offset provides agencies with additional collection capability and gives delinquent debtors an incentive to resolve their debts.

We recommended that ASCS and CCC implement debt management and collection initiatives set forth by OMB and the U.S. Department of the Treasury. ASCS and CCC officials have developed procedures and established timeframes for implementing the required collection initiatives.

PROCUREMENT ACTIVITIES

Audit Questions Major ADP Acquisitions by FmHA

In response to whistleblower complaints, we reviewed several ADP acquisitions made by FmHA. We found that FmHA acquired ADP hardware and software before it identified and documented its automation needs. Consequently, what it has acquired may not be consistent with those automation needs. In addition, FmHA did not submit the required cost-benefit analysis to OMB prior to initiating a major ADP acquisition. Requirement analyses and cost-benefit studies had not been performed on or did not support the following major acquisitions:

- FmHA spent about $13.7 million for the acquisition and maintenance of a major software system for all field offices. Although the software was acquired over 2 years ago, it had been installed in about 260 district offices at the time of our review, and none were available for FmHA's nearly 1,900 State and county offices. FmHA could have procured limited copies of software for development purposes and postponed the acquisition for field locations until operational software had been developed.

- FmHA spent about $32.5 million to upgrade ADP hardware for all county offices, based on the need to improve software performance. However, before initiating the upgrade, FmHA did not implement recommendations made in four separate FmHA studies to improve operational efficiencies by modifying its existing software programs. In addition, the workload at over 1,200 smaller county offices did not support the need to upgrade hardware totaling about $19 million.

We recommended that no major hardware or software procurements be made until all requirements are met for ADP system development and equipment acquisitions or high-level agency approval is given for any deviation from these requirements. We further recommended that FmHA notify OMB and provide required documentation before making major revisions to its approved ADP budget or its planned acquisitions. Although FmHA officials responded that they would adhere to all requirements for ADP system development and acquisitions, they did not specify what actions they would take to ensure compliance.

We are working with FmHA to obtain the specific actions.

AUDITS OF CONTRACTS

OIG audits of contracts are performed to assist USDA procurement offices in the negotiation, administration, and settlement of USDA contracts and subcontracts. During this period, OIG performed or arranged for audits of 13 pricing proposals, cost reimbursement contracts, or contractor claims. These audits resulted in questioned costs or potential savings of more than $1.5 million. Also, management decisions were made on 18 audits, resulting in savings of about $1.7 million.

Denial of Contractor's Claim

- FmHA requested an audit of a proposed termination settlement for the development of an escrow and billing accounting system. The audit questioned costs totaling about $782,000 of the $1.6 million claimed by the contractor for labor costs, fringe benefits, indirect costs, profit settlement expenses, subcontractor costs, overbilled progress payments, and other costs. Among the costs, the contractor included payment of a contract modification that had not been approved by the contracting officer.

Unallowable or Unsupported Contract Costs

- An audit of an equitable adjustment claim involving a Forest Service road construction project questioned costs totaling over $452,000 of the $515,500 claimed by the contractor. The contractor claimed costs incurred due to different site conditions, inadequate and incomplete designs, delays, and inefficient working conditions. However, the contractor could not provide supporting documentation for these costs.

- At the request of the Agricultural Research Service (ARS), we audited a contractor's incurred costs for the removal of hazardous waste material and questioned costs totaling over $64,000 of the $196,000 claimed. The questioned costs included unsupported labor and travel costs and unsupported overhead costs. We recommended that ARS officials recover the unsupported labor and travel costs and renegotiate a final overhead rate.

OVERSIGHT OF NON-FEDERAL AUDITORS

OIG monitors the work performed by non-Federal auditors for program agencies of the Department and takes appropriate steps to ensure that their work complies with the standards established by the Comptroller General. For the audits of 21 States and local governments where OIG has been assigned cognizance, we work closely with both the auditee and the independent auditors, meeting with them frequently to monitor the progress of the audit and to provide technical assistance. OIG reviews the audit work performed by non-Federal auditors to determine that it meets the requirements of OMB Circular A-128, Audits of State and Local Governments, and the standards promulgated by the Comptroller General. In addition, OIG participates in quality control reviews of State agencies administering major USDA programs when those reviews are led by other assigned cognizant Federal audit organizations.

In this reporting period, we issued 13 audit reports for which we have been assigned cognizance, of which 3 contained recommendations with questioned costs of over $330,000 in USDA assistance. For example, one statewide audit disclosed that the methodology the State used to allocate costs did not rely on current data. In addition, the allocation procedures did not require a comparison of the actual data to the estimated data to determine if the allocated costs resulted in over- or underallocations. As a result, the audit questioned approximately $60 million, of which about $300,000 applied to the Food Stamp Program.

Another statewide audit reviewed the quality of audits of subrecipients based on desk reviews of the reports and quality control reviews. The State auditor reported that 9 percent of the audit reports did not meet all reporting standards. The independent auditors were advised of the reasons the reports were unacceptable and they promptly filed revised reports.

We received and distributed 74 reports furnished to us by other Federal cognizant agencies, of which 17 contained recommendations with associated monetary values of about $3.2 million. We also have general oversight responsibility for the quality of numerous reports prepared by non-Federal organizations, pursuant to program requirements. These non-Federal audit reports are submitted directly to program managers. Our past reviews of the quality of work performed led to the referral of 17 certified public accounting firms to State boards of accountancy for substandard work. To date, State boards have acted on all but one case. Sanctions have included requiring continuing education courses, censure, suspension, and fines. In addition, we have referred two cases to program officials for consideration of administrative action. One participant was debarred for 3 years and the other for 1 year.

STATISTICAL DATA

Audits Without Management Decisions

The following audits did not have management decisions made within the 6-month limit imposed by Congress.

Agency	Date Issued		Title of Report	Total Dollar Value at Issuance	Amount With No Management Decision
Audits Pending Agency Action					
ARS	3/29/91	1.	Incurred Costs of ARS Contract with Tufts University for FY 1985-89 (02545-0033-Hy)	$2,238,319	$168,400
	3/01/91	2.	Claim for Equitable Adjustment, Diamond Electric Co., Inc. (02545-8-Te)	$78,647	$78,647
ASCS	5/17/89	3.	Unauthorized Use of FmHA Inventory Farm Property (50099-20-At)[a]	$1,121,913	$501,120
	7/20/89	4.	Maximum Payment Limitation Provisions in Arkansas (03097-4-Te)[a]	$2,867,614	$62,214
	6/21/90	5.	1988 Livestock Feed Program in Texas (03600-11-Te)[a]	$587,512	$66,213
FCIC	3/13/91	6.	Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management (05600-3-Te)	$122,588	$122,588
	1/18/91	7.	Administration of Claims and Appeals (05002-1-Te)	$ 4,400,000	$4,400,000
FmHA	5/10/89	8.	Business and Industrial Loan to Gulf Coast Wood Products (04099-149-Te)[a]	$4,350,000	$ 4,350,000
	3/28/90	9.	Texas State Office Business and Industrial Loan Program (04002-Te)[a]	$ 4,899,161	$4,899,161

[a]Reported in last Semiannual Report.

	9/26/90	10.	Intermediary Relending Program (04600-5-Te)[a]	$ 1,865,678	$168,750
	3/29/91	11.	Accountability for Servicing Agents for Rural Housing Trust Loans (04099-79-FM)	$626,000	$626,000
	3/29/91	12.	Indian Tribal Land Acquisition Program (04099-113-KC)	$ 5,351,116	$5,351,116
	12/20/90	13.	Nonprofit National Corporations Loan and Grant Program (04600-6-Te)	$ 2,870,668	$979,600
FNS	9/26/90	14.	New York City Wage Match (27019-40-Hy)[a]	$189,000	$189,000
NASS	9/26/90	15.	Review of Data Used to Determine Deficiency Payment Rates for Upland Cotton (26600-01-At)[a]	$187,100,000	$ 23,200,000
OFM	6/25/90	16.	Debarment and Suspension and Drug-Free Workplace Compliance (50099-22-At)[a]	$-0-	$-0-
Audits Pending OGC Opinion					
FNS	3/13/91	17.	Processing of Donated Poultry by Brakebush Brothers, Inc. (27099-82-Ch)	$841,624	$841,624
REA	3/29/91	18.	Rural Economic Loan and Grant Program (09600-2-Ch)	$280,000	$280,000
Audits Pending Action Outside the Department					
FmHA	9/2/88	19.	Business and Industrial Loan to Le Bossier Hotel (04099-135-Te)[a]	$ 8,736,576	$8,736,576
SCS	12/20/90	20.	Allegheny Construction Co., Contract Dispute (10545-0031-Hy)	$211,726	$211,726

[a]Reported in last Semiannual Report.

1. **Incurred Costs of ARS Contract with Tufts University for FY 1985-89, Issued March 29, 1991**

   ARS agreed that the contractor needs to restore funds to the non-USDA Income Account and to recover unpaid rent. ARS had not taken the appropriate administrative actions to correct these accounts.

2. **Claim for Equitable Adjustment, Diamond Electric Co., Inc., Issued March 1, 1991**

   ARS has agreed with the recommendation; however, the claim is pending before the USDA Board of Contract Appeals.

3. **Unauthorized Use of FmHA Inventory Farm Property, Issued May 17, 1989**

   The audit identified 16 persons who operated FmHA inventory property without a lease and collected ASCS program payments. For 6 of the cases, ASCS has not established claims or sufficiently explained why recovery will not be made. We are continuing to work with the agency to obtain a management decision on the remaining cases.

4. **Maximum Payment Limitation Provisions in Arkansas, Issued July 20, 1989**

   ASCS has not provided documentation that all claims have been established as recommended. We are continuing to work with the agency to obtain the needed documentation.

5. **1988 Livestock Feed Program in Texas, Issued June 21, 1990**

   Before completing the recommended corrective action, ASCS is awaiting the outcome of an investigation and pending prosecutive determinations for two producers cited in the report.

6. **Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management, Issued March 13, 1991**

   We questioned insurance payments to four entities because the adjuster did not properly adjust the claim or the insured failed to report the sale of production. FCIC is reviewing the four cases, and will need to provide us with information showing the cited overclaims are collected, established as accounts receivable, or otherwise justified.

7. **Administration of Claims and Appeals, Issued January 18, 1991**

   We found that debts were not collected or recorded in the accounts receivable even after the overpayment was upheld by appeal. We also found that FCIC did not comply with OMB Circular A-50, which requires that interest begin to accrue no later than 30 days after the auditee is notified of the debt and continue to accrue while the appeal is underway. FCIC agreed to review the cases where debts were not collected and establish accounts receivable. This review has not been completed so that necessary receivables can be established. FCIC did not agree to implement the interest provisions of OMB Circular A-50. Instead, upon oral advice from the OGC, FCIC will only charge interest after all appeals have been completed. OIG has requested written confirmation of the oral advice given by the OGC.

8. **Business and Industrial Loan to Gulf Coast Wood Products, Issued May 10, 1989**

   The audit recommended that FmHA, upon receipt of the lender's loss claim, refer the violations of the lender's agreement to the OGC and request that the OGC determine the extent to which FmHA may enforce the loan guarantee. The lender has not yet filed an estimated or final loss report with FmHA. Accordingly, the agency can take no further action at this time.

9. **Texas State Office Business and Industrial Loan Program, Issued March 28, 1990**

   The audit recommended that FmHA conduct an assessment of each questioned loan in the audit to establish the monetary amounts of potential claims against lenders. FmHA will subsequently have to obtain the OGC's determination as to the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. FmHA has agreed with the recommendations and its review is underway. Extensive case file analysis is involved in this process.

10. **Intermediary Relending Program, Issued September 26, 1990**

    The audit recommended that FmHA consult with the OGC to determine if 2 of the 6 loans we questioned should be accelerated. FmHA disagreed that these two loans should be accelerated because, in FmHA's opinion, it was not realistic to expect the borrowers to obtain the loans from other sources. The audit revealed that the 2 borrowers, or the principals of the borrowers, in question had net worths of over $900,000 and $1.3 million, respectively, at the time the loans were approved. We are compiling additional information on these cases to achieve management decision.

11. **Accountability for Servicing Agents for Rural Housing Trust Loans, Issued March 29, 1991**

The audit recommended that FmHA collect excessive interest credits granted to borrowers by the master servicer of the private trust administering loans sold by FmHA. FmHA officials proposed providing the master servicer with a copy of the audit report and allowing it 90 days to respond. Due to the unique nature of this matter, we agreed with this proposal. They plan to reply to us November 29, 1991.

12. **Indian Tribal Land Acquisition Program, Issued March 29, 1991**

The audit recommended that FmHA conduct a detailed inventory of a tribe's holdings obtained with FmHA loan funds, have the validated holding reappraised, and recompute the principal reduction and adjust the loan records accordingly. FmHA has responded to the audit without a management decision. We expect, however, that a management decision will be reached in the near future.

13. **Nonprofit National Corporations Loan and Grant Program, Issued December 20, 1990**

The audit recommended that FmHA review technical assistance claims and questionable loans from the Nonprofit National Corporations and recover the funds determined to be ineligible. FmHA national officials agreed to implement the recommendations, but directed the State offices to obtain additional information from the Nonprofit National Corporations and provide it to the national office for review and determination before issuing the demand letters.

14. **New York City Wage Match, Issued September 26, 1990**

The audit identified cases where income was either not reported by recipients or not used properly by eligibility workers to determine food stamp benefits. The State agency committed to review and establish claims. Management decision is pending completion of these reviews.

15. **NASS - Review of Data Used To Determine Deficiency Payment Rates for Upland Cotton, Issued September 26, 1990**

NASS, in computing the average market price used by ASCS to determine deficiency payment rates, allows cooperatives to deduct substantial costs that are ordinarily incurred by producers prior to sale. These deductions understate the average price received by producers. ASCS' use of the average price computed by NASS results in overstated deficiency payment rates. We are working with NASS to determine how they should treat ordinary producer costs in determining the average market price.

16. **Debarment and Suspension and Drug-Free Workplace Compliance, Issued June 25, 1990**

The Department is reexamining the statutory basis for excluding entire agencies, programs, and agreements from the governmentwide nonprocurement and suspension requirements.

17. **Processing of Donated Poultry by Brakebush Brothers, Inc., Issued March 13, 1991**

Our audit identified the value of meat, skin, and other by-products which the processor salvaged from USDA-donated poultry and converted to his own use, and from poultry products condemned or otherwise lost during the production process. We recommended that FNS bill the processor. FNS notified the processor of the audit results and claim amount. The processor responded by providing information disputing the audit results. This information is being reviewed.

18. **Rural Economic Development and Grant Program, Issued March 29, 1991**

The audit recommended that REA seek a legal opinion from the OGC, based on the cases cited in the report, to determine if a conflict of interest exists when an REA cooperative or corporation owns the project or when cooperative board members participate in the project's management. For loans not made in accordance with the opinion, we recommended that REA either require the borrowers to eliminate the conditions resulting in the conflict of interest or recover the loan funds. In addition, we recommended that REA develop and implement written policies and procedures for making conflict-of-interest determinations, based on the opinion. REA believes that, since the OGC had reviewed REA's regulations with respect to conflict-of-interest situations during the rulemaking process, no further reviews by the the OGC are necessary. We disagree and have requested the opinion from the OGC.

19. **Business and Industrial Loan to Le Bossier Hotel, Issued September 2, 1988**

    The audit recommended that FmHA refer to the OGC the violations of the lender's agreement and request OGC to determine the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. The OGC completed its review and referred the case to the Department of Justice for concurrence before initiating litigation. A determination has not yet been received from the Department of Justice.

20. **Allegheny Construction Co. Contract Dispute, Issued December 20, 1990**

    The contract claim is in litigation.

Indictments and Convictions

Between April 1, I991 and September 30, 1991, OIG completed 681 investigations. We referred 414 cases to Federal, State, and local prosecutors for their prosecutive decisions.

During the reporting period, our investigations led to 447 indictments and 399 convictions. Fines, recoveries/collections, and restitutions resulting from our investigations totaled about $20.7 million. Costs of about $1.3 million were avoided.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions

	April - September 1991		Total for FY 1991	
Agency	Indictments	Convictions[a]	Indictments	Convictions[a]
AMS	0	0	2	2
APHIS	2	1	4	5
ARS	1	1	1	2
ASCS	31	22	51	39
FAS	3	4	21	6
FCIC	9	4	13	7
FmHA	50	44	93	78
FNS	339	310	575	650
FS	1	3	3	3
FSIS	6	5	12	10
OO	1	2	1	2
OCA	0	1	1	1
FM	0	0	0	1
REA	1	1	1	1
SCS	3	1	3	1
Totals	447	399	781	808

[a]This category includes Pretrial Diversions

Hotline Complaints

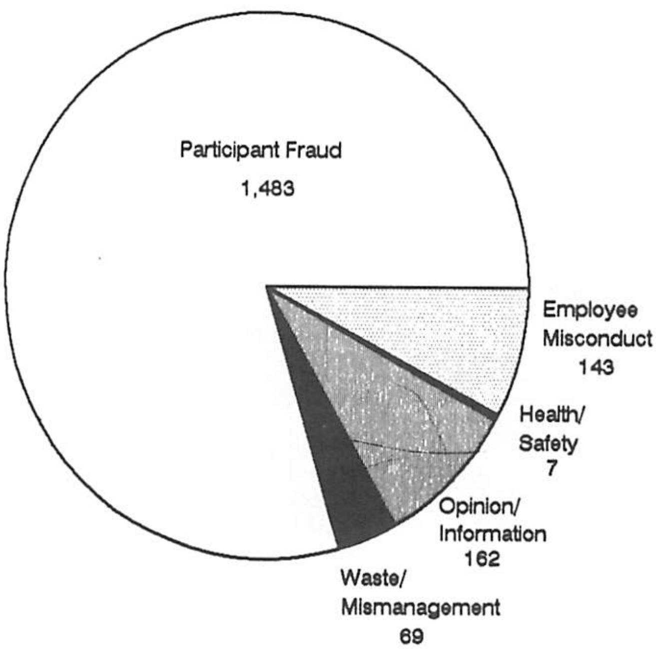
The OIG Hotline serves as a national receiving point for reports, by both departmental employees and the general public, of suspected incidents of fraud, waste, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received and analyzed 1,864 complaints. We investigated or audited 172 of these complaints and referred 43 to other Federal law enforcement agencies. We referred 1,280 complaints to the administering USDA agency for resolution and response to OIG. Of the remainder, we provided 304 complaints to the responsible USDA agency for information (no response to OIG was requested), while 65 contained insufficient information to allow any action.

The 24-hour, toll-free telephone number continues to be the major source for receipt of Hotline complaints. The majority of complaints are allegations of participant fraud in USDA's programs. Figure 10 shows a breakdown of the various types of allegations for this reporting period.

Figure 10

HOTLINE COMPLAINTS

April 1, 1991 to September 30, 1991
(Total Cases = 1,864)



Freedom of Information Act Activities

OIG processed 320 requests under the Freedom of Information Act (FOIA) compared with 234 for the previous 6 months. The following presents FOIA data for this reporting period.

	This Period
Number of Requests	330
Number of Favorable Responses	205
Number of Unfavorable Responses	115
Total	320
Unfavorable Responses Due to:	
No Records Available	35
Requests Denied in Full	26
Requests Denied in Part	54
Total	115
Other Data Not Affected Directly by the Requests:	
Appeals Granted	0
Appeals Denied in Full	5
Appeals Denied in Part	0
Number of OIG Reports/Documents Released in Response to Requests	398

NOTE: A request may involve more than one report.

INVENTORY OF AUDIT REPORTS RELEASED WITH QUESTIONED COSTS AND LOANS

	NUMBER	DOLLAR VALUE QUESTIONED COSTS AND LOANS	DOLLAR VALUE UNSUPPORTED[a] COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1991	62	$190,187,370	$24,833,353
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	105	$ 58,012,044	$ 1,911,584
TOTALS	167	$248,199,414	$26,744,937
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	102		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$ 14,848,404	$ 7,595,580
NOT RECOMMENDED FOR RECOVERY		$ 80,245,462[b]	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$ 7,741,128	$ 2,098,440
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	65	$150,254,658	$20,844,583
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	16	$ 99,620,039	$19,034,231

[a]Unsupported values are included in questioned values.

[b]These costs have been expended erroneously or improperly due to agency action and for which recovery is not possible.

INVENTORY OF AUDIT REPORTS RELEASED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1991	32	$219,349,134
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	20	$600,674,725
TOTALS	52	$820,023,859
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	32	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$299,076,995
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$5,959,092
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	20	$514,987,772
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN SIX MONTHS OF ISSUANCE	8	$191,781,763

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1, 1991, AND SEPTEMBER 30, 1991

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1, 1991, AND SEPTEMBER 30, 1991, THE OFFICE OF INSPECTOR GENERAL ISSUED 237 AUDIT REPORTS, INCLUDING 70 PERFORMED UNDER CONTRACT BY CERTIFIED PUBLIC ACCOUNTANTS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	2			
AGRICULTURAL RESEARCH SERVICE	4	$126,992	$45,853	$147,843
AG. STAB. & CONS. SERVICE	22	$9,742,972	$1,164,415	$839,888
FARMERS HOME ADMINISTRATION	23	$39,072,678	$67,821	$323,561,789
FEDERAL CROP INSURANCE CORP	4	$149,842		$2,064,041
FOREIGN AGRICULTURAL SERVICE	3	$64,607	$64,607	$48,093
FOREST SERVICE	7	$5,446		$452,240
RURAL ELECTRIFICATION ADMIN.	1			
SOIL CONSERVATION SERVICE	1			
OFFICE OF OPERATIONS	2			
FOOD SAFETY & INSPECTION SERVICE	2			$994,229
FOOD AND NUTRITION SERVICE	71	$3,981,893	$1,800	$272,186,460
OFFICE OF THE SECRETARY	1			$505,142
ANIMAL & PLANT HEALTH INSP.	3	$1,337,170		
MULTI-AGENCY/DIVISION CODE	90	$3,530,444	$567,088	
OFF. INFO. RESOURCES MANAGEMT	1			
TOTALS	237	$58,012,044	$1,911,584	$600,799,725

TOTAL COMPLETED:	
SINGLE AGENCY AUDITS	147
MULTIAGENCY	90
TOTAL RELEASED NATIONWIDE	237
TOTAL COMPLETED UNDER CONTRACT[b]	70
TOTAL SINGLE AUDITS ISSUED[c]	87

[a]Unsupported values are included in questioned values
[b]Indicates audits performed by others
[c]Indicates audits completed as Single Audit

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1991 AND SEPTEMBER 30, 1991

AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
AGENCY - AGRICULTURAL MARKETING SERVICE					
01-099-0001-TE 91/08/13	TEXAS FEDERAL INSPECTION SERVICES INCURRED COSTS JANUARY 1988 THRU DECEMBER 1990				
01-099-0054-SF 91/04/17	AMS - KIWI MARKETING ORDER REFERENDA FRESNO, CALIFORNIA				
	TOTAL: AGRICULTURAL MARKETING SERVICE	2			
AGENCY - AGRICULTURAL RESEARCH SERVICE					
02-091-0001-AT 91/04/18	ANIMAL PARASITE RESEARCH UNIT AUBURN, AL		$62,839		
02-545-0008-SF 91/07/09	INCURRED COSTS AUDIT - ECOVA CORPORATION, REDMOND, WASHINGTON		$64,153	$45,853	
02-545-0009-SF 91/05/16	ACCOUNTING SYSTEM/FINANCIAL CAPABILITY REVIEW NIIHAU HELICOPTERS, MAKAWELI, HAWAII				
02-545-0054-HY 91/07/18	TELESEC LIBRARY SERVICES PREAWARD				$147,843
	TOTAL: AGRICULTURAL RESEARCH SERVICE	4	$126,992	$45,853	$147,843
AGENCY - AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE					
03-012-0001-HY 91/07/31	ORANGE COUNTY ASCS OFFICE, MIDDLETOWN, NY		$6,148		
03-012-0002-HY 91/08/01	ORLEANS ASCS COUNTY OFFICE, ALBION, NY		$397,755		
03-099-0140-AT 91/09/30	FLUE-CURED TOBACCO ASSOCIATION, RALEIGH, NC		$83,404		
03-099-0141-AT 91/05/28	CREDIT AND DEBT MANAGEMENT INITIATIVES				
03-099-0155-KC 91/06/04	IMPLEMENTATION OF 1985 FOOD SECURITY ACT CONSERVATION PROVISIONS				
03-099-0156-KC 91/06/11	ASCS PAYMENT LIMITATION REVIEW IN OSBORNE COUNTY, KS		$178,145		
03-099-0159-KC 91/08/15	FOOD SECURITY ACT HIGHLY ERODIBLE LAND CONSERVATION PROVISIONS				
03-099-0163-KC 91/06/28	RENO COUNTY ASCS OFFICE OPERATIONS HUTCHINSON, KS		$3,812		
03-099-0167-KC 91/09/18	ASCS PAYMENT LIMITATION REVIEW IN STILLWATER COUNTY, MT		$289,453	$105,204	$271,947
03-545-0007-AT 91/08/01	GFA PEANUT ASSOCIATION - CAMILLA, GA, CROP YEAR 1989				
03-600-0005-AT 91/06/20	FORESTRY INCENTIVES PROGRAM		$155,533	$33,960	
03-600-0005-CH 91/04/08	DISASTER ASSISTANCE ACT OF 1989 - EMERGENCY CROP LOSS ASSISTANCE				
03-600-0006-AT 91/04/17	1989 PAYMENT LIMITATION - PROBLEM CASES: SUNFLOWER ASCS COUNTY OFFICE, MS		$1,002,299		
03-600-0008-CH 91/06/06	DISASTER ASSISTANCE ACT OF 1989-EMERGENCY CROP LOSS ASSISTANCE IN MINNESOTA		$24,279	$6,795	
03-600-0009-KC 91/05/10	1989 DISASTER PROGRAM IN KANSAS		$88,530	$12,976	
03-600-0010-SF 91/04/08	1989 PAYMENT LIMITATION OPERATIONS CALIFORNIA ASCS STATE OFFICE				
03-600-0012-KC 91/05/23	DISASTER ASSISTANCE 1989 CROPS		$292,802	$70,865	
03-600-0013-KC 91/09/30	1989 PAYMENT LIMITATION OPERATIONS IN ARIZONA		$3,309,231		
03-600-0014-TE 91/06/24	1989 PAYMENT LIMITATION CASES, LEE COUNTY, AR		$2,327,758		
03-600-0015-TE 91/09/23	ACTION ON PAYMENT LIMITATION FOR 1989				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1991 AND SEPTEMBER 30, 1991

AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
03-600-0018-TE 91/05/22	1989 DISASTER ASSISTANCE PROGRAM, FRIO COUNTY, TX			$247,525	
03-600-0021-TE 91/05/15	CONTROL OF 1989 MAXIMUM PAYMENT LIMITATION, MOREHOUSE AND EAST CARROLL PARISHES, LA		$1,336,298	$934,615	$567,941
	TOTAL: AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	22	$9,742,972	$1,164,415	$839,888
AGENCY - FARMERS HOME ADMINISTRATION					
04-001-0001-FM 91/05/29	ASSESSMENT OF INTEREST CREDIT PROVISIONS IN MISSOURI		$35,630		$192
04-006-0002-TE 91/09/27	DEBT RESTRUCTURING OF FARMER PROGRAM GUARANTEED LOANS		$80,685		
04-011-0246-HY 91/08/07	AUDIT OF CANTON,NY FMHA COUNTY OFFICE				
04-099-0076-HY 91/06/21	NATIONWIDE ASSESSMENT OF FMHA'S INTEREST CREDIT PROVISIONS IN PENNSYLVANIA		$6,476		
04-099-0083-FM 91/09/30	NATIONWIDE ASSESSMENT OF FMHA INTEREST CREDIT PROVISIONS				$317,048,790
04-099-0084-SF 91/05/17	FMHA - B&I LOAN PROGRAM - THOMAS V. WILLIAMS, POCATELLO, IDAHO FINAL LOSS CLAIM				$48,622
04-099-0087-FM 91/09/30	AUDIT OF MAJOR IRM ACQUISITIONS AND YEAREND PROCUREMENT PRACTICES		$25,773,660		$2,254,250
04-099-0119-KC 91/09/06	MANAGEMENT OF TWO RURAL RENTAL HOUSING PROJECTS LOCATED IN NORTH DAKOTA		$151,759	$67,821	
04-099-0160-TE 91/09/26	SINGLE FAMILY HOUSING				$141,773
04-099-0163-TE 91/04/17	ASSESSMENT OF INTEREST CREDIT PROVISIONS IN OKLAHOMA		$8,551		
04-099-0164-TE 91/04/30	ASSESSMENT OF INTEREST CREDIT PROVISIONS IN LOUISIANA		$3,404		
04-099-0166-TE 91/05/24	DISPOSITION OF UNLIQUIDATED OBLIGATIONS				$3,280,435
04-099-0317-AT 91/08/26	CLEAR TITLE - PROTECTION FOR PURCHASERS OF FARM PRODUCTS				
04-545-0011-TE 91/04/03	LITTLE DIXIE COMMUNITY ACTION AGENCY, CONTRACT NO. 53-3517-6-87, HUGO, OKLAHOMA				$1,676
04-545-0012-TE 91/07/16	COST INCURRED AUDIT OF CONTRACT NO. 53-3157-9-003, G.C. SERVICES				$786,051
04-600-0003-FM 91/04/05	CONTROLS & SECURITY OVER REMOTE TRANSACTION PROCESSING FOR IOWA		$2,847		
04-600-0006-FM 91/09/30	FMHA FY 90 FINANCIAL STATEMENT AUDIT - FINANCE OFFICE				
04-600-0009-FM 91/09/30	AUDIT OF FMHA FY 1990 FINANCIAL STATEMENTS - MANAGEMENT LETTER ISSUES				
04-600-0020-CH 91/08/23	RURAL RENTAL HOUSING PROGRAM - PROJECT OPERATIONS				
04-673-0007-SF 91/06/27	FMHA-DEBT RESTRUCTURING-IMPLEMENTATION OF PRIMARY LOAN SERVICE PROGRAMS		$2,811,696		
04-673-0009-SF 91/09/19	DEBT RESTRUCTURING DECISIONS, SELECTED LARGE BORROWERS, NATIONWIDE SUMMARY		$10,197,970		
04-674-0002-SF 91/04/15	FMHA-DEBT RESTRUCTURING DECISION, BORROWER 70K-01, CIMMARON COUNTY, OKLAHOMA				
04-674-0004-SF 91/05/23	FMHA-DEBT RESTRUCTURING DECISION, BORROWER 70K-02, TEXAS COUNTY, OKLAHOMA				
	TOTAL: FARMERS HOME ADMINISTRATION	23	$39,072,678	$67,821	$323,561,789
AGENCY - FEDERAL CROP INSURANCE CORP					
05-099-0004-HY 91/04/10	EVALUATION OF INTERNAL CONTROL PROCESS AT FCIC				
05-099-0040-FM	FCIC ADMINISTRATIVE EXPENSE REDUCTION UNDER				$2,051,215

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
91/07/22	THE DISASTER ASSISTANCE ACTS OF 1988 AND 1989				
05-099-0102-KC 91/07/17	ANALYSIS OF DATABASE INFORMATION AND OPERATIONS		$146,503		$12,826
05-099-0103-KC 91/09/30	1989 SOYBEAN CONTRACT NO. 20-260-003544 IN DONIPHAN COUNTY, KS		$3,339		
	TOTAL: FEDERAL CROP INSURANCE CORP	4	$149,842		$2,064,041
AGENCY - FOREIGN AGRICULTURAL SERVICE					
07-091-0001-HY 91/06/28	FAS SUGAR PROGRAMS				
07-099-0026-HY 91/09/26	FAS COMPLIANCE REVIEW STAFF		$64,607	$64,607	
07-545-0001-HY 91/04/25	PREAWARD AUDIT-LNK CORPORATION				$48,093
	TOTAL: FOREIGN AGRICULTURAL SERVICE	3	$64,607	$64,607	$48,093
AGENCY - FOREST SERVICE					
08-099-0119-SF 91/08/28	FS TIMBER SALE ANTITRUSTR CONTROLS				
08-099-0122-SF 91/09/30	TIMBER SALE STUMPAGE RATE ADJUSTMENTS				
08-099-0123-SF 91/09/30	TIMBER THEFT PREVENTION CONTROLS PACIFIC NORTHWEST REGION				
08-545-0001-AT 91/04/30	DCAA PREAWARD AUDIT OF INFORMATION SYSTEMS PLANNING & ANALYSIS, INC., SOL # R8-90-09				
08-545-0053-SF 91/07/15	EQUITABLE ADJUSTMENT CLAIMS-CANNON STRUCTURES INC., BLACKFOOT, IDAHO				$452,240
08-545-0054-SF 91/07/19	DIRECT COSTS AND INDIRECT COST RATES-FOSTER-MILLER,INC., WALTHAM, MA 8/8/85-7/31/87		$5,446		
08-600-0012-AT 91/09/05	COST AND OPERATION OF ASHE NURSERY				
	TOTAL: FOREST SERVICE	7	$5,446		$452,240
AGENCY - RURAL ELECTRIFICATION ADMINISTRATION					
09-600-0001-HQ 91/05/13	FY 90 FINANCIAL STATEMENT - REA				
	TOTAL: RURAL ELECTRIFICATION ADMINISTRATION	1			
AGENCY - SOIL CONSERVATION SERVICE					
10-600-0001-AT 91/09/12	RURAL ABANDONED MINE PROGRAM				
	TOTAL: SOIL CONSERVATION SERVICE	1			
AGENCY - OFFICE OF OPERATIONS					
23-545-0010-HY 91/08/27	CANTEEN CORPORATION - INCURRED COST AUDIT				
23-545-0011-HY 91/09/24	CANTEEN COPRORATION -PREAWARD AUDIT				

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
TOTAL: OFFICE OF OPERATIONS		2			
AGENCY - FOOD SAFETY AND INSPECTION SERVICE					
24-099-0006-AT 91/06/28	ACCREDITATION OF COMMERCIAL LABORATORIES				$994,229
24-600-0001-AT 91/09/30	MONITORING OF DRUG RESIDUES				
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		2			$994,229
AGENCY - FOOD AND NUTRITION SERVICE					
27-006-0002-HY 91/09/30	SECURITY AND ACCOUNTABILITY OVER FOOD STAMP PRINTING		$2,938,300		
27-009-0002-CH	SCHWAN'S SALES ENTERPRISES, INC'S - COMPLIANCE WITH CONTRACTED YIELD REQUIREMENT		$104,027		
27-013-0063-AT 91/09/11	FOOD STAMP ACCOUNTABILITY - SOUTH CAROLINA				
27-018-0006-AT 91/05/03	FOOD STAMP PROGRAM - ADMINISTRATIVE COSTS		$204,792		
27-022-0001-TE 91/09/13	ADMINISTRATIVE COSTS OF CHILD NUTRITION PROGRAMS				
27-022-0048-HY 91/08/27	PHILADELPHIA SCHOOL FOOD AUTHORITY NATIONAL SCHOOL LUNCH PROGRAM		$387,466		
27-028-0001-SF 91/04/12	FOOD AND NUTRITION SERVICE - SUMMER FOOD SERVICE PROGRAM NONPROFIT SPONSORS		$2,112	$1,800	
27-028-0002-TE 1990 91/06/11	SUMMER FOOD SERVICE PROGRAM PRIVATE NONPROFIT SPONSORS IN NEW MEXICO		$4,310		
27-029-0353-HY 91/05/15	FNS-CACFP ASSOCIATION FOR THE HELP OF RETARDED CHILDREN		$46,873		
27-029-0354-HY 91/04/30	FNS-CACFP CHILDRENS AID SOCIETY		$13,627		
27-029-0355-HY 91/04/30	FNS-CACFP JEWISH GUILD FOR THE BLIND		$12,748		
27-029-0356-HY 91/04/30	FNS-CACFP EAST HARLEM BLOCK NURSERY		$7,779		
27-029-0357-HY 91/04/30	FNS-CACFP SOUTHEAST BRONX NEIGHBORHOOD CENTERS INC		$4,076		
27-029-0358-HY 91/04/30	FNS-CACFP TREMONT COMMUNITY COUNCIL		$2,431		
27-029-0359-HY 91/04/30	FNS-CACFP BRONXDALE TENANTS LEAGUE		$3,657		
27-029-0360-HY 91/04/30	FNS-CACFP MALCOM X DCC		$121		
27-029-0361-HY 91/04/30	FNS-CACFP COMMITTEE FOR EARLY CHILDHOOD DEVELOP-MENT DCC, INC		$4,897		
27-029-0362-HY 91/04/30	FNS-CACFP DAY CARE COUNCIL OF NASSAU COUNTY, INC				
27-029-0363-HY 91/04/30	FNS-CACFP BLANCHE COMMUNITY POGRESS DCC		$2,819		
27-029-0364-HY 91/05/15	FNS-CACFP CHILD CARE COUNCIL OF SUFFOLK		$1,152		
27-029-0365-HY 91/04/30	FNS-CACFP LONG ISLAND DC SEVICES				
27-029-0366-HY 91/04/30	FNS-CACFP MORNING STAR DCC		$605		
27-029-0367-HY 91/04/30	FNS-CACFP PIERCE HALL DCC				
27-029-0368-HY 91/04/30	FNS-CACFP WEST END CHURCH DCC		$221		

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
27-029-0369-HY 91/04/30	FNS-CACFP ARBOR PARK CCC		$1,459		
27-029-0370-HY 91/04/30	FNS-CACFP NORTH TONAWANDA CSD		$1,785		
27-029-0371-HY 91/04/30	FNS-CACFP IBERO AMERICAN ACTION LEAGUE RAINBOW DCC		$4,539		
27-029-0372-HY 91/04/30	FNS-CACFP NORTHSIDE CHILDRENS CENTER		$856		
27-029-0373-HY 91/04/30	FNS-CACFP CORNING-PAINTED POST AREA SCHOOL DISTRICT		$459		
27-029-0374-HY 91/04/30	FNS-CACFP UNITED FEDERATION OF BLACK COMMUNITY ORGANIZATIONS		$13,836		
27-029-0375-HY 91/04/30	FNS-CACFP HAMILTON MADISON HOUSE		$18,388		
27-029-0376-HY 91/04/30	FNS-CACFP CHAMA CHILD DEVELOPMENT CENTER		$9,796		
27-029-0377-HY 91/04/30	FNS-CACFP ARCHDIOCESE OF NEW YORK HS		$4,263		
27-029-0378-HY 91/04/30	FNS-CACFP FRANK D WHALEN CCC		$29,443		
27-029-0379-HY 91/06/06	FNS-CACFP CARDINAL MCCLOSKEY FAMILY SERVICES		$22,519		
27-029-0380-HY 91/04/30	FNS-CACFP HIGHBRIDGE ADVISORY COUNCIL		$7,175		
27-029-0381-HY 91/04/30	FNS-CACFP LUCILLE MURRAY CHILD DEVELOPMENT		$4,988		
27-029-0382-HY 91/04/30	FNS-CACFP UNITED BRONX PARENTS		$2,195		
27-029-0383-HY 91/04/30	FNS-CACFP SAINT MARGARETS EPISCOPAL CHURCH		$13,165		
27-029-0384-HY 91/04/30	FNS-CACFP INVICTUS BLAZERS, INC		$8,785		
27-029-0386-HY 91/04/30	FNS-CACFP POTSDAM DCC, INC		$133		
27-029-0388-HY 91/04/30	FNS-CACFP COMMUNITY ORGANIZATION OF ERIE COUNY		$7,443		
27-029-0390-HY 91/09/04	FNS-CACFP NEW YORK CITY BOARD OF EDUCATION, OFFICE OF SCHOOL FOOD SERVICES		$39,919		
27-029-0391-HY 91/08/15	FNS-CACFP EDUCATIONAL ALLIANCE		$3,382		
27-029-0392-HY 91/08/15	FNS-CACFP UNIVERSITY SETTLEMENT SOCIETY				
27-029-0393-HY 91/08/15	FNS-CACFP CHINATOWN DCC		$14,369		
27-029-0394-HY 91/08/15	FNS-CACFP NEW YORK FOUNDLING HOSPITAL				
27-029-0395-HY 91/08/15	FNS-CACFP JEWISH CC ASSOCIATION		$417		
27-029-0396-HY 91/08/15	FNS-CACFP HUNTS POINT MULTI SERVICE CENTER		$757		
27-029-0397-HY 91/08/15	FNS CACFP BUILDERS FOR FAMILY YOUTH		$14,457		
27-029-0398-HY 91/08/15	FNF-CACFP CHILDRENS COLONY NURSERY		$2,973		
27-029-0399-HY 91/08/15	FNS-CACFP TABERNACLE CHURCH OF GOD				
27-029-0400-HY 91/08/15	FNS-CACFP UNITED COMMUNITY DCC		$317		
27-029-0401-HY 91/08/15	FNF-CACFP COMMUNITY REDEMPTION FOUNDATION		$467		
27-029-0402-HY 91/08/15	FNS-CACFP HAITIAN AMERICAN DCC		$5,229		
27-029-0403-HY 91/08/15	FNS-CACFP UNIVERSAL CHURCH OF CHRIST		$863		

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27-029-0404-HY 91/08/15	FNS-CACFP GAN DCC		$1,859		
27-029-0405-HY 91/08/15	FNS-CACFP 200 CENTRAL AVENUE				
27-029-0406-HY 91/08/15	FNS-CACFP SALVATION ARMY, INC				
27-029-0407-HY 91/08/15	FNS-CACFP ALPHA KAPPA ALPHA				
27-029-0408-HY 91/08/15	FNS-CACFP INTERCOMMUNITY RELATIONS COUNCIL		$1,744		
27-029-0409-HY 91/08/15	FNS-CACFP CHILDRENS PLACE				
27-029-0410-HY 91/08/15	FNS-CACFP YWCA UNDER THE BIG TOP CC				
27-029-0411-HY 91/08/15	FNS-CACFP REFRESHING SPRINGS CCC		$708		
27-029-0412-HY 91/08/15	FNS-CACFP YWCA CCC				
27-029-0413-HY 91/08/15	FNS-CACFP COMMUNITY DCC		$995		
27-029-0414-HY 91/08/15	FNS-CACFP HUNTINGTON FAMILY CENTER				
27-029-0415-HY 91/08/15	FNS-CACFP MADISON COUNTY CC COUNCIL		$197		
27-070-0001-CH 91/05/17	MIDWEST REGIONAL OFFICE FINANCIAL MANAGEMENT OPERATIONS				$1,097,464
27-545-0072-HY 91/07/02	INCURRED COST AUDIT-NATIONAL ANALYST CONTRACT 53-3198-6-068				$88
27-600-0001-AT 91/06/27	FSP RECOUPING CLAIMS AND IMPOSING DISQUALIFICATION PENALTIES				$271,088,908
	TOTAL: FOOD AND NUTRITION SERVICE	71	$3,981,893	$1,800	$272,186,460
AGENCY - OFFICE OF THE SECRETARY					
29-099-0001-TE 91/05/01	DUNIGAN ENTERPRISES DAMAGE CLAIM REGARDING LAND EXCHANGE WITH FOREST SERVICE				$505,142
	TOTAL: OFFICE OF THE SECRETARY	1			$505,142
AGENCY - ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-001-0001-HY 91/06/07	APHIS RESOURCE MANAGEMENT SYSTEMS AND EVALUATION STAFF				
33-001-0003-HY 91/08/20	AUDIT OF SCREWWORM ERADICATION PROGRAM		$1,337,170		
33-003-0004-HY 91/07/12	APHIS PSEUDORABIES ERADICATION SPECIAL REQUEST				
	TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3	$1,337,170		
AGENCY - MULTI-AGENCY/DIVISION CODE					
50-099-0038-FM 91/08/19	COMPLIANCE WITH DOMESTIC COMMODITY ORIGIN REQUIREMENTS				
50-099-0065-HY 91/06/07	TITLE 31 REVIEW OF CONTRACTED ADVISORY AND ASSISTANCE SERVICES				
50-099-0073-HY 91/07/24	FMFIA EVALUATION OF USDA ACTIVITIES - FY 1990				
50-563-0078-SF 91/07/30	A-128 AUDIT OF UNIVERSITY OF CALIFORNIA-L.A., LOS ANGELES, CA, 2 YRS ENDED 6/30/89.				
50-563-0181-AT 91/04/05	A-128, AUDIT OF SOUTH CAROLINA STATE COLLEGE ORANGEBURG, SC, FYE 6/30/88				

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50-563-0185-AT 91/05/06	A-110 AUDIT OF GEORGIA STATE UNIVERSITY, FYE 6-30-90				
50-563-0187-AT 91/09/25	A-110, AUDIT OF THE UNIVERSITY OF GA, ATHENS, GA				
50-563-0188-AT 91/09/24	A-128, AUDIT OF SC STATE COLLEGE, ORANGEBURG, SC, FYE 6/30/90				
50-563-0189-AT 91/09/20	A-128, AUDIT OF SAVANNAH STATE COLLEGE, GA, FYE 6/30/90				
50-563-0190-AT 91/09/20	A-128, AUDIT OF GA SOUTHERN UNIVERSITY, STATESBORO, GA FYE 6/30/90				
50-563-0191-AT 91/09/20	A-133, AUDIT OF THE UNIVERSITY OF SOUTHERN MS, HATTIESBURG, MS, FYE 6/30/90				
50-563-0192-AT 91/09/25	A-128 AUDIT OF FORT VALLEY STATE COLLEGE, GA, FYE 6/30/90		$68,984		
50-563-0193-AT 91/09/20	A-128 AUDIT OF ALBANY STATE COLLEGE, GA, FYE 6/30/90				
50-563-0194-AT 91/09/24	A-110 AUDIT OF THE UNIVERSITY OF KENTUCKY, FYE 6/30/90				
50-566-0011-TE 91/06/24	NEW MEXICO STATE UNIVERSITY FOR YEAR ENDED JUNE 30, 1990				
50-566-0012-TE 91/06/06	SINGLE AUDIT OF ARKANSAS FORESTRY COMMISSION FOR THE YEAR ENDED JUNE 30, 1990				
50-566-0013-CH 91/09/13	SINGLE AUDIT OF THE STATE OF MINNESOTA				
50-566-0019-SF 91/04/09	A-128 AUDIT OF CITY OF SAN JOSE, CA FYE JUNE 30, 1990				
50-566-0020-SF 91/07/29	A128 AUDIT OF STATE OF IDAHO-DEPARTMENT OF LANDS, BOISE, ID TWO YRS ENDED 6/30/89				
50-566-0021-SF 91/09/25	A-128 AUDIT OF ID-DEPARTMENT OF AGRICULTURE, BOSIE, ID, FYE JUNE 30, 1990				
50-566-0022-SF 91/09/30	A-128 AUDIT OF THE STATE OF HAWAII DEPARTMENT OF AGRICULTURE FOR THE FYE 6/30/91		$10,742		
50-566-0024-AT 91/08/30	A-128, AUDIT OF SC FORESTR COMMISSION, COLUMBIA, SC, FYE 6/30/89				
50-566-0024-KC 91/08/16	A-128 WY DEPT OF AGRICULTURE (FY ENDED 6/30/90) CHEYENNE, WY				
50-566-0025-AT 91/06/12	A-128 AUDIT OF GA FORESTRY COMMISSION, MACON, GA, FYE 6/30/89				
50-566-0026-AT 91/09/20	A-128 AUDIT OF SC DEPT OF AGRICULTURE, COLUMBIA, SC, FYE 6/30/89		$9,037		
50-566-0035-HY 91/04/02	VIRGINIA DEPT. OF AGRICULTURE & CONSUMER SRVC., A-128, SFYE 6/30/89				
50-566-0036-HY 91/08/27	PENNSYLVANIA SINGLE AUDIT, A-128, STATE FISCAL YEAR ENDED JUNE 30, 1990		$312,239		
50-568-0082-HY 91/05/28	STATE OF NEW JERSEY, A-128, SFYE 6/30/88				
50-568-0083-HY 91/04/24	STATE OF NEW YORK, A-128 SFYE 3/31/89		$2,193,716		
50-568-0084-HY 91/05/28	STATE OF DELAWARE, A-128, SFYE 6/30/89		$39,432	$39,432	
50-568-0085-HY 91/05/21	STATE OF NEW HAMPSHIRE, A-128 SFYE 6/30/89				
50-568-0172-TE 91/07/01	SINGLE AUDIT OF LOUISIANA FOR THE PERIOD JUNE 30, 1991				
50-568-0196-AT 91/09/25	A-128, AUDIT OF S.C., DEPT. OF HEALTH AND ENVIRONMENTAL CONTROL, FYE 6/30/88				
50-568-0199-AT 91/09/25	A-128, AUDIT OF AL DEPT. OF EDUCATION, FYE 9-30-88				
50-568-0200-AT 91/09/24	A-128 AUDIT OF AL DEPT. OF HUMAN RESOURCES, MONTGOMERY, AL, TWO FYS ENDED 9-30-88		$18,226		
50-568-0201-AT 91/04/09	A-128 AUDIT OF CABARRUS COUNTY, NC, FYE 6-30-90				

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50-568-0202-CH 91/04/10	SINGLE AUDIT OF THE INDIANA DEPARTMENT OF EDUCATION				
50-568-0203-AT 91/05/06	A-128 AUDIT OF FORSYTH COUNTY, NC, FYE 6-30-90				
50-568-0203-CH 91/04/30	SINGLE AUDIT OF THE STATE OF WISCONSIN		$26,162	$26,162	
50-568-0204-AT 91/09/25	A-128 AUDIT OF STATE OF FLORIDA, FYE 6/30/89		$66,987	$66,987	
50-568-0204-CH 91/05/06	SINGLE AUDIT OF THE INDIANA DEPARTMENT OF NATURAL RESOURCES				
50-568-0205-AT 91/09/20	A-128, AUDIT OF GA SOUTHWESTERN COLLEGE, AMERICUS, GA, FYE 6/30/90				
50-568-0205-CH 91/05/06	SINGLE AUDIT OF THE INDIANA DEPARTMENT OF PUBLIC WELFARE				
50-568-0206-AT 91/09/24	A-128, AUDIT OF SC DEPT. OF EDUCATION, COLUMBIA, SC, FYE 6/30/87				
50-568-0206-CH 91/06/19	SINGLE AUDIT OF LAKE COUNTY, IN				
50-568-0207-AT 91/09/24	A-128, AUDIT OF SC DEPT. OF EDUCATION, COLUMBIA, SC, FYE 6/30/88				
50-568-0207-CH 91/06/19	SINGLE AUDIT OF INGHAM COUNTY, MI				
50-568-0208-AT 91/09/20	A-128, AUDIT OF SC DEPT. OF MENTAL RETARDATION, COLUMBIA, SC, FYE 6/30/90				
50-568-0208-CH 91/06/19	SINGLE AUDIT OF THE CITY OF DETROIT, MI				
50-568-0209-AT 91/07/10	A-128, AUDIT OF METRO GOV'T OF NASHVILLE AND DAVIDSON COUNTY, TN, FYE 6/30/90				
50-568-0209-CH 91/07/03	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS				
50-568-0210-AT 91/09/20	A-128, AUDIT OF ANDERSON COUNTY, SC, FYE 6/30/90				
50-568-0210-CH 91/06/13	SINGLE AUDIT OF ILLINOIS DEPARTMENT ON AGING				
50-568-0211-AT 91/09/25	A-128, AUDIT OF STATE OF TENNESSEE, FYE 6/30/89		$570		
50-568-0211-CH 91/07/23	SINGLE AUDIT ON WASHTENAW COUNTY, MI FOR YEAR ENDED DECEMBER 31, 1989				
50-568-0212-AT 91/09/20	A-128 AUDIT OF THE CITY OF MEMPHIS, TN, FYE 6/30/89				
50-568-0212-CH 91/07/25	SINGLE AUDIT ON ILLINOIS DEPT OF CONSERVATION FOR THE 2-YEAR PERIOD ENDED JUNE 30, 1990				
50-568-0213-AT 91/09/20	A-128, AUDIT OF FLORENCE COUNTY, SC, FYE 6/30/90				
50-568-0213-CH 91/08/23	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF MENTAL HEALTH		$33,810	$33,810	
50-568-0214-AT 91/09/20	A-128, AUDIT OF OKALOOSA COUNTY, FL, FYE 9/30/90				
50-568-0214-CH 91/08/29	SINGLE AUDIT OF THE STATE OF OHIO FOR THE YEAR ENDED JUNE 30, 1988		$72,966	$72,966	
50-568-0215-AT 91/09/20	A-128, AUDIT OF GA DEPT. OF EDUCATION, ATLANTA, GA, FYE 6/30/90				
50-568-0215-CH 91/09/10	SINGLE AUDIT OF THE INDIANA DEPARTMENT OF NATURAL RESOURCES				
50-568-0216-AT 91/09/20	A-128, AUDIT OF LEXINGTON-FAYETTE URBAN COUNTY GOVT, KY, FYE 6/30/90				
50-568-0217-AT 91/09/20	A-128, AUDIT OF SC DEPT. OF SOCIAL SERVICES, COLUMBIA, SC, FYE 6/30/90		$325,326	$325,326	
50-568-0218-AT 91/09/20	A-128, AUDIT OF WAKE COUNTY, NC, FYE 6/30/90				
50-568-0219-AT 91/09/20	OMB CIRCULAR A-128 AUDIT OF KNOX COUNTY, TN, FYE 6/30/90				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1991 AND SEPTEMBER 30, 1991

AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE
50-568-0237-KC 91/04/29	A-128, STATE OF UTAH, (FY ENDED 6/30/89), SALT LAKE CITY, UT		$4,708	$2,405	
50-568-0238-KC 91/04/16	A-128, ND DEPARTMENT OF PUBLIC INSTRUCTION (2 YEARS ENDED 6/30/89), BISMARCK, ND				
50-568-0239-KC 91/06/17	A-128, STATE OF MISSOURI (2 YEARS ENDED 6/30/89), JEFFERSON CITY, MO		$2,817		
50-568-0240-KC 91/06/27	A-128, STATE OF COLORADO (FY ENDED 6/30/89), DENVER, CO		$389		
50-568-0241-KC 91/07/09	A-128, NORTH DAKOTA STATE UNIVERSITY (YEAR ENDED 6/30/90), FARGO, ND		$7,425		
50-568-0402-SF 91/04/01	A-128 AUDIT OF UNIVERSITY OF IDAHO, MOSCOW, ID FISCAL YEAR ENDED JUNE 30, 1989				
50-568-0415-SF 91/04/10	A-128 AUDIT OF JACKSON COUNTY, MEDFORD, OR, FYE JUNE 30, 1990				
50-568-0416-SF 91/05/08	A-128 AUDIT OF COUNTY OF EL DORADO, PLACERVILLE, CA, FYE 6/30/90				
50-568-0417-SF 91/05/09	A-128 AUDIT OF CITY OF FRESNO, FRESNO, CA, FYE JUNE 30, 1990				
50-568-0418-SF 91/05/09	A-128 AUDIT OF CITY AND COUNTY OF HONOLULU, HI, FYE JUNE 30, 1990				
50-568-0419-SF 91/05/09	A-128 AUDIT OF ARIZONA FISH AND GAME DEPT., PHOENIX, AZ, FYE FISCAL YEARS 1986 - 1988				
50-568-0420-SF 91/05/07	A-128 AUDIT OF COUNTY OF KERN, BAKERSFIELD, CA, FYE JUNE 30, 1990				
50-568-0421-SF 91/05/09	A-128 AUDIT OF COUNTY OF SANTA CRUZ, SANTA CRUZ, CA, FYE JUNE 30, 1990				
50-568-0422-SF 91/08/02	A-128 AUDIT OF GOVERNMENT OF GUAM, FYE SEPTEMBER 30, 1987		$222,396		
50-568-0423-SF 91/05/08	A-128 AUDIT FEDERATED STATES OF MICRONESIA, KOLONIA, POHNPEI, FYE SEPTEMBER 30, 1989				
50-568-0424-SF 91/05/13	A-128 AUDIT OF STATE OF CHUUK, KOLONIA, POHNPEI, FYE SEPTEMBER 30, 1989		$94,909		
50-568-0425-SF 91/05/04	A-128 AUDIT OF HAWAII EXECUTIVE OFFICE ON AGING, HONOLULU, HI, FYE JUNE 30,1990				
50-568-0426-SF 91/05/31	A-128 AUDIT OF COUNTY OF FRESNO, FRESNO, CA, FYE JUNE 30, 1990				
50-568-0427-SF 91/07/15	A-128 AUDIT OF CITY OF PASADENA, PASADENA, CA, FYE JUNE 30,1990,				
50-568-0428-SF 91/07/15	A-128 AUDIT OF YAP COMMUNITY ACTION PROGRAM, COLONIA, YAP, FYE SEPTEMBER 30, 1989				
50-568-0429-SF 91/07/12	A-128 AUDIT OF YAP COMMUNITY ACTION PROGRAM, COLONIA, YAP, FYE SEPTEMBER 30, 1989				
50-568-0431-SF 91/07/26	A-128 AUDIT OF MARIANA ISLANDS HOUSING AUTHORITY, SAIPAN, MP, FYE SEPTEBER 30, 1987				
50-568-0432-SF 91/07/16	A-128 AUDIT OF AMERICAN SAMOA GOVERMENT, PAGO PAGO, AMERICAN SAMOA, FYE SEPTEMBER 30, 1989		$19,603		
	TOTAL: MULTI-AGENCY/DIVISION CODE	90	$3,530,444	$567,088	
AGENCY - OFFICE OF INFORMATION AND RESOURCES MANAGEMENT					
58-099-0021-FM 91/09/17	AUDIT OF MANAGEMENT AND SECURITY OVER OIRM'S LOCAL AREA NETWORKS				
	TOTAL: OFFICE OF INFORMATION AND RESOURCES MANAGEMENT	1			
	TOTAL: RELEASE - NATIONWIDE	237	$58,012,044	$1,911,584	$600,799,725