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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

WASHINGTON, D.C. 20250

October 27, 1992

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, 1992.

During this period, our audit and investigative efforts resulted in \$62.3 million in recoveries and collections, \$9.8 million in fines and restitutions, and \$29.3 million in management commitments to put funds to better use. We also identified \$14.5 million in questioned costs that cannot be recovered. Our investigative efforts resulted in 614 indictments and 435 convictions.

This report describes the results of our most significant audits and investigations. Our investigations during this period involved significant cooperative efforts with State and local police in cases of drug and food stamp trafficking. We also continued to focus our efforts on cases of retailer fraud. One investigation disclosed the largest single instance of food stamp fraud in the history of the program. Also, in the commodity export program, the grain storage program, and the farm loan program, we successfully brought to court several cases of fraud that resulted in large settlements and restitutions.

We are pleased to report on several issues concluded during this period about which you expressed particular concern. At your request, we reviewed the inspection process of several beef slaughter plants operating under the Streamlined Inspection System. Our review did not find any significant problems with the inspection process in the plants we visited. We also investigated reports that some beef produced in two plants contained plastic shavings. We found that Food Safety and Inspection Service (FSIS) officials had inadvertently allowed this meat to enter the commercial food channel. Our investigation did not disclose any evidence that company officials improperly influenced FSIS in its decision to release the beef. We made recommendations to FSIS to improve some of its procedures related to sampling and product retention. Agency officials agreed to take corrective action.

Also at your request, we reviewed the effectiveness of marketing order enforcement. We did not find any evidence of selective enforcement. We reported that AMS should establish uniform procedures to enhance compliance activities and diminish the

Honorable Edward Madigan


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perception of selective enforcement. We are currently engaged in a joint project with AMS aimed at improving enforcement activities of marketing order administrative committees.

During this period, extensive resources were committed to audits of agencies' FY 1991 financial statements prepared under the Chief Financial Officers (CFO) Act. We issued unqualified (clean) opinions on the financial statements of the Commodity Credit Corporation, the Farmers Home Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration. We gave a qualified opinion of the Food and Nutrition Service's financial statements, and an adverse opinion of the Forest Service's financial statements and the Department's consolidated financial statements. Several of the Department's accounting systems need significant improvements. The preparation and auditing of these statements is a significant step toward implementing the requirements of the CFO Act. We have highlighted these issues in a special "In Focus" section of this report.

Again, I appreciate the interest and cooperation we have received from the Department's management team, and look forward to continuing our mutual efforts to improve the efficiency and effectiveness of agriculture programs.

Sincerely,


LEON SNEAD
Inspector General

Enclosure

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Executive Summary

This is the 28th 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, 1992, through September 30, 1992.

The following excerpts summarize the results of our work during this reporting period.

Entitlement Programs

- In New York, two owners and the president of a wholesale meat firm **pled guilty to acquiring and redeeming \$82 million in food stamps**. This is the largest food stamp fraud case in the history of the program. (p. 10)
- **Fraud was discovered in connection with use of the Electronic Benefits Transfer (EBT) system**. 140 food stamp recipients and 2 retailers were charged. (p. 10)
- In Waco, Texas, **42 people were charged with trafficking in food stamps and crack cocaine**. Sentences of up to 25 years have been handed down. Three other trafficking cases involving food stamps and drugs are described in this report. (p. 11)
- Income misreporting caused about **\$28.6 million in food stamp issuance errors** in one State. An estimated \$13.2 million in claims against food stamp households were also outstanding. FNS is working with the State to correct the problems. (p. 12)
- **A Governmentwide computer system used to identify illegal aliens applying for food stamps may not be cost-effective**. State officials feel that few illegal aliens ever apply for food stamps and that State workers can identify those who do. (p. 13)
- **Two manufacturers of infant formula agreed to provide USDA with 3.6 million pounds of formula as restitution** for unfair bidding practices in the Puerto Rico WIC program. (p. 14)

Disaster and Deficiency Payments

- **ASCS has taken action against multicorporate farming operations** that improperly exceeded the limit on disaster and deficiency payments. (p.15)

- **ASCS' automated system needs improvement to identify foreign ownership** of farms. Previous audits found problems with payments to foreign farm owners. (p. 16)
- **One producer of specialty crops was not eligible for the \$57,000 in disaster payments** he received because his losses were covered by another organization. ASCS is reviewing for similar cases. We also found problems with ASCS' calculation of payment rates. (p. 16)
- **One ASCS office made \$1.6 million in program overpayments**, largely as a result of incorrect cost-share rates. We reviewed the State office as a result of allegations that programs were not being properly administered. (p. 16)
- **Over \$700,000 in restitution and claims were paid** in several cases involving the illegal activities of grain storage facilities. (p. 17)

Commodity Exports

- **A trading company was ordered to pay \$8.3 million** in restitution after pleading guilty to charges of inflating FAS guarantees for the sale of commodities going to Iraq. (p. 18)
- Because FAS used inaccurate pricing data, it paid 11 exporters **\$1.8 million in excess bonuses**. Another two exporters received \$2.1 million in improper bonuses after submitting erroneous information on their exports. (p. 18)
- **An exporter returned \$2.7 million in FAS bonuses** and pled guilty to charges that the company used a false contract price to become eligible for the bonuses. (p. 18)

Environmental and Consumer Protection

- **The Department needs to improve its guidance and monitoring of Federal facilities' compliance efforts with regard to management of hazardous materials**. We found compliance violations at 17 of 18 laboratories we reviewed. (p. 19)
- FmHA did not report 59 of its 64 hazardous waste sites, having concluded that farm inventory property was not reportable. As a result, the Department **understated its budget estimate for environmental cleanup by over \$2 million**. (p.19)

- An egg products processing company pled guilty to **concealing the presence of salmonella bacteria** in 500,000 pounds of dried egg product. **No human illnesses were reported.** (p. 21)
- **Uniform requirements and procedures are needed in the enforcement of marketing orders.** However, we did not find any evidence of selective enforcement. (p. 21)
- Audits of AMS operations found that **improvements are needed in the areas of computing and assessing user fees, and monitoring cooperators' fiscal operations.** (p. 21)
- **Improvements are needed in AMS' monitoring of collection and use of Dairy Board funds.** (p. 22)
- **APHIS needs to ensure that poultry hatcheries are properly inspected.** We found problems in three States. (p. 23)

Natural Resources

- FS efforts to use excess military aircraft for firefighting resulted in **unintended profits for private individuals and the possibility of increased costs on future airtanker contracts.** (p. 25)
- Producers farming on highly erodible land did not always apply the conservation practices SCS required, and some converted wetlands to croplands without SCS' approval. We estimate that in the 10 largest States, **producers were not eligible for about \$20 million** in 1991 program payments. (p. 26)

Rural Development

- **FmHA borrowers charged over \$7 million in excess profits and questionable costs** on contracts they entered into with construction companies to build rural rental housing. (p. 31)
- **A production credit association agreed to pay USDA \$4.2 million** as a settlement over charges the association falsified cash flow projections and financial statements, and submitted false chattel and real estate appraisals to FmHA for loan guarantees. (p. 31)
- **FmHA could save \$1 million annually in interest costs** in cases of borrower default by making earlier demands for loan notes held by third parties. FmHA could save additional interest costs by enforcing the timely surrender of these notes. (p. 32)

- An FmHA county supervisor **made over \$1 million in unauthorized loans**, two of which went to a close relative. FmHA's internal reviews noted the problem, but the district director did not provide the oversight he was asked to. The county supervisor subsequently retired. (p. 33)
- **FmHA does not always receive its share of increased property values when borrowers sell their property.** Our audit found problems with the calculation of net recovery buyout values and the preparation of shared-appreciation agreements. (p. 33)

Insurance

- FCIC made **\$1 million in overpayments** to a large Texas ranch that suffered crop losses over a 2-year period. In calculating the losses, the reinsured companies included uninsurable acres the first year and used inappropriate yields the second year. (p. 34)
- In Iowa, **a father and son were found guilty of defrauding FCIC of \$76,000** by concealing corn and soybeans they had harvested. The father was sentenced to 1-1/2 years in prison. (p. 34)

Department Administration

- Audits were completed for five of the FY 1991 USDA financial statements required by the CFO Act. We issued **unqualified (clean) opinions on CCC and FmHA, a qualified opinion on FNS, and adverse opinions on the Forest Service and USDA's consolidated financial statements.** (Details begin on page 35.) **USDA's implementation of the CFO Act is also the subject of IN FOCUS.**
- SCS needs to tighten its ADP security. Although security weaknesses in its computer system had been noted in three prior audits, and although SCS officials knew we would try to penetrate their system, **we were still able to gain unauthorized access to SCS' files** through several of the agency's telephone lines. (p. 39)

Employee Integrity Investigations

- An ASCS employee pled guilty to **fraudulently issuing over \$270,000 in CCC checks** to herself and eight other persons, including three ASCS employees. The employee issuing the checks was sentenced to 3 years in prison. (p. 42)
- Three cases involving **embezzlement of agency funds** are also described in this report. (p. 42)

Summary of Audit Activities

Audit Reports Issued

Reports Issued		245
Audits Performed by OIG	77	
Audits Performed Under Single Audit Act	76	
Audits Performed by Others	92	

Management Decisions Made

Number of Reports		239
Number of Recommendations		877

Dollar Impact (millions)

Questioned/Unsupported Costs		\$58.9 ^{ab}
Recommended for Recovery	\$44.4	
Not Recommended for Recovery	\$14.5	
Funds to Be Put to Better Use		\$27.1
Total		\$86.0

^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 plans and seek recovery of amounts recorded as debts due the Department.

Summary of Investigative Activities

Reports Issued	745
Cases Opened	692
Cases Closed	693
Cases Referred for Prosecution	439

Impact of Investigations

Indictments	614
Convictions	435 ^a

Dollar Impact (millions)

Recoveries	\$17.9 ^b
Restitutions	\$9.3 ^c
Fines	\$0.5 ^d
Cost Avoidance	\$2.2 ^e

Administrative Sanctions

Employees	48
Businesses/Persons	214

^a Includes convictions and pretrial diversions.

^b Includes 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.

In Focus:

Implementing the CFO Act

IN FOCUS is a special feature of the Semiannual Report to Congress describing the Office of Inspector General's perspective on an area of particular interest to Congress and USDA management.

Few legislative initiatives in recent years have had as significant an impact on the Federal community as the Chief Financial Officers (CFO) Act of 1990. The act seeks to improve Federal financial management by requiring, among other things, that agencies integrate budget, cost, and financial management information; develop systematic performance measures; and prepare annual financial statements. The act also mandates that the Federal Inspectors General perform annual audits of the financial statements. USDA was designated by the act as one of several "pilot" agencies required to submit audited agencywide financial statements beginning in FY1990.

Our audit work to date indicates that the Department has made substantial progress toward implementing the requirements of the CFO Act. During this round of reviews, we found no major violation of laws or regulations in any USDA agencies. However, there are major problems in several of the Department's financial and internal control systems that need to be corrected before these systems can be relied on to produce accurate data.

Overview of Audit Findings

Some Systems Are Reliable

Four agencies within USDA have been preparing financial statements since the mid-1980's. These agencies are the Federal Crop Insurance Corporation (FCIC), the Rural Electrification Administration (REA), the Commodity Credit Corporation (CCC), and Farmers Home Administration (FmHA). Our audit work has shown that these agencies are, in general, farther along in implementing the CFO Act than are others within the Department. Our audits indicate that the systems of FCIC, REA, and CCC are capable of generating reliable data for preparing financial statements, and that the staffs in those agencies have a good understanding of the accounting principles on which the statements should be prepared. However, CCC is not following Generally Accepted Accounting Principles (GAAP) or Title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies, for some of its transactions. Most of these transactions are unique to CCC. Determination of the appropriate principles to follow in recording certain CCC transactions is an issue that must be addressed by the Federal Accounting Standards Advisory Board (FASAB).

Our audit of FmHA's FY 1991 financial statements showed that significant improvements have been made since the FY 1990 audit, particularly in FmHA's acquired property tracking system. As a result, we were able to review the system and additional data provided by FmHA and remove the qualification that we had previously reported on the financial statement. Improvements are still needed, however, to correct internal control weaknesses we found.

Some Systems Have Problems

A significant portion of the data used to prepare the financial statements of the Food and Nutrition Service (FNS) comes directly from State and local governments. Our audit of FNS' FY 1991 financial statements identified a major problem with the systems used by State and local government entities to capture and report certain types of program and financial data to FNS. We found that much of the information reported to

FNS was inaccurate. These dollar amounts had a significant effect on the fair presentation of FNS' receivable balances. As a result, we issued a qualified opinion on the FY 1991 financial statements. This opinion will stand until the condition noted is corrected or until the principles for recording accounts receivable are modified by FASAB.

Some Systems Are Unreliable

Our audit work in the Forest Service indicates that the financial systems for that agency need considerable improvement before they can be relied on to produce accurate data for financial statement preparation in accordance with GAAP. We found major accounting deficiencies in all of the Forest Service's financial systems; this affected the accuracy of the accounting data used to prepare the agency's financial statements. We concluded that the departure from GAAP was so material that the financial statements, taken as a whole, cannot be relied upon. We thus issued an adverse opinion on the Forest Service's FY 1991 financial statements. We also noted major weaknesses in the agency's internal control structure.

USDA's FY 1991 consolidated financial statements were affected by the statements and systems of the Department's individual agencies. We issued an adverse opinion on the consolidated statements. Inaccuracies in reporting by the individual agencies, and inconsistencies in reporting between agencies, contributed to the adverse conditions we found. In addition, we found major problems in the consolidation process itself; these conditions need improvement before reliable consolidated statements can be prepared from the Department's accounting systems.

Internal Control Structures

The audits mandated by the CFO Act included not only a review of the financial statements themselves, but also a review of agency internal controls. Our audits found significant weaknesses in the internal control systems in every agency we reviewed. Department officials need to focus on improving the internal control structures. Details of our findings are discussed beginning on page 35 of this report.

Key Issues

Our experience to date in auditing USDA's financial statements indicates several key issues that must be addressed if the Department is to successfully implement the CFO Act and reap its benefits.

System Improvements

Our audits indicate that existing accounting and financial management systems will have to be improved — and in some cases, redesigned — to produce reliable financial data. In some instances, staff had to manually gather and manipulate data from many diverse systems in order to prepare the statements and validate account balances because the automated systems did not produce the needed information. Problems in the systems maintained at the National Finance Center and the National Computer Center are particularly critical because they support the financial statements of the Forest Service, as well as the statements of USDA's smaller agencies. In addition, these systems impact USDA's consolidated statements.

The Right Staff

Now that USDA's CFO has been appointed, it is critical that attention be directed to appointing other key staff. We found that many USDA agencies do not have qualified staff to perform the functions necessary to implement the CFO Act. Individuals with expertise in accounting and financial management will need to be placed in key operational and policy positions throughout the Department to provide the proper guidance, and to perform the analytical, accounting and reporting functions that are required by the act. A good understanding of accounting principles and concepts is also necessary to address the technical aspects that arise in interpreting financial data and in preparing financial statements. It is important that senior financial managers understand the meaning of accounting principles, professional auditing standards, and audit opinions. This is critical if managers are to understand the role of those who prepare the financial statements and that of the auditors.

The Cost of Implementation

From the audit perspective, implementation of the CFO Act has been very costly, and will continue to be so for the near term. Even with extensive use of automated tools and statistical sampling techniques, the audits are extraordinarily labor intensive, requiring specialized knowledge of accounting standards and principles, as well as a thorough understanding of USDA programs and related financial systems. Since passage of the CFO Act, OIG has taken an aggressive approach to ensuring that its staff has the skills and tools needed to perform the required work. As a result, most OIG auditors are now able to perform, or assist on, financial statement audits.

In FY 1992, approximately 20 percent of OIG's audit resources were expended on financial statement audits. Commitment of staff to this activity has resulted in the cancellation or deferral of critical performance audits in the areas of meat inspection and dairy processing, commodity operations, loan servicing, price support programs, and crop insurance administration, among others. These performance audits have traditionally identified instances of fraud and mismanagement in USDA programs, as well as resulted in millions of dollars returned to the Federal treasury. The benefit to the taxpayer of this significant shift in priorities is an issue that will need to be considered in the future.

Agency Overviews

An important component of the annual financial reporting required by the CFO Act is the Overview of the Reporting Entity. The overview should provide readers with background on the entity, a summary of agency mission and programs, and a status of financial management within the agency. The overview should also include a discussion of the agency's performance as measured by indicators developed in accordance with the act.

Our reviews indicate that USDA managers need to focus attention on the overviews. This may be an area where good writers could contribute as much as, if not more than, good financial managers. Our observation is that the overviews, as written, were too voluminous to communicate key points. In addition, we found that data was lacking to support certain statements and graphics found in the overviews. Finally, we found that performance measures were not included in most of the overviews.

Development of Performance Measures

The CFO Act requires agencies to ensure that their financial systems provide a systematic measurement of program performance. In USDA, as in many other departments, this effort is still underway. USDA officials participated on an OMB task force whose goal was to develop generic performance measures for programs with similar functions (e.g., loanmaking). Within the Department, some agencies (such as FmHA) have developed interim measures and are continuing to refine them. Other agencies are just beginning to develop performance measures. The development of Departmentwide and agency-specific performance measures is an area that will need to be addressed in the future.

Comprehensive Guidance

Clear, comprehensive guidance is critical for successful implementation of the CFO Act. Now that USDA's CFO structure is in place, management should ensure that staff in all agencies receive appropriate guidance so that financial data will be consistently and accurately gathered and reported. This guidance is particularly critical for agencies whose staffs have little or no previous experience in preparing financial statements. In addition, guidance is needed on the importance of the overview section of the financial statement, the development of performance measures, and the relationship of financial performance to program operations. Department officials recognize this need, and have made a commitment to improve guidance to agencies in preparing the FY 1992 statements.

For its part, OMB and the FASAB must provide guidance regarding certain unique transactions reported on various agencies' financial statements. The issue of determining the appropriate accounting principles for unique transactions must be addressed.

Cooperation Is Key

Support from both Congress and the executive branch is critical to successful implementation of the CFO Act. Not only must adequate resources be made available, but appropriate attention must be paid to the process itself and to the issues that must be resolved. Within agencies, CFO's and IG's must work closely together to facilitate the process and to assist management in understanding the issues that are raised and the results produced. Cooperation is also needed among IG's, CFO's, OMB and the FASAB to resolve outstanding issues regarding accounting standards, appropriate guidance and procedures, and the timeliness of required products.

Benefits of Audited Financial Statements

Many of the benefits to be derived from the preparation and audit of Government financial statements are long term in nature and will not be realized for a few years to come. In USDA, redesign and refinement of accounting systems to meet all required accounting and financial management standards will be a major effort. However, the end result will be improved accounting systems and internal controls. More accurate and timely data regarding program costs will, in turn, enable program managers to choose the most efficient and effective method for delivering program benefits. Improved financial data, when integrated into the budget process, will also assist lawmakers in decisions regarding program funding.

In our opinion, benefits have already been derived through the process of preparing and auditing USDA's financial statements. Program managers are more aware of the significance of accurate financial reporting, and in many cases have begun corrective actions to address the deficiencies noted in our audit reports. They have also become more educated about both the statement preparation and audit processes. This is certain to facilitate implementation of specific audit recommendations as well as overall implementation of the CFO Act.

Conclusion

Efforts to implement the CFO Act of 1990 are well underway in the Department of Agriculture. OIG will continue its commitment to carry out the law's provisions and to work with management to facilitate financial management improvements.

Detailed findings of FY 1991 financial statement audits of CCC, FmHA, FNS, Forest Service, and USDA's Consolidated Statement begin on page 35 of this report. Audit findings for REA and FCIC were reported in our last Semiannual Report to Congress. Detailed findings of FY 1990 financial statement audits may be found in our previous Semiannual Reports to Congress.

Food and Consumer Services

Food and Nutrition Service (FNS)

FNS administers the Department's food assistance programs, which include the Food Stamp Program; the Child Nutrition Programs; the Special Supplemental Food Program for Women, Infants, and Children; and the Food Donation Program. These programs are designed to provide persons in need with a more nutritious diet, improve the eating habits of the Nation's children, and stabilize farm prices through the distribution of surplus food.

FNS program funding levels for FY 1992 totaled approximately \$33 billion. The Food Stamp Program received the largest share of this, over \$22 billion. Because of the size of this program and the potential for fraud in it, we allocated a substantial portion of our resources to reviews of FNS' administration of the program, and to fraud in the program, particularly food stamp trafficking.

Food Stamp Program (FSP)

\$82 Million Food Stamp Fraud Uncovered

In New York, two owners and the president of a wholesale meat firm pled guilty to charges of illegally acquiring and redeeming over \$82 million in food stamps. This case represents the largest food stamp fraud since the program was established in 1964.

In the 1970's the businessmen obtained USDA authorizations to participate in the Food Stamp Program for their wholesale meat company and a small retail grocery store. However, in 1982 authorizations for most wholesale firms, including their firm, were withdrawn in an effort to reduce food stamp fraud. Our investigation found that the businessmen continued to accept approximately \$82.2 million in food stamps in their wholesale store from 1982 until it was raided by OIG special agents in July 1991.

The businessmen redeemed the food stamps at a bank using the authorization of their small retail grocery store, even though that store had been closed as a retail store since the mid-1980's. During 1990 alone, they illegally redeemed over \$12.8 million in food stamps, about 2 percent of the food stamps redeemed by all stores in New York City.

The businessmen provided a laundering outlet for store owners who had obtained food stamps illegally. The investigation found many of the wholesaler's customers were not authorized to accept food stamps from recipients; several others were stores which had been disqualified from the Food Stamp Program for violating the program's provisions, including buying food stamps for cash. The investigation is continuing.

Restaurant Operator Convicted of Trafficking in Food Stamps

The operator of four carryout restaurants, three in Washington, D.C., and one in Maryland, pled guilty to purchasing over \$85,000 in food stamps from undercover agents. After he purchased \$78,000 worth of food stamps in one transaction for \$38,000 cash, the operator was arrested by OIG special agents who seized the food stamps and cash. Our investigation found that the operator planned to open a retail store through which he would redeem the illegally obtained food stamps. An FNS application for authorization to redeem food stamps had already been completed. As a result of these activities, the operator was sentenced to 5 months' imprisonment, 5 months' home detention, and 2 years' supervised probation. He was also ordered to pay \$3,980 in restitution.

Charges Brought in First Electronic Benefits Transfer Case

In Reading, Pennsylvania, 140 food stamp recipients and the 2 owners of a small sandwich shop were charged with theft by deception and food stamp fraud in connection with their activities involving the Electronic



EBT cards may eliminate food stamp coupons and retailer redemption certificates in the future. OIG photo.

Benefits Transfer (EBT) System. This was the first major investigation involving the EBT system. This system will enable Government agencies to deliver food stamp benefits to recipients via the use of electronic technology, thus eliminating food stamp coupons and retailer redemption certificates.

From June 1988 through September 1991, the shop owners conducted 11,695 food stamp transactions via the EBT system with 601 different food stamp recipients and received about \$200,000 in food stamp funds. The investigation found that at least 313 of those 601 recipients illegally sold some or all of their benefits to the store owners for cash. Recipients who sold their benefits normally received 65 to 70 percent of the face value of the benefits in cash. We estimate the store owners defrauded the Food Stamp Program of approximately \$122,000.

The two owners have pled guilty to theft, conspiracy, and food stamp trafficking. To date, 100 of the 140 food stamp recipients have pled guilty and have been suspended from participating in the Food Stamp Program for a period of 2 years. Judicial proceedings against the remaining recipients are continuing, and additional criminal charges in this case are expected.

Food Stamps Exchanged for Drugs

An ongoing concern of OIG is the use of food stamps in drug transactions. During this reporting period, we joined in a significant number of investigations with other Federal, State, and local law enforcement agencies to identify individuals and retail stores which are accepting food stamps in exchange for illegal drugs.

- In Waco, Texas, 42 people were charged with trafficking in food stamps and crack cocaine as a result of undercover transactions conducted by OIG special agents. During the investigation, food stamps and cash were used to purchase crack cocaine from drug dealers. Many of the transactions occurred within 1,000 feet of a playground or school, a violation which carries increased criminal penalties. OIG jointly conducted the operation with Federal, State, and local law enforcement agencies. The U.S. attorney's office asked OIG to lead the investigation in response to requests from local authorities and news reports that narcotics dealers were selling drugs for food stamps. To date, court action has been completed for 31 of the people charged:

25 received Federal court sentences ranging from 21 months to 21 years, and 6 received State court sentences ranging from 10 years to 25 years.

- In Beaumont, Texas, 13 people were convicted of food stamp and drug trafficking charges. Six of those convicted were sentenced to confinement for periods ranging from 7 months to 14 years. Three others were fined amounts ranging from \$1,000 to \$5,000. The prosecutions resulted from a joint undercover investigation conducted by OIG and other Federal, State, and local law enforcement agencies.
- As a result of an investigation conducted jointly with a Federal-State task force in Missouri, two persons were convicted on drug charges relating to the distribution of cocaine. Food stamps were exchanged for the drugs during the course of the investigation. Both individuals pled guilty to charges against them and were sentenced to prison terms of 30 years each. Dispositions against other subjects of this investigation are pending.
- In Baltimore, Maryland, 11 individuals were charged in Federal and State courts with food stamp and narcotics trafficking. During the 1-year investigation, OIG agents exchanged over \$70,000 worth of food stamps for approximately 13 ounces of cocaine, a quantity of marijuana, and \$9,340 cash. When agents executed Federal search warrants at the residences of two of the individuals charged, they recovered firearms, narcotics, and food stamps. Of the 11 people charged, 10 have been arrested to date. Four of those arrested have pled guilty. Sentencing is pending.

OIG Agent Assaulted During an Undercover Food Stamp Operation

In Virginia, two men were convicted of assaulting an OIG special agent during an undercover transaction in which food stamps were to be exchanged for crack cocaine. Four men, two armed with handguns, attempted to rob the agent of the food stamps when they could not obtain the quantity of crack cocaine they thought they needed to purchase the stamps. Gunshots were exchanged during this assault and attempted robbery; however, there were no injuries. A third man involved in the incident has been identified and is expected to be indicted soon. The fourth man has not been positively identified. Sentencing is pending for those convicted.

FNS Needs To Calculate and Control Error Rates More Effectively

FNS controls the quality of the FSP by reviewing each State's eligibility determinations, calculating the error rates, and developing plans to reduce them. States also perform their own quality control reviews, using FNS guidelines. Nationally, the overpayment error rate for FY 1990 was 7.35 percent, resulting in over \$1 billion in estimated FSP overpayments. The following paragraphs summarize our findings this period related to FNS' calculation and control of these error rates.

- We reviewed the method used by FNS to compute payment error rates, its effectiveness in evaluating State quality control reviews, and the manner in which State and FNS reviewers settle disagreements about errors. We also evaluated States' compliance with FNS' sample selection guidelines. Based on our review, which included work in two States and FNS national and regional offices, we concluded that operations were conducted in a satisfactory manner. We had one concern, however, about the length of time it took to settle disagreements between FNS and the States and the effect this had on the calculation of error rates.

If a State disagrees with FNS' decision about a household's certification, it may appeal that decision to a regional arbitrator, and finally to the national arbitrator. In FY's 1989 and 1990, the national arbitrator did not complete reviews of 270 cases in time for the results to be included in the calculation of the nationwide error rates and tolerance levels. Rulings on 151 of these cases would have reduced tolerance levels for these 2 years and increased FNS' penalties against States by almost \$1.9 million.

We recommended that the national arbitrator's reviews be completed in time to be included in the computation of the nationwide error rate and tolerance level. FNS officials agreed to improve the timeliness of these reviews.

- We completed a review of one State's efforts to reduce its error rate. The error rate was 10.1 percent in FY 1989 but had increased to 13.2 percent in FY 1990, the second highest rate in the Nation. In FY 1990, the State overissued \$35.7 million in food stamps and underissued \$14.8 million.

Our review disclosed that the State's actions to lower its error rate either did not address the causes of errors or were not adequately implemented by county offices. The State's corrective action plan did not target households that quality control reviews showed had a higher potential for error. The plan also did not contain actions to eliminate recurring problems identified by the States' internal reviews. In addition, supervisors were not sufficiently evaluating the quality of their eligibility workers' certification work. We found the following significant problems.

- Eligibility workers were not processing information in a timely manner for "error-prone" households. For example, some households with earnings were required to report their financial circumstances to the food stamp office each month because their incomes fluctuated continuously, making their cases more prone to errors. These households represented over half of the cases with certification errors in FY 1990. In June 1991, about 58,000 (23.5 percent) of the State's 246,600 households were required to report monthly.
- Eligibility workers were not using wage-matching information designed to identify households that incorrectly reported their incomes. In FY 1990, income misreporting caused about \$28.6 million in statewide food stamp issuance errors.
- The State had accumulated a large backlog of potential claims against food stamp households. We estimated that the backlog of approximately 34,000 claims totaled about \$13.2 million. Additionally, food stamp claims against participating households were not being collected. Over 900 households in 2 counties we reviewed owed about \$895,000 but continued to participate in the program without paying their debt or having their food stamp benefits reduced.

We recommended that FNS help the State develop more effective ways of reducing its error rate. We specifically recommended ways to target error-prone cases and to collect claims for food stamp overissuances in a timely manner. FNS is working with the State to implement our recommendations.

Because of the size of the FSP and the potential for fraud, our work is continuing in this area. We plan to conduct reviews in additional States to evaluate efforts to reduce program losses.

18 Convicted in Multi-State Fraud Ring

Eighteen migrant farm workers were convicted in eastern Washington on charges of falsifying applications for food stamps and other welfare benefits in at least five States where they performed seasonal work. Our investigation, which was conducted with the assistance of several other agencies, disclosed that from 1989 to 1991, the farm workers fraudulently obtained over \$30,000 in food stamps and \$55,000 in other welfare benefits (including AFDC) when they concurrently applied for benefits in Washington, Colorado, Nebraska, Wyoming, and Oregon. To date, 10 of the defendants have been sentenced to prison terms and have been ordered to pay restitution and fines totaling about \$70,000. The other eight defendants remain to be sentenced.

Sisters Convicted in Caseworker Fraud Scheme

Two sisters who were caseworkers for the Louisiana Department of Social Services were convicted of conspiracy, unauthorized possession and use of food stamps, and fraudulent use of Social Security numbers. A joint investigation by OIG and the Louisiana Department of Social Services found that while working for the State agency, the sisters arranged to issue over \$50,000 in food stamps to unqualified or nonexistent persons. A third sister was also convicted in the scheme. Six others who also participated have previously pled guilty or were placed on pretrial diversion by the U.S. attorney's office. Sentencing of the three sisters is pending.

Alien Verification System May Not Be Cost-Effective

The Immigration Reform and Control Act of 1986 mandates that States verify the status of aliens applying for benefits under the FSP. The act requires the Immigration and Naturalization Service (INS) to make available to States a nationwide system through which the States could verify alien status when determining an applicant's eligibility to participate in the FSP and other Government benefit programs. States were to use the system, unless the cost of administering it exceeded the estimated savings. In such a case, FNS could grant a waiver under provisions of the act.

During this reporting period, we evaluated States' use of the INS Systematic Alien Verification for Entitlements System. FNS reimburses States for 100 percent of the administrative cost of using the system to detect illegal aliens who may apply for FSP benefits. From FY 1989,

when the system was implemented by most States, through FY 1991, FNS paid approximately \$7.2 million to cover this cost. It budgeted \$2.9 million for the cost for FY 1992, and expects to pay \$5 million in FY 1993.

Our audit found that the system may not be cost-effective. State agency officials in California and Texas could not provide documentation showing any instances where the system prevented an illegal alien from receiving FSP benefits. For FY 1991, these two States verified the status of about 736,000 alien applicants. One county in California did keep records, which disclosed the county detected 1 illegal alien from about 7,000 checks made for the period July 1991 through January 1992.

State officials said that from their experience, illegal aliens do not want to risk detection by applying for FSP benefits. They stated further that the system is not needed because procedures already in effect allow eligibility workers to detect applicants who are potentially illegal aliens and refer them to INS for verification of alien status.

States with large alien populations requested waivers from implementing the INS system, but these requests were denied by FNS. In addition, FNS has directed Massachusetts and New York to implement the system by FY 1993. Although FNS officials believed that the cost-benefits of the system were questionable, they acted to comply with the law and INS instructions.

We recommended that FNS stop paying for the system because it appears from our audit work that it is not cost-effective. FNS officials agreed with our recommendations and stated they will initiate corrective actions in coordination with INS and other affected Government agencies.

National School Lunch and Breakfast Programs

School districts that participate in the National School Lunch Program (NSLP) and the School Breakfast Program (SBP) are reimbursed by FNS for meals served to students. To evaluate compliance with these programs, OIG relies to a great extent on single audits performed under OMB Circular A-128.

School District Made Inaccurate Eligibility Determinations

OIG reviewed reimbursement claims for meals served by a large school district that received over \$4.3 million in Federal repayments for the 1990-91 school year. Because the State auditor found an error rate of over 60 percent in the district's eligibility determinations, we focused our reviews on how well district officials approved households for free or reduced-price meals. We found that eligibility was improperly calculated for over 22 percent of our randomly-selected sample of students receiving free or reduced-price meals. We estimated excess reimbursements of over \$308,000 for the whole district for the first 5 months of the school year reviewed.

Most of the errors were caused by recipient households, while other errors were caused by the school district. Households either underreported income on the applications or failed to notify the school district of changes in income. For its part, the district did not have all applications on file and neglected to complete or update some of those that were on file. In some instances the district also calculated income incorrectly.

We recommended that the State agency use all available means, including the results of single audits, to monitor district operations. As a result of our audit, State agency and FNS officials visited several schools in the district to perform technical assistance reviews.

School Districts Misapplied Interest Income

At the request of FNS, we reviewed the handling of investment income at 4 out of 145 school districts in 1 State. States enter into agreements with districts to provide nonprofit school food services. We found that the districts we reviewed earned interest income of \$269,600 on their food service funds but did not credit the money to the food service accounts, and that two districts lost interest income of \$91,800 on food service funds because they improperly lent money to local government agencies.

The State auditor's office did not include reviews in this area as part of the single audits of school districts.

We recommended that the questioned costs be restored to the food service accounts, that reviews be made of other districts to identify misapplied investment income, and that coverage of food service accounts be included in single audits. FNS has sanctioned the State agency

by releasing only partial administrative funding until all corrective actions have been completed. The State auditor has agreed to review this area in future audits.

Child and Adult Care Food Program (CACFP)

Sponsors' Poor Internal Controls Cause Over \$600,000 in Questioned Reimbursements

FNS provides cash and commodities, either directly or through a sponsor, to nonresidential day care centers so they can serve nutritious meals to their enrollees. OIG contracts with CPA firms to audit those centers that receive reimbursement.

During this reporting period, the audits of 79 sponsors in 2 States questioned over \$600,000 in costs. The centers with whom these sponsors worked either reported enrollment inaccurately, claimed meals in excess of licensed capacity, claimed more meals than their attendance reports showed, submitted inaccurate claims, overstated administrative costs, or were not approved by FNS to operate the CACFP.

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

Special Supplemental Food Program for Women, Infants, and Children (WIC)

WIC Program Receives 3.6 Million Pounds of Infant Formula as Restitution

The Federal Trade Commission took further action based on an earlier OIG investigation of bid rigging in the Puerto Rico WIC Program. As a result, two manufacturers of infant formula reached a settlement, pursuant to an agreement under the Federal Trade Commission Act, for unfair bidding practices. The charges against the manufacturers related to their bidding practices in the 1990 WIC contract for Puerto Rico to provide formula to more than 40,000 infants. The manufacturers colluded on their bids to ensure that each would get a portion of the contract. Their actions resulted in the loss of millions of dollars to the WIC program and denied essential benefits to thousands of participants.

Under the settlement, the two manufacturers agreed to provide USDA with 3.6 million pounds of infant formula as restitution. A third manufacturer is facing a hearing on similar charges.

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 1992, ASCS estimates outlays at \$1.9 billion for conservation programs. CCC funds all other ASCS program operations, with estimated outlays of \$10.6 billion, an increase of \$.5 billion over FY 1991.

ASCS Takes Actions Against Corporate Schemes To Evade Payment Limits

Many farm program payments are limited by law. Each "person" contributing to a farming operation may receive up to \$50,000 in payments, if the "person" meets eligibility requirements. In 1987, Congress tightened controls over these requirements by further limiting eligibility. However, the new requirements 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 among the corporate partners to satisfy the requirements.

In a previous period, we reported that 16 large multi-entity farming operations qualified 205 "persons" to receive \$6.7 million in payments. We concluded that 143 of the corporate partners in these operations were merely "shell" corporations used to qualify additional "persons" for payment. Without the 143 corporations, the farms would have received only \$2 million in 1989 program payments, \$4.7 million less than they actually received.

During the current period, ASCS ruled on four partnerships included in that audit. The 4 partnerships contained 44 shell corporations as partners. In its ruling, ASCS stated that although the entities were formed to

meet the requirements of State law, evidence showed that they existed only to evade payment limitations and therefore constituted a scheme or device. Based on the ruling, these four partnerships were determined ineligible for \$2.2 million in program payments for the 1989 and 1990 crop years.

In response to the problem of shell corporations, ASCS initially proposed new rules that would define such a corporation as one that has little actual risk of loss in a farming operation. The proposed rules would also set forth eligibility requirements for corporations to participate in ASCS programs.

In a recent communication, ASCS reversed its position on pursuing the proposed rules, stating that the changes would be contrary to the intent of Congress. However, ASCS has agreed to continue to examine cases that may constitute schemes or devices to evade payment limitations. We are evaluating ASCS' communication and will work with the agency to eliminate abuses of the payment limit.

Also during this reporting period, the U.S. court of appeals reversed a lower Federal court ruling on a Mississippi partnership and thereby sustained ASCS' previous determinations that a scheme or device had been used. This scheme was first disclosed in an OIG audit that showed the partnership reorganized on paper, changing from 3 intermingled joint operations with 12 owners in 1988 to 47 owners in 1989. The partnership earned \$1.69 million in 1988; if it had not been reorganized in 1989, it would have received only \$666,000. However, by reorganizing under provisions of the Omnibus Budget Reconciliation Act of 1987, the partnership was able to bring in additional owners and receive \$1.43 million.

We are currently reviewing additional cases for compliance with 1991 payment limitations and plan to do more audits of participation in ASCS programs by corporate partners.

Father and Son Guilty in Payment Limitation Scheme

In Nebraska, a father and son with large farm holdings were convicted of making false statements to ASCS to avoid the payment limit. The father was fined \$10,000, and the son was fined \$5,000 and placed on electronically monitored home confinement for 6 months. The father and son falsely claimed that other individuals

were producers on portions of their farmlands and were therefore eligible for price support payments. This scheme allowed the father and son to collect the additional funds and exceed the payment limit. Civil action against both is pending.

Better Identification of Foreign-Owned Farms Needed

The 1987 Omnibus Budget Reconciliation Act prohibits farm program payments to foreign owners of domestic farms unless these owners actually provide all the resources and labor.

We previously reported the results of reviews of 19 foreign-owned farms in Arkansas. Five of the foreign owners had received ASCS program payments of over \$45,000 even though they did not provide active personal labor in operating the farms. ASCS is pursuing collection of the \$45,000.

During this period, we found that ASCS' automated system could not identify foreign ownership of farms. Also, ASCS controls over foreign investment reporting and administration were not operating effectively. County offices did not follow procedures for reporting required information, and the ASCS National Office did not consistently assess and enforce penalties stipulated by the Agricultural Foreign Investment Disclosure Act of 1978.

ASCS officials agreed to include foreign ownership information in county office data bases and to emphasize the importance of keeping track of foreign-owned farms.

Controls Over Disaster Payments for Nonprogram Crops Need Strengthening

Our audit of payments for nonprogram crops for the 1990-91 Disaster Assistance Program found that ASCS personnel in two States made errors when establishing payment rates. The personnel made mathematical errors or used the wrong years' data when establishing the rates. A total of 19 rates were erroneous, some overstated by as much as \$2, and at least 1 understated by as much as \$13.

As a result of our audit, ASCS officials instructed State offices to check the payment rates for mathematical errors before making payments. However, they stated it was too late to refigure the payment rates based on different history years. They agreed to ensure that

ASCS personnel perform second-party reviews of all established payment rates for future disaster programs.

We also found that producers may be receiving disaster payments even though their losses are already covered by other organizations, such as packing sheds. For example, a producer who contracted with a packing shed to buy his cantaloupes received operating costs from the packing shed that covered all costs of planting, growing, and harvesting the crop. In turn, the packing shed would realize 50 percent of all crop profits. Under the terms of the contract, therefore, the producer was paid to work the crop on his own land and was not financially at risk. The producer certified that he owned a 100-percent share of the crop, but his settlement sheets for 1989 and 1990 showed that the packing shed absorbed his losses.

Because the producer did not assume any risk for lost production, we questioned his eligibility for over \$57,000 in disaster payments for 1989 and 1990. The packing shed itself was not eligible for any of the disaster payments since its income exceeded the \$2 million gross income requirement.

ASCS agreed that the producer was not eligible in this case and will recover the \$57,000 as well as review for similar cases. We also recommended that ASCS require producers who have contracts with packing sheds to submit the contracts and settlement sheets when applying for disaster payments so that each party's interest in the crops can be determined. We are performing additional reviews to identify similar situations involving other crops.

Farmer Convicted of Making False Disaster Claims

An Alabama farmer who was acquitted on charges of crop insurance fraud was indicted a second time after an OIG investigation showed that she caused a witness to present false material at her trial and that she made false statements to ASCS to obtain over \$17,000 in disaster payments. The farmer pled guilty and was sentenced to 2 years in jail.

ASCS Needs To Improve Program Operations In One State

We performed a review of program operations in one State at the request of the ASCS National Office. The request stemmed from allegations by a complainant that ASCS programs were not being properly administered in some county offices.

As a result of our audit, we questioned a number of program decisions made by both State and county officials. These decisions did not fully comply with ASCS regulations and resulted in improper payments to producers, including both overpayments totaling about \$1.6 million and underpayments totaling over \$2,000. The improper payments occurred despite prior internal reviews that had recommended improvements in the administration of ASCS programs in this State.

Although some of these overpayments were disclosed as a result of the allegations, we identified the larger amount independently of the allegations. One source of this amount was incorrect cost-share rates. In 1 county office, 32 of 45 Conservation Reserve Program practices were approved for payments at a cost-share rate in excess of the rate established by the State. We also determined that the cost-share rates established by the State were excessive. Using the cost-share rates determined by our audit, we calculated that overpayments exceeded \$1 million.

We recommended that ASCS correct the errors noted and collect the overpayments made to producers. We also recommended that ASCS provide additional training to State and county officials, evaluate hiring a second program specialist for the State office, and establish an internal review program for State operations.

We were also aware of a potential conflict of interest regarding the State director. The State director was part owner of a retail farm equipment and supply company that had business dealings with ASCS program participants. We did not find any evidence that the State director benefited improperly from any business connection, but we concluded that the connection presented the appearance of a conflict of interest. We recommended that ASCS ensure that the connection is not a conflict of interest.

ASCS officials agreed with our findings and recommendations. They did not believe that the State director's situation constituted a conflict of interest, but because of the perception of a conflict of interest, will determine whether the State director should give up any interest in the business.

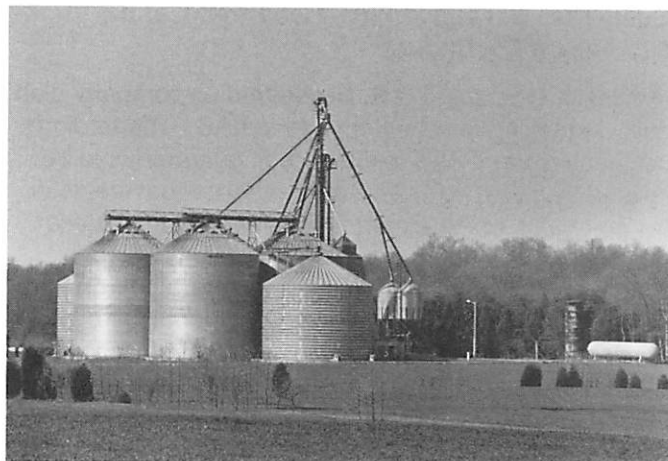
Grain Storage Facilities Found Engaging in Illegal Grain Deals

- In North Dakota and Minnesota, 12 grain elevator companies paid over \$200,000 in claims to avoid civil fraud proceedings and other legal actions.

The elevator companies had contracts to store Government owned and mortgaged grain. When producers delivered mortgaged grain, the elevator companies altered grading factors, mainly test weight, to make it appear that the grain did not meet standards for Government storage. Faced with having to manage grain that appeared unsuitable for long-term storage, Government merchandisers sold the grain to the elevator companies, at a discount based on the lowered grading factors. This enabled the buyers to purchase the grain from the Government for less than its true value and sell it for its true value, realizing an instant profit.

The claims paid by the elevator companies represented the difference between the true value of the grain, based on accurate grading factors, and the purported value, based on the lowered grading factors.

- The owner of a California grain storage company illegally sold CCC-owned corn valued at \$525,000. He also collected \$13,000 in unearned storage fees from CCC for the corn. The storage company owner pled guilty to illegally converting the corn and making false statements. He has agreed to pay \$505,000 in restitution over 4 months (\$100,000 has already been paid). Final sentencing for the owner is pending.



Private facilities contract to store Government owned and mortgaged grain. USDA photo.

Foreign Agricultural Service (FAS)



USDA export programs promote U.S. agricultural commodities in foreign markets. USDA photo.

FAS expands foreign markets for U.S. farm commodities by gathering, analyzing, and issuing information on foreign market supply and demand; by working to gain access to foreign markets; and by promoting increased foreign consumption of U.S. agricultural commodities. CCC provides direct funding for the Export Enhancement and Market Promotion Programs, donations through the Section 416 Program, differential payments for ocean freight and direct loans through the Public Law 480 Program, and short- and intermediate-term credit guarantees through the Export Credit Guarantee Program (GSM 102 and 103).

Guilty Plea Results in Fine, Debarment, and \$8.3 Million Restitution

In Atlanta, Georgia, a U.S.-based trading company pled guilty to making false statements to FAS. The trading company caused FAS' export credit guarantees to be inflated by including "after sales services" payments in the port value of the export credit sale. (Port value is the total value of the export credit sale less any discounts or allowances; FAS bases its guarantee on port value.) The "after sales services" payments were provided to an agency of the Government of Iraq, which has now defaulted on its payments for the sales. The trading company agreed to pay \$8.3 million in restitution, which represents the amount of guarantees

containing the "after sales services." The trading company was also fined \$10,000, the maximum under the law. A division of the trading company and three individuals responsible for authorizing the "after sales services" payments were debarred from Government programs for up to 3 years.

Improvements Needed in the Export Enhancement Program (EEP)

The EEP allows FAS to make U.S. agricultural commodities competitive in the world market by paying exporters the difference between the high purchase price U.S. producers charge and the low sales price foreign markets bring. Under the EEP, this payment is called a "bonus." During FY 1990, CCC entered into 664 agreements with 47 exporters and paid EEP bonuses totaling about \$312 million.

We reviewed 87 of these agreements, which paid exporters about \$30 million in EEP bonuses, and found that 11 had been reviewed improperly. Exporters had asked for payments in excess of FAS price limits, but FAS did not detect the excess because it used inaccurate pricing data. On the 11 agreements, FAS awarded ineligible or questionable bonuses of about \$1.8 million.

We visited three exporters and found that two submitted erroneous information or altered documents on four agreements to obtain approval or release of EEP bonuses. Improper bonuses totaled approximately \$2.1 million. One of the exporters is currently being investigated.

We recommended that FAS keep its market pricing data current and periodically review EEP agreements with exporters.

Guilty Plea in EEP Fraud

The president of an export firm in New York pled guilty on behalf of his company to charges of making false statements to become eligible for participation in the EEP. The export company, which was selling rice to Jordan, submitted documents stating that its contract price was \$341.50 per ton in order to obtain a subsidy bonus from USDA, when the actual contract price was \$328 per ton. The company paid back the bonus of \$2.7 million which it had already received from USDA; another \$1.7 million in bonuses was withheld. Sentencing is pending.

Management and Control Over Environmental Hazards

As a major land conservationist, USDA is concerned with protecting the environment and abating environmental hazards that result from practices in agriculture and forestry. The Department is required to comply with the National Environmental Protection Act in managing pesticides, biotechnology, agricultural chemicals, and water quality. In addition, each agency is expected to meet Federal, State, and local standards for the management of hazardous materials and the disposal of hazardous waste. In FY 1992 more than \$272 million was appropriated by USDA for environmental protection activities.

Laboratories' Management of Hazardous Materials and Waste Needs Improvement

Because hazardous materials and waste pose a risk to the environment as well as to employees' health, laboratories that handle these materials are subject to greater oversight than other USDA facilities. The Occupational Safety and Health Act of 1970 and Executive Order No. 12196 require that laboratories establish effective employee safety and health programs; Federal regulations set forth requirements for facilities that handle, store, and dispose of hazardous materials; the Solid Waste Disposal Act of 1965, as amended, regulates the management of hazardous waste and sets standards for those who generate and transport it; and Executive Order No. 12088 requires Federal facilities to comply with Federal, State, and local standards concerning the control of environmental pollutants.



An OIG audit found this rain damaged cardboard box containing various unknown and undated chemicals awaiting disposal. Data recorded on the bottles indicated they had been inventoried as waste. OIG photo.

We conducted reviews at seven agencies to ensure that USDA laboratories managed hazardous materials and waste in accordance with the Executive Orders, and that safety, health, and environmental deficiencies would be prevented. We found that USDA policy did not address the Occupational Safety and Health Administration's chemical hygiene requirements for hazardous materials or waste management in laboratories. Six agencies' policies also did not address these and other requirements, and agencies generally did not provide ways for managers to monitor laboratory practices routinely. Seventeen of the 18 laboratories we reviewed had compliance deficiencies which could have been corrected or avoided through proper oversight.

- Deficiencies in hazardous material management included the improper labelling of hazardous chemicals and the lack of required safety information about the chemicals.
- Deficiencies in hazardous waste management included the inadequate identification of abandoned materials and the failure by two laboratories to report the location of six waste disposal sites.

We recommended that the Department provide additional guidance regarding agencies' management of hazardous waste, and develop written policy to implement the required chemical hygiene programs. We also recommended that agencies establish plans to monitor laboratories and periodically report progress on these plans to the Department, and develop written policy to implement the Department's hazardous waste management program.

Department officials agreed with all of our findings.

Some Hazardous Waste Sites Were Not Reported; Others Incurred Cost Overruns

During this reporting period, we performed two audits of the Department's management of hazardous waste sites.

The first audit disclosed that 59 of 64 hazardous waste sites identified by the Farmers Home Administration (FmHA) had not been reported to the Environmental Protection Agency (EPA) as required by Executive Order No. 12088 and OMB Circular A-106. Pollution abatement plans are to be prepared and submitted to EPA annually; however, the Department's hazardous

waste management coordinator had instructed FmHA not to include farm inventory property in these plans. FmHA's environmental protection specialist was not aware of the reporting requirements. By not reporting these sites, the Department understated its budget estimate for environmental cleanup by over \$2.2 million.

After hazardous waste has accumulated at a site, periodic assessments are necessary to ensure the waste is contained. Once listed, a preliminary assessment (PA) to determine the extent of contamination must be completed. We reviewed 40 sites. We found that personnel at 18 Agricultural Research Service and Forest Service facilities had not completed PA's within the 18 months required by the Superfund Amendments and Reauthorization Act. According to agency field officials, the delays resulted from inexperienced staff, contracting problems, and scheduling problems with other regulatory officials. The delays meant that the sites could have been exposed to hazardous waste for prolonged periods of time, and might increase the costs of cleanup.

Our second audit reviewed environmental cleanup activities at four facilities of FmHA and CCC. The work at these sites was performed through interagency

agreements with EPA and the Department of Energy. We found that improvements are needed in monitoring the performance of such agreements and regulating costs. Some of the FmHA projects developed time and cost overruns; both the FmHA and CCC projects were poorly documented and were charged ineligible costs. Our audit also found problems with the FmHA agreements. We concluded that agency staff lacked the technical qualifications to oversee the work of these early projects. For more current projects, both agencies have used alternative ways to comply with environmental laws, but neither agency has the full technical capacity needed to carry out its obligations.

As a result of these two audits, we recommended that the Assistant Secretary for Administration provide additional supervision by reviewing hazardous waste sites and interagency agreements. We also proposed that the Department help agencies obtain technical assistance by training their staffs to prepare solicitations and to select and oversee contractors. The Assistant Secretary for Administration has agreed to implement our recommendations.

Marketing and Inspection Services

Agricultural Marketing Service (AMS)

AMS enhances the marketing and distribution of agricultural products. It collects and disseminates information about commodity markets, establishes grading standards, and provides inspection and grading services. AMS' obligations for these activities in FY 1992 were estimated to total over \$679 million.

Company Hides Salmonella Contamination From Egg Inspectors

In Mississippi, an egg products processing company, its vice president, and its production manager were convicted of conspiring to violate the Egg Products Inspection Act by concealing the presence of salmonella in their product. Both the vice president and production manager admitted they directed employees to falsify laboratory reports submitted to USDA egg inspectors. The falsified reports failed to show that approximately 500,000 pounds of dried egg product was contaminated with salmonella bacteria. The contaminated egg product, valued at about \$672,000, was purchased by 20 food processing companies located in several States.

The egg processing company and the production manager pled guilty to the conspiracy charge and paid fines totaling \$51,000. The vice president pled guilty to the felony violation of allowing salmonella contamination in the egg products. He was sentenced to 2 years' probation and given a \$2,000 fine. No reports of human illness were received. We conducted this investigation jointly with AMS compliance investigators.

Enforcement Procedures for Marketing Orders Need To Be More Uniform

At the request of the AMS Administrator, we evaluated how effectively the AMS fruit and vegetable division and the marketing order administrative committees enforced marketing orders. This request was based, in part, on complaints alleging selective enforcement of the orders.

Marketing orders regulate the quantity and quality of fruits, vegetables, and specialty crops that each producer may sell to consumers. There are 44 marketing orders covering 32 commodities produced in 32 States. Administrative committees (comprised of growers, handlers, and sometimes nonindustry representatives)

are responsible for administering marketing orders locally and ensuring compliance with the terms of the orders.

We reviewed the administration of the four marketing orders that covered the largest dollar volume of commodity shipments and did not find any evidence of selective enforcement. However, we found that AMS should establish uniform requirements and procedures. Such uniformity would enhance compliance activities and diminish the perception of selective enforcement. We also concluded that committees needed to implement their compliance activities more consistently, and that AMS' oversight of committees' compliance activities could be improved.

We recommended that AMS evaluate the kinds of enforcement that should be conducted by each committee and determine whether this work could be contracted out to certified public accounting firms. As a result of our audit, AMS and OIG have initiated a special project to develop methods by which committees can more easily detect producers' noncompliance with marketing orders, and methods by which AMS can more easily evaluate committees' enforcement of the orders.

AMS Needs To Ensure That Fees for Its Services Are Properly Assessed and Accounted For

AMS offers inspection and grading services to individuals or entities with a financial interest in agricultural products. AMS inspects products such as cotton, tobacco, fruit, vegetables, and poultry, and uses cooperators, such as State Departments of Agriculture, to augment the inspection of fresh fruits and vegetables. Inspection services are financed by user fees; inspections performed by Federal inspectors generate about \$127 million annually, and those performed by cooperators, about \$62 million.

During this reporting period, we issued three reports on AMS' fiscal operations and its oversight of cooperators' fiscal operations. The audits identified needed improvement in four areas.

- **Assessing Fees** - AMS did not assess users for the costs of establishing and maintaining commodity standards. In FY 1990, AMS used over \$3.7 million in appropriated funds to pay for these costs. For FY 1992, it estimates costs of about \$4.3 million.

- **Computing Fees** - The fee analyses for four commodity programs contained unsupported or unreliable figures. For example, the cotton fees for FY 1992 resulted in projected revenues of \$1.2 million in excess of estimated needs.
- **Accounting Systems** - AMS officials had not automated three billing and collection systems, even though automation might result in annual savings. Field office employees manually recorded fee revenues in excess of \$63 million. They also had to compute and reconcile accounting records and reports manually.
- **Monitoring Fiscal Operations** - AMS did not have written procedures to report deficiencies or ensure corrective actions were taken on problems identified during supervisory reviews of Federal inspection offices. Each regional office established its own procedures, resulting in inconsistencies.

AMS needs to monitor the cooperators' fiscal operations more effectively. Our review showed some cooperators may have maintained reserve balances that exceeded levels needed to operate the program, while others did not set user fees that were adequate to cover the cost of the services performed. For example, one cooperator increased its inspection fee rates during the last 3 years and accumulated 151 percent of its annual operating costs. Some cooperators were investing surplus funds but not crediting the inspection program with income earned from the investment. For example, five of the largest cooperators deposited about \$14.3 million in inspection fees into State accounts and credited the earnings from investments of those funds to the States' General Funds.

We recommended that AMS assess fees for the cost of establishing and maintaining commodity standards, improve controls over fee analyses, automate manual accounting systems, and improve monitoring of Federal billing and collection practices and of cooperators' fiscal operations. AMS is implementing our recommendations. Officials stated, however, that a proposal to charge user fees was submitted to Congress as part of the agency's appropriation request, but was not accepted.

AMS Needs To Improve Its Monitoring of the Collection and Use of National Dairy Board Funds

The Dairy Promotion and Research Program is administered by the National Dairy Board, under AMS' supervision. The program is funded by a mandatory assessment of 15 cents per hundredweight on all milk produced and used commercially. Producers can allocate up to 10 of the 15 cents to qualified local programs sponsoring dairy product promotion, research, or education. The remaining assessment goes to the National Dairy Board. The National Dairy Board collected almost \$77 million in 1990, while the local programs collected almost \$143 million over approximately the same period.

We reviewed AMS' controls over the collection of assessments and the use of the funds. We found that since a previous OIG audit in 1988, AMS had added controls by requiring audits of handlers paying the assessments and agents collecting them. However, AMS did not have a system to ensure that any discrepancies found by the audits were communicated to the National Dairy Board, which is responsible for monitoring the program.

In addition, we found that, contrary to law, the National Dairy Board invested over \$26 million in securities that did not guarantee a return on either principal or interest. The Board also entered into three contracts, totaling over \$5 million, without first obtaining AMS' approval, as required, and did not follow established guidelines for awarding major contracts.

We recommended that AMS provide reasonable assurance that all assessments are collected. We also recommended that AMS require the National Dairy Board to maintain all investments in fully secured instruments, obtain AMS' approval on all contracts, and follow established guidelines for awarding major contracts. AMS officials agreed with our recommendations and are implementing corrective actions, except in one area. We are continuing to work with them to establish a mechanism for advising the National Dairy Board of any problems noted by the audits.

Animal and Plant Health Inspection Service (APHIS)

Through its inspections of animals and plants, APHIS protects the Nation's livestock and crops against disease and pests, and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for its FY 1992 activities were estimated to total over \$468 million.

APHIS Needs To Ensure That Poultry Hatcheries Are Properly Inspected

The National Poultry Improvement Plan is a Federal program administered by each State in cooperation with APHIS. Acceptance of the plan by States and individual industry members is optional, except when poultry products are shipped interstate. To qualify for plan participation, States must periodically inspect poultry facilities and perform blood tests on the facilities' flocks.

Our audit found that APHIS did not ensure that States were inspecting hatcheries and performing blood tests. One of the three States we reviewed was not performing the inspections or the blood tests, even though APHIS assumed it was. APHIS did not perform periodic onsite reviews of States' compliance with the plan or receive sufficient information from the States to monitor that compliance. In the absence of this information, APHIS does not have reasonable assurance that outbreaks of diseases, like salmonella, will be promptly identified and contained.

We also found that in the three States reviewed, hatchery employees were authorized to act as agents of the States and draw blood samples for testing. This situation could pose a conflict of interest since hatchery employees work for the companies being inspected. State representatives said that they train the authorized agents to draw blood from flocks and deliver the samples for official testing. Because of this potential conflict, APHIS should ensure that States monitor blood testing during their onsite inspections.

We recommended that APHIS ensure that required hatchery inspections and blood tests are conducted and that State inspectors observe blood sampling performed by hatchery employees who act as agents of the States.

APHIS officials agreed with our findings and recommendations.

Food Safety and Inspection Service (FSIS)

Through its inspections of meat processing plants, FSIS ensures that the Nation's supply of meat and poultry products is safe, wholesome, and correctly labelled. FSIS' program funds for FY 1992 totaled approximately \$531 million.

Streamlined Inspection System Reviewed

We completed a review of issues raised by the television program "Prime Time Live" regarding the inspection process of beef slaughter plants operating under the Streamlined Inspection System. This program was implemented on a pilot basis at five large slaughter plants. We conducted a review to determine whether Federal meat inspectors were performing their duties in accordance with FSIS policies and procedures, and investigated allegations that a company improperly sold meat containing plastic shavings and improperly influenced FSIS officials.

Auditors visited all five plants and reviewed records used to document the performance of inspection activities and monitor plant compliance with sanitation, presentation, and finished product standards, including plant quality control records. We also observed inspection activities on the "kill floors" of the plants. Our review did not identify any significant problems with the inspection process in those plants.

Our investigation determined that some beef produced at two plants identified in the television broadcast contained significant amounts of plastic shavings. FSIS officials had inadvertently allowed this meat to enter the commercial food channel. The investigation, however,

did not disclose any evidence that company officials improperly influenced FSIS officials in their decision to release the beef.

Our review disclosed some weaknesses in FSIS procedures and we made recommendations to FSIS involving the handling of meat samples, the documentation of appeals and reconsiderations, and the length of time meat products should be retained. FSIS officials agreed to improve procedures in these areas.

Meat Plant Owners Convicted for Substituting Wild Game Meat in Sausage

A family that operated an interstate mail order business in northern Idaho pled guilty to illegally using the USDA mark of inspection on sausage products. Our investigation disclosed that the labels misrepresented contents by failing to state that uninspected wild game meat was used to make the sausage. Some of the wild game was stolen from hunters who had their game meat processed at the plant; other game meat was "roadkill" (deer and elk) obtained by the plant.

All three defendants also pled guilty to violating Federal game laws. The defendants were fined a total of \$25,000 and placed on probation for 3 years, during which time they will be prohibited from processing wild game. The U.S. Department of the Interior's Fish and Wildlife Service participated in the investigation.

Companies Found Guilty of Selling Misbranded Meat

We reported in FY 1990 that two affiliated meat processing companies, four of their officers, and two of their employees were indicted by a Federal grand jury in Iowa for selling over 3 million pounds of misbranded meat over a 4-year period. One of the companies also reprocessed meat that had been returned to its plant as sour and putrid.

Trial of the defendants ended in May 1991, and verdicts were handed down in August of this year. The two companies, the company owner, and one employee were found guilty as charged; three other officers and one employee were acquitted. Sentencing is pending.

Natural Resources and Environment

Forest Service (FS)

The FS manages natural resources on over 191 million acres of the National Forest System, conducts a State and private forestry program, has assumed a growing role in international forestry, and is responsible for national leadership in forest and range conservation practices. For FY 1992, the FS appropriation was about \$3.3 billion, and timber sales and other receipts were estimated at about \$1.4 billion.

FS Exchanges of Excess Military Aircraft Were Mismanaged

The FS contracts with airtanker operators to help suppress wildfires. In 1987, some contractor operations were impaired due to the grounding of their C-119 piston-engine aircraft for safety reasons. In an attempt to solve this problem, an airtanker industry representative approached the Department of Defense (DOD) with a proposal to exchange the C-119's for excess C-130A and P-3A turbine-powered aircraft. DOD refused the offer because the C-119's had little historic or monetary value to the Air Force. Also, prior abuses by private

firms flying military aircraft had been disclosed. One company and the industry consultant, who had a prearranged agreement with several contractors to receive one-third of all planes obtained from DOD, then approached the FS for support. The FS, working through the General Services Administration, obtained 28 excess aircraft from DOD with a value of at least \$28 million, and subsequently conveyed both the title and the planes to the airtanker contractors. FS officials justified the exchanges on the basis that they would obtain historic aircraft from the contractors, simultaneously reduce airtanker contract costs and improve safety.

We found that the exchanges were not in compliance with Federal property regulations. These regulations permit exchanges of historic aircraft on the records of Federal agencies in a museum property account. The FS had not owned the planes and has no such account. In addition, assets obtained by one Federal agency from another must be for official use and not for the purpose of exchange or sale. Further, the conveyance of title with the aircraft was not in conformity with requirements governing excess Federal property.



P-3A turbine-powered aircraft were among those exchanged by the Forest Service. OIG photo.

We also questioned the method of exchange. FS officials cooperated with the consultant which led contractors to believe they needed to work through the consultant to obtain aircraft. As a result, the consultant's clients were the primary beneficiaries of the exchanges, receiving 25 of the 28 aircraft. In return for his services, the consultant received four C-130A aircraft from the contractors, although he was not an airtanker contractor. The program was halted, following an Office of the General Counsel (OGC) opinion in January 1990. Providing aircraft to only a select number of companies, one with no current FS contract obligations, had the potential effect of excluding some contractors from consideration on future contracts.

Although the exchanges were to be at no cost to the Government, the contractors incurred \$2.2 million in costs by buying back the four C-130A aircraft they had provided to the consultant and by refurbishing the "historic" aircraft they traded in. To recover these costs, the contractors may attempt to charge the Government in the form of higher contract fee rates.

In addition to these problems, we found that initially some contractors registered the aircraft with the Federal Aviation Administration (FAA) under the consultant's type certificate, and some under their own FAA certificates. The "type certificate" describes the purposes for which aircraft can be used. The FS obtained the consultant's type certificate from him and had it amended by FAA to provide for additional restrictions. Most contractors voluntarily registered their C-130A aircraft under the revised type certificate. Our review disclosed that one airtanker contractor attempted to sell the aircraft for nonfirefighting purposes, another sold aircraft parts for profit, and two contractors used the aircraft for purposes unrelated to firefighting. For example, one contractor improperly used aircraft to transport cargo in the Persian Gulf. (The FS, upon being made aware of this activity, successfully took action to have the aircraft returned to this country.) However, one contractor is currently attempting to sell C-130A aircraft to a foreign country for a substantial profit.

The FS also stored seven additional excess military aircraft on contractors' facilities after being notified by the OGC that the exchanges were not legal. Although the FS still owns and has title to the seven aircraft, the contractors have improperly taken parts from four

aircraft to use on their private aircraft and converted one Government-owned P-3A aircraft into an airtanker. The four aircraft have an estimated value of at least \$5 million as parts.

In summary, FS efforts to use excess military aircraft for firefighting resulted in unintended profits for private individuals and the possibility of increased costs on future airtanker contracts. We recommended that the FS seek an OGC opinion to recover the aircraft improperly conveyed to the contractors, implement additional controls over the Government-owned aircraft, and disallow the contractors from charging the questioned \$2.2 million against future airtanker contracts.

The FS generally agreed with our recommendations but disputed the valuation of the aircraft in the audit report. FS officials stated that the C-130A aircraft had no commercial sale-market value and could not be used for domestic commercial purposes because their use is now essentially restricted to conservation (firefighting, agricultural spraying, etc.) missions. They also stated that export of such aircraft requires a special permit from the U.S. Department of State. The FS agreed to consider all costs related to these transactions during current contract negotiations. We are working with the FS to reach management decision.

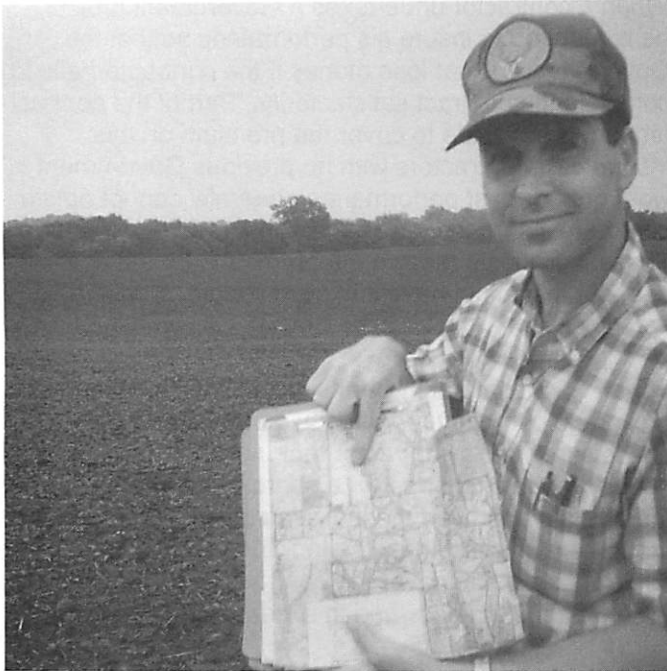
Soil Conservation Service (SCS)

SCS administers programs designed to help protect and improve land and water resources. SCS carries out two major activities: conservation operations and watershed and flood prevention operations. For FY 1992, SCS appropriations totaled more than \$850 million.

SCS Needs To Strengthen Controls Over Conservation Compliance Requirements on Highly Erodible Land

The Food Security Act of 1985 encourages farmers to conserve highly erodible land in areas used for agricultural production. To remain eligible for Federal farm program payments, producers who want to farm highly erodible land must obtain from SCS and implement an approved conservation plan to reduce soil erosion.

During this period, we reviewed producers' compliance with the conservation provisions of the Food Security Act and USDA's monitoring of this compliance.



SCS helped farmers develop plans to protect 135 million acres of highly erodible land. A District Conservationist points out a planned conservation practice. OIG photo.



Excess rain and irrigation water eroded a gully in this corn field. The grass waterway required by the conservation plan would have prevented this erosion. OIG photo.

We selected 220 conservation plans located in 10 States with 65 percent of the Nation's highly erodible cropland. We reviewed plans that called for at least one conservation practice to be implemented by 1991. During the course of our review, we found that 97 of the sample tracts had 1 or more practices that could not be tested because either the plans were not adequately developed or our field visits could not be accomplished at a time appropriate for review.

At the time of our field visits, about 10 percent of the producers in our sample had not implemented required conservation practices. We estimated that producers in the 10 States were scheduled to receive about \$20 million in 1991 program payments even though they had not implemented the required conservation practices.

We also noted that when SCS personnel found producers who violated conservation requirements, they did not refer them to ASCS for a determination of their eligibility to receive program payments. For example, we visited one farm whose conservation plan called for the producers to leave 20 percent of the harvested crop stubble (residue) on the ground in one field; we measured residue of less than half this amount. Although

SCS personnel had previously noted noncompliance by these producers, they did not refer this violation to ASCS. The producers were scheduled to receive 1991 ASCS payments totaling about \$95,000. Since our audit, SCS has implemented a system to assure that cases of noncompliance are referred to ASCS.

We also reviewed the effectiveness of the compliance tests SCS used to determine whether producers actively applied conservation practices. We found the following.

- An estimated 10,000 tracts, from which producers were expected to earn about \$150 million in program payments, were not reviewed at a time when SCS could reliably determine the success of the practice. SCS procedures did not provide adequate controls to assure the reviews were completed at the best time. SCS officials stated that lack of staff contributed to the delays.
- SCS personnel did not identify all deficient plans during their compliance reviews, and they did not correct deficient plans that they did identify. Of the 116 plans that had been reviewed before our audit, 102 had material deficiencies not identified by the compliance reviewer.

We also found that both ASCS and SCS were having difficulty managing compliance by farms that had changed ownership or were otherwise reconstituted. SCS procedures contain conflicting requirements, and both agencies need to ensure that producers are aware of their responsibilities. For example, the owner of a 2,900-acre farm with highly erodible land on it sold 640 acres. SCS did not prepare new plans for either of the two farmers involved, and the producer purchasing the 640 acres planted crops other than those called for by the original conservation plan. ASCS procedures state that conservation plans must follow the land; SCS informational publications concur with this, but SCS procedures require that the plans be revised. The producer in this case could have received ASCS and FCIC payments totaling over \$1 million.

A more efficient process is needed for ASCS to inform SCS of changes in farm operations. SCS officials told us that ASCS did not refer individual reconstitutions to the SCS field offices when the reconstitutions occurred. Instead, ASCS sent the referrals in batches, making it difficult for SCS to revise the plans in a timely manner. For example, in a county in Oklahoma, ASCS furnished SCS with data on changes on over 3,700 farms at one time, then sent an additional 1,000 changes over the following 4 months.

We recommended that SCS improve communications with producers, strengthen national procedures, improve operational controls, and coordinate interagency activities. SCS and ASCS concurred with our findings. SCS is developing corrective actions, and both agencies have established a task force to improve their method of handling farm reconstitutions.

Insurers Falsify Assets To Collect Premiums on Government Contracts

Four individuals were indicted for submitting false statements of assets as security for the performance of Government contracts.

When a contractor undertakes a Government project, he is required to insure his performance so that the Government will not lose money if the contractor fails to complete the contract satisfactorily. Part of the contract amount is set aside to cover the premium on this insurance. Contractors with no previous Government work or poor past performance generally cannot obtain corporate insurance, so they are insured by individuals. These individuals receive the premiums for the coverage, but they must have sufficient assets to cover the contract costs.

For an SCS contract in Connecticut, two officials of the brokerage company recruited two other individuals to act as surety for a contractor that the company would not insure. In exchange for a share of the premiums, the officials approved the individuals as insurers, even though the officials knew the individuals did not have sufficient assets to cover the contract. The individuals falsely claimed they owned in excess of \$8 million.

An OIG investigation showed that the brokerage company and the same two individual insurers had practiced the same deception on numerous other Government contracts starting in 1986. The total amount of the contracts exceeded \$22.7 million.

The two individual sureties pled guilty. One was sentenced to 1 year in jail (suspended) and 3 years' probation, and the other was sentenced to 6 months in jail (suspended), 2-1/2 years' probation, and ordered to pay \$7,000 restitution. The chairman of the board and the vice president of the brokerage firm were found guilty after the trial and both were sentenced to 51 months in jail.

This was a joint investigation involving OIG and investigative agencies of the Department of Defense, the Department of Interior, the General Services Administration, and others.

Science and Education

Cooperative State Research Service (CSRS)

CSRS provides financial support to State agricultural experiment stations and institutions of higher learning to conduct research that contributes to agricultural production, nutrition, and rural development. The agency supports both cooperative and competitive research. Funding for cooperative research is distributed to land-grant colleges based on a formula determined by law. Funding for competitive research is awarded through a peer panel selection process. CSRS' National Research Initiative, a program authorized by the 1990 Farm Bill, makes the competitive funds available to public and private institutions, nonprofit agencies, and industry for research specified by USDA. In FY 1990, CSRS awarded approximately \$276 million for cooperative research and \$42 million for competitive research. With full implementation of the Farm Bill, annual appropriations for competitive research will increase to \$500 million.

Appropriated Funds Used To Support Lobbying Activities

In 1989 and 1990, CSRS entered into cooperative agreements with a university to provide the services of an individual to serve as a regional coordinator for State agricultural experiment stations (SAES), manage activities associated with national conferences and workshops for SAES' research planning, and liaison between user groups and the National Research Initiative. The agreements awarded the university totaled almost \$313,000.

We reviewed a whistleblower complaint alleging that high-ranking USDA officials improperly manipulated these agreements and allowed appropriated funds to be used for lobbying purposes. Our review found the following.

- The agreements were sole-source procurements for the personal services of the coordinator. The Administrator retained all aspects of administration over the agreements. While CSRS was authorized by the 1985 Farm Bill to enter into these types of agreements, the agency had no procedures or controls to manage them.

- The coordinator also served as an advisor for the National Research Initiative, was the coordinator for a private lobbying organization, and was involved in many activities for Federal, State, and private organizations. The coordinator and two high-ranking USDA officials participated in planning lobbying activities. We have recommended that OGC determine if these actions constitute the appearance of a conflict of interest.
- The university accounting system allowed some of CSRS' funds to be used to pay for business-related expenses of the coordinator's private lobbying efforts. The purpose of the lobbying organization was to influence Congress to accept a higher funding level and a different distribution of funds than proposed in the President's budget for the National Research Initiative. OGC concluded that sufficient evidence of a violation existed; the matter is awaiting a prosecutive determination by the Department of Justice.

We recommended that CSRS immediately stop funding any lobbying activities and discontinue all association with the coordinator's lobbying organization. In addition, we recommended that CSRS incorporate anti-lobbying guidelines into agency policy and establish standard procedures to process cooperative agreements.

The Assistant Secretary agreed with the audit findings and recommendations and initiated corrective actions.

CSRS Can Improve the Performance of Cooperative Funds Administration

CSRS did not have procedures in place to ensure the relevance of cooperative research funded by the agency to the Department's national research priorities. CSRS did not oversee its research grants sufficiently to ensure that funds were spent in accordance with Federal requirements or that cost deficiencies would be detected and prevented. Our review at five institutions disclosed either ineligible or unsupported costs totaling about \$387,000. Also, none of the five institutions had established adequate cash management procedures or reported interest income that was earned on CSRS cash advances.

Although 96 percent of the agency's annual appropriation is disbursed as research grants to institutions, CSRS did not extend its internal control reviews beyond the central management level to assess activities of the recipient institutions. CSRS relied primarily on single audits performed by non-USDA auditors to ensure that an institution's control systems were meeting Federal requirements; however, CSRS did not use the audits to identify trends that may be occurring in specific program areas.

We recommended that CSRS expand its management review system to assess grantee controls over grant funds. We also recommended that CSRS develop more systematic internal control reviews. The agency has initiated corrective action.

Small Community and Rural Development

Farmers Home Administration (FmHA)

FmHA administers loan and grant programs that provide farm credit and rural housing assistance to individuals and entities who cannot obtain credit elsewhere. As of June 30, 1992, about 1 million borrowers owed FmHA over \$46 billion. In addition, FmHA guaranteed \$1.3 billion in loans made by private lenders to 13,000 borrowers. FmHA administers its programs through its national office and a network of State, district, and county offices.

Rural Rental Housing (RRH) Program

Over \$7 Million in Excess Profits and Questionable Costs Inflate Loan Amounts

We reviewed the construction records of borrowers, general contractors, and subcontractors for 20 RRH projects in 5 States. These States accounted for about 14 percent of the total loan funds obligated nationwide (\$571 million), and the projects selected represented 25 percent of the loan funds obligated in the States.

Our audit disclosed that 6 borrowers charged excessive construction costs to 10 RRH projects. Four of the borrowers inflated construction costs by about \$540,000. The other two borrowers were referred for criminal investigation because they engaged in potentially fraudulent activities.

Inflated costs included charges for excessive profit, work that had not been performed, and materials and funds diverted for private use. Borrowers also inflated costs by requiring general contractors to purchase materials through borrower-owned companies. For example, one borrower-owned company added a 100-percent markup to materials even though the company's only function was to order the materials and arrange for their delivery.

Over the 50-year life of the loans to the four borrowers, interest subsidies on the \$540,000 in excessive charges will cost the Government about \$1.3 million. Inflated RRH construction costs will also result in excess low income housing investment tax credits for the project owners and increased debt service costs for the borrower. It is likely this will translate into higher rent for low-income tenants and greater rental assistance costs for the Government.

We also found instances of questionable costs. FmHA instructions require loans to be made at the lesser of the borrower's estimated construction costs or the actual costs incurred, by trade-item category, but FmHA officials did not always review these costs. We compared actual to estimated costs, by trade-item category, for a sample of 87 projects in the 5 States reviewed. If FmHA had used the lesser cost for these projects, it would have reduced its loan fund requirements by about 10 percent, or \$6.6 million.

Independent public accountants periodically audit borrower records to determine the validity of construction costs. We found serious deficiencies in the quality of audit work by 3 of the 10 accounting firms reviewed. These independent audits did not adequately ensure that the borrowers' records reflected the actual costs of construction. We referred these firms to the State boards of accountancy and to the American Institute of Certified Public Accountants.

We recommended that FmHA strengthen the program through a series of regulatory changes. FmHA officials agreed and are currently initiating these changes. Because of the significance of the problems identified in this audit, we are expanding our coverage to 12 additional States and Puerto Rico.

RRH Borrower Embezzles Funds

In Massachusetts, a former executive director of an RRH project subsidized by FmHA pled guilty to a five-count indictment charging him with converting FmHA reserve account funds. He withdrew approximately \$155,000 in reserve funds to finance a personal investment for a third party. He was unable to replace the \$155,000 when the third party stole the funds and disappeared. Sentencing is pending.

Guaranteed Loan Program

Production Credit Association Agrees to \$4.2 Million Settlement in Guaranteed Loan Fraud

A production credit association and a farm credit bank paid the Government \$4.2 million as a partial settlement of civil charges that association employees made false statements to FmHA to obtain loan guarantees. The employees made false cash flow projections, falsified financial statements, and submitted false chattel and real estate appraisals to FmHA. As a result of these

false statements, the association received payments from FmHA on losses the association claimed to have had on 20 different borrowers in Iowa. By obtaining the loan guarantees, the association reduced its risk of loss on the loans by up to 90 percent. Investigation is continuing.

FmHA Could Save \$1 Million Annually by Acting Promptly on Cases of Default

When a borrower defaults on a guaranteed loan, FmHA pays the lender the principal and interest on the guaranteed portion of the loan up to the time the lender completes liquidation of the loan. As part of the liquidation process, FmHA must repurchase the loan note. The longer it takes FmHA to repurchase the note, the more interest FmHA becomes liable for.

In cases where a third party holds the loan note instead of the lender, FmHA restricts the amount of interest that can be paid to 90 days: a holder of a loan note may receive interest for only 90 days after FmHA demands the surrender of the note.

FmHA's restriction on third-party noteholders began in May 1983. We reviewed 194 defaulted loans that were closed after this date and that were repurchased by FmHA by the beginning of 1991. We found that on 80 of these loans, FmHA paid interest ranging from 1 day to 3 years beyond the 90-day limit, totaling about \$356,000. FmHA did not have a computer edit check to prevent payment of interest to holders after the 90-day period.

Our audit also noted problems with the timeliness of FmHA's demands on holders. Although there is no specified deadline by which FmHA must repurchase a defaulted loan note, the timeliness of the lender's decision to liquidate and FmHA's subsequent demand on the holder affect the amount of interest paid. FmHA officials believe that once a borrower defaults, no more than 90 days should elapse before the demand on the holder is made. This would restrict interest payments to a maximum of 180 days from default—90 days for FmHA to demand the note and another 90 days for the holder to surrender it.

We found that FmHA did not observe this 180-day limit. Although the lenders reached their decisions to liquidate borrower assets in a timely manner, FmHA usually waited for the noteholders to demand payment from the lenders. In some cases, this took over 3 years.

We calculated that if FmHA had used the *180-day limit*, its interest payments over the period we reviewed (3-1/2 years) would have been cut in half, to \$3.5 million. We concluded, therefore, that FmHA could save \$1 million annually by adopting the 180-day limit.

In addition to recommending the recovery of the \$356,000 in overpayments, we recommended that FmHA make its demand on third-party noteholders immediately upon the lender's decision to liquidate and that the finance office establish a computer check that will limit the accrual of interest to 90 days. Interest would be limited to 90 days from either the earlier of the holder's demand upon the lender for repurchase or the date of FmHA's demand upon the holder for surrender of the note.

FmHA officials agreed with the recommendations and are taking steps to implement them.

Rural Housing (RH) Program

One State Did Not Reduce Staff After Contracting for Similar Services

We reviewed FmHA contracting activity in one State and found that a contract had been in place to service single-family housing loans since 1983. The contract cost between \$3.4 million and \$4.4 million annually from FY 1985 to FY 1990.

According to FmHA, servicing single-family housing loans accounted for about 42 percent of the State office's workload. At the time the contract was let in 1983, the State office's staff ceiling was 196; in 1990, despite the workload reduction, the ceiling had increased to 211. FmHA had no procedures to consider the proportion of the workload serviced by contractors in its staffing determinations.

We recommended that FmHA review its staff levels. In its response, FmHA said it would reduce staff by 75 positions. We estimate that this action will save about \$2 million annually.

RH Applicant Attempts Bribery

An applicant for an RH housing loan in Virginia was sentenced in Federal court after pleading guilty to attempting to bribe a Government employee. The loan applicant offered an FmHA county office employee \$100 per day to help him get his RH loan approved by the

State office after his third application had been turned down by the local county office. The applicant was sentenced to 3 years' probation and participation in a drug treatment program. The three county office employees who helped OIG develop this case received an award for their efforts.

Questionable Loans In One County Compromised Program Integrity

We reviewed the RH program administered by one county at the request of FmHA. We found that the county supervisor made unauthorized loans to 23 of the 28 borrowers reviewed. These loans totaled over \$1 million and included unauthorized interest credits totaling about \$75,000.

The county supervisor routinely approved loans for houses that were ineligible because they were too large; he also approved loans to borrowers who were ineligible because either their income was too high or their repayment ability was too weak. At the time the loans were made, the county supervisor had access to information that showed they were improper, and he acknowledged that he had not fully complied with FmHA instructions.

The county supervisor also improperly gave two RH loans to close relatives, one of whom was employed by the contractor receiving the largest percentage of FmHA-financed construction work in the county. Other local contractors thought this contractor was receiving preferential treatment from FmHA. Records show that some RH applicants using this contractor had their loans processed ahead of applicants using other contractors.

The State director became aware of the loan problems through the State's internal reviews and instructed the district director to preapprove all loans after June 1991. However, the district director did not do this, and the problems continued.

Because the county supervisor retired after we finished the audit, we made no recommendations concerning him. We did recommend that the questionable loans be graduated to commercial credit sources and that the State director improve oversight in this county. The State director has initiated these actions.

Farmer Programs

Borrower Falsified Her Application for Debt Writedown

In Virginia, an FmHA borrower was convicted of filing false statements with FmHA to obtain a writedown on over \$540,000 in outstanding debt. The borrower, who had not made any payments to FmHA since 1985 on several disaster and operating loans, falsified her application for the writedown by reporting only \$1,500 cash on hand and understating other assets. The investigation disclosed that the borrower had over \$65,000 in savings and investment accounts. During a search of the borrower's residence, over \$23,000 in cash, cashier's checks, and traveller's check receipts were discovered hidden under a bed. Furthermore, \$34,000 in cash, several automobiles, some farm equipment, and other assets had been transferred to the borrower's mother in an attempt to keep FmHA from finding them. Sentencing is pending.

FmHA Does Not Always Receive Its Share of Increased Property Values

Under the debt-restructuring provisions of the Agricultural Credit Act of 1987, borrowers who could not make payments on their FmHA loans could still clear their debt and keep their farms by buying their property from FmHA at its "net-recovery value." Net recovery value is the market value less what it would have cost FmHA to liquidate the property. However, if these borrowers sell their property within 10 years, they must share any increase in its value with FmHA.

We reviewed net-recovery buyouts and shared-appreciation agreements in three counties and found that each county used a different method of calculating net-recovery value. If net-recovery value is overstated, the amount recovered when the property is sold will be understated. Using the calculation method advocated by a senior FmHA official, we concluded that some net-recovery values were understated and some were overstated. The understated values totaled \$115,000; the overstated values totaled \$222,000. Of the 52 properties we reviewed, 3 were transferred or sold; for 1 of the 3, FmHA should have collected an additional \$16,000.

FmHA did not have a national directive on how to calculate the net-recovery value, and it did not exercise any oversight of the preparation of shared-appreciation

agreements. We recommended that FmHA issue such procedures and that it monitor the processing of the agreements.

FmHA agreed with our recommendations and developed the necessary guidance to ensure adequate and uniform calculations. The agency also agreed to monitor the processing of the agreements.

Farmer Admits to Sales of Loan Collateral

An Oklahoma farmer pled guilty in U.S. district court to selling almost 8,000 bushels of wheat that was collateral for his FmHA loans. As part of his plea agreement, the farmer agreed to repay FmHA approximately \$26,900 for the wheat and an additional \$12,900 for FmHA-mortgaged cattle and equipment he also sold illegally. Sentencing is pending.

Federal Crop Insurance Corporation (FCIC)

The FCIC is a wholly owned Government corporation, created in 1938 to improve the economic stability of agriculture through a sound system of crop insurance. The program was revised in 1980 to expand coverage and require the use of the private sector to sell and service crop insurance policies. The private insurance companies enter into reinsurance agreements under which they agree to sell and service insurance policies in return for a percentage of the premium (currently 34 percent), while FCIC agrees to assume most of the liabilities.

Errors by Reinsured Companies Lead to Excessive Payments

We reviewed several crop insurance indemnity payments made to a large Texas ranch for 1989 and 1990 crop losses and identified overpayments totaling about \$1 million.

FCIC overpaid \$756,000 on the 1989 insurance policy because the reinsured company included uninsurable acres. Of over 23,000 acres insured, about 7,800 acres was new cropland not eligible for insurance.

FCIC also overpaid \$224,000 on a 1990 policy because the reinsured company used the incorrect yield for new cropland brought into production. When a farmer

increases his or her cropland by more than 35 percent, insurers must not use the production history of the old cropland on the new acres. They must use a transitional yield. In this case, the reinsured company used a historical yield of 36.4 bushels per acre for over 16,000 acres of new cropland instead of the transitional yield of 28 bushels per acre.

We recommended that FCIC recover the excessive indemnity payments. FCIC officials agreed to take appropriate action.

Incorrect Production Reporting Leads to Investigation

Three producers obtained over \$110,000 in crop insurance benefits by incorrectly reporting production in 1988, 1989, and possibly 1990. The producers harvested soybeans from insured acres and sold them under the names of an employee and a friend. The three producers received proceeds totaling about \$27,000 over a 3-year period from sales of 3,900 bushels that were not reported to the insurance adjuster for loss purposes. We are investigating whether the producers filed false claims under ASCS and FCIC programs.

We recommended that FCIC recover the indemnities paid. FCIC officials agreed to take appropriate action.

Father and Son Found Guilty of Defrauding FCIC and ASCS

An Iowa farmer and his son were found guilty by a Federal jury of conspiring to make false claims to FCIC and ASCS. The two failed to disclose thousands of bushels of corn and soybean production and, as a result, received FCIC indemnity payments of about \$76,000 to which they were not entitled. The manager of the grain elevator in which the farmer stored the grain prepared false receipts which were submitted to ASCS. The manager previously pled guilty to conspiracy to commit fraud.

The father was sentenced to 21 months in prison, fined \$5,000, and ordered to pay \$28,000 in restitution. The son was sentenced to 4 months in prison and ordered to pay \$24,000 in restitution. The elevator manager was sentenced to 8 months in prison, fined \$15,000, and ordered to pay \$24,000 in restitution.

Financial, Administrative, and Automated Data Processing Systems

Financial Management

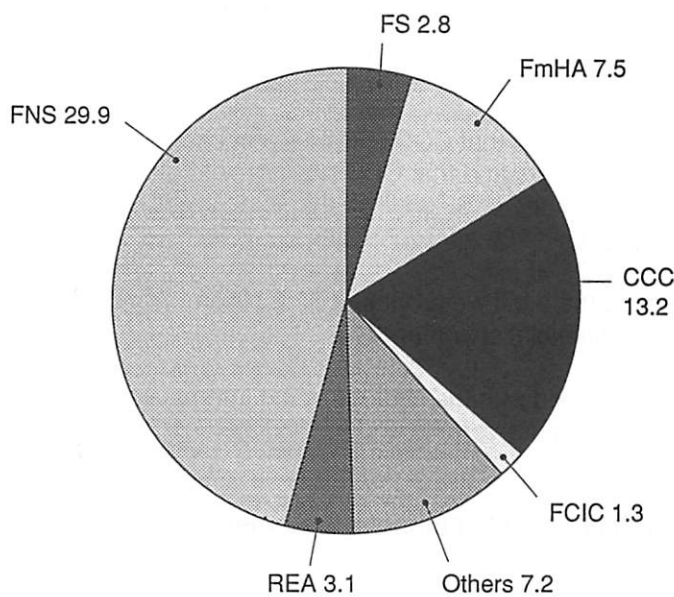
The USDA has identified financial management systems as a high-risk area. Because of material weaknesses in financial management, the Department was not in compliance with the Federal Managers' Financial Integrity Act (FMFIA) for FY 1991. To assist in the identification and correction of these weaknesses, OIG committed significantly greater audit resources to review financial systems. It has also reviewed USDA agencies' general accounting practices and management of cash and claims.

Financial Statement Audits

During this reporting period, OIG completed five FY 1991 financial statement audits required by the Chief Financial Officers (CFO) Act of 1990. These were audits of the FmHA, CCC, FNS, and FS financial statements and the USDA consolidated financial statements. The consolidated financial statements report on the financial operations of USDA's 6 largest agencies as well as those of the 23 smaller agencies. The following graphs depict the magnitude of these operations.

Figure 1

FY 1991 Total Expenses



Billions of Dollars

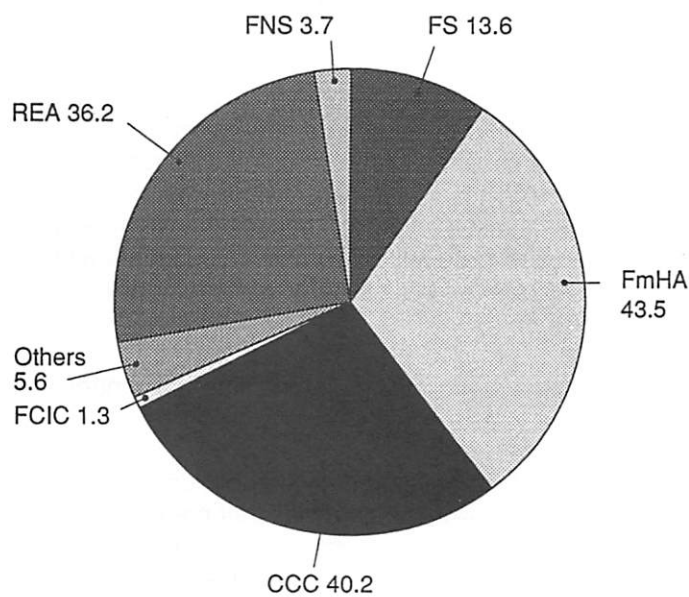
Audit of USDA's Consolidated Financial Statements for FY 1991

We issued an adverse opinion on the FY 1991 USDA consolidated financial statements because accounting standards were applied inconsistently and incorrectly, accounting records were not always sufficient to support account balances, and account balances themselves contained errors and omissions. We found the following significant problems.

- **Interdepartmental and intradepartmental transfers were not properly identified, recorded, or eliminated.** We found that USDA's total assets and liabilities would have decreased by about \$848 million and \$931 million, respectively, if elimination entries were correctly made.
- **The Statement of Reconciliation to Budget did not reconcile.** Actual outlays shown in the budget differed from the amounts shown on the financial statements by \$2.6 billion.
- **There were inconsistencies of similar line items between consolidated statements.** We noted differences between "Net Results" and "Net Income"

Figure 2

FY 1991 Total Assets



Billions of Dollars

figures on the Statement of Operations and Statement of Cash Flows. This difference results from an accounting policy decision not to include losses of \$9.7 billion on the Statement of Operations for CCC when the losses would be recovered through future appropriations. In our opinion, this is an incorrect interpretation of accounting principles. Also, the decision was inadequately explained in the footnotes and was inconsistent with the manner in which other USDA agencies treated similar situations. We also noted a difference of \$661.9 million between the figures shown for "Acquisition of Property, Plant, and Equipment/Capital Expenditures" on the Statement of Cash Flows and the Statement of Reconciliation to Budget.

- **Footnote disclosures were inaccurate.** We verified that the provision for losses on loans receivable and guaranteed loans, as stated on the line item on the financial statement, was correct. However, we noted that the footnote to explain this item was misstated by \$3.7 billion; and the allowance for losses on the CCC commodity inventories was misstated by about \$661 million.
- **Supporting documentation was not always available to substantiate the amounts reported in the financial statements.** The Department's general ledger did not conform to the U.S. Government Standard General Ledger mandated by the Department of Treasury and OMB. The Standard General Ledger requires summary accounts to be the sum of related subaccounts. However, the department posts both to the summary and subaccounts. While the general ledger summary accounts balanced, the subaccounts were out of balance by \$44 billion. Thus, the general ledger was not supported by the subaccounts. In addition, we noted a difference of \$280 million between the Department's general ledger and its property management information system.

We also noted the following material internal control weaknesses.

- USDA needs to develop detailed policies and procedures on consolidating financial statements, strengthen agency oversight to ensure uniform accounting, and train the personnel responsible for preparing financial statements.

- USDA needs to help agencies develop effective internal control and financial management systems.
- Two USDA computer centers need to tighten ADP security.

We also reported that USDA was in noncompliance with the CFO Act and with the Office of Management and Budget's (OMB) implementing guidance. The Department did not have sufficient written policies and procedures on financial statement preparation, did not provide detailed guidance to the agencies, and did not have adequate supporting documentation for the "Overview of the Entity" and the "Discussion and Analysis" sections of the financial statements, sections which contained material errors.

Audit of CCC's Financial Statements for FY 1991

We issued an unqualified (clean) opinion on CCC's financial statements. However, we identified three material internal control weaknesses.

- Information in the subsidiary accounting systems substantially disagreed with the general ledger accounts in the financial management systems.
- CCC's yearend closing procedures do not allow preparation of its financial statements in an accurate and timely manner.
- Security over computer data and system applications within field offices needs strengthening to prevent unauthorized transactions.

We also noted that CCC's FMFIA process needed improvements and that CCC has not yet reimbursed the U.S. Treasury for \$2.9 billion that it incorrectly used from its FY 1988 appropriations.

During the audit we proposed \$2.6 billion in adjustments to the financial statements.

CCC agreed with the findings in the internal control and noncompliance reports and has initiated corrective action.

Audit of FmHA's Financial Statements for FY 1991

We issued an unqualified (clean) opinion on FmHA's FY 1991 financial statements; however, we continued the qualification on the FY 1990 statements. We were

unable to determine the value of acquired farm and rural housing and the associated provision for losses on the FY 1990 statements.

We also reported five material internal control weaknesses.

- FmHA's conclusion that it generally complied with sections 2 and 4 of the FMFIA is questionable.
- The Guaranteed Loan Accounting System does not contain current and accurate data for most farm program borrowers.
- FmHA's current automated accounting system does not meet prescribed accounting principles and standards required of a Federal agency.
- Data input errors and delays prevented the Acquired Property Tracking System from being relied upon to accurately report inventory properties.
- The Loan Classification System was not functioning as designed and could not be relied upon.

During the audit, we proposed over \$770 million in adjustments to the financial statements.

FmHA disagreed with our conclusion that it may not have reported its FMFIA status correctly. It did agree with the remainder of the findings and is taking corrective action.

Audit of FNS' Financial Statements for FY 1991

Our inability to validate the accounts receivable balance and the associated provision for loss caused us to issue a qualified opinion on FNS' Statement of Financial Position. State and local governments did not maintain accounting systems which supported the value of claims they reported to FNS and which FNS included in its accounts receivable balance.

We identified three material internal control weaknesses.

- FNS' accounting system cannot be used to prepare external financial reports, does not follow accrual basis of accounting for all transactions, and lacks effective controls to ensure that the general ledger is accurate before it is used to prepare financial statements.

- The value of FNS' food stamp claims against households could not be substantiated.
- FNS' methodology for computing the unredeemed food coupon liability overstated the account total.

FNS adjusted its financial statements by over \$4 billion as a result of the audit.

FNS management agreed with our recommendations and has initiated corrective action.

Audit of the FS' Financial Statements for FY 1991

We issued an adverse opinion on the FS' FY 1991 financial statements. The FS did not have an integrated accounting system which allowed uniform processing of FS transactions.

We also noted four material internal control weaknesses.

- The FS did not allocate some costs to the timber program.
- The FS' general ledger reported about \$3.4 billion in real property while the subsidiary ledgers reported about \$9.2 billion for the same asset.
- The FS needs to develop a central accounting system which integrates the many independent accounting and reporting systems it uses.
- The FS needs to improve the quality of accounting data accumulated in the field.

We noted two material instances of noncompliance with laws and regulations. The FS did not fully support facts and figures in its overview, as required by OMB, and it violated the Anti-Deficiency Act in its use of the brush-disposal fund.

FS officials generally agreed with our findings and are initiating corrective actions. However, they do not agree that some costs were excluded from the timber program and are obtaining an accounting policy interpretation from the Federal Accounting Standards Advisory Board.

The General Control Structure at USDA's National Finance Center (NFC) Did Not Comply With GAO and OMB Requirements

An audit performed under contract by an independent certified public accounting firm disclosed four material weaknesses in NFC's internal control structure. The audit found that the general control structure was inadequately documented, had no objectives and techniques, and did not comply with the requirements of OMB and the General Accounting Office (GAO). Also, documentation for accounting and automated data processing (ADP) controls was inadequate, material adjustments to the general ledger were made without user authorization or approval, and ADP program changes were not adequately documented or controlled.

We recommended that NFC develop general control objectives and techniques, develop general ADP control policies and procedures, and require an annual independent audit of the general control system. We also recommended that all entries and adjustments be initiated or approved by the user agencies and that procedures for ADP program changes be improved.

ASCS' Claims Accounting System for Commodity Operations Needs Improvement

The debt management system for ASCS State and county operations is automated, but the system for commodity operations, maintained at the Kansas City Commodity Office (KCCO), is not. We reviewed the KCCO system to determine if claims were properly established, serviced, and collected. Audit emphasis was placed on FY 1990 domestic claims and collections and on claims made when exported commodities were lost or damaged in transit. We reviewed a statistically selected sample of 133 claims totaling about \$131 million out of a universe of 6,906 claims with an estimated value of \$242 million.

We found that interest was not always being assessed on delinquent debts and that claims-related transactions, including the accrual of interest, were not always being recorded in a timely fashion. As a result, claims and interest receivable were understated by about \$156 million, as of September 30, 1990.

We also found that ASCS could have collected an estimated \$3.6 million more in interest if it had increased the interest rate on delinquent debts to the level allowed in the Federal Claims Collection Standards.

ASCS could have recovered another estimated \$1 million in interest if it had not delayed implementing debt settlement procedures by 9 months.

We recommended that ASCS:

- Develop an automated claims system for the KCCO with capabilities similar to the system implemented for the ASCS State and county offices,
- record overpayments as receivables when the letters of determination are issued to the payees, and
- charge interest rates on delinquent debts consistent with Federal standards.

ASCS officials generally agreed with our findings and recommendations, with the exception of the interest rate issue.

The Agricultural Research Service (ARS) Needs To Deobligate Funds That Are No Longer Needed

At the end of FY 1991, ARS reported more than \$219 million in unliquidated obligations, of which \$12.4 million was obligated prior to FY 1988. We audited \$1.3 million of the larger and older unliquidated obligations and determined that \$565,000 needed to be deobligated. Most of these funds were incorrectly obligated in the first place because of input and accounting errors.

We recommended that ARS officials deobligate the inappropriate unliquidated obligations, examine their contracts and research agreements for unnecessary unliquidated obligations, and establish procedures for the annual verification of obligations and disbursements. ARS officials agreed with the findings and recommendations.

Automated Data Processing

A wide range of automated resources are used to carry out the mission of USDA. The NFC in New Orleans, Louisiana, uses large mainframe computers to operate centralized payroll and accounting systems as well as administrative payment systems for USDA and more than 30 other Federal departments and agencies. At the same time, individual USDA agencies have continued to procure and expand their computer capabilities, investing in minicomputers and personal computers

used both as standalone equipment and as links in local or nationwide networks. This widespread use of automation requires effective security and control.

NFC Needs To Strengthen the Security of Its Integrated Database Management System (IDMS)

Our audit disclosed material internal control weaknesses in IDMS. In testing the security of the system, we were able to gain unauthorized access to sensitive information, including that governed by the Privacy Act. We were also able to gain access to the payroll system and to data used to process about \$9.5 billion in payments annually for 32 Federal agencies. Security was weak because NFC divided responsibility for it among three separate branches without providing sufficient oversight to integrate operations.

We recommended that NFC and the Office of Finance and Management (OFM), which oversees NFC, perform a comprehensive review of IDMS security, implement controls over data commands, and reevaluate access needs and restrict access where necessary. OFM and NFC officials agreed with the findings and recommendations and are taking corrective action.

SCS Minicomputer Systems Vulnerable to Hackers

We tested the security of SCS minicomputers to determine if they were secure against unauthorized access. These minicomputers are distributed throughout the 50 States and the Caribbean and are also used at 4 National Technical Centers and SCS headquarters. They contain sensitive files and may be used to access other systems at NFC and USDA's National Computer Center.

We drew a statistical sample of 300 out of 1,635 telephone connections to SCS minicomputers and achieved unauthorized access to 36 separate computers. (Each line accessed one computer.) The computers accessed were located in 21 States and at 1 National Technical Center. We projected that unauthorized access could have been achieved through a total of 196 of the 1,635 telephone connections.

For some of the systems we accessed, managers were not aware of the penetration attempts or the actual penetrations. Furthermore, the penetrations took place after SCS officials notified each State office that auditors were going to make such attempts. Although SCS

computers had been penetrated previously by a hacker, and security weaknesses had been reported in three prior audit reports, SCS procedures did not give field office staff enough guidance on preventing access.

We recommended that SCS review security weaknesses at the sites penetrated and establish procedures for the detection and prevention of unauthorized access. We also recommended that SCS restrict access to the most sensitive files, inform users about security procedures, and include systems security in the performance appraisals of SCS security personnel. SCS agreed to implement the recommended controls.

Rulemaking

Improvements Needed To Ensure USDA Agencies Comply With Statutory Rulemaking Requirements

The Administrative Procedures Act requires Federal agencies to publish in the *Federal Register* substantive rules and statements of general policy which are formulated and adopted, amended, or repealed.

We found that agency procedures did not ensure compliance with the act's rulemaking requirements. For example, we identified instances where agencies established or revised a directive instead of developing a regulation. Such policy is unenforceable. We further found that the Department had no procedures for agencies to follow when processing agency directives. Instructions were needed for agencies to consider and document whether policy issues would require publication of a regulation rather than a directive.

Officials in the Office of Budget and Program Analysis and OGC agreed with our recommendations to establish departmentwide procedures.

Contract and Federal Assistance Awards

Some Universities Contribute Little or No Resources in Cooperative Efforts

The Food Security Act of 1985 authorizes a new category of agreements to obtain goods and personal services for agricultural research. According to the act, the grantees are required neither to compete for the award of these agreements nor to contribute funds to

the cooperative projects. Our audit reviewed controls over the award and administration of these agreements, as well as those that did require contributions from cooperators.

We found that ARS did not ensure consistency in the award process. For 28 of the 62 agreements we reviewed that required contributions from cooperators, there was no evidence of any. In the remaining 34 agreements, cooperators' shares of costs differed from project to project; one cooperator contributed as little as 3 percent, another as much as 64 percent. ARS procedures did not establish an acceptable contribution level or require ARS scientists to negotiate the contributions and document them in the formal agreements. Because the cooperators' contributions are not always stated in the formal agreements, we questioned whether the agreements are legally enforceable. We also found that for the agreements that required contributions, ARS let cooperators use indirect costs to satisfy the requirement, a practice which is questionable.

ARS officials agreed that controls over research agreements needed to be strengthened. They said they would seek legal guidance before taking any actions.

Our audit also found that the Extension Service (ES) was not in compliance with the reporting requirements of the Federal Program Information Act. The act requires Federal agencies to report data concerning cooperative agreements to a central data base used by OMB to prepare annual reports to Congress. About 54 percent of the agreements awarded during our review period were not reported to the central data base because of a program error. ES officials have corrected this error.

Office of Operations

Consultant Services for USDA Are Understated

The Rural Development, Agriculture, and Related Agencies Appropriation Act of 1990 requires the Secretary of Agriculture to report to Congress each fiscal year on the amounts obligated for and spent on consultant services. Also, Departmental guidelines establish specific controls for approving and reporting contracts for consultant services.

Our review found that the Department established effective management controls over consultant activities, and for the contracts sampled, it received the services specified. The Department also implemented a system for agencies to enter information directly into the Procurement Reporting System and improve data accuracy, but some problems continued to exist. During FY 1991, consultant activity was understated in the system by about \$10 million. We also found that the Department had not submitted its FY 1991 consultant services report to Congress in a timely manner.

The Office of Operations agreed to reconcile the contract data periodically and correct reporting errors, and to revise departmental regulations to specify a timeframe for submitting the contract award reports. It also agreed to develop procedures to ensure timely submission of the report to Congress.

Audits of Contracts

OIG audits of contracts help USDA procurement offices negotiate, administer, and settle USDA contracts and subcontracts. During this period, OIG performed or arranged for audits of 17 pricing proposals, cost reimbursement contracts, or contractor claims. These audits resulted in questioned costs or potential savings of more than \$1.6 million. Also, management decisions were made on 10 audits, resulting in savings of about \$92,000.

- Our audit of a contractor's claim against SCS questioned \$1 million of the \$1.2 million in dispute. The contractor did not notify the contracting officer that site conditions were materially different from those stated in the contract, and he did not provide adequate documentation to support the costs claimed. Also, costs used by the contractor were based on alleged increases in hauling distances that were not part of the contract.
- The FS terminated a \$600,000 contract for the production of audiovisual programs. Our audit of the termination settlement proposal questioned about \$97,000 of the \$167,000 claimed by the contractor. The amounts questioned represented costs incurred outside of the performance period, which were therefore ineligible. In addition, the contractor's

accounting system did not adequately accumulate and segregate direct and indirect labor costs incurred under the contract.

- We audited the termination settlement proposal for an FS construction contract. We questioned \$106,000 of the \$110,000 proposed by the contractor because the contractor could not provide supporting documentation for the costs claimed. The audit concluded that the contractor's accounting system and supporting cost records contained no source documents, did not segregate direct costs from indirect costs, and did not properly identify direct costs by contract.
- A contractor constructing a \$9.7 million visitors' center for the FS requested reimbursement for \$240,000 in additional costs due to delays and disruptions. We audited the request and questioned about \$160,000. Of this amount, over \$113,000 was related to extended job costs not adequately supported in the contractor's records, and \$66,000 was related to home office costs not properly computed.

The contracting officers will use the information reported in the audits to negotiate with the contractors for allowable amounts.

Oversight of Non-Federal Auditors

OIG monitors the work performed by non-Federal auditors for 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 16 State and local governments for which we have been assigned single audit 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 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 the quality control reviews, led by other assigned cognizant Federal audit organizations, of State agencies administering major USDA programs.

During this 6-month period, we issued 6 audit reports covering areas over which we have been assigned

cognizance. Of these reports, 3 contained recommendations with questioned costs of about \$24,000 in USDA assistance. In addition, we received and distributed 69 reports furnished to us by other Federal cognizant agencies. Of these, 16 contained recommendations with associated monetary values of about \$1.3 million.

We also have general oversight responsibilities for the quality of numerous reports prepared by non-Federal auditors, pursuant to program requirements. Our current review of audit reports and supporting working papers for over 50 audits of FNS and FmHA programs found that many of the audits did not meet all auditing standards. Program officials of these two agencies said they receive over 5,000 audit reports annually for the programs we reviewed. Although our reviews are continuing, to date we have referred 19 firms to the State boards of accountancy for action because of the serious deficiencies we found in the firms' work. We also referred these firms to the American Institute of Certified Public Accountants (AICPA).

Many of the deficiencies we found related to inadequate documentation of the work performed. For example, for one of these audits, the working papers did not support the auditing procedures applied, tests performed, and conclusions reached, and the report contained various schedules showing commodity inventory and production data which did not agree with information shown in the working papers.

In another example, we found that the auditor did not adequately identify and disclose transactions of related-party companies, as required by auditing standards. Our review found that the related-party companies had no employees or equipment to perform services and derived all income from services performed by employees of the borrower. We also believe the independence of the auditor was impaired in this case because he did not prepare invoices indicating services rendered and fees charged to the client and because he maintained his work space at the client's place of business.

In addition to the referrals to the State boards and AICPA, we recommended that the agencies consider administrative action, such as debarment, for the 19 CPA firms which were seriously deficient.

Employee Integrity Investigations

Eight Convicted to Date in ASCS Embezzlement Conspiracy

We previously reported that an ASCS employee in California and her associate pled guilty to embezzling \$62,000 in CCC checks. Subsequent investigation revealed a broader pattern of fraud in which at least 17 CCC checks valued at over \$270,000 were fraudulently issued. The employee was then indicted on new charges, and three other ASCS employees from the same office were indicted for allegedly embezzling the CCC checks. The employees were unable to cash two of the checks totaling \$44,000 and enlisted the aid of nonemployees to cash them. Five other persons were indicted for their part in the scheme.

The ASCS employees had altered paper and computer records at the county office in order to have the fraudulent checks issued. Individuals involved in the scheme used the cash obtained to purchase illegal drugs, a truck, and other items.

One of the ASCS employees and the five nonemployees pled guilty to committing or assisting in the embezzlement and have been ordered to pay \$206,000 in restitutions and fines. Four of the nonemployees were sentenced to serve time in a community correction center; the ASCS employee was sentenced to 3 years in a Federal prison, and one nonemployee was given 18 months in prison.

Two of the remaining ASCS employees were found guilty at trial. Sentencing is pending. Trial for the remaining ASCS employee is pending.

Fictitious Loan Scheme Found in ASCS County Office

An ASCS program assistant in Texas was sentenced to 8 months in Federal prison and ordered to pay full restitution after pleading guilty to embezzling \$36,000 from the agency. The employee fraudulently issued ASCS checks to nonexistent farmers and converted the funds to her own use. The investigation also disclosed that when she applied for ASCS employment, she failed to disclose a previous conviction in Texas for theft.

FmHA Employee Alters Records To Conceal Embezzlement

An assistant in an Arkansas FmHA county office resigned and pled guilty in U.S. district court to embezzling approximately \$16,000 in cash loan payments. The employee altered FmHA's loan and accounting records and issued counterfeit receipts for the payments, thereby circumventing FmHA's internal accounting procedures. If a borrower who paid cash complained about receiving a delinquency notice, the clerk, to make up the embezzled amount, misapplied other borrowers' loan payments sent in by check. At least \$25,000 in cash payments are known to be missing. The total amount of loan payments embezzled or misapplied by the employee cannot be determined. Sentencing is pending.

Forest Service Employee Embezzles Funds

A Forest Service employee working at a Job Corps center in Nebraska embezzled approximately \$4,800 over a 2-month period from an office imprest fund for which she was responsible. The FS employee took cash from the imprest fund and converted it to money orders, which she subsequently used to pay personal debts. She prepared reimbursement vouchers to cover the missing funds and make it appear as though legitimate payments had actually been made out of the imprest fund. As a result of the investigation, the employee resigned. The employee pled guilty to one felony count of theft. Sentencing is pending.

Statistical Data

Audits Without Management Decision

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

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Mgmt. Decision
Audits Pending Agency Action				
ASCS	6/21/90	1. 1988 Livestock Feed Program in Texas (03600-11-Te)*	\$587,512	\$66,213
	9/23/91	2. Control of Payment Limitation for 1989 Feed Grain, Rice, Upland Cotton and Wheat Programs (03600-15-Te)*	0	0
	11/21/91	3. 1989 Cucumber Disaster Assistance Payments in Texas (03099-150-Te)	\$1,253,796	\$144,885
	12/16/91	4. 1989 Payment Limitation Cases, Dallam County, Texas (03600-22-Te)	\$1,713,646	\$224,857
FCIC	3/13/91	5. Insurance Contracts With Large Indemnity Payments Adjusted by Crop Hail Management (05600-3-Te)*	\$122,588	\$105,667
	3/16/92	6. 1989 Dry Bean Contract No. RH-38-116-151329 for Walsh County, North Dakota (05099-107-KC)	\$155,371	\$155,371
	3/31/92	7. Audit of Large Claims in Florida (05099-20-At)	\$1,034,814	\$859,857
	3/31/92	8. 1989 Corn and Soybean Contract No. 24-884-48846-89 for Vernon County, Missouri Crop Hail Management (05099-105-KC)	\$290,170	\$290,170

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Mgmt. Decision
RDA	12/20/90	9. Nonprofit National Corporations Loan and Grant Program (04600-6-Te)*	\$2,870,668	\$502,600
	3/28/90	10. Texas State Office Business and Industrial Loan Program (04002-1-Te)*	\$4,889,161	\$1,666,347
	5/10/89	11. Business and Industrial Loan to Gulf Coast Wood Products (04099-149-Te)*	\$4,350,000	\$4,350,000
FmHA	2/10/92	12. Rural Rental Housing Program Servicing of HUD Section 8/515 Projects, in Colorado (04099-120-KC)	\$194,323	\$194,323
	9/27/91	13. Debt Restructuring of Farmer Program Guaranteed Loans (04600-2-Te)*	\$87,825	0
	2/06/92	14. Controls and Security Over Remote Transaction Processing (04600-4-FM)	0	0
	7/16/91	15. Termination Settlement Proposal Under Contract No. 53-3157-9-003 (04545-12-Te)*	\$786,051	\$786,051

Audits Pending Action Outside the Department

SCS	12/20/90	16. Allegheny Construction Co. Contract Dispute (10545-00031-Hy)*	\$211,726	\$211,726
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* Reported in last Semiannual Report

Audits Without Management Decision—Narrative

1. 1988 Livestock Feed Program in Texas, Issued June 21, 1990

The ASCS Texas State Office is currently evaluating documentation involving two producers cited in the report. ASCS plans to issue repayment demand letters to the affected borrowers.

2. Control of Payment Limitation for 1989 Feed Grain, Rice, Upland Cotton and Wheat Programs, Issued September 23, 1991

In a September 24, 1992, response, ASCS reversed its previous position to strengthen controls over "shell" corporations. ASCS agreed, however, to examine individual situations on a case-by-case basis to determine whether they constitute schemes or devices to evade the payment limitation. We are evaluating ASCS' response and will continue to work with the agency to eliminate payment limitation abuses.

3. 1989 Cucumber Disaster Assistance Payments in Texas, Issued November 21, 1991

We are awaiting the ASCS' management decision on three recommendations involving the assignment of zero yields to farms with unharvested production.

4. 1989 Payment Limitation Cases, Dallam County, Texas, Issued December 16, 1991

We reported that producers received improper payments of about \$1.7 million for 1985 and 4 other years because of a continuing scheme or device to evade payment limitation regulations. Action has been taken on all payments except those for 1985. The ASCS national office has been requested to make a determination on the 1985 payments.

5. Insurance Contracts With Large Indemnity Payments 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. Management decision has been obtained for three cases and the fourth is being investigated.

6. 1989 Dry Bean Contract No. RH-38-116-151329 for Walsh County, North Dakota, Issued March 16, 1992

The FCIC disagrees with our finding that the insured followed poor farming practices. We are reviewing the FCIC response.

7. Audit of Large Claims in Florida, Issued March 31, 1992

We took exception to insurance payments to one Florida tomato producer because the reinsurance company insured tomatoes on ineligible acreage and the producer failed to report the planting, production, and sale of tomatoes produced on an uninsured field. We also took exception to the commissions paid the reinsurance company for insuring the ineligible acreage. FCIC sustained the audit findings and OIG is investigating this case. Management decision is pending the results of this investigation.

8. 1989 Corn and Soybean Contract No. 24-884-48846-89 for Vernon County, Missouri, Crop Hail Management, Issued March 31, 1992

We questioned two claimed losses because of a discrepancy in the election of an effective price and a questionable appeal decision. FCIC is reviewing these two cases.

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

Our audit recommended that FmHA review the technical assistance claims and questionable loans from two national nonprofit corporations and recover the funds determined to be ineligible. Rural Development Administration officials agreed to implement the recommendations and have initiated action to reconcile the claims with supporting documentation. We concur in the approach taken and recognize that it is extensive. In order to achieve management decision, the agency needs to complete its reconciliation and record all of the funds determined due as accounts receivable in its accounting records.

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

We recommended that FmHA assess each questioned loan in the audit to establish the monetary amounts of potential claims against lenders. This will require OGC to determine the extent to which FmHA may enforce the loan guarantees and recover losses covered by the guarantees. FmHA has agreed with the recommendations, and its review is underway. Extensive case file analysis is involved in this process.

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

Our audit recommended that FmHA, upon receipt of the lender's loss claim, refer to OGC the lender's violations of its agreement and ask OGC to determine the extent to which FmHA may enforce the loan guarantee. The lender has failed, and the Federal Deposit Insurance Corporation has taken over the matter. FmHA is working with OGC on this issue.

12. Rural Rental Housing Program Servicing of HUD Section 8/515 Projects in Colorado, Issued February 10, 1992

Our audit recommended that the cited projects be required to apply excess funds to the loan obligation, transfer excess cash to reserve accounts, and cancel unneeded interest credit agreements. FmHA has informed us that corrective action has been achieved for most of the cases and that the remaining cases are being worked. We have not yet been provided documentation to support the establishment of claims. We are continuing to work with the agency to reach management decision.

13. Debt Restructuring of Farmer Program Guaranteed Loans, Issued September 27, 1991

Our audit disclosed that FmHA guidance was needed on how to compute the net recovery value of assets. FmHA prepared guidance that did not consider amounts that could be obtained through the liquidation of all assets, if greater than the assets pledged as security for the loan. In our opinion, such a consideration is required by the Agricultural Credit Act of 1987. FmHA's position is based upon a recent OGC opinion. We are working with FmHA and OGC on this matter.

14. Controls and Security Over Remote Transaction Processing, Issued February 6, 1992

Our audit showed that FmHA needed to document access rules for the computer system access control software ACF2 to justify who has access to each program and why, and to further restrict those who must have access to the computer mainframe. FmHA expects to complete an independent analysis of its ACF2 environment by February 1993 and will use the results to respond to the recommendations. We are awaiting the completion of the analysis.

15. Termination Settlement Proposal Under Contract No. 53-3157-9-003, Issued July 16, 1991

FmHA agreed to use the audit results in the negotiation of the settlement. We are awaiting the results of the final negotiations.

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

The contract claim is in litigation.

Indictments and Convictions

Between April 1, 1992, and September 30, 1992, OIG completed 745 investigations. We referred 439 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 614 indictments and 435 convictions. Fines, recoveries/collections, and restitutions resulting from our investigations totaled about \$27.7 million. Costs of about \$2.2 million were avoided.

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

Indictments and Convictions

April 1992 - September 1992

Agency	Indictments	Convictions*
AMS	0	3
APHIS	1	0
ASCS	31	29
FAS	6	2
FCIC	18	6
FmHA	24	25
FNS	511	352
FS	3	4
FSIS	19	11
SCS	1	3
Totals	614	435

Total FY 1992

Agency	Indictments	Convictions*
AMS	3	3
APHIS	4	2
ASCS	59	56
FAS	6	5
FCIC	25	16
FmHA	58	67
FNS	852	611
FS	6	5
FSIS	24	16
SCS	3	4
Totals	1,040	785

*This category includes pretrial diversions.

Hotline Complaints

The OIG Hotline serves as a national receiving point for reports from both departmental employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 2,182 complaints. We investigated or audited 140 of these complaints and referred 53 to other Federal law enforcement agencies. We referred 1,644 complaints to the administering USDA agencies for resolution and response to OIG. Of the remainder, we provided 289 complaints to the responsible USDA agency for information (no response to OIG was requested), while 56 contained insufficient information to allow any action.

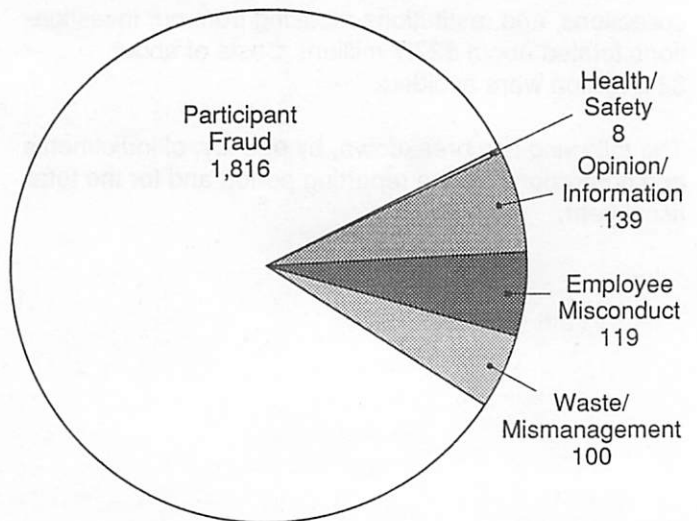
The 24-hour, toll-free telephone number continues to be the major source for receipt of Hotline complaints. The majority of complaints are allegations of participant fraud in USDA programs. Figure 3 shows a breakdown of the various types of allegations for this reporting period.

Figure 3

Hotline Complaints

April 1, 1992 to September 30, 1992

(Total Cases = 2,182)



Freedom of Information Act Activities

During this period, OIG processed 316 requests under the Freedom of Information Act. Details follow:

	This Period
Number of Requests Received:	318
Number of Requests Processed:	
Number of Favorable Responses	171
Number of Unfavorable Responses	145
Total	<u>316</u>
Unfavorable Responses Due to:	
No Records Available	33
Requests Denied in Full	39
Requests Denied in Part	73
Total	<u>145</u>
Other Data Not Affected Directly by the Requests:	
Appeals Granted	0
Appeals Denied in Full	7
Appeals Denied in Part	4
Number of OIG Reports/Documents Released in Response to Requests	425

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

	NUMBER	DOLLAR VALUES	
		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 01, 1992	47	\$75,137,708	\$12,513,412
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	110	25,837,048	3,549,466
TOTALS	157	\$100,974,756	\$16,062,878
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	102		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$43,554,614	\$2,096,586
NOT RECOMMENDED FOR RECOVERY		\$14,510,914 ^b	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		10,789,875	8,126,091
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	55	31,728,840	5,822,201
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	15	16,170,663	2,619,302

^aUnsupported values are included in questioned values.

^bThese costs have been expended erroneously or improperly due to agency action and for which recovery is not possible.

Appendix II

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

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 01, 1992	17	\$8,809,579
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	22	52,148,048
TOTALS	<u>39</u>	<u>\$60,957,627</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	17	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$27,131,158
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		24,695
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	22	33,801,774
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN SIX MONTHS OF ISSUANCE	8	5,419,122

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992, THE OFFICE OF INSPECTOR GENERAL ISSUED 245 AUDIT REPORTS, INCLUDING 92 PERFORMED BY OTHERS.

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	6	\$8,710		\$3,999,356
AGRICULTURAL RESEARCH SERVICE	2			\$580,345
AGRICULTURE STABILIZATION AND CONSERVATION SERVICE	16	\$1,826,214	\$25,746	\$4,637,534
FARMERS HOME ADMINISTRATION	19	\$15,853,266	\$2,545,591	\$1,873,944
FEDERAL CROP INSURANCE CORPORATION	2	\$1,119,652		
FOREIGN AGRICULTURAL SERVICE	2	\$2,005,750		
FOREST SERVICE	11	\$183,253	\$101,610	\$481,644
SOIL CONSERVATION SERVICE	2			\$1,058,839
OFFICE OF FINANCE AND MANAGEMENT	2			
COOPERATIVE STATE RESEARCH SERVICE	2	\$386,950	\$386,950	\$45,432
OFFICE OF OPERATIONS	2			
FOOD SAFETY AND INSPECTION SERVICE	2			
FOOD AND NUTRITION SERVICE	90	\$3,108,092	\$20,742	\$19,459,121
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3			
MULTI-AGENCY	84	\$1,345,161	\$468,827	\$20,011,833
TOTALS	245	\$25,837,048	\$3,549,466	\$52,148,048
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	161			
MULTIAGENCY	84			
TOTAL RELEASED NATIONWIDE	245			
TOTAL COMPLETED UNDER CONTRACT ^b	92			
TOTAL SINGLE AUDIT ISSUED ^c	76			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGENCY - AGRICULTURAL MARKETING SERVICE				
01-061-0012-AT 92/04/20	FINANCIAL REVIEW OF FEDERAL INSPECTION POINTS - FRUITS AND VEGETABLES DIVISION			\$251,573
01-061-0013-AT 92/04/20	MANAGEMENT OF VOLUNTARY INSPECTION AND GRADING PROGRAMS			\$3,747,783
01-061-0014-AT 92/04/02	POULTRY GRADING ACTIVITIES			
01-061-0016-AT 92/09/30	MANAGEMENT OF THE SHIPPING POINT INSPECTION PROGRAM, FRUITS & VEGETABLES DIV.	\$8,710		
01-099-0002-CH 92/09/21	DAIRY PROMOTION AND RESEARCH PROGRAMS			
01-600-0001-SF 92/05/29	ENFORCEMENT ACTIVITIES OF MARKET ORDER ADMINISTRATIVE COMMITTEES			
TOTAL: AGRICULTURAL MARKETING SERVICE		6	\$8,710	\$3,999,356
AGENCY - AGRICULTURAL RESEARCH SERVICE				
02-099-0001-TE 92/09/30	SURVEY OF UNLIQUIDATED OBLIGATIONS			\$565,757
02-545-0001-CH 92/09/11	PREAWARD AUDIT - CONSORTIUM FOR INTERNATIONAL EARTH SCIENCE INFO. NETWORK - MICHIGAN			\$14,588
TOTAL: AGRICULTURAL RESEARCH SERVICE		2		\$580,345
AGENCY - AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE				
03-002-0001-TE 92/09/30	ESTABLISHMENT OF NONPROGRAM CROP DISASTER ASSISTANCE RATES	\$57,152		
03-012-0001-CH 92/09/09	COUNTY OFFICE OPERATIONS - SAGINAW, MICHIGAN	\$147,946	\$25,746	
03-012-0001-TE 92/04/24	MANAGEMENT OF COUNTY OFFICE OPERATIONS, LOGAN COUNTY, OK			
03-012-0002-TE 92/04/24	MANAGEMENT OF COUNTY OFFICE OPERATIONS, PAYNE COUNTY, OK			
03-012-0003-TE 92/06/11	MANAGEMENT OF COUNTY OFFICE OPERATIONS, PUSHMATAHA, OK			
03-012-0004-TE 1991 92/07/02	COUNTY OFFICE OPERATIONS, NEW MEXICO			
03-091-0107-TE 1990 92/04/23	PEANUT PRICE SUPPORT PROGRAM			
03-091-0338-FM 92/09/30	ASCS/CCC COLLECTIONS, CLAIMS AND DEBT MANAGEMENT ACTIVITIES	\$8,546		\$4,637,534
03-097-0004-SF 92/09/16	PROGRAM OPERATIONS - STATE OF ALASKA	\$1,609,645		
03-097-0006-TE 92/04/01	TEXAS STATE OFFICE			
03-099-0033-FM 92/07/31	SECURITY CONTROLS OVER COMMODITY PRICE AND LOAN REPAYMENT RATES			
03-099-0153-TE 92/06/08	CONTROL OF PAYMENTS ON FOREIGN OWNED FARMS			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
03-545-0022-HY 92/04/10	PREAWARD AUDIT-APPLIED SYSTEMS INSTITUTE			
03-600-0005-FM 92/09/22	AUDIT OF CCC FINANCIAL STATEMENTS - FY91			
03-600-0008-FM 92/05/29	AUDIT OF CCC FINANCIAL STATEMENTS - FY91 SCOAP CONTROL ISSUES FAST REPORT	\$2,925		
03-600-0009-FM 92/09/30	CCC FINANCIAL STATEMENTS - FY 1991 MANAGEMENT REPORT ISSUES			
TOTAL: AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE		16	\$1,826,214	\$25,746
				\$4,637,534
AGENCY - FARMERS HOME ADMINISTRATION				
04-099-0079-HY 92/04/09	PARADISE MILLS ESTATE RRH PROJECT - RESERVE ACCOUNT			\$249,327
04-099-0102-CH 92/08/03	SERVICING OF B&I LOAN TO H&S MFG CO. - MARSHFIELD, WISCONSIN			
04-099-0124-KC 92/06/17	RURAL RENTAL HOUSING PROGRAM SERVICING OF HUD SECTION 8/515 PROJECTS IN NE	\$1,432,523	\$1,432,523	\$126,875
04-099-0128-KC 92/08/19	MANAGEMENT OF TWO RURAL RENTAL HOUSING PROJECTS LOCATED IN NEBRASKA	\$127,356		\$28,315
04-099-0168-TE 92/06/15	BORROWER REPAYMENTS ON DEFAULTED GUARANTEED LOANS	\$69,113		
04-099-0173-TE 92/07/16	ACCRUED INTEREST ON GUARANTEED LOAN REPURCHASES	\$355,849		\$1,132,207
04-099-0185-TE 92/09/28	COLLECTIONS ON NET RECOVERY BUYOUT RECAPTURE AND SHARED APPRECIATION AGREEMENTS	\$16,331		\$337,220
04-099-0188-TE 92/08/13	SUBSEQUENT LOAN TO DEBT WRITEDOWN BORROWER IN DAWSON COUNTY, TEXAS	\$16,225		
04-099-0320-AT 92/07/23	LIMESTONE COUNTY, ALABAMA FMHA OFFICE	\$1,115,117	\$1,113,068	
04-099-0321-AT 92/08/24	CONTRACTING FOR ADP AND PROGRAM SERVICES	\$5,612,515		
04-545-0031-HY 92/09/08	RURAL OPPORTUNITIES, INC. - CLOSE-OUT AUDIT			
04-600-0009-TE 92/04/10	RURAL RENTAL HOUSING - CONSTRUCTION ACTIVITIES IN LOUISIANA	\$280,822		
04-600-0011-FM 92/09/10	FMHA FY 91 FINANCIAL STATEMENT AUDIT - FINANCE OFFICE			
04-600-0012-FM 92/09/30	FINANCIAL STATEMENT AUDIT - FMHA - FY91 MANAGEMENT ISSUES			
04-600-0023-CH 92/04/15	RURAL RENTAL HOUSING PROGRAM - CONSTRUCTION ACTIVITIES IN INDIANA	\$163,175		
04-600-0025-CH 92/05/11	RRH CONSTRUCTION ACTIVITIES	\$6,664,240		
04-676-0001-TE 92/04/27	B&I LOAN TO MID-SOUTH GRAIN, INC., MERMENAU, LA			
04-676-0002-TE 92/04/27	B&I LOAN TO POWELL FUEL OIL SERVICES, INC., EUNICE, LA			
04-676-0003-TE 92/07/21	FMHA B&I LOAN TO P.T. SELF SERVICE, AMITE, LA			
TOTAL: FARMERS HOME ADMINISTRATION		19	\$15,853,266	\$2,545,591
				\$1,873,944

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGENCY - FEDERAL CROP INSURANCE CORPORATION				
05-099-0052-TE 92/07/16	1989-1990 CROP INSURANCE INDEMNITIES PAID TO KING RANCH, INC., KLEBERG COUNTY, TEXAS	\$1,009,340		
05-099-0055-TE 92/07/16	1988 AND 1989 SOYBEAN LOSSES IN THREE ARKANSAS COUNTIES	\$110,312		
TOTAL: FEDERAL CROP INSURANCE CORPORATION		2	\$1,119,652	
AGENCY - FOREIGN AGRICULTURAL SERVICE				
07-099-0028-HY 92/09/30	EXPORT ENHANCEMENT PROGRAM	\$2,005,750		
07-099-0030-HY 92/04/24	J. ARON & CO., NEW YORK, N.Y. EXPORT OPERATIONS UNDER CCC PROGRAMS			
TOTAL: FOREIGN AGRICULTURAL SERVICE		2	\$2,005,750	
AGENCY - FOREST SERVICE				
08-097-0001-KC 92/09/23	ROAD MANAGEMENT AND ACCESS TO PUBLIC LANDS	\$81,643		
08-099-0013-KC 92/08/06	AGENCY CONTRIBUTIONS TO SMALL BUSINESS INNOVATION RESEARCH PROGRAM			
08-099-0015-KC 92/09/03	FY 1992 FINANCIAL STATEMENT ASSIST WORK			
08-099-0037-AT 92/07/28	FS FINANCIAL STATEMENTS - FY 1991			
08-545-0002-AT 92/08/25	PREAWARD AUDIT OF PROP. FOR DESIGN OF EL PORTAL DEL YUNQUE, PROPOSAL #R8-91-15			\$32,897
08-545-0021-HY 92/04/24	INCURRED COST - CARPENTERS AND JOINERS			\$24,695
08-545-0056-SF 92/04/15	EQUITABLE ADJUSTMENT-SLAYDEN CONSTRUCTION, INC., STAYTON, OREGON			\$160,192
08-545-0058-SF 92/05/08	TERMINATION SETTLEMENT PROPOSAL-ALTAIR, INC., SWANTON, VT			\$60,342
08-545-0059-SF 92/07/15	TERMINATION SETTLEMENT PROPOSAL - ROBERT E. MOORE CONSTRUCTION, SAN MARCOS, CA			\$106,359
08-545-0060-SF 92/08/12	TERMINATION SETTLEMENT PROPOSAL-SEA STUDIOS, MONTEREY, CA			\$97,159
08-601-0001-SF 92/08/10	SPECIAL USE PERMITS LARGE RESORTS - MT. BACHELOR CONCESSION, BEND, OREGON	\$101,610	\$101,610	
TOTAL: FOREST SERVICE		11	\$183,253	\$481,644
AGENCY - SOIL CONSERVATION SERVICE				
10-099-0003-FM 92/09/30	SECURITY REVIEW OF DISTRIBUTED MINICOMPUTERS			
10-545-0033-HY 92/04/23	LANG BROTHERS- UPPER MUD RIVER CONTRACT CLAIM			\$1,058,839
TOTAL: SOIL CONSERVATION SERVICE		2		\$1,058,839

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGENCY - OFFICE OF FINANCE AND MANAGEMENT				
11-099-0001-HY 92/07/21	IMPLEMENTATION OF MANAGEMENT DECISIONS/FINAL ACTION PROCEDURES			
11-099-0032-FM 92/09/30	SELECTED ASPECTS OF COMPUTER SECURITY AT OFM/NFC			
TOTAL: OFFICE OF FINANCE AND MANAGEMENT		2		
AGENCY - COOPERATIVE STATE RESEARCH SERVICE				
13-097-0001-TE 92/08/10	REVIEW OF SELECTED COOPERATIVE AGREEMENTS, TEXAS A&M UNIVERSITY, COLLEGE STATION, TX			
13-600-0001-AT 92/09/30	ADMINISTRATION OF AGRICULTURAL RESEARCH PROJECTS	\$386,950	\$386,950	\$45,432
TOTAL: COOPERATIVE STATE RESEARCH SERVICE		2	\$386,950	\$45,432
AGENCY - OFFICE OF OPERATIONS				
23-545-0012-HY 92/07/23	CANTEEN CORPORATION-INCURRED COST AUDIT			
23-545-0013-HY 92/07/23	CANTEEN CORPORATION-PREAWARD AUDIT			
TOTAL: OFFICE OF OPERATIONS		2		
AGENCY - FOOD SAFETY AND INSPECTION SERVICE				
24-062-0001-HY 92/07/16	INCURRED COST - MARYLAND MEAT INSPECTION PROGRAM			
24-062-0002-KC 92/07/30	STREAMLINED INSPECTION SYSTEM - FOOD SAFETY			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		2		
AGENCY - FOOD AND NUTRITION SERVICE				
27-002-0024-HY 92/09/02	FOOD STAMP COMPLIANCE OFFICES - FNS			
27-013-0047-TE 92/09/10	EFFECTIVENESS OF FSP USE OF INS SYSTEMATIC ALIEN VERIFICATION FOR ENTITLEMENTS SYSTEM			\$5,000,000
27-019-0034-AT 92/04/22	FOOD STAMP PROGRAM - ERROR RATE REDUCTION IN GA	\$76,885		\$14,150,383
27-019-0069-CH 92/09/30	FOOD STAMP PROGRAM - QUALITY CONTROL ACTIVITIES	\$1,884,450		
27-023-0001-KC 92/06/18	NATIONAL SCHOOL LUNCH PROGRAM, KANSAS CITY, MISSOURI SCHOOL DISTRICT			\$308,738
27-029-0426-HY 92/05/04	FNS-CACFP UNIVERSITY SETTLEMENT SOCIETY	\$27,059		
27-029-0427-HY 92/04/30	FNS-CACFP HENRY STREET SETTLEMENT	\$23,329		
27-029-0428-HY 92/05/04	FNS-CACFP PUERTO RICAN COUNCIL DCC, INC	\$2,037		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-029-0429-HY 92/04/30	FNS-CACFP ACTION FOR PROGRESS	\$7,570		
27-029-0430-HY 92/04/30	FNS-CACFP IMMIGRANT SOCIAL SERVICE, INC	\$10,703		
27-029-0431-HY 92/06/17	FNS-CACFP EAST HARLEM COUNCIL FOR HUMAN SERVICES	\$12,575		
27-029-0432-HY 92/04/30	FNS-CACFP UNITED COMMUNITY OF WILLIAMSBURG	\$6,577		
27-029-0433-HY 92/04/30	FNS-CACFP HOWARD O WALKER DCC	\$2,816		
27-029-0434-HY 92/04/30	FNS-CACFP BETHEL BAPTIST DC			
27-029-0435-HY 92/04/30	FNS-CACFP PARK SLOPE NORTH CHILD DEV CENTER			
27-029-0436-HY 92/05/29	FNS-CACFP COJO HS	\$2,038		
27-029-0437-HY 92/05/29	FNS-CACFP THE MIRACLE MAKERS	\$62,540		
27-029-0438-HY 92/04/30	FNS-CACFP EMANUEL PROGRESSIVE	\$19,143		
27-029-0439-HY 92/06/17	FNS-CACFP COMMUNITY ROUNDTABLE	\$10,981		
27-029-0440-HY 92/04/30	FNS-CACFP BUSHWICK UNITED HOUSING DEV FUND	\$3,713		
27-029-0441-HY 92/05/29	FNS-CACFP HUMAN RESOURCES CENTER OF ST ALBANS			
27-029-0442-HY 92/04/30	FNS-CACFP SO JAMAICA CTR FOR CHILDREN AND PARENTS	\$4,646		
27-029-0443-HY 92/05/04	FNS-CACFP OMEGA PSI PHI FRATERNITY	\$687		
27-029-0444-HY 92/05/04	FNS-CACFP THE PARENT CONNECTION	\$5,054		
27-029-0445-HY 92/04/30	FNS-CACFP CAPITAL DISTRICT CCC	\$3,081		
27-029-0446-HY 92/07/02	FNS-CACFP ALBANY CO OPPORTUNITY	\$3,627		
27-029-0447-HY 92/07/13	FNS-CACFP SCHENECTADY COMMUNITY ACTION PROG	\$3,073		
27-029-0448-HY 92/05/29	FNS-CACFP CORTLAND AREA CC COUNCIL	\$86		
27-029-0449-HY 92/07/02	FNS-CACFP NEIGHBORHOOD CENTER OF UTICA	\$7,280		
27-029-0450-HY 92/04/30	FNS-CACFP UTICA HS CHILDREN AND FAMILIES	\$569		
27-029-0451-HY 92/04/30	FNS-CACFP BROOME COUNTY CDC	\$344		
27-029-0452-HY 92/05/29	FNS-CACFP OPPORTUNITIES FOR BROOME COUNTY	\$3,580		
27-029-0453-HY 92/05/04	FNS-CACFP LEWIS STREET CCC	\$1,238		
27-029-0454-HY 92/04/30	FNS-CACFP COMMUNITY CCC OF THE THIRD WARD	\$2,519		
27-029-0455-HY 92/04/30	FNS-CACFP ROCHESTER CHILDRENS NURSERY	\$757		
27-029-0456-HY 92/05/29	FNS-CACFP STEUBEN CO ECONOMIC OPPORTUNITY PROGRAM	\$464		
27-029-0457-HY 92/05/29	FNS-CACFP DC & CDC OF TOMPKINS COUNTY	\$828		
27-029-0458-HY 92/04/30	FNS-CACFP CHINESE-AMERICAN PLANNING COUNCIL			
27-029-0459-HY 92/04/30	FNS-CACFP STATEN ISLAND MENTAL HEALTH SOCIETY			
27-029-0460-HY 92/04/30	FNS-CACFP MARTIN LUTHER KING JR CCC	\$2,368		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-029-0461-HY 92/04/30	FNS-CACFP WESTERN QUEENS NURSERY SCHOOL	\$27,920		
27-029-0462-HY 92/04/30	FNS-CACFP FARRAGUT DCC			
27-029-0463-HY 92/04/30	FNS-CACFP BOULEVARD NURSERY	\$5,812		
27-029-0464-HY 92/04/30	FNS-CACFP EAST NEW YORK FAMILY DC	\$7,810		
27-029-0465-HY 92/04/30	FNS-CACFP SYLVIA KLEIN CCC			
27-029-0466-HY 92/04/30	FNS-CACFP JOHN EDWARD BRUCE DCC	\$202		
27-029-0467-HY 92/04/30	FNS-CACFP OUR LADY OF PEACE CHILD DEV CTR	\$556		
27-029-0468-HY 92/04/30	FNS-CACFP FIVE BLOCK DCC	\$3,822		
27-029-0469-HY 92/04/30	FNS-CACFP RECREATION ROOMS & SETTLEMENT			
27-029-0470-HY 92/04/30	FNS-CACFP IRVING PLACE DCC	\$1,498		
27-029-0471-HY 92/04/30	FNS-CACFP MEDGAR EVERS COLLEGE HS	\$258		
27-029-0472-HY 92/04/30	FNS-CACFP MACEDONIA CHILD DEVELOPMENT CTR			
27-029-0474-HY 92/04/30	FNS-CACFP SHELDON R WEAVER DCC, INC	\$148		
27-029-0475-HY 92/04/30	FNS-CACFP ROCKAWAY HS	\$340		
27-029-0476-HY 92/04/30	FNS-CACFP GREENE CO COMMUNITY ACTION AGENCY			
27-029-0477-HY 92/04/30	FNS-CACFP ASTOR HOME FOR CHILDREN			
27-029-0478-HY 92/04/30	FNS-CACFP HUMPTY DUMPTY DAY NURSERY			
27-029-0479-HY 92/04/30	FNS-CACFP POUGHKEEPSIE DAY NURSERY	\$300		
27-029-0480-HY 92/04/30	FNS-CACFP WARREN CO DEPT OF SOCIAL SERVICES	\$13,886		
27-029-0481-HY 92/04/30	FNS-CACFP CHILD CARE, INC			
27-029-0482-HY 92/06/11	FNS-CACFP CARDINAL SPELLMAN CENTER HS	\$1,022		
27-029-0483-HY 92/04/30	FNS-CACFP CHILDRENS LIBERATION DCC			
27-029-0484-HY 92/06/11	FNS-CACFP THE BETHANY DAY NURSERY, INC	\$540		
27-029-0485-HY 92/04/30	FNS-CACFP ST MATTHEWS & ST TIMOTHYS CENTER	\$1,319		
27-029-0486-HY 92/04/30	FNS-CACFP MANHATTAN VALLEY CDC CORP	\$4,879		
27-029-0487-HY 92/05/18	FNS-CACFP WEST HARLEM COMMUNITY ORGANIZATION	\$4,255		
27-029-0488-HY 92/04/30	FNS-CACFP CENTRAL HARLEM COMMUNITY ORGANIZA- TION	\$6,278		
27-029-0489-HY 92/06/11	FNS-CACFP UPPER MANHATTAN DC	\$2,451		
27-029-0490-HY 92/05/18	FNS-CACFP MOUNT CALVARY CCC	\$13,006		
27-029-0491-HY 92/04/30	FNS-CACFP HARTLEY HOUSE			
27-029-0492-HY 92/04/30	FNS-CACFP PIUS YOUTH & FAMILY SERVICES	\$175		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	
27-029-0493-HY 92/06/11	FNS-CACFP CLAREMONT NEIGHBORHOOD CENTER	\$1,109			
27-029-0494-HY 92/05/18	FNS-CACFP LABOR BATHGATE COMMUNITY CCC	\$3,140			
27-029-0495-HY 92/06/11	FNS-CACFP BELMONT COMMUNITY DCC	\$7,300			
27-029-0496-HY 92/04/30	FNS-CACFP SEABURY DCC	\$3,144			
27-029-0498-HY 92/04/30	FNS-CACFP CONSELYEA STREET BLOCK ASSOC	\$2,005			
27-029-0501-HY 92/05/18	FNS-CACFP LONGVIEW NIAGARA DCC				
27-029-0502-HY 92/06/11	FNS-CACFP SAINT AUGUSTINES, INC				
27-029-0504-HY 92/09/25	FNS-CACFP BOYS HARBOR, INC	\$98,368			
27-029-0505-HY 92/09/02	FNS-CACFP NYC BOARD OF EDUCATION, OSFNS	\$118,927			
27-029-0506-HY 92/07/02	FNS-CACFP ARLINGTON COMMUNITY ACTION PROG HS	\$10,911			
27-029-0507-HY 92/07/31	FNS-CACFP TOTAL ACTION AGAINST POVERTY	\$2,802			
27-029-0508-HY 92/08/06	FNS-CACFP THE STOP ORGANIZATION	\$10,700			
27-029-0509-HY 92/07/29	FNS-CACFP CHILD AND FAMILY SERVICES	\$2,810			
27-029-0510-HY 92/08/28	FNS-CACFP THE PLANNING COUNCIL	\$12,001			
27-070-0002-HY 92/08/10	AUDIT OF FOOD AND NUTRITION SERVICE FINANCIAL STATEMENTS - FY91				
27-099-0053-AT 92/04/16	NATIONAL SCHOOL LUNCH PROGRAM - CLAIMS FOR REIMBURSEMENT - TN	\$545,781	\$20,742		
27-545-0073-HY 92/09/17	THE URBAN INSTITUTE - INCURRED COST				
27-545-0074-HY 92/09/28	MATHEMATICA POLICY RESEARCH, INC. - FINAL RATES AUDIT				
27-545-0075-HY 92/09/23	NATIONAL ANALYSTS, INC. - INCURRED COST AUDIT				
TOTAL: FOOD AND NUTRITION SERVICE		90	\$3,108,092	\$20,742	\$19,459,121
AGENCY - ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-099-0005-AT 92/09/30	NATIONAL POULTRY IMPROVEMENT PLAN				
33-545-0001-CH 92/05/13	AUDIT OF CONTRACT PROPOSED BY LEO J. DELY COMPANY - OMAHA, NEBRASKA				
33-545-0009-TE 92/04/23	PREAWARD AUDIT OF CONTRACT FOR ARCHITECTURAL AND ENGINEERING SERVICES, BERNARD JOHNSON, INC.				
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		3			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGENCY - MULTI-AGENCY				
50-099-0028-AT 92/09/30	RCRA COMPLIANCE AT USDA LABORATORIES			
50-099-0071-HY 92/09/29	USE OF COOPERATIVE AGREEMENTS			
50-550-0016-HY 92/07/20	CONTRACTED ADVISORY AND ASSISTANCE SERVICES (CAAS)			
50-561-0001-HY 92/04/10	CAPITAL DISTRICT CHILD CARE COORDINATING COUNCIL, INC, ALBANY, NY, A-133, SFYE 12/90	\$5,029	\$2,277	
50-563-0082-SF 92/05/01	A-110 AUDIT OF UNIV OF CA - RIVERSIDE FOR THE 2 YRS ENDED 6/30/90			
50-563-0083-SF 92/04/28	A-110 AUDIT REPORT ON UC - IRVINE - FYE - 6/30/90			
50-563-0084-KC 92/06/03	BRIGHAM YOUNG UNIVERSITY, PROVO, UTAH, FISCAL YEAR END AUGUST 31, 1990			
50-566-0014-CH 92/06/04	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF AGRICULTURE			
50-566-0014-TE 92/07/31	OMB CIRCULAR A-128, AUDIT OF ARK. FORESTRY COMMISSION FOR THE FISCAL YEAR ENDED 6-30-91			
50-566-0015-CH 92/06/15	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF AGRICULTURE			
50-566-0016-CH 92/08/20	SINGLE AUDIT OF THE STATE OF MINNESOTA	\$12,012	\$12,012	
50-566-0027-KC 92/08/21	A-128, WY DEPARTMENT OF AGRICULTURE (FY ENDED 6/30/91), CHEYENNE, WY	\$12,125	\$4,721	
50-566-0040-HY 92/09/30	PENNSYLVANIA SINGLE AUDIT, A-128, STATE FISCAL YEAR ENDED JUNE 30, 1991	\$20		
50-568-0093-HY 92/04/02	STATE OF NEW HAMPSHIRE, A-128 SFYE 6/30/90	\$250		
50-568-0094-HY 92/04/02	VIRGINIA DEPT FOR THE AGING, A-128, SFYE 6/30/90			
50-568-0095-HY 92/04/02	VIRGINIA DEPT OF HEALTH, A-128 SFYE 6/30/90			
50-568-0096-HY 92/04/10	DISTRICT OF COLUMBIA SCHOOLS, A-128 SFYE 9/30/90			
50-568-0097-HY 92/04/21	STATE BOARD OF EDUCATION, CT, A-128 SFYE 6/30/88 AND 6/30/89	\$341,412	\$161,350	
50-568-0098-HY 92/04/23	COMMONWEALTH OF MASSACHUSETTS, A-128 SFYE 6/30/90			
50-568-0099-HY 92/04/23	VIRGINIA DEPARTMENT OF SOCIAL SERVICES, A-128 SFYE 6/30/90			
50-568-0100-HY 92/05/06	STATE OF WEST VIRGINIA, A-128, SFYE 6/30/88-89			
50-568-0101-HY 92/05/06	PUERTO RICO DEPT. OF EDUCATION, A-128 SFYE 6/30/87-88	\$3,627		
50-568-0102-HY 92/09/01	STATE OF NEW YORK, A-128, SFYE 3/31/90	\$4,853		
50-568-0103-HY 92/08/14	STATE OF NEW JERSEY, A-128, SFYE 6/30/89	\$33,125	\$21,094	
50-568-0175-TE 92/04/08	A-128,SINGLE AUDIT OF THE STATE OF OKLAHOMA FOR THE FISCAL YEAR ENDED 6-30-90			
50-568-0178-TE 92/07/30	A-128 SINGLE AUDIT STATE OF NEW MEXICO DPT OF EDUCATION FOR YEAR ENDED JUNE 30, 1991			
50-568-0179-TE 92/07/29	A-128 SINGLE AUDIT OF STATE OF LOUISIANA FOR FISCAL YEAR ENDED JUNE 30, 1991			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-568-0222-CH 92/04/28	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF EDUCATION			
50-568-0223-CH 92/05/08	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF NATURAL RESOURCES			
50-568-0224-CH 92/05/11	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF PUBLIC AID			
50-568-0225-CH 92/05/08	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF MANAGEMENT AND BUDGET			
50-568-0226-CH 92/05/15	SINGLE AUDIT OF THE CITY OF PONTIAC, MICHIGAN			
50-568-0227-AT 92/05/13	A-128 AUDIT OF THE STATE OF MS, FYE 6/30/90	\$2,055		
50-568-0227-CH 92/05/19	SINGLE AUDIT OF MONROE COUNTY, INDIANA			
50-568-0228-AT 92/08/26	A-128 AUDIT OF STATE OF NC, FYE 6/30/90	\$27		
50-568-0228-CH 92/05/20	SINGLE AUDIT OF LAKE COUNTY, INDIANA			
50-568-0229-CH 92/06/15	SINGLE AUDIT OF THE ILLINOIS STATE BOARD OF EDUCATION	\$9,852		
50-568-0230-CH 92/06/23	SINGLE AUDIT OF MUSKINGHAM COUNTY, OHIO			
50-568-0231-AT 92/07/13	A-128, DEKALB COUNTY, GA, FYE 12/31/90			
50-568-0231-CH 92/06/25	SINGLE AUDIT OF THE CITY OF SAGINAW, MICHIGAN YEAR ENDED 6/30/91			
50-568-0232-AT 92/08/31	OMB CIRCULAR A-128, AUDIT OF THE COMMONWEALTH OF KENTUCKY, FYE JUNE 30, 1990	\$40		
50-568-0232-CH 92/06/23	SINGLE AUDIT OF FRANKLIN COUNTY, OHIO			
50-568-0233-CH 92/08/03	SINGLE AUDIT OF CHAMPAIGN COUNTY, ILLINOIS			
50-568-0234-AT 92/09/10	A-128, AUDIT OF BIRMINGHAM, AL FOR FYE 6/30/91			
50-568-0234-CH 92/09/04	SINGLE AUDIT OF THE STATE OF WISCONSIN	\$70,299		
50-568-0235-AT 92/08/19	A-128, AUDIT OF PITT COUNTY, GREENVILLE, NC FOR FYE 6/30/91			
50-568-0236-AT 92/09/10	A-128, AUDIT FOR NASHVILLE AND DAVIDSON COUNTIES, TN FOR FYE 6/30/91			
50-568-0236-CH 92/09/29	SINGLE AUDIT OF THE INDIANA DEPARTMENT OF MENTAL HEALTH			
50-568-0243-AT 92/09/10	OMB CIRCULAR A-128, WILDLIFE & MARINE RESOURCES COMMISSION, COLUMBIA, SC 6/30/89			
50-568-0245-AT 92/09/17	OMB CIRCULAR A-128, FLORENCE COUNTY, SC FOR FYE 6/30/91			
50-568-0246-AT 92/09/03	OMB CIRCULAR A-128, AL HISTORICAL COMMISSION, MONTGOMERY, AL, FOR TWO FYE 9/30/90			
50-568-0246-KC 92/04/02	A-128, STATE OF IOWA (FY ENDED 6/30/90), DES MOINES, IA	\$183,580	\$182,940	
50-568-0247-KC 92/05/15	A-128, STATE OF UTAH (YEAR ENDED 6/30/90), SALT LAKE CITY, UT	\$19,730		
50-568-0249-KC 92/06/05	A-128, STATE OF SD (YEAR ENDED 6/30/90), PIERRE, SD	\$76,677	\$75,459	
50-568-0250-KC 92/07/01	A-128, STATE OF COLORADO (YEAR ENDED 6/30/90) DENVER, CO			
50-568-0465-SF 92/04/23	A-128 AUDIT REPORT ON THE CITY OF BERKELEY - FYE 6/30/90			
50-568-0466-SF 92/04/23	A-128 AUDIT REPORT ON THE CITY OF LOS ANGELES			
50-568-0467-SF 92/04/23	A-128 AUDIT REPORT OF THE AMERICAN SAMOA GOVERNMENT - FYE 6/30/90			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1992 AND SEPTEMBER 30, 1992**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-568-0468-SF 92/04/14	A-128 AUDIT REPORT - COUNTY OF COCHISE, AZ - FYE 6/30/90			
50-568-0469-SF 92/04/23	A-128 AUDIT REPORT ON THE STATE OF AZ, DEPT OF ECONOMIC SECURITY	\$173		
50-568-0470-SF 92/04/23	A-128 AUDIT REPORT ON THE CITY AND COUNTY OF HONOLULU, HAWAII - FYE 6/30/91			
50-568-0471-SF 92/04/28	A-128 AUDIT REPORT ON THE STATE OF ALASKA - FYE 6/30/90	\$552,242.		
50-568-0472-SF 92/04/28	A-128 AUDIT REPORT ON PIMA COUNTY, ARIZONA - FYE - 6/30/90			
50-568-0473-SF 92/09/09	A-128 AUDIT REPORT ON LINN COUNTY, OREGON, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0474-SF 92/09/10	A-128 AUDIT REPORT ON THE COUNTY OF KERN, CALIFORNIA, FOR THE FISCAL YEAR ENDED 6/30/91			
50-568-0475-SF 92/09/10	A-128 AUDIT REPORT ON THE COUNTY OF FRESNO, CALIFORNIA, FOR THE FISCAL YEAR ENDED 6/30/91			
50-568-0476-SF 92/09/09	A-128 AUDIT REPORT ON THE CITY OF PASADENA, CA, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0477-SF 92/09/10	A-128 AUDIT REPORT ON COUNTY OF EL DORADO, CA FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0478-SF 92/09/10	A-128 AUDIT REPORT ON THE CITY OF ALHAMBRA, CA, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0479-SF 92/09/10	A-128 AUDIT REPORT ON THE YAKIMA COUNTY, WA, FOR THE FISCAL YEAR ENDED DECEMBER 31, 1990			
50-568-0480-SF 92/09/14	A-128 AUDIT REPORT ON CLARK COUNTY, WASHING- TON, FOR THE FISCAL YEAR ENDED 12/31/90			
50-568-0481-SF 92/09/14	A-128 AUDIT REPORT ON DEPT OF LAND & NATURAL RESOURCES, STATE OF HAWAII, FOR FYE 6/30/91			
50-568-0482-SF 92/09/22	A-128 AUDIT REPORT ON THE ARIZONA STATE DEPT OF ECONOMIC SECURITY FOR THE FYE 6/30/90			
50-568-0483-SF 92/09/21	A-128 AUDIT REPORT ON THE CITY OF LONG BEACH, CA, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0484-SF 92/09/18	A-128 AUDIT REPORT ON JACKSON COUNTY, OREGON, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0485-SF 92/09/23	A-128 AUDIT REPORT ON HOOPA VALLEY TRIBE, CA, FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1990	\$8,974	\$8,974	
50-568-0486-SF 92/09/22	A-128 AUDIT REPORT ON THE CITY OF FRESNO, CA, FOR THE FISCAL YEAR ENDED JUNE 30, 1991			
50-568-0487-SF 92/09/22	A-128 AUDIT REPORT ON KING COUNTY, WA, FOR THE FISCAL YEAR ENDED DECEMBER 31, 1990			
50-568-0488-SF 92/09/29	A-120 AUDIT REPORT ON THE DEPT OF HEALTH, STATE OF HAWAII, FOR THE FYE JUNE 30, 1991			
50-600-0001-AT 92/09/22	PLANNING, OBLIGATION, AND REPORTING ON THE DEPARTMENT'S HAZARDOUS WASTE PROGRAM			
50-600-0002-AT 92/09/30	CLEANUP COSTS INCURRED UNDER SELECTED INTERAGENCY AGREEMENTS	\$9,059		
50-600-0002-FM 92/09/30	FISCAL YEAR 1991 USDA FINANCIAL STATEMENTS			
50-600-0003-AT 92/08/10	COMPLIANCE WITH THE ADMINISTRATIVE PROCEDURES ACT			
50-600-0003-KC 92/08/19	IMPLEMENTATION OF CONSERVATION COMPLIANCE PROVISIONS	\$20,011,833		
TOTAL: MULTI-AGENCY		<u>84</u> <u>\$1,345,161</u>	<u>\$468,827</u>	<u>\$20,011,833</u>
TOTAL: RELEASE - NATIONWIDE		<u>245</u> <u>\$25,837,048</u>	<u>\$3,549,466</u>	<u>\$52,148,048</u>

30 Years of Service



1962-1992

