



United States
Department of
Agriculture

Office of
Inspector
General

October 1994

No. 32

Office of Inspector General Semiannual Report To Congress

FY 1994- Second Half



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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20250

October 31, 1994

Honorable Mike Espy
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

I am pleased to submit my first Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period ended September 30, 1994.

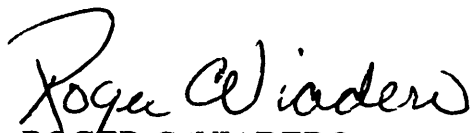
During this period, our audit and investigative efforts resulted in approximately \$51.8 million in recoveries, collections, restitutions, fines, claims established, administrative penalties and costs avoided. Management agreed to put an additional \$80.9 million to better use. We also identified \$3.9 million in questioned costs that cannot be recovered. Our investigative efforts resulted in 430 indictments and 418 convictions.

This report describes the results of many fine collaborative efforts between our staff and program managers at all levels throughout the Department. Working together, our staffs identified program weaknesses as well as program violators, and capitalizing on their respective expertise created solutions for positive action. I am pleased to join a Department where such a climate of cooperation exists.

During my tenure as Inspector General, I hope to serve not only as one who points to problems, but also as a consultant and advisor to management. Our audit staff will continue to work closely with agency officials to address key issues. I also intend to take a pro-active posture with regard to our investigative activities, increasing our cooperation with other Federal, State and local law enforcement agencies to broaden the impact of our work.

The Department of Agriculture faces a challenging future. I look forward to working with management to address the challenges that lie ahead.

Sincerely,


ROGER C. VIADERO
Inspector General

Enclosure

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Executive Summary

This is the 32nd 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), as amended. This report covers the period April 1 through September 30, 1994.

Monetary Results

During this period, we issued 125 audit reports and reached management decisions on 128 audits. Based on this work, management officials agreed to recover \$30.7 million and to put an additional \$80.9 million to better use.

We also issued 530 reports of investigation during this period. Our investigative efforts resulted in 430 indictments, 418 convictions, and approximately \$21.1 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Investigative Efforts

During this period, we continued to focus significant investigative resources on detecting and investigating fraud in the Food Stamp Program. These efforts, some of which have been underway for a year or more and involved complex undercover operations, resulted in significant indictments, convictions, sentences, and sanctions against numerous individuals and corporations. In one major case, 43 individuals were arrested in New York City for allegedly obtaining food stamp authorizations for "sham" retail stores through which they laundered millions of dollars in illegally obtained food stamps. It is estimated that over \$40 million in food stamps were redeemed through the bogus stores. Arrest warrants are outstanding for an additional 36 individuals. In another case, two brothers who owned authorized retail stores in Cleveland, Ohio, pled guilty to conspiracy charges that they illegally acquired and redeemed over \$3.2 million in food stamps and WIC vouchers over a 4-year period. The defendants also pled guilty to Federal income tax evasion. Sentencing in the case is pending. In a similar case, a restaurant owner in Atlanta was sentenced to 27 months in prison and fined \$25,000 for illegally acquiring and redeeming \$1.6 million in food stamps over an 18-month period. The court also ordered the man to forfeit property and other assets, which were used to partially pay over \$210,000 he owed in delinquent Federal taxes.

Other significant cases involved the exchange of food stamps for illegal drugs, cash, weapons, and other contraband; the illegal redemption of food stamps by retailers; and the fraudulent use of the electronic food stamp benefit system.

We also focused significant investigative resources on the Department's Rural Rental Housing (RRH) Program. In one case, an RRH borrower, his family, and a co-worker were convicted of conspiring to defraud Farmers Home Administration by submitting fictitious invoices for \$1.7 million worth of work never performed on 10 RRH projects in Indiana and Ohio. Sentencing is pending. Sentencing is also pending in a case involving the president of a New York real estate management company. The defendant pled guilty to illegally receiving over \$900,000 in builder's profits from RRH projects he managed, stealing almost \$250,000 from the projects' accounts, and evading Federal income taxes.

In addition to these efforts, this report describes our investigations into cases of fraud in the disaster relief and crop insurance programs, food adulteration, and employee misconduct.

Audit Efforts

During this reporting period, we expanded our review of States' efforts to reduce their food stamp error rates, focusing on Texas because its error rate exceeded the national average for 3 consecutive years. Food and Nutrition Service officials agreed to work with State staff to make needed changes, including developing a Statewide error-prone profile to help them focus on households where changes in eligibility and potential problems are likely to occur. Other audits completed in the Food and Nutrition area focused on the Women, Infants and Children Program, and the Child and Adult Care Food Program. Program officials agreed to improve management controls where we recommended changes.

Also during this period we continued our reviews of disaster payments for "nonprogram" crops, such as fruits and vegetables. Past audits have shown that these types of crops are more susceptible to fraud and abuse than program crops such as wheat and corn. Our audit found that some producers earn more in disaster years than in normal years. Reasons for this included unrealistic projected sales, poor farming practices,

unnoticed trends in certain crops and geographic areas, weak penalties, and the mandated practice of setting payment rates without regard for costs not incurred. We recommended that ASCS officials seek legislative authority to reduce payment rates for costs of production that are not incurred, or when recommended farming practices are not followed. Management agreed and took speedy action in many individual cases.

We also reviewed marketing loan provisions for cotton and rice and found that the program is meeting its objectives but is unnecessarily costly. We concluded that if ASCS used domestic prices rather than world prices in setting the discounted loan repayment rate, approximately \$1.1 billion could have been saved over a 3-year period and producers still would have been encouraged to sell their rice and cotton crops. The General Counsel's Office has advised that current law would allow the use of domestic prices for calculating cotton loans, but that statutory change would be needed to use this base in the rice program.

During fiscal years 1992 and 1993, USDA provided \$1.8 billion in food aid to the newly independent states of the former Soviet Union. Under program guidelines, the commodities were to be used for humanitarian purposes or sold, with the proceeds being used to further free market reforms. Our review found that the Commodity Credit Corporation (CCC) and its cooperating sponsors in the new states were generally successful: the donated commodities helped to stimulate competitive bidding in several industries and their sale exposed the new states to western banking methods, the concept of interest earned on deposited funds, reporting requirements and accountability. More importantly, in Belarus, where public health was seriously affected by the 1986 Chernobyl disaster, food was

distributed directly to children's hospitals, clinics, and other public institutions. We did make recommendations to strengthen some management controls over the program, and CCC officials agreed to take action. We made similar recommendations to strengthen the Department's efforts to provide food aid to Poland but generally found that that program, too, was administered effectively.

In the Forest Service, we found that the cost of airtanker services was \$1.9 million higher than necessary because of flight rates, fuel costs and base locations. Management agreed with our recommendations or proposed acceptable alternatives and is negotiating new contracts for FY 1995. We also reviewed timber sale policies and a proposed fee system for ski resort permits; management agreed with our recommended actions.

Our audits of agency financial statements resulted in two qualified opinions this period. Both the Forest Service statement and the USDA consolidated statements received a qualified opinion because property assets and associated depreciation were misstated, and because data was insufficient and/or unreliable to audit the statement of cash flows and certain account balances. Agency management generally agreed with our findings and recommendations.

In addition to the results just described, this report summarizes our reviews of the Upland Cotton User Marketing Certificate Program, Rural Rental Housing management companies, electric borrowers investments, Info Share, and other programs. We continue to work closely with program management at all levels to help create solutions to meet the challenges facing USDA.

Summary of Audit Activities

Audit Reports Issued		125
Audits Performed by OIG	75	
Audits Performed Under Single Audit Act	43	
Audits Performed by Others	6	
Management Decisions Made		
Number of Reports		128
Number of Recommendations		712
Dollar Impact (Millions)		
Questioned/Unsupported Costs		\$34.6 ^{ab}
Recommended for Recovery	\$30.7	
Not Recommended for Recovery	\$3.9	
Funds To Be Put to Better Use		\$80.9
Total		\$115.5

^aThese were the amounts the auditees agreed to at the time of management decision.

^bThe 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	530
Cases Opened	530
Cases Closed	661
Cases Referred for Prosecution	390
Impact of Investigations	
Indictments	430
Convictions	418 ^a
Total Dollar Impact (Millions)	\$21.1
Recoveries/Collections	\$5.3 ^b
Restitutions	\$4.6 ^c
Fines	\$3.8 ^d
Claims Established	\$2.0 ^e
Administrative Penalties	\$0.1 ^f
Cost Avoidance	\$5.3 ^g
Administrative Sanctions	
Employees	34
Businesses/Persons	260

^aIncludes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 418 convictions do not necessarily relate to the 430 indictments.

^bIncludes money received by USDA or other Government agencies as a result of OIG investigations.

^cRestitutions are court-ordered repayments of money lost through a crime or program abuse.

^dFines are court-ordered penalties.

^eClaims established are agency demands for repayment of USDA benefits.

^fThis category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

^gThis category consists of loans or benefits not granted as the result of an OIG investigation.

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 (WIC); and the Food Donation Programs. These programs are designed to provide people in need with a more nutritious diet, improve the eating habits of the Nation's children, and stabilize farm prices through the purchase and distribution of surplus food.

FNS funding levels for FY 1994 totaled approximately \$39.5 billion. Three of FNS' programs received the bulk of this funding: the Food Stamp Program (\$27 billion), the Child Nutrition Programs (\$7.5 billion), and the WIC Program (\$3.2 billion).

Food Stamp Program (FSP)

During this reporting period, we again allocated substantial audit and investigative resources to the Food Stamp Program because of its size and the continued potential for fraud in it.

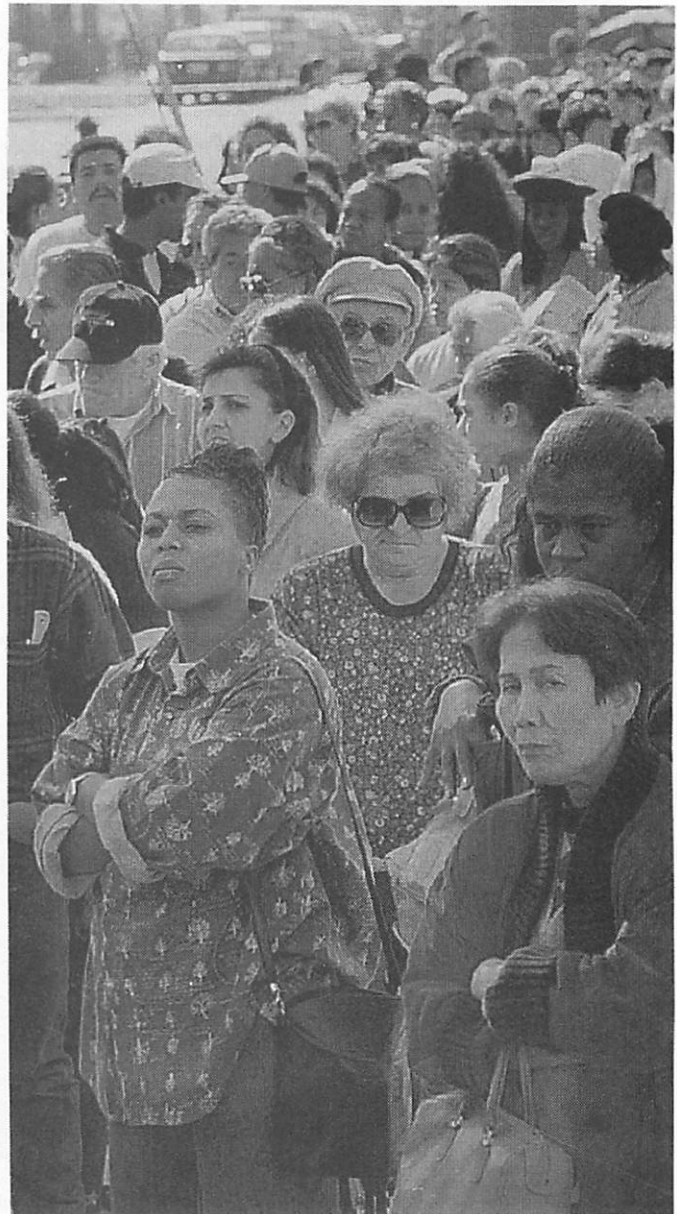
Controls and Quick Actions Help the Emergency Food Stamp Program Succeed

In times of disaster, a State may ask FNS to implement an Emergency Food Stamp (EFS) program to aid households in the affected areas. Under the EFS program, normal issuance controls are relaxed so that people who suffered a disaster can get food without delay.

During this reporting period, OIG continued to monitor the EFS program in Los Angeles after a major earthquake struck the area in January 1994. We also reviewed operations in southwest Georgia after the flooding from tropical storm Alberto and in Missouri after floods struck the Kansas City area. These disasters resulted in severe property damage, injury, and death.

• The Los Angeles Earthquake

During the 2 months after the quake in Los Angeles County, FNS received over 280,000 EFS applications and approved 250,000 households for about \$68 million in emergency food stamps. OIG helped FNS monitor the program to determine if controls were sufficient to prevent fraud. Although some cases of fraud and food stamp trafficking occurred, the overall objectives of the EFS program were achieved.



January 28, 1994. A huge crowd in Los Angeles waits to get emergency food stamp assistance after an earthquake devastates the city. Monica Almeida/New York Times photo.

Administering the EFS program posed many challenges to FNS, State, and county staff. For example, on one occasion crowds at one application site became unruly. In the resulting confusion, about 800 blank Authorization-to-Participate (ATP) cards could not be found and were thought to be stolen. (ATP cards allow their holders to obtain food stamps from issuance sites and need to be tightly controlled.) We worked with county staff to help find ways to prevent or detect the misuse of the missing ATP's. Eventually, only 212 ATP's were determined to be missing, and we recommended that FNS work with the county to identify any stolen ATP's and provide OIG with a list for followup. At the time of the theft, procedures were in place to prevent benefits being issued to people who were submitting unauthorized ATP's. Applicants were to present identification cards to the issuance clerk along with the ATP. Issuance clerks were to verify the signatures of the eligibility workers. Since then, Los Angeles county staff have developed a computer program to track the ATP's by serial number and to find out if any of the stolen ATP's were submitted. This review has been completed and the report forwarded to the State agency.

We also responded to allegations that county office staff defrauded the program. We found that although the county office staff was working under extremely difficult circumstances, they quickly established ad hoc procedures to deter and detect employee fraud. We found that most employees were dedicated and hard working in helping those needing assistance. However, a few employees fraudulently participated in the program. Disciplinary actions have been taken against some and others are under investigation by OIG and Los Angeles County investigators.

In our previous semiannual report, we described the arrest of 33 individuals who were identified by our investigative task force as trafficking in food stamps immediately following the earthquake. As of September 30, 1994, a total of 38 individuals had been charged in Federal or State court, including 21 individuals associated with 15 authorized grocery stores. To date, 25 of the defendants have pled guilty, 5 are fugitives, and prosecution is pending for the remaining 8. Sentences have ranged from probation to 6 months in jail in addition to fines and orders to pay restitution. FNS has since disqualified nine of the authorized stores from the FSP and has initiated disqualification action against an additional nine stores.

- **Tropical Storm Alberto**

As a result of flooding caused by tropical storm Alberto, FNS approved 25 Georgia counties for emergency assistance. The counties issued about \$15.7 million in food stamps to 61,000 households, which represented about 26 percent of the population of the affected counties. At the request of the FNS Administrator, we helped agency staff monitor the emergency distribution program.

Because FNS' staff in the southeast region had experience with several major disasters, it was able to effectively advise Georgia officials in planning the disaster procedures. FNS and the State took a number of steps to ensure that the program operated efficiently and that the opportunities for fraud and abuse were reduced. In one instance, we recommended and FNS quickly developed a computer program and required each county office to place personal computers at disaster assistance centers to record applicant data. This screening process helped prevent duplicate issuances and ineligible enrollment.

During our visits to the disaster areas, we noted that one county had little physical damage. Utility services throughout the area were never interrupted; however, the county's application for the emergency program stated that an estimated 90 percent of its 1,600 active food stamp households were affected by the disaster. Based on the county's application, FNS had approved automatic mail issuance of a 1-month maximum allotment to each of the 1,600 households. The estimated cost of the automatic issuance would have been about \$450,000. After we notified FNS staff of our observations, they stopped the plans for the automatic issuances and required the households to come to the county's disaster assistance center to apply for benefits. As a result, the county approved only 41 regular food stamp households for \$12,300 in benefits.

After the emergencies in California and Georgia, we provided FNS officials with our observations and recommended some changes for future disaster operations. FNS shared our concerns about the program and concurred that improvements could be made. The agency organized a meeting of State, FNS, and OIG officials to discuss possible regulatory changes.

- **Missouri Flood**

As part of the 1993 Missouri flood disaster relief, USDA issued about \$5.5 million in emergency food stamps to help those whose homes and businesses had been damaged by the flood. At that time, a number of complaints were received alleging that recipients in the Kansas City, Missouri, area were illegally exchanging food stamps for cash.

With the help of the Jackson County, Missouri, prosecutor's office and the Kansas City Police Department, we conducted an investigation to determine the extent of the fraud. The effort resulted in indictments against 12 people who owned or were associated with retail grocery stores. Seven of those indicted pled guilty to food stamp fraud. Charges were dropped on the other defendants because an informant who worked on the cases was murdered.

Food Stamp Fraud Also Involves Money-Laundering Charges

- **43 Arrested in \$40 Million Scheme**

In New York, 43 individuals were arrested on food stamp fraud and money-laundering charges. Arrest warrants are outstanding for an additional 36 individuals and others are expected to be charged later. A criminal complaint charged the subjects with obtaining food stamp authorizations for "sham" retail stores to launder millions of dollars in illegally obtained food stamps. The "sham" retail stores conducted little or no business. The individuals deposited large amounts of food stamps into their bank accounts on a daily basis, followed by immediate large cash withdrawals. It is estimated that the subjects unlawfully obtained and redeemed over \$40 million in food stamps. Seizure warrants were also issued for 31 bank accounts used by the conspirators.

Also during the 18-month investigation, 14 of the individuals purchased over \$200,000 in food stamps from OIG undercover agents. Analysis of the recovered food stamps established that they were being laundered through the various "sham" stores.

This investigation was conducted jointly with the Internal Revenue Service (IRS), Federal Bureau of Investigation (FBI), U.S. Customs Service, and other Federal and State law enforcement agencies. The

FNS Field Office also cooperated with OIG in the effort.

- **EBT Card Used Illegally**

A Baltimore, Maryland, grocer pled guilty in Federal court to money-laundering charges in connection with a scheme to exchange cash for food stamp coupons and electronic food stamp benefits. The grocer was initially arrested by OIG agents in October 1992 after buying \$20,000 in stolen food stamp coupons at his store. The stamps had been stolen from a Baltimore issuance office during an armed robbery earlier that month. The grocer admitted to buying the stolen stamps and redeeming them through his business bank account. He also initially cooperated with the Government in this matter. However, a month after his arrest the grocery store owner, his store manager, and his girl friend began to exchange cash for food stamp electronic benefits. From December of 1992 until June of 1993, about \$250,000 in illegal food stamp transactions were conducted through the electronic benefit transfer (EBT) system at the small grocery store.

The store manager, the girl friend, and one of the armed robbers have already pled guilty in this case. The manager and the armed robber were sentenced to serve 1 year and 4 years in Federal prison, respectively, while the store owner and friend are awaiting sentencing.

- **Three Convicted of \$1.8 Million Food Stamp and WIC Fraud**

As a result of a joint investigation with the Secret Service, the IRS, and the Georgia Bureau of Investigation, three individuals in Georgia pled guilty to food stamp trafficking, illegal food stamp redemption, and money-laundering charges. Two of them are resident aliens and one is a naturalized citizen. Over a 2-year period, the defendants redeemed over \$1.5 million in food stamps and over \$328,000 in WIC vouchers and purchased two grocery stores with the gains from the trafficking operation.

To date, the defendants have forfeited over \$700,000 in cash and property as part of their plea agreement. Investigation also revealed that their families received \$16,300 in public assistance to which they were not entitled. Sentencing and possible deportation are pending.

Bogus Retailer Gains Access to Food Stamp Program

In another case involving bogus stores, a man who claimed to be a produce retailer in Washington, D.C. received FNS authorization to accept food stamps. However, instead of accepting food stamps for produce, he purchased food stamps at discounted prices from recipients as they left an issuance center. During our investigation, he also bought over \$3,000 in food stamps from an undercover OIG agent. The man admitted that he lied on his food stamp application and that he never actually operated as a produce retailer. All of the \$53,600 in food stamps he redeemed during the course of the investigation were purchased from recipients.

The man was sentenced to serve 8 months in jail and given 3 years' probation. He was also fined \$2,000 and ordered to pay \$16,700 in restitution.

Ten Charged in Food Stamp Conspiracy

In New York, 10 individuals who operated various food and related businesses which were not authorized to accept food stamps were arrested and charged with conspiracy and food stamp trafficking. The defendants illegally purchased over \$100,000 in food stamps from an OIG undercover agent. In addition, two of the individuals, one of whom had previously been disqualified by FNS as an authorized retailer, purchased retail authorizations from an OIG undercover agent posing as a corrupt FNS official.

To date, 8 defendants have been convicted, and criminal charges are pending against the remaining 2. Sentencing is pending.

Brothers Admit to \$3.2 Million Conspiracy

In Cleveland, Ohio, two brothers who owned FNS-authorized retail stores and a corporation have pled guilty to conspiracy to illegally acquire and redeem at least \$3.2 million in food stamps and WIC vouchers over a 4-year period. Store employees purchased food stamps and WIC vouchers for cash, and owners of other grocery stores brought food stamps to the authorized stores owned by the brothers for illegal redemption.

The brothers and the corporation also pled guilty to Federal income tax evasion. This case was worked

jointly with the IRS and the Immigration and Naturalization Service (INS). Sentencing is pending.

Restaurateur Sentenced for \$1.6 Million Fraud

The owner of an Atlanta, Georgia, restaurant, food store, and beauty shop was sentenced to 27 months in prison and ordered to pay a \$25,000 fine for illegal acquisition and redemption of food stamps and for evasion of Federal income taxes. The court also ordered the man to forfeit \$11,000 seized during an OIG search of his property, with \$10,000 remaining in OIG custody pending a civil claim. The man pled guilty to illegally acquiring and redeeming over \$1.6 million in food stamps through his FNS-authorized store over an 18-month period and his purchase of another \$17,000 in food stamps from undercover agents. A tax audit also determined that he owed \$210,000 in delinquent taxes. Property and other assets were used to partially pay this amount. Sentencing in this case ended the joint OIG/IRS investigation.

Retailer Fraud Cases Net Results

In previous investigations in New York, we found numerous instances of retailers engaging in food stamp fraud. These cases have netted the following results:

- A grocer was sentenced to 1 year in prison after pleading guilty to illegally redeeming over \$100,000 more in food stamps than the store's food sales. The grocer and an employee also bought about \$23,000 in stamps from an OIG undercover agent. The employee pled guilty and was sentenced to 2 years' probation.
- A meat store owner and his employee pled guilty to illegally purchasing over \$43,000 in food stamps from an undercover OIG agent. We conducted this investigation after a caller reported to OIG's hotline that the owner did "tens of thousands of dollars" worth of food stamp business each month. Sentencing is pending.
- An FNS-authorized grocer was found guilty at trial of conspiring to illegally redeem over \$700,000 in food stamps. Before the trial, the grocer's brother, an employee of the store, pled guilty to the same charge. The illegal redemptions occurred over a 2-year period. Analysis of the store's business records showed the subjects redeemed \$700,000 more in food stamps than they reported in legitimate sales.

Grocery Store Owners Plead Guilty to Trafficking

- Two store owners in Kansas City, Missouri, and two in Wichita, Kansas, pled guilty to purchasing over \$185,000 in food stamps for \$67,880 in cash from undercover OIG agents. These cases were the result of an investigation conducted jointly with the U.S. Customs Service.
- Three retail grocers in Stockton, California, pled guilty to purchasing over \$160,000 in food stamps from undercover OIG agents for \$85,000 in cash. One of the retailers admitted that over a 2-year period he had redeemed \$64,000 in food stamps in excess of his total gross food sales. To conceal his purchases, he funneled the stamps to friends and relatives in Stockton and San Jose, who arranged to have the stamps redeemed by other stores. This case was conducted jointly with the FBI and the Stockton Police Department.

Anti-Corruption Group Targets Food Stamp Connection

In 1993, New York City's Mollen Commission, established to combat police corruption, asked OIG to help investigate segments of the New York City Police Department. The commission had identified stores that may have been trafficking in food stamps and that had ties to possibly corrupt police officers. OIG participated in the undercover investigation, during which employees of the subject stores purchased over \$63,000 in food stamps.

To date, four officers have pled guilty and eight others have been indicted. The investigation is continuing.

Fraud by Welfare Caseworkers Discovered

In Washington State, two State welfare caseworkers and a private refugee counselor were sentenced to prison and ordered to pay over \$1.3 million in restitution as a result of their participation in a scheme to fraudulently obtain social security and food stamp benefits for at least 300 refugees over 5 years. A second private counselor has been indicted, and a third caseworker was fired for malfeasance.

A Federal-State task force composed of OIG and numerous other law enforcement agencies found that the refugees failed to claim cash income from sales of ornamental shrubbery gathered on National Forest and State lands and pretended to have physical and mental disabilities. The false food stamp claims were prompted by the refugee counselor and the caseworkers, who required kickbacks from the recipients.

Five benefit recipients have also been indicted by a Federal grand jury. Three pled guilty and two are awaiting trial. Additional recipients will be investigated by State welfare fraud authorities.

Food Stamps Exchanged for Cash and Weapons

A restaurant owner in Maryland was arrested and subsequently pled guilty to purchasing over \$244,000 in food stamps from an undercover OIG agent in exchange for cash and weapons, including a machine gun. During this investigation, the restaurant owner said he had previously bribed an INS employee and asked the OIG agent if he knew other INS employees who would accept bribes to furnish false documents to undocumented aliens. The OIG agent introduced him to an undercover INS agent, to whom the restaurant owner paid a total of \$196,000 in cash in exchange for 132 temporary work permits.

The restaurant owner is currently in jail, awaiting sentencing.

Joint Operation Nets 18 Arrests at 9 Stores

In Richmond, Virginia, a year-long joint investigation conducted by OIG, the FBI, and State and local law enforcement agencies resulted in the conviction of 18 individuals for the illegal exchange of over \$76,000 worth of food stamps and large quantities of contraband cigarettes for cash, narcotics, and firearms. The illegal activity centered around 9 retail food stores authorized to redeem food stamps. Over \$28,000 in food stamps purchased were transported out of Virginia and redeemed by stores in New York and New Jersey.

Several of the Virginia stores have been permanently disqualified from participation in the food stamp program by FNS, while others are pending administrative action.

Food Stamps Exchanged for Drugs in Rural Community

In Smithfield, North Carolina, 16 people were charged in an 83-count indictment with trafficking in food stamps, conspiracy to distribute crack cocaine, and the unlawful possession of firearms as a result of a 2-year undercover investigation. During the investigation, food stamps and cash were used to purchase crack cocaine from dealers associated with this rural drug organization. When agents executed Federal arrest and search warrants at the suspects' residences, they recovered numerous firearms, thousands of dollars in U.S. currency, and narcotics. The Smithfield drug organization received crack cocaine from middlemen associated with another drug ring working out of Miami, Florida. Nineteen members of the Miami ring were charged in a separate indictment. OIG conducted this investigation with other Federal, State, and local law enforcement agencies.

Drug Dealers Plead Guilty to Food Stamp Charges

Two people who sold crack cocaine for food stamps have pled guilty to Federal drug and food stamp trafficking charges in Minnesota. Two others are awaiting trial in State court on related charges.

On four occasions, the two dealers sold a total of 13 grams of crack cocaine to OIG undercover agents in exchange for \$3,000 in food stamps. The agents then observed the two selling the food stamps and buying more crack cocaine.

Food stamps, crack cocaine, and over \$12,000 in cash were recovered in a series of searches of crack houses conducted with local law enforcement officers. State charges have been brought against other cocaine dealers as a result of this investigation. The primary dealer faces a mandatory minimum sentence of 5 years in a Federal prison.

Simultaneous Sanctions Taken Against Food Stamp Traffickers

In South Carolina, 23 individuals and 2 corporations who were trafficking in food stamps received simultaneous criminal, civil, and administrative sanctions. In a combined effort with FNS staff and both the civil and criminal divisions of the U.S. Attorney's Office, the defendants were criminally charged with illegally

trafficking in food stamps and were sued under the False Claims Act. Their 15 stores were also permanently disqualified from accepting food stamp coupons. All 23 individuals have pled guilty to criminal charges and are awaiting sentencing. Additionally, two stores have settled the civil charges and have agreed to pay over \$54,000 in claims. The investigation also identified 10 individuals who were indicted on the State level for selling crack cocaine for food stamps. Eight were sentenced to jail terms ranging up to 25 years and two remain fugitives. This investigation was a result of a 6-month undercover operation which included the assistance of State and local law enforcement officers.

State Employee Stole Over \$52,000 in Food Stamps

In Minnesota, an OIG investigation disclosed that a State employee had stolen food stamps that had been returned to the State's issuance operations center as undeliverable. By comparing the food stamps returned to inventory with the accompanying mail inserts which had been logged in, auditors determined that at least \$52,000 in food stamps had been stolen over a 9-month period. This amount may have been greater since the mail inserts were sometimes stolen along with the food stamps.

The employee was fired from her job, pled guilty to the theft, was sentenced to 3 years' probation and ordered to pay \$2,000 in restitution.

We recommended that FNS recover the \$52,000 from Minnesota and perform a review of the State's issuance operations center to ensure that controls will prevent future thefts. Program officials agreed to collect the cited amount. They have also completed a review of the State's controls over returned mail and determined those controls would prevent similar thefts.

FSP Error Rate Reduction in Texas Needs Improvement

FNS monitors incorrect food stamp issuances and calculates an error rate for each State. States with high error rates are required to take steps to reduce those rates.

In the previous period, we reported on the corrective actions Florida officials needed to take to reduce the State's error rate, one of the highest in the Nation. Because of the problems we found in Florida, we

conducted a nationwide review to evaluate the adequacy of FNS' error rate reduction initiatives.

As part of our review, we selected Texas because it had a large caseload of food stamp households and because its issuance error rate exceeded the national average for 3 consecutive fiscal years (from 1990 through 1992). In FY 1992, the Texas error rate was 11.83 percent while the national average was 10.69 percent. As a result, the State has a potential liability of \$2.6 million. The State's preliminary error rate estimate for FY 1993 is 11.37 percent.

We discovered that the State's error rate was high for several reasons.

- Some households were certified for longer periods than they should have been because eligibility workers assumed that the households' circumstances would not change.
- Eligibility workers did not take prompt action on changes in households and did not determine if the changes affected the households' eligibility or food stamp allotment.
- Controls over second-party reviews of eligibility workers' certification efforts needed improvement. Second-party reviews were not always made.
- The State's corrective action plan did not address all deficiencies that were determined to be a statewide problem.
- The State did not use its income eligibility verification system effectively. Workers were not following up on computer matches within established timeframes. As of January 1994, the State had a backlog of about 88,000 matches that required processing action.

We recommended that FNS work with Texas officials to (1) reduce certification periods to 3 months for households whose circumstances are likely to change, (2) process reported changes promptly, (3) ensure that corrective action plans include all deficiencies, and (4) develop a statewide error-prone profile for households and reviews. FNS officials agreed to take corrective action.

Fraudulent Surveys Cost Contractor \$1.5 Million

A contractor based in Virginia paid \$1.5 million to the Government to settle allegations of fraud involving two contracts with the former Human Nutrition Information Service. The contracts were for surveys of food consumption habits of individuals and households. Survey results serve as the basis for Federal policies concerning food assistance programs and other related operations.

Our investigation found that the contractor falsely claimed that a critical portion of the food survey had been completed. The contractor also submitted false bills in connection with the contracts.

In addition to the civil settlement, the contractor entered into a 3-year agreement with USDA to institute safeguards against errors in billing, timekeeping, and accounting. This case was initiated based on information received from the General Accounting Office.

National School Lunch Program (NSLP)

Bid-Rigging Cases Result in Sentences

We have previously reported on milk companies that violated the Sherman Antitrust Act. Sentences in several cases have been handed down during the past 6 months. In each of the cases, the companies conspired with others to submit noncompetitive bids for milk contracts with local school districts. The NSLP provides a substantial portion of the funding to public schools for meals and milk. These investigations were conducted by the Antitrust Division of the Department of Justice with assistance from OIG .

- In Connecticut, a milk company and a former president of another milk company pled guilty to bid-rigging. The company was fined \$50,000. The former president was sentenced to 2 months' home detention and 3 years' probation, and was fined \$20,000. The investigation is continuing.
- In Louisiana, a national dairy company pled guilty to bid-rigging and was fined \$750,000.
- In Texas, a food company vice president was convicted of rigging bids for wholesale grocery products used in the NSLP. The vice president was sentenced to 4 months' imprisonment and fined \$10,000. The food company, indicted separately, is awaiting trial.

- Also in Texas, a food company pled guilty to bid-rigging and was fined \$1.9 million. This company had milk contracts with numerous school districts.

Noncompetitive Contracts Affect Costs of the Child Nutrition Program

We reviewed contracts voted on by an Atlanta, Georgia, Board of Education school board member who had been convicted of accepting "kickbacks" from a contractor. FNS asked us to perform the review to determine whether, in spite of the corrupt official, the school board awarded contracts competitively or, if not, whether the board's practices resulted in losses to the Federal Government.

We found that cleaning and pest control contracts were not awarded competitively. These contracts resulted in questionable and excessive costs of more than \$964,000 charged to the Child Nutrition Program over a 5-year period. We also reviewed meal eligibility determinations at 10 schools in the Atlanta district and found the district had overclaimed more than \$13,000 for meals.

We recommended that FNS require the school district to reimburse the Child Nutrition Program for the questionable and excessive contract costs and recover all the costs overclaimed for meals. In addition, we recommended FNS require the district to improve its monitoring of the program. FNS officials concurred.

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

New York's Management of the WIC Program Needs Improvement

The WIC program is designed to provide supplemental food to low-income, pregnant, postpartum, and breastfeeding women, infants, and young children up to 5 years of age who are determined to be at nutritional risk. During 1990 through 1992, New York received WIC grants of about \$534 million. Of this amount, \$419 million was designated for food costs and \$115 million was designated for administrative costs. At the time of our review, there were approximately 384,000 WIC participants in New York.

Our audit disclosed that management improvements are needed. Local agencies did not adequately implement actions to correct deficiencies reported in State reviews, and vendors who did not comply with program requirements were not disqualified. For example, two vendors who had been caught abusing the program were not disqualified and subsequently redeemed \$1,900 in WIC checks. Also, accountability and security of WIC checks at the four local agencies reviewed did not ensure that the checks were safe from theft.

We recommended that FNS require New York officials to implement management evaluation recommendations, improve controls over vendor monitoring, and improve security and accountability of WIC checks. FNS and State officials generally agreed to take corrective action.

Child and Adult Care Food Program (CACFP)

Meal Claims by Day Care Home Providers Were Incorrect or Unsupported

Previously, we reported that sponsors and day care providers claimed meals for absent or nonexistent providers and children. During this reporting period, we continued reviews of this program in Texas, where 104 organizations sponsor approximately 10,000 day care home providers. We used a stratified random sample to select 10 sponsoring organizations, then randomly selected 6 providers from each for our review.

We found that one-third of the providers we reviewed had made claims for meals that were not served, resulting in overclaims of over \$36,000. We also found that one-fourth of the providers failed to keep adequate attendance and meal count records and that another one-fourth of the providers did not have authorization to claim meals served to their own children, or claimed meals for children not enrolled in day care. Further, one of the sponsors did not keep program documents for the required length of time.

We recommended recovery of \$41,000 for unsupported costs claimed by providers and \$5,800 for costs not supported by sponsor records. We also recommended that providers be required to document the time a child is in day care. FNS has taken steps to recover the funds, and the State has agreed to improve controls.

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, commodity purchases, 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 1994, ASCS estimates expenditures of \$2.1 billion for conservation programs and \$731 million for salaries and expenses. CCC funds all other program operations, with estimated outlays of \$17.3 billion.

Problems in Disaster Assistance for Nonprogram Crops Continue To Result in Excess Program Costs

The Food, Agriculture, Conservation, and Trade Act of 1990 provided for disaster benefits to farmers who lost at least 40 percent of their crop because of bad weather in 1990. This authority was extended to cover crop losses in 1991 and 1992. In 1993, after severe floods and other disasters, benefits were made available through emergency supplemental appropriations.

During this period, we are reporting the results of work completed on 1993 disaster payments. The review, conducted in 17 States, concentrated on "nonprogram" crops, such as fruits and vegetables. Past audits have shown that these types of crops are more susceptible to fraud and abuse than program crops, such as wheat or corn. Disaster assistance payments for nonprogram crops totaled \$220 million in FY 1992, or 35 percent of all disaster payments for that period, and \$380.6 million for the first half of FY 1993, or 22 percent of all payments for that period.

ASCS officials have responded promptly and positively to address many of the problems we identified. In many cases, OIG and ASCS staff worked closely together to identify program and producer violations.

Our review of current legislation and program requirements raised serious questions about disaster payments on nonprogram crops. Some producers, in fact,

earn more in disaster years than in normal years. ASCS needs legislative authority to reduce payment rates for costs of production that are not incurred, and it needs to adjust rates based on the quality of producers' operations. We found the following problems.

- *Unrealistic income.* Projected sales for some producers were much greater than their sales histories showed they were capable of earning. For example, one Florida producer reported losses on nursery and orchard crops that represented potential income five times that earned in the year prior to the disaster.
- *Disproportionate investments.* In numerous cases, the producer's investment in the crop was much less than the disaster benefits received, largely because harvesting costs were never incurred. One producer received \$98,000 in disaster payments for a bean crop in which he invested less than \$6,500. In another case, a producer received \$200,000 in disaster payments, exceeding the \$138,000 he paid for the farm just 3 weeks earlier. ASCS made such high payments because it is legislatively required to set rates on the basis of market prices without adjusting for costs not incurred.
- *Poor farming practices.* ASCS county committees did not reduce payments when producers failed to irrigate, fertilize, or follow other proper farming practices. For example, turnip greens in Arkansas are generally planted during the spring in drill rows. Nine producers we reviewed, including all three county committee members, planted turnip greens in the fall using the broadcast method, which is normally used for a cover or foliage crop not intended for harvest. Thirty-eight producers received 1993 disaster assistance of about \$1.2 million, including over \$225,000 paid to the county committee members.
- *Unrealistic production.* ASCS State offices set payment rates and yields too high and did not consider payments from contractors to producers as constituting a share in the risk of production. In some States, "forward purchase" contracts guaranteed producers minimum payments for the right to their crop, provided contractual requirements such as planting and weed control were met. Some contracts also provided for payments to producers for unharvestable acres due to disaster conditions. Entire ASCS disaster payments were made to

producers even though contractors, whose incomes may have made them ineligible for the payment, shared in the cost of production.

- **Uncounted production.** ASCS county offices computed payments without considering production that was abandoned or left unharvested. In Wisconsin, for example, producers left crops unharvested because the processors who contracted for the production no longer needed it. In other cases, producers claimed disaster losses rather than harvest their crops when the market price had fallen below the cost of harvesting.
- **Weak penalties.** ASCS needs to increase penalties to deter producers from falsely certifying to income and production information in order to obtain or increase disaster benefits. Currently, producers who make false certifications and are detected generally lose only the payments they were not entitled to in the first place. Our reviews identified 84 producers in 9 States who received over \$1 million in ineligible benefits because they failed to report all their crop production.
- **Unnoticed trends.** ASCS State and national office staff should analyze payment data more effectively to identify trends and areas of abuse. For example, the turnip green plantings in one Tennessee county increased from 0 acres in 1990 to 1,220 acres in 1993 without any corresponding market development. Disaster payments for melons in Texas tripled over the same 3-year period. Such trends could indicate program abuse.

We recommended that ASCS seek legislative, regulatory, or administrative changes that will require producers to report historical yields and sales information and current production cost data to be used in computing disaster payments. We also recommended that ASCS (1) reduce payments if producers do not follow proper farming practices or do not incur normal production costs, (2) ensure that rates and yields reflect actual sales prices and production, (3) allocate payment shares between producers and their contractors, (4) require producers to certify crops at the time of planting, (5) increase penalties for false certifications, and (6) analyze trends to identify questionable disaster payments. Agency officials are in the process of correcting the reported violations, and are using our work to identify policy and administrative procedures that

compromise program operations. Some additional work is continuing on 1993 disaster payments. We will monitor any requests and signups for 1994 disaster relief.

Farmer Forges Affidavit To Gain Disaster Benefits

A farmer from Minnesota pled guilty to forging another man's name on an affidavit in an attempt to appeal an ASCS ruling against him in his claim for disaster payments. The farmer agreed to pay \$20,000 in restitution to the Federal Crop Insurance Corporation. His disaster benefits will be offset by future program payments.

The farmer claimed his production was no more than 4 bushels per acre, but ASCS found that the producer sold an additional 17,000 bushels under a corporate name. The additional bushels were not reported on the disaster and insurance applications, and the farmer could not explain where they were produced.

After ASCS declared the farmer ineligible for disaster payments, he appealed the ruling and submitted an affidavit, which he said was from a producer in North Dakota. The affidavit stated that the North Dakota producer had grown the unreported 17,000 bushels. An OIG agent interviewed the man whose signature appeared on the affidavit, but the man denied the signature was his. The farmer subsequently contacted the OIG agent and admitted forging the affidavit.

Program Provisions Encouraged Corn Producers To Destroy Crops To Maximize Benefits

Producers who participate in the Feed Grain Program and devote a percentage of their farmland to conserving uses have historically been eligible for deficiency payments. This includes producers who idle up to 100 percent of their base acreage (those who idle 100 percent receive 92 percent of the deficiency payment under what is called the "0/92 option"). Although this option represents another form of acreage reduction, it can also be used in years where crops are affected by disaster conditions such as occurred in 1993 .

The media reported that corn producers were destroying their crops to increase program benefits under the 1993 disaster program. Our audit objective was to determine if the disaster program and the 0/92 option encouraged this practice. We found that they did.



Some producers destroyed crops to increase their disaster program benefits. OIG photos.

Prior to the 1993 Disaster Program, producers with crop losses could receive either disaster or deficiency payments, but not both. Under provisions of the 1993 Disaster Program and the 0/92 option, producers could and did receive both payments. Deficiency payments were calculated on the expected production of the planted acres while disaster payments were calculated on the expected production that was counted as lost. ASCS did not require any individual yield determinations for destroyed acres, and it did not determine that a loss was due to a disaster. Thus, producers were allowed to decide for themselves whether they would destroy their crops under the 0/92 option and seek increased program benefits through the 1993 Disaster Program.

Producers realized even greater program benefits when a reduction payment factor applicable to 1990 and 1992 crop losses was eliminated for 1993 and when they were able to avoid harvesting, drying, and marketing costs by destroying their crops. Producers destroyed corn which they estimated could have yielded 100 bushels per acre. In areas where producers foresaw harvesting difficulties or marketing problems, the guaranteed Government payments presented a greater financial advantage than the risks of the marketplace.

We recommended that ASCS appraise production when determining the amount of disaster benefits on acres destroyed for 0/92 purposes. We also recommended that ASCS seek legislative authority to adjust the disaster payment rates for expenses not incurred due to disaster conditions.

ASCS officials advised that acreages having a substantial yield potential would not be eligible for enrollment in the 0/92 option in 1994. They also advised that they would again recommend to Congress a change in the disaster payment rates.

Marketing Loan Provisions Are Meeting Objectives, but at Excessive Cost

The Government provides price support loans to producers of rice, cotton, grains, oilseeds, and honey, taking the crops as collateral. These loans establish minimum crop prices when market prices are below the price support loan rate.

Marketing loan provisions for the price support program are intended to encourage farmers to redeem their loans rather than forfeit their crops to the Government when market prices are low. When market prices are low, farmers would normally forfeit their crops in full satisfaction of the price support loan because they cannot get a better price in the marketplace. Marketing loan provisions allow farmers to redeem their loans at a discounted rate, without interest, when designated market prices are less than the price support loan rates. Thus farmers will receive a greater return (market price plus the loan discount) than they would receive by forfeiting their crop. Farmers may receive an alternative direct payment equal to the loan discount in lieu of receiving a price support loan.

The common objective of the marketing loan programs is to make U.S. commodities competitive in world markets. Marketing loan incentives are intended to achieve this objective by (1) minimizing crop forfeitures and the accumulation of commodities in Government inventory, and (2) increasing the supply of U.S. commodities available for export and domestic use.

Cotton and Rice

Marketing loan costs (loan discounts and alternative direct payments) for the 3 calendar years ended December 31, 1992, totaled about \$1.2 billion for cotton and rice. ASCS establishes the discounted loan repayment rates for oilseeds, honey, and grains based on domestic prices. It establishes the discounted rates for rice and cotton based on world prices which are frequently lower than domestic prices. In these situations, producers sell their crops at the domestic price and still collect the marketing loan payment based on the difference between their marketing loan rate and the adjusted world price.

Our audit found that about 95 percent of the \$1.2 billion paid to cotton and rice producers was not needed to encourage producers to repay or forgo loans. The programs did not make domestic prices of cotton and rice competitive with world prices.

The use of world prices rather than domestic prices to establish discounted loan rates (adjusted world prices) for cotton and rice loans has been unnecessarily costly. For the 3 years reviewed, domestic prices for cotton and rice were substantially higher than the adjusted world prices. Domestic prices often also exceeded the price support loan rates. Under these conditions, much smaller incentives or, at times, no incentives were needed to encourage farmers to sell their crops in the marketplace. Nine agricultural experts that we contacted all agreed that domestic, not world, prices influence producers' decisions in the marketplace. The experts agreed that producers will redeem their loans and sell their crops when domestic prices are above the cost of loan redemption. In other words, there is no need for any Government incentive when domestic prices are high.

Figure 1 depicts the domestic and adjusted world prices for cotton during the 15-month period ended December 31, 1992 (program benefits were not available for cotton during the prior 21 months). The world price averaged 17 percent below the loan rate throughout the 15 months. Domestic prices fell slightly below the loan rate for only 5 of the 15 months.

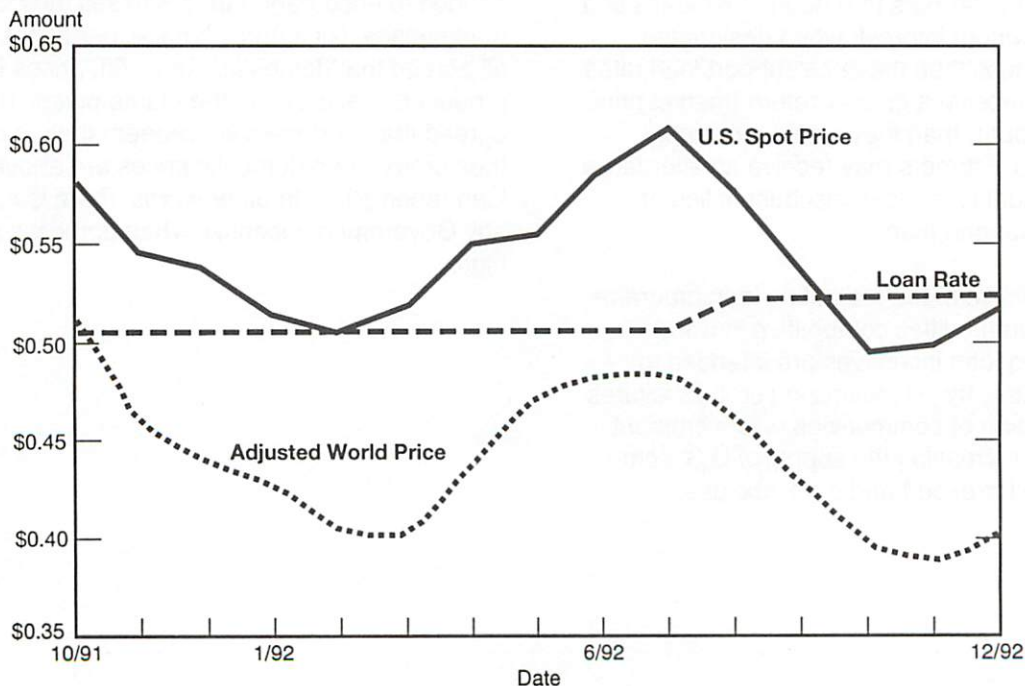
Figure 2 depicts the domestic and adjusted world prices for rice during the 36-month period ended December 31, 1992. The world price ranged from 7 to 26 percent below the loan rate throughout the period. Domestic prices averaged 6 to 12 percent above the loan rate during each of the 3 years.

We concluded that marketing loan benefits are needed as an incentive only when domestic prices are less than the cost of loan repayment. If ASCS used domestic prices for cotton and rice, it would have saved about \$1.1 billion over the 3 years and still have encouraged producers to sell their crops.

An OGC official advised that current law would allow the use of domestic prices for cotton loans, but not for rice loans. He said a statutory change *would be needed to* allow ASCS to use domestic prices in the rice program.

We also analyzed U.S. production and use of cotton and rice for the 10 marketing years ended July 31, 1992. U.S. exports of cotton and rice made no sustained gains since marketing loans began in 1988, and many export sales were subsidized by other Government programs. Because of tariffs, quotas, and transportation costs, imported cotton and rice are generally not competitive in the U.S. market. Domestic prices are, therefore, insulated against lower and declining world prices. We concluded that marketing loans cannot make U.S. cotton and rice competitive in foreign markets because they do not cause domestic prices to be competitive with world prices.

Figure 1
Cotton Values Per Pound



Storage Charges

By policy, ASCS pays accrued storage charges when cotton producers pay off their loans at a discount or forfeit their crop. This policy was unnecessary to achieve price support and marketing loan objectives. ASCS does not pay storage costs for any other crop. While marketing loans encourage producers to repay their loans and sell their crops, ASCS' payment of all cotton storage costs can encourage producers to delay repayment. As long as the discounted loan rate (adjusted world price) is at or below the loan rate, producers can wait for domestic prices to rise (increasing their sales price) or world prices to decline (increasing their loan discount) without concern for accruing storage costs. ASCS estimated that it paid cotton storage costs totaling about \$86.8 million in 1991 and 1992.

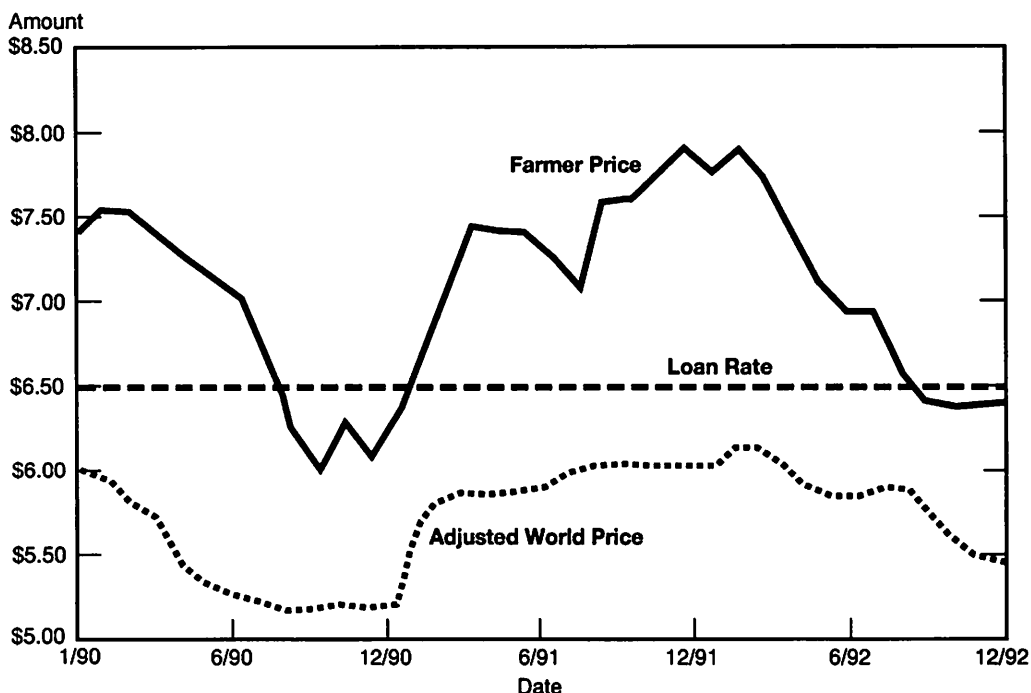
We recommended that ASCS use domestic market prices to establish the discounted loan repayment rate for cotton and seek a legislative change to do the same for rice. We also recommended that ASCS eliminate its payment of accrued storage costs on cotton.

ASCS officials expressed concerns about the availability of domestic price data for rice and cotton and about making cotton less competitive in world markets. They said that significant program changes had to be approved by the Secretary of Agriculture. They also said that eliminating the payment of storage costs on cotton would impede cotton program objectives, but they did not explain why the payment is necessary for cotton but not for other crops.

We discussed the audit results with the USDA Under Secretary for International Affairs and Commodity Programs. It was agreed that the Department would take our recommendations into consideration as proposals for the 1995 Farm Bill are developed. We are continuing to work with the Department on these issues.

Figure 2

Rice Values Per Hundredweight



Wheat and Feed Grains

Marketing loan provisions were extended in 1992 to include wheat and feed grains. ASCS elected to use the "posted county price" as the alternate repayment rate. Thus, if the posted county price is less than the loan rate, the difference becomes the repayment discount. The county posted rate is calculated daily by ASCS based on the prices reported by the terminal market for grain for a given county.

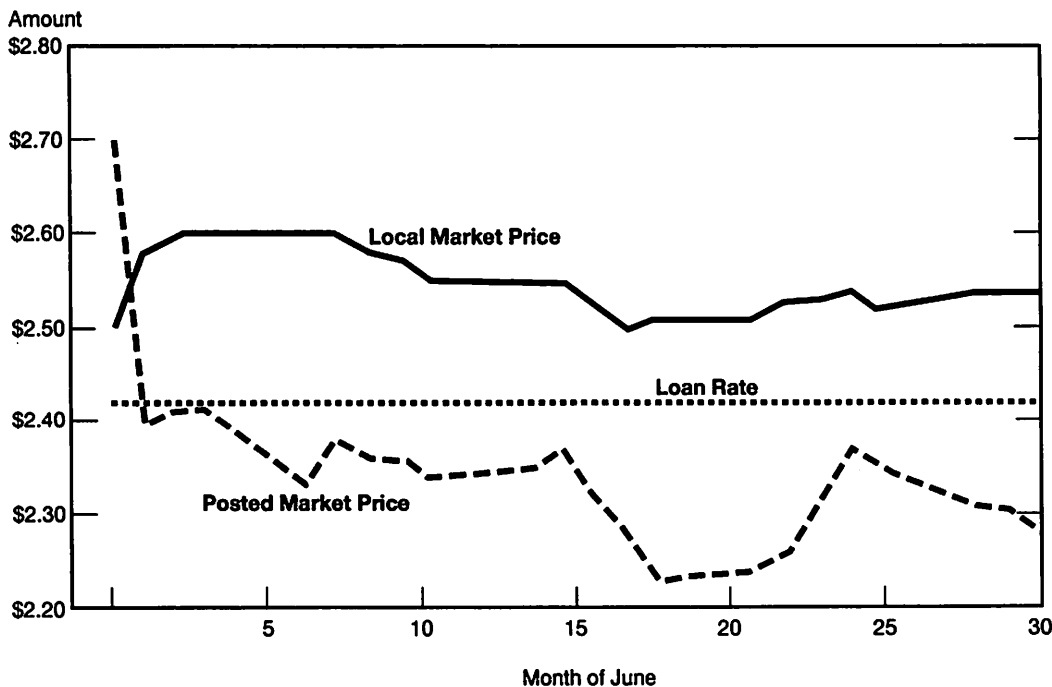
We performed an audit in three counties to evaluate whether the marketing loan provisions for wheat and feed grains accomplished the program objective of minimizing loan forfeitures and Government costs. We found that discounts and direct payments were made for 1993 wheat in areas where the local market price regularly exceeded the county loan rate. Unnecessary expenses of over \$348,000 were incurred in these areas. Figure 3 compares the local market price with the loan rate and the county's posted market price (discounted loan rate) in Grayson County, Texas.

The existence of this condition indicates that either the posted county prices or the established county loan rates (or possibly both) were not representative of marketing conditions. In addition, we noted that discounts and direct payments were issued to producers who had not historically obtained commodity loans. Consequently, ASCS did not need to minimize forfeitures of wheat loans in the counties audited, and its payments to producers there were unnecessary.

We recommended that ASCS review the loan rates and posted county prices for the counties covered by the audit and make appropriate adjustments. We further recommended that ASCS establish a control to identify other areas where similar situations may occur.

ASCS officials believe that the current system for implementing marketing loan provisions and determining loan deficiency payment rates is viable and that program performance is acceptable. They also believe that existing control and review activities are adequate. However, they told us they are initiating a comprehensive review of county loan rates and posted county prices for all regions, not just the geographic areas covered by the audit.

Figure 3
Wheat Values Per Bushel



Exporters Received Millions in Excessive Subsidies Under the Upland Cotton User Marketing Certificate Program

The Food, Agriculture, Conservation, and Trade Act of 1990 supports the sale of U.S. cotton by authorizing payments to domestic users and exporters when the quoted price of U.S. cotton delivered to northern Europe exceeds the quoted price of cotton in that market. The program provides for two payment rates from March through July each year: one for current crop year sales made for delivery of cotton before September 30 and another for "forward" contracts entered into during the same period for delivery of cotton after September 30. Sales for delivery before September 30 earn the current payment rate, and sales for delivery after September 30 earn the "forward" rate in effect during the week of the sale. Both current and "forward" rates change weekly.

Our audit examined whether the "forward" payment rates were being properly established. We reviewed five exporters who sold about 5.4 million of the 17.1 million bales of cotton sold through contracts between August 1991, when the program began, and November 1993. ASCS paid about \$313 million in subsidies on these 17.1 million bales.

Our audit found that ASCS' payment rate policies were costly and unfair to domestic textile mills as well as to exporters who did not have foreign affiliates. Those who did have foreign affiliates could enter into contracts with them at any time and lock in the highest payment rate available during the contracting season. These exporters received disproportionately more program payments in 1992 and 1993 than other cotton merchants. For 1993 alone, cotton exporters captured the historically highest subsidy, \$32 a bale, on over 90 percent of their exports through well-timed "forward" sales. Other industry sales averaged about \$6 a bale. If the exporters had been limited to the same payment rates as domestic mills for 1992 and 1993, they would have been entitled to about \$165 million less in program subsidies.

The payment policies for "forward" sales are adversely affecting the competitiveness in world markets of domestic mills and small exporters who do not sell cotton through foreign affiliates. In 1992, and again in 1993, ASCS tried to control payments to exporters dealing through foreign affiliates but both times

rescinded these actions in response to opposition from the cotton industry.

The payment rates are based on northern European market quotations that are not subject to USDA review or confirmation. These quotations are established by a European firm and are based, in part, on information furnished by exporters who participate in ASCS' program and who do not have to prove the sales prices they "quote" to the firm. The quotes used for forward contract payment rates have acted abnormally during the last 2 years in relation to market quotations existing prior to the program. However, ASCS did not adjust the rates to correct for these abnormalities, nor did it adjust the rates to account for sales outside of northern Europe. Over 90 percent of the U.S. cotton exports in 1993 were shipped to non-European markets.

We recommended that ASCS either modify the way it establishes payment rates or seek legislative changes to correct abnormalities in the market quotations and to adjust the payment rates to compensate for the large volume of U.S. cotton shipped to non-European countries. In addition, we recommended that ASCS either eliminate the "forward" rates and use the existing current payment rate on all cotton export sales, or put a cap on the payment rate for "forward" sales.

ASCS concluded that it has the authority to modify payment rates and amended its rate-setting process by limiting the increase in the payment rate to 20 percent of the previous week's rate and placing a cap on payment rates over an expanded "forward" contracting season. ASCS' new procedures for setting payment rates have not yet shown their effectiveness because abnormally high cotton prices have temporarily deactivated the payment rate mechanism for this program. In the interim, ASCS does not believe that adjustments are needed to reflect the actual destinations of the exported cotton and to compensate for abnormalities in the market quotations. However, we believe that these adjustments are necessary.

Producers Still Scheme To Evade Payment Limits

Many farm program payments are limited by law. Generally, each "person" contributing to a farming operation may receive up to \$50,000 in payments, if the "person" meets eligibility requirements. For the wool and

mohair price support program, the payment limit has generally been higher (\$150,000 in 1993).

Our audits continue to find producers who resort to schemes to evade the payment limits.

- In Texas, a husband and wife reported to ASCS that they had sold part of their mohair operations to his parents. However, we found that the parents were not actively engaged in the mohair operation and that their business affairs were controlled by the husband and wife, who received the benefit of the net profit generated by the operation.

Based on our report, ASCS determined that a scheme was used and requested that about \$1.2 million in 1991 and 1992 payments be refunded.

- In Georgia, 13 of 14 entities we reviewed provided ASCS with misleading information, including false leases on real estate; false information about equipment ownership, equipment leasing, and active personal labor contributions; and false information about the ownership interest in the crops being produced. Eight of the 13 entities farmed together or were otherwise associated as relatives, employees, or contractors who performed "custom work" for one another. The remaining five entities were similarly associated. None of the 13 entities qualified for the \$891,000 they received in ASCS payments.

Based on our recommendations, ASCS has determined that the 13 entities engaged in schemes to avoid the payment limitation. Claims of \$120,000 have been established against three producers. Other cases are pending reviews by the National Appeals Division or the State committee.

- In Louisiana, a producer created fictitious entities by using two farm employees and a corporation to conceal his interest in the separate farming operations. The farm employees did not maintain separate accounts and did not exercise separate responsibility for their alleged interests. Based on our review, ASCS officials determined that the producer participated in a scheme to obtain payments totaling over \$465,000 over a 3-year period.

We recommended that ASCS recover all unauthorized payments and that it withhold payments *not yet* disbursed. The producer is appealing ASCS' determination, and administrative claims against him are pending the appeal process.

Ten Found Guilty of Illegally Selling 13 Million Pounds of Tobacco

We previously reported that eight tobacco dealers from North Carolina and Virginia pled guilty to illegally selling 26.4 million pounds of excess tobacco for over \$3.7 million. During this reporting period, an additional 10 people pled guilty or have been convicted.

Six of the people pled guilty in North Carolina to conspiracy to commit mail fraud in the illegal sale of over 13 million pounds of tobacco. Two others pled guilty to concealing over \$3 million in income from the IRS. The men structured the money through banks and other institutions to avoid reporting it as income and to generate large amounts of cash for reinvesting in the sale of illegal tobacco.

The remaining two men pled guilty in Virginia to conspiracy to commit mail fraud. The two were caught in an OIG sting operation when they unwittingly used the Government's tobacco dealer card to conceal the illegal sale of over 43,000 pounds of excess tobacco from ASCS. They were given 3 years' probation and fined \$50,000.

This is part of an ongoing multi-State investigation of tobacco violations conducted by OIG and the IRS.

ASCS To Assess Penalties on Peanut Producers and Handler

Program regulations require that peanut handlers follow Federal regulations when receiving, drying, purchasing, and selling peanuts. The handlers are required to maintain records of all the peanuts they acquire and all they dispose of, and producers are required to report all the peanuts they grow and all they sell. Handlers and producers who do not comply with these regulations can be assessed penalties equal to 140 percent of the support price for quota peanuts.

Two producers with family ties to a handler did not properly report peanut production and disposition for their farms. In addition, the handler, who received additional peanuts from the producers, did not obtain an official inspection of the total delivery of peanuts and subsequently commingled the uninspected product with previously inspected peanuts. The handler also failed to properly identify production on the producers' marketing card.

ASCS agreed to assess penalties totaling \$222,000 for improper reporting of peanut production and disposition.

Overpayments Made Through Emergency Conservation Program Cost-Shares

Producers needing help to rehabilitate farmlands damaged by floods or other natural disasters are provided cost-share assistance under the Emergency Conservation Program. Cost-share payments are based on a per-unit rate and may not exceed 64 percent of the actual cost of work performed.

During FY 1991, producers in three Texas counties were paid about \$1 million for flood damage along the Red River. We reviewed operations in the county having the largest total payments (about \$728,000) and found that 11 producers were overpaid about \$153,000. Four producers received ineligible cost-shares of about \$124,000 because they used a scheme to evade the payment limit. These producers falsely reported the rehabilitation costs and concealed the contributions made by others to pay for the work. Two other producers were overpaid \$18,000 for ineligible cost-share items. ASCS officials incorrectly determined cost-shares for five producers, resulting in overpayments of about \$11,000.

We recommended that ASCS collect \$124,000 in cost-shares for false certification of costs and contributions, and that it assess damages under the Program Fraud Civil Remedies Act. We also recommended that ASCS collect the \$18,000 in cost-shares paid for the ineligible restoration work. ASCS forgave overpayments caused by its errors.

ASCS officials have taken action on our recommendations, except in one case where the U.S. attorney is considering civil action.

Assessments Were Not Applied to All Barley Used for Malting

Before 1990, deficiency payments were made on all barley regardless of its end use. However, the Food, Agriculture, Conservation, and Trade Act of 1990 (FACTA) distinguished between barley used as feed and barley used as malt. Deficiency payments were made on all barley at the lower feed grain price (resulting in larger payments), but an assessment was levied on malting barley to help offset the increased feed grain payments. ASCS officials estimated that the offset would total at least \$10 million; however, in 1991 they collected only \$7 million.

We performed an audit to determine if the assessment was being applied to all malting barley produced by farmers receiving deficiency payments. We found that the assessments were not all collected because:

- FACTA did not define "malting barley" or give any guidance on how the assessment was to be applied. Warehouses that bought malting barley reported it as "feed." This permitted the producers who sold the grain to avoid the assessment. The warehouses blended and screened the barley, and then marketed part or all of it for malting. It was generally impossible to establish the end use of any particular producer's grain. We concluded that FACTA's provisions concerning barley assessments are nearly impossible to administer.
- ASCS' proposed rule stated that assessments would not be applied if the producer showed evidence that grain was marketed as feed barley, but the final regulation did not define either "feed barley" or "malting barley." ASCS initially directed county offices to base their determinations on price. However, producers avoided the assessment by getting warehouses to show the grain as feed barley even though it was later sold for malt. ASCS later rescinded its direction. As a result, the only determining factor was the warehouse's classification which was made without regard to grade factors, price, or end use.

We recommended that ASCS change its regulations or seek changes in legislation. We also recommended that until such changes are made, the agency require producers to show reliable evidence that the grain was sold for feed.

ASCS officials agreed with the need to improve assessment collections; however, they have concerns about their legal authority to implement our recommendations. They have asked for legal assistance to determine what kinds of documents they can require warehouses to show.

Producer Sentenced for Adulterating Honey

In North Dakota, a honey producer and an associate were indicted and pled guilty to intentionally adulterating honey bound for the USDA Donated Commodity Program. The honey was mixed with water to increase its bulk and weight and was processed under unsanitary conditions. The honey producer and a USDA grader were also charged with falsifying official inspection documents. The grader allowed employees of the producer to obtain honey samples for testing rather than obtaining random samples herself as required by the Agricultural Marketing Service (AMS). The grader also certified samples on days she was absent from the plant and failed to advise AMS of a conflict of interest that involved the producer purchasing a home built by the grader's spouse.

The honey producer was sentenced to 3 years' probation and fined \$10,000. He was also debarred from contracting with USDA or participating in any USDA programs for 3 years. His associate was sentenced to 15 months' probation and fined \$500, and the USDA grader was sentenced to 15 months' probation and terminated from her position.

Foreign Agricultural Service (FAS)

FAS' mission is to help American farmers take maximum advantage of increased opportunities to sell U.S. agricultural commodities abroad. To carry out this mission, FAS staff perform activities in the areas of foreign agricultural affairs, foreign market information and access, and international trade and development. FAS' General Sales Manager uses the funds and facilities of CCC to administer such programs as the Export Credit Guarantee Program, the Export Enhancement Program, the Section 416 (b) Overseas Donations Program, the Food for Progress Program, and the Dairy Export Incentive Program.

The Under Secretary for International Affairs and Commodity Programs, as president of CCC, has overall responsibility for food aid programs. Fiscal, logistical, and commodity operations are carried out by ASCS employees. FAS' general sales manager, who is also vice president of CCC, administers ocean transportation agreements, agreement negotiations, planning, and reporting activities.

A More Supportive Attitude Is Needed Toward Management Controls Over Food Aid to the Newly Independent States

During 1992 and 1993, CCC provided \$1.8 billion in food aid to the newly independent states of the former Soviet Union. The commodities were provided under Section 416(b) of the Agricultural Act of 1949 and the Food for Progress Act of 1985. The new states were to use the commodities for humanitarian purposes or sell them at market prices and use the proceeds to further free-market reforms. We reviewed the effectiveness of controls over the commodities, from the time they were procured to the time they were sold. We also looked into allegations of illegal activities involving the food aid donations.

CCC and its cooperating sponsors in the new states were generally successful in the management of the food aid assistance.

- The CCC-donated commodities helped to stimulate competitive bidding by warehouses and delivery services, create commodity exchanges, and establish private joint stock transportation and seaport services.
- The sale of the commodities and the handling of funds exposed the new states to western banking methods, the concept of interest earned on deposited funds, reporting requirements, and program accountability.
- In Belarus, where the health of the population was seriously affected by the 1986 Chernobyl disaster, food was distributed directly to accessible cities and to children's hospitals and clinics.



St. Basil's Cathedral, Moscow. OIG photo.



U.S.-donated chicken being hand-loaded onto highway trucks at the Port of St. Petersburg, Russia. OIG photo.



These patients at Children's Hospital No. 4, Minsk, Belarus received donated products to supplement their diets. OIG photo.

While we found the program to be successful, we recommended that CCC encourage the new states to implement better controls over the use of the donated commodities and funds from sales. We noted six of the eight cooperating sponsors in the new states did not comply with the terms of the donation agreements, resulting in unnecessary costs of \$8.9 million. Unsure of program requirements, recipient agencies did not inform CCC of commodity sales or distribution and, in some cases, limited competition or allowed price-fixing during the sale of the commodities. Three cooperating sponsors misused sales proceeds, and two did not have the appropriate controls to ensure accountability of the donated commodities.

Also, CCC needed additional staff to manage the 93 donation agreements totaling \$1.8 billion that are effective in 11 newly independent states. At the time of our evaluation, only one contract employee was located in Moscow. CCC also needs to write program regulations, require cooperating sponsors to arrange for audits and provide them to CCC, and submit reports to Congress as required by law.

Regarding allegations of corruption made in the news media, we did not find evidence of any conflict of interest, diversion of wheat, payment of bribes, or dumping of unwanted commodities in Russia.

We recommended that CCC officials study the workload related to food aid and adjust the staffing and organizational structure as needed. Other recommendations were made to strengthen controls over the food aid programs. One sponsor asked for technical assistance in organizing and using accounting documents related to food aid. Selling commodities in a free-market, depositing funds, and allocating and accounting for fund proceeds are new concepts in the newly independent states. We recommended that CCC explore possible funding sources to give the sponsor the assistance it needs. We also recommended that CCC seek recovery of misspent funds, improve program controls, and improve program operations.

CCC officials generally agreed with the recommendations and have begun corrective actions.

Food Aid to Poland Successful, But Some Changes Needed

The American Aid to Poland Act of 1988 and the Support for East European Democracy Act of 1989 required USDA to help Poland during its transition from a controlled to a market-based economy. USDA provided over \$193 million in cash assistance and donated commodities from 1988 through 1993. Poland was permitted to sell the donated commodities to fund local projects in community development, health, nutrition, and agricultural development. The U.S.-Polish Joint Commission on Humanitarian Assistance was established to administer the local projects.

Our examination of this program found that the Joint Commission operated effectively and that USDA complied with the joint program agreement. Poland, however, experienced some problems meeting all requirements of the joint agreement. For example, a shipment of corn to be sold to get money for livestock feed was sold for \$3.5 million less than prevailing market rates so the Polish government could quickly buy other U.S. grain. The joint agreement also required Poland to pay in-country commodity transportation and storage costs. Poland, instead, improperly offset these costs against the sales proceeds for the commodities, reducing project funds by \$6.7 million. The Joint Commission approved using funds to lobby the U.S. Congress but avoided a violation of the Anti-Lobbying Act by not actually spending any money for such purposes.

We recommended that FAS require separate bank accounts for commodity transportation funds, include specific language in future aid agreements to prohibit using commodity sales proceeds to lobby Congress, require independent audits of project funds provided to private organizations, and require recipients to obtain bank statements and perform routine bank reconciliations.

FAS officials agreed with the intent of the recommendations and are either implementing them or proposing alternative corrective action.

Improvements Needed in Billings for Ocean Freight Differential Costs

Under the Public Law 480, Title I Program, the U.S. Government finances the sale of U.S. agricultural commodities to friendly foreign countries through

long-term financing at low interest rates. The Food Security Act of 1985 requires that at least 75 percent of Title I commodities be shipped on U.S. flag vessels. CCC reimburses the importing countries for the ocean freight differential (the difference between the cost of shipping cargo on a U.S. flag vessel vs. a foreign flag vessel). The Maritime Administration shares one-third of the cost of reimbursement and is billed by CCC on a quarterly basis. The costs are based on 75 percent of total gross tonnage (for both U.S. and foreign flag vessels).

We reviewed FAS' procedures for obtaining the lowest freight cost for shipping commodities on U.S. flag vessels. We also evaluated CCC's preparation of the differential cost billings it submitted to the Maritime Administration. Our analysis showed that both CCC and the Maritime Administration had incorrectly calculated the amount the Maritime Administration owed for the fourth quarter of the 1992 billing cycle. The agencies (1) did not classify vessels correctly or include all bills of lading to arrive at correct U.S. flag tonnage, (2) did not include foreign flag tonnage to arrive at total tonnage, and (3) did not apply the 75 percent factor to arrive at reimbursable tonnage. Incorrect differential rates and incorrect payments for the first through third quarters of the 1992 billing cycle contributed to these miscalculations.

We recommended that CCC bill the Maritime Administration \$1.2 million for differential reimbursements due for the fourth quarter of the 1992 billing cycle, and recompute differential payments for the period 1985 to 1990. In addition, CCC needs to ensure that procedures for determining differential amounts due from the Maritime Administration are followed.

CCC officials responded that the Maritime Administration reimbursed CCC \$1.3 million for differential costs due for the fourth quarter of 1992. They also said that recomputing differential payments for the period requested would not be cost beneficial. We requested that CCC provide details in support of this position. CCC also needs to explain how it will ensure that the Maritime Administration's procedures for computing differential costs will be followed.

Marketing and Inspection Services

Agricultural Marketing Service (AMS)

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1994 was approximately \$240 million.

Termination of Citrus Marketing Orders Ends Enforcement Actions

Marketing orders are authorized under the Agricultural Marketing Agreement Act of 1937 and regulate the quantity and quality of certain fruits, vegetables, and specialty crops. Administrative committees (composed of growers, handlers, and sometimes nonindustry representatives) are responsible for administering marketing orders and ensuring compliance with the terms of the orders.

Over the past 2 years, we have worked closely with AMS officials to improve marketing order compliance. We initiated a joint project with AMS to help marketing order committees establish effective compliance programs and help AMS develop methods to evaluate committees' compliance efforts.

Previously, we reported that AMS and the U.S. Attorney's Office in Fresno, California, asked us to audit orange handlers who may have sold more oranges than allowed under the marketing order. The request came when the U.S. attorney and AMS were attempting to resolve pending litigation between orange handlers. Our audits identified a number of potential violations and provided information that was useful in reaching tentative settlement agreements.

In August 1994, USDA terminated the marketing orders for lemons, navel oranges, and Valencia oranges grown in California and Arizona. The termination of these marketing orders effectively ended all Federal involvement in legal actions to enforce these orders. However, during FY 1995, there will still be 36 active marketing orders, and the citrus industry may propose new ones for lemons and Valencia oranges.

We plan to develop an audit program that will assist AMS in assessing the effectiveness of administrative committees' compliance efforts. The audit program will verify that committees are consistent in their treatment of handlers and growers and will provide assurance that the committees have a sound basis for determining marketing order violations.

Animal and Plant Health Inspection Service (APHIS)

Through its inspections of animals and plants, APHIS protects the Nation's livestock and crops against diseases and pests and preserves the marketability of U.S. agricultural products at home and abroad. APHIS' obligations for 1994 activities are estimated to total over \$506 million.

Ranchers Guilty of Switching Cattle Blood in Brucellosis Test

Two Canadian ranchers and one California rancher were fined over \$47,000 after they pled guilty to exporting cattle to Canada without having obtained a negative test for brucellosis. The California rancher was placed on 2 years' probation.

The ranchers shipped 18 head of Mexican fighting cattle from California to Canada to be used in sporting events. The cattle initially tested positive for brucellosis. However, to pass APHIS' export requirements, the ranchers submitted blood samples they claimed came from the Mexican cattle but in fact were drawn from other livestock. Canadian authorities tested the cattle on entry into Canada and found them to test positive for brucellosis.

The California Department of Agriculture also assessed a civil penalty of \$6,800 on the three ranchers for shipping the livestock out of California without the required State inspection.

Improvements Needed at APHIS Quarantine Facilities in Florida

We evaluated operations of the APHIS Veterinary Services quarantine facilities in Miami and Key West, Florida. APHIS Veterinary Services inspects, tests, and quarantines imported animals, animal products, birds, and eggs at points of entry into the United States. Quarantines are performed at import centers to ensure that infectious diseases, which might damage the marketability of U.S. agricultural products or wipe out certain U.S. animal and plant species, are not introduced.

Our evaluation showed that the facilities in Miami did not follow all quarantine procedures. At the Miami International Airport, personnel did not (1) ensure that biological materials (blood, waste, etc.) were safeguarded against the accidental spread of diseases, (2) adequately monitor the cleaning and disinfecting of contaminated vehicles and aircraft, or (3) adequately control USDA seals used to restrict access to containers, facilities, and other areas. During our review, APHIS staff began corrective actions. We also found that employees at the Miami facilities were claiming more overtime than allowed and that controls over the collection of fees were inadequate. The same person collected funds and also cleared the customers' accounts.

In Key West, our evaluation showed that the incinerators at the Harry S. Truman Animal Import Center could not operate at capacity without violating Florida's air pollution standards. If hoof-and-mouth disease breaks out among the animals under quarantine, the timely disposal of the animals will be restricted.

We recommended that APHIS (1) establish and enforce proper controls at the Miami quarantine facilities, and (2) develop a plan for upgrading the incinerators at the Harry S. Truman Animal Import Center to meet the State's emission standards.

Food Safety and Inspection Service (FSIS)

Through its inspection activities, FSIS ensures that the Nation's supply of meat and poultry products is safe, wholesome, and correctly labeled. FSIS' appropriations for FY 1994 totaled about \$516 million.

Adulterated Meat Used in Sausage Production

A meat market owner in Las Vegas was sentenced to 5 years' probation and ordered to stay out of the meat industry for the term of his probation after he pled guilty to selling adulterated meat and trafficking in food stamps.

During a joint investigation with FSIS compliance officers, we found that the meat market owner was slaughtering cows that were dead or diseased, mixing their meat with other uninspected meat (including deer meat), and selling the product as sausage to the public through his retail outlet. After the investigation, the market was permanently closed.

The market owner had also accepted food stamps for the sale of meat even though he had been permanently disqualified from the FSP for previous violations. He traded the stamps for meat with a neighboring market that was authorized to accept them. Civil prosecution for this action is pending.

Farmer Runs Illegal Slaughterhouse

A Maryland farmer pled guilty to operating an illegal slaughtering operation out of his barn and to selling uninspected and adulterated meat. The farmer served over 50 customers in the Washington, D.C., area. He was sentenced to a period of probation.

During the investigation, which was conducted jointly with the FSIS compliance staff, an OIG undercover agent bought some of the farmer's meat and witnessed the unsanitary conditions under which it was slaughtered. A later search of the facilities revealed several hundred pounds of meat from domesticated animals and wild game which was seized and destroyed.

Questions Raised About Plant Downtime

FSIS officials asked us to review charges that “inconsistent and unjustified inspections” by three FSIS inspectors resulted in excessive downtime at a pork plant in Iowa and contributed to the tentative decision by plant management to close the plant. We evaluated the conduct of the inspectors to determine if they exceeded their authority when making inspection decisions. The review team included technical experts from FSIS’ Program Review Division, auditors, and an investigator. We found that while the conduct of the three inspectors was occasionally unprofessional, the inspection staff generally acted according to FSIS procedures to ensure the quality, safety, and wholesomeness of meat products.

Plant management itself did not take action to correct sanitation and maintenance problems which continued for several years. The age and physical design of the plant and the large size of the hogs slaughtered required increased inspection, yet plant management had not implemented its own quality control program. FSIS was essentially performing quality control in addition to its own inspection responsibilities. Inspection management made several policy changes in response to these conditions, but the changes confused many inspectors. We concluded that downtime at the plant occurred for valid reasons and was not the result of arbitrary actions by line inspectors.

We recommended that FSIS provide counseling, training, supervision, and rotation or reassignments to improve the performance of inspectors in the plant. We also recommended that FSIS provide enhanced supervision and require plant management to provide corrective action plans and timeframes for implementation.

FSIS management assigned an additional supervisory food inspector to work closely with line inspectors. They have replaced the inspectors previously assigned to the plant and plan to conduct team problem-solving sessions and provide inspectors with additional counseling and training. The circuit supervisor, area supervisor, and regional director will perform more frequent plant visits. Weekly work unit meetings will be conducted to discuss changes in inspection procedures.

Natural Resources and Environment

Forest Service (FS)

The Forest Service (FS) manages natural resources on over 191 million acres of the National Forest system, conducts a State and Private Forestry program. For FY 1994, the FS appropriation totaled approximately \$3.3 billion, and timber sales and other receipts were estimated at \$1.5 billion.

Contracting Costs for Airtankers Is Higher Than Necessary

The FS uses airtanker contractors to help suppress wildfires across the 191 million acres of its National Forest System. Four contractors currently operate the 11 turbine airtankers in service. We previously reported that in 1991 the FS had improperly acquired excess turbine aircraft from the U.S. Department of Defense and exchanged them with contractors for their piston engine aircraft. FS officials justified the exchanges on the grounds they would avoid substantial increases in airtanker contract costs and improve the safety of airtanker operations. Because of the potential effect the exchange had on competition, we evaluated FS contracting procedures for obtaining airtanker services.

The FS awards airtanker contracts every 3 to 5 years. The 1993 contracts were awarded to 6 contractors who agreed to make 29 airtankers available at 34 bases at a cost of about \$15.7 million for FY 1993. Contract costs are based on a fixed number of days the aircraft must be available, predetermined hourly flight rates set by the FS, a 20 percent profit margin included in the flight rate, and a fuel consumption allowance.

We found that the cost of airtanker service was \$1.9 million higher than necessary because of flight rates, fuel costs, and base locations.

- Flight rates for the turbine airtankers exceeded contractors' costs plus the 20 percent profit guideline established by the FS. Because of insufficient historical data, the flight rates were not based on the actual operating costs of the turbine aircraft but on undocumented estimates. In addition, almost 30 percent of the hourly flight rate included a component for engine replacements, even though the contractors had little or no investment in the aircraft, had access to free spare parts, and were not required to, and did not, set aside the funds for replacements. In 1991 and 1992, contractors with turbine airtankers received payments of \$1.2 million that exceeded the profit target (about \$316,000) and that should have funded engine replacement reserves (about \$906,000).



Airtanker spraying fire retardant on a demonstration run. Don Downie Aerial Photography.

- The FS was not using Government discount fuel contracts or negotiating volume discounts with vendors to reduce fuel costs. In the absence of Government discount fuel contracts, contractors negotiated their own discounts with fuel vendors and added to their profits. We estimated that 1992 fuel costs could have been reduced by about \$491,000 had contractors purchased fuel under the Government discount contracts. In addition, the FS fuel allowance was greater than actual consumption. The FS set fuel consumption rates for the turbine aircraft at 770 gallons per hour; contractors' records showed it averaged only 698. During 1992, contractors were paid an additional \$221,000 because of the excessive fuel consumption reimbursement rate.
- The FS had not determined whether it needed all the bases and the type of aircraft needed at each base. Our review showed that several bases could be consolidated or relocated and that a base under contract to use two turbine aircraft had been advertised as needing only smaller planes. The rejected proposals of another operator with smaller piston engine aircraft that met the base requirement would have cost about \$267,000 less per year.

We also noted that contracting functions could be consolidated for airtanker services for the FS, the U.S. Department of the Interior, and those States involved in fighting forest fires. Consolidation would eliminate duplication of contracting efforts, reduce competition among Federal and State agencies for available airtankers, and ensure consistency in the contracting process and in the management of airtankers.

Among our recommendations was one that the FS negotiate new airtanker contracts prior to exercising the 1995 contract option year. FS officials agreed with our recommendations or proposed acceptable alternatives and are negotiating new contracts for FY 1995.

Changes Needed in Dealings with Interest Groups on Timber Sale Policies

The National Forest System contains 41 percent of the Nation's harvestable timber. In managing its timber sale program, the FS has been caught in the dilemma of balancing the interests of the timber industry, which demands a consistent supply of wood, with those of the many environmentalist groups which demand that old-growth forests be preserved. Different members of

Congress, some concerned about the influence exerted by environmentalists, others about the influence exerted by the timber industry, asked OIG to review the FS' dealings with these groups. Our evaluation concluded that FS managers have coordinated with all interested groups, but we also identified the following conditions which gave the appearance of undue influence.

- Through an agreement reached with the regional forester in the Pacific Northwest Region, environmentalists who had blocked timber sales through the threat of litigation reviewed sales after the FS had determined that environmental requirements had been met. Thus, the environmentalists appeared to have the status of "de facto" advisors, giving their opinions as to how much of the sales could be released for auction. The regional forester has since rescinded this agreement by re delegating decision-making authority to the forest supervisors and reinstating the normal appeals process.
- On the Eldorado National Forest, 24 timber sales under contract were suspended when environmentalist groups found that forest personnel had not complied fully with the requirements of the National Environmental Policy Act. In response to these concerns, the forest supervisor agreed to permit environmentalists and "other interested parties" (who were not identified) to discuss sales before they became final. We identified one timber sale that had been canceled solely because of this agreement.
- FS officials meet twice each year with timber industry representatives to discuss various aspects of FS timber sale policy. The meetings are arranged by the timber industry which extends its own invitations. As a result of past meetings, the timber industry has had the opportunity to review proposed FS regulations prior to publication.

We recommended that the Chief prohibit all FS employees from taking any actions that could give the appearance of allowing interested groups to exert undue influence over timber sale management. We also recommended that the FS (1) establish reasonable timeframes to resolve issues surrounding the Pacific Northwest Region's timber sales, (2) review timber sale agreements at the Eldorado National Forest for their propriety and ensure that all interested groups have access to forest management, and (3) request an opinion on the legality of FS discussions with the timber industry in timber purchaser meetings. The FS agreed to implement all of our recommendations.

New Fee System Needed for Ski Areas

The FS issues permits to private businesses to operate more than 120 ski resorts on FS lands. In a prior period, we reported that while large ski resorts generate millions of dollars in revenue, they pay little in fees for their use of FS lands. Legislation requires that a fee for the use of FS lands be based on fair market value. We questioned whether the current fee system generates returns of fair market value and recommended that the FS develop a system that does. At that time, the FS had initiated actions to develop a new fee system.

During this reporting period, at the request of FS management, we reviewed the system that the FS planned to use in place of the current fee system. In developing the proposed system, the FS contracted for a study to establish the fair market value of the use of FS lands by ski areas.

We questioned the study's appraisal technique to compute the market value of the use of FS lands. The values computed were derived, in part, from the ski areas' historical FS fees. Since these fees did not represent fair market value, neither would land values based on them. If the proposed system had been in place in 1991, we estimated that fees from 60 ski areas would have been approximately \$2.2 million less than the fees that the FS would collect under the current system.

As a result of our review, FS officials agreed to reevaluate the issue and formed a task force for the project. The working group included representatives from the FS, OIG, OGC, and the Office of the Chief Financial Officer. The working group reviewed the study and raised the same concerns about it that we had raised earlier. The group questioned the defensibility of any ski area fee system based on the study. As a result of the working group's advice, Department officials decided not to implement the ski fee system and to commission a more comprehensive review. The working group also identified alternative systems that the FS could consider in developing a fair market-based fee system. Program officials expect to have a new ski fee system in place by the 1996-97 ski season and have asked for the continued assistance of the task force.

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 1994, SCS appropriations totaled more than \$1.2 billion.

Prompt Changes Strengthen the Emergency Wetlands Reserve Program

The Emergency Supplemental Appropriations for Relief from Major Widespread Flooding in the Midwest Act of 1993 provided funds for the repair of damages to waterways and watersheds from the 1993 floods. The legislation included provisions for restoring some damaged cropland to wetlands and for maintaining the wetlands through the purchase of permanent easements from landowners. To be eligible for enrollment, the land had to cost more to restore to farmland than it was worth as farmland and the wetland restoration costs had to be minimal. SCS was responsible for administering the restoration program. For the initial signup, SCS allocated about \$15 million to purchase easements on about 25,000 acres in eight States.

We evaluated the program as it was being implemented and found that agency procedures needed improvement. For example, regulations provide for the inclusion of "other land" in the easement if it significantly adds to the wetland's values and functions. However, "other land" is not defined by procedures. We also noted problems in eligibility determinations and cost evaluations.

- SCS personnel in two States based land eligibility on the value of the easement rather than on the value of the wetland as farmland.
- The costs to restore the land, used as an eligibility factor, varied significantly from State to State.
- SCS personnel in two States did not evaluate bids on the basis of benefits vs. costs.

Our "upfront" assessment enabled management to make changes that strengthened the program and precluded dollar losses. Based on our report, SCS immediately issued verbal instructions to the States to correct the conditions noted and later incorporated the instructions into written procedures.

Science and Education

Cooperative State Research Service (CSRS)

CSRS Misused Noncompetitive Authorities

CSRS coordinates USDA's agricultural research efforts with the land-grant educational institutions that support them. CSRS is authorized to provide financial support to the State agricultural experiment stations of the land-grant system to conduct research that contributes to agricultural production and rural development.

CSRS provides three types of funding: cooperative research funds, competitive awards, and noncompetitive agreements. Cooperative research funds are distributed to land-grant institutions based on a formula determined by law. Grants are awarded on a competitive basis for designated research and may be given to nonland-grant institutions as well as private industry.

Noncompetitive cooperative agreements may be entered into with any research or educational institution or individual without competition. These agreements are used to acquire goods and services to carry out agricultural research and teaching activities of mutual interest to both the researcher and USDA. During FY 1987-92, CSRS entered into noncompetitive agreements totaling \$21.7 million.

We found that the CSRS administrator had misused the authorities of noncompetitive agreements totaling about \$9.3 million. In 6 of the 12 cases reviewed, the administrator directed the recipients of the agreements to

perform duties outside their scope, allowed agreements to accommodate his longtime acquaintances, and used agreements to support lobbying activities. In another four cases, CSRS used noncompetitive agreements to arrange for continuing administrative duties and to establish long-term assistance and research programs (thus circumventing other forms of contracting). We also found one agreement that had been used to support a continuing apprenticeship program.

Controls over noncompetitive agreements also needed strengthening. CSRS did not ensure proper tracking and accountability of agreement funds and did not include the agreements in organizational audits. At recipient universities, expenses were improperly shifted or reallocated between accounts, salaries were reallocated to an agreement after it had terminated, and financial status reports were not submitted to CSRS in a timely manner.

We recommended that the Assistant Secretary assess CSRS' use of noncompetitive agreements for unauthorized purposes and take appropriate action. We also recommended that the Department issue guidance and direction on permitted and prohibited uses of noncompetitive agreements and implement procedures to ensure independent approval of proposed agreements. In addition, we made recommendations to improve controls over the tracking and accountability of noncompetitive agreements.

The Assistant Secretary agreed to take the necessary corrective actions.

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, 1994, about 875,000 borrowers owed FmHA about \$32 billion. In addition, FmHA guaranteed more than \$6.4 billion in loans made by private lenders to about 63,000 borrowers.

Related-Party Management Companies Misused Over \$918,000 of Rural Rental Housing Funds

The RRH Program is designed to provide economical rental housing for persons with low to moderate incomes. People who want to build and operate RRH projects can borrow the funds to do so with FmHA's assistance. Borrowers are required to submit annual reports to FmHA describing the financial operations of the projects. FmHA reviews these annual reports and approves proposed budgets for the upcoming year.

Our audit evaluated FmHA's oversight of borrowers who own both the projects and the companies that manage them. Previous audits have found numerous cases of noncompliance with program requirements and ineligible and unsupported charges to projects among these types of borrowers.

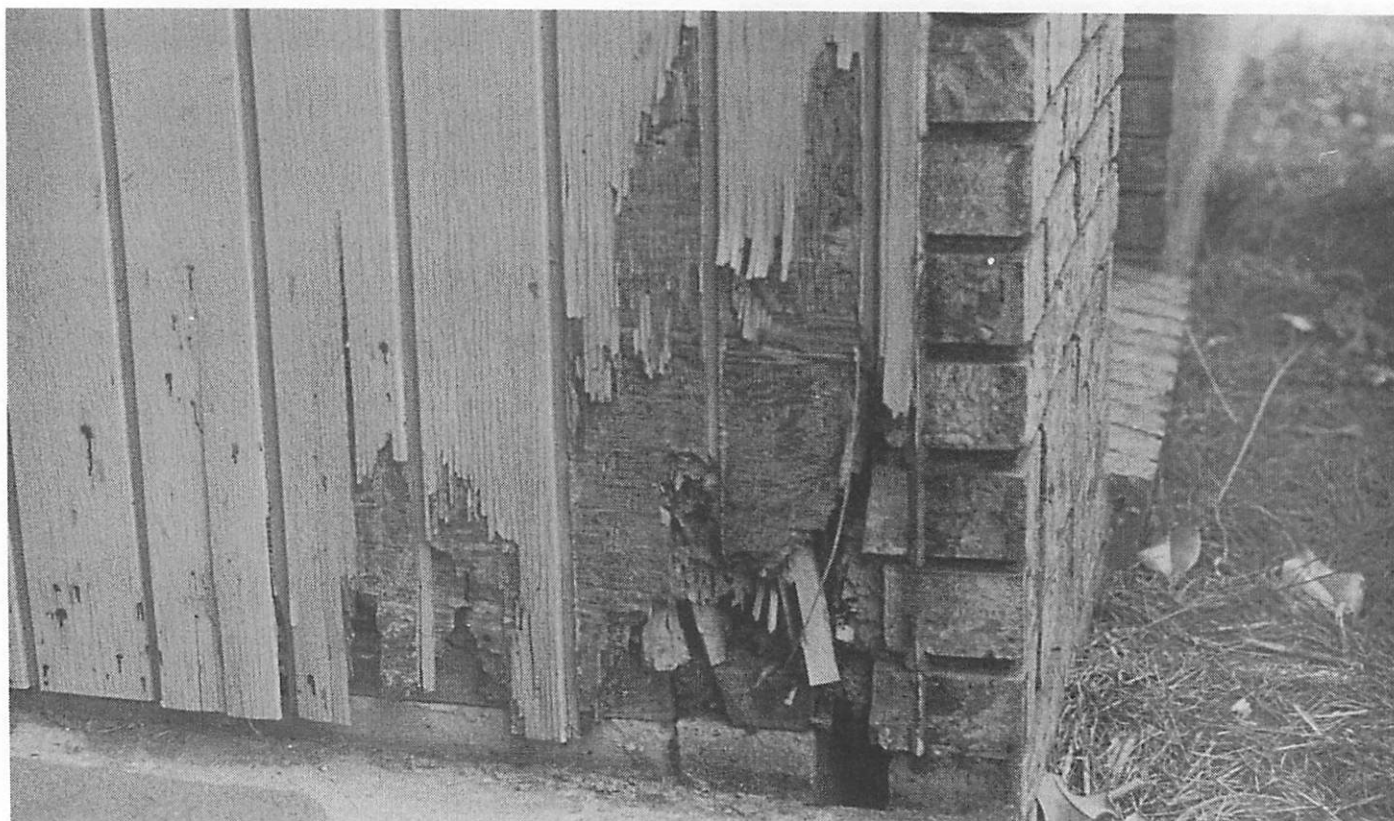
The 13 management companies we reviewed during our current audit operated 458 projects in 25 States and Puerto Rico. We performed in-depth reviews of 15 projects in 8 States and Puerto Rico and limited-scope reviews of 141 additional projects. We found that all 13 management companies misused over \$918,000 in RRH funds. This amount represented approximately 14 percent of the operating and maintenance expenditures for the projects audited. We found that:

- The management companies charged over \$354,000 in unallowable expenses to the projects. These charges included duplicate management expenses; excessive site management fees; improper markups; partnership-related expenses; miscellaneous charges for personal expenses, holiday parties, bonuses, and gifts; and unsupported expenses.

- Borrowers awarded service contracts to maintenance and laundry companies in which they had financial interests; diverted project income; added markups on services, supplies, and materials provided by independent vendors; and charged questionable labor rates. These maintenance and laundry "companies" generally provided services only to the borrowers' projects, and in some instances had no office space, equipment, or employees.
- Six management companies misused almost \$524,000 of reserve and tenant security deposit funds. One of the companies pledged \$125,000 of reserve funds from two projects as collateral for a commercial loan.
- Nine of the 14 projects we visited had maintenance deficiencies, such as rotting stairways and siding, falling gutters, potholes in parking lots, and leaking roofs. Health and safety hazards existed for the tenants at four of the projects: guard rails on second floor balconies would not prevent children from falling, and storage areas containing broken glass, paint, and other hazardous materials were not properly secured.

We also reviewed the work of independent auditors. (FmHA requires RRH projects with 25 or more units to undergo independent financial audits). We found that these audits were ineffective because the audit work was substandard and the scope was too broad. For projects with fewer than 25 units, audit testing by independent reviewers was insufficient. Other FmHA controls, such as annual analyses and triennial supervisory visits, either were not performed or did not ensure borrower compliance.

We recommended that FmHA (1) monitor the reasonableness of charges made to projects by companies with financial ties to project owners, (2) use bank statements to verify the borrower's reports of account balances, (3) revise the program for audits of project operations to include coverage of areas with a high vulnerability to abuse, and (4) require borrowers to promptly correct problems found during annual analyses.



Maintenance deficiencies at RRH projects included rotting siding. OIG photo.

FmHA officials agreed with our findings and have (1) implemented new requirements that borrowers disclose all identity of interest companies, (2) placed restrictions on identity of interest maintenance and laundry companies performing services for RRH projects, and (3) required that all reserve account funds be deposited into counter signature accounts.

FmHA also agreed to establish guidelines to clarify acceptable project costs, monitor the reasonableness of charges made to projects, use bank statements to verify account balances, develop an automated tracking system to follow up on deficiencies noted during annual reviews, require borrowers to correct problems found during those reviews, and revise the audit program used by independent public accounting firms reviewing RRH project operations. Also, within the past 12 months, FmHA has inspected all projects over 5 years old to determine if health and safety conditions existed.

Borrower, Family Convicted in \$1.7 Million Fraud

In Indiana, an RRH borrower, his wife, daughter, and a coworker were convicted of conspiring to defraud FmHA by submitting fictitious invoices for work never performed during the construction of 10 RRH projects in Indiana and Ohio. The projects' costs were actually \$1.7 million less than the amounts the borrower certified. Sentencing is pending.

Borrower Pleads Guilty to Embezzlement

The president of a New York real estate management company pled guilty to illegally receiving over \$913,000 in builder's profits from RRH projects he managed and to stealing almost \$250,000 from the projects' laundry accounts. He also pled guilty to evading personal income tax on the illegal income. The company owned or managed over 25 RRH projects worth about \$30 million.

The company president faces a maximum sentence of 5 years' imprisonment and a maximum fine of \$750,000. In addition, he must forfeit to the Government the \$913,000 in builder's profit, pay back the \$250,000 in embezzled accounts, and pay past-due income taxes of \$414,000. Sentencing is pending. The construction company that conspired with the management company president to pay the illegal fee also pled guilty and is awaiting sentencing. Two accountants who provided services to the management company were indicted on conspiracy charges. This investigation was conducted jointly with the IRS.

Borrower and Property Manager Skim Accounts Pledged to FmHA

An RRH borrower in Michigan and his office manager pled guilty to criminal charges that they unlawfully spent about \$800,000 from accounts pledged to FmHA during the construction of at least three RRH projects. The owner of the projects, who acted as the general contractor and managing agent of existing RRH projects, used an elaborate check-kiting scheme and other means to conceal the true costs of the projects and to move large amounts of money among the various accounts undetected by their independent CPA's. (The office manager, who is a former bank employee, handled the banking arrangements for the scheme.) The borrower, by concealing his identity of interest as a construction superintendent, was able to charge a second superintendent salary to the projects in addition to taking a profit as the general contractor.

Sentencing is pending.

\$5 Million Not Accounted For

FmHA determined that a management firm that operated 38 RRH projects in Texas was not maintaining the projects or properly handling their accounts. For example, property taxes were delinquent on all 38 projects. In a coordinated approach, FmHA addressed the problems of maintenance and overdue taxes, while OIG evaluated the status of funds in the accounts.

We found that the management firm had not properly accounted for approximately \$5 million of replacement reserves, reserves for taxes and insurance, rental income, and general operating expenditures. About

\$1.7 million of this amount represented cash in project bank accounts that had been depleted. Also, because the management firm was delinquent on its 1991 and 1992 taxes, FmHA paid another \$700,000 to keep the properties from becoming encumbered; the reserves for taxes had been similarly depleted. An additional \$2.6 million had been collected by the management firm as rent or rental assistance over the first 7 months of 1993, but could not be accounted for.

We recommended that FmHA require the management firm to account for the \$5 million in operating funds and missing reserves, and that it replenish all funds not properly expended on project operations. We also recommended that FmHA take administrative action against the firm.

FmHA officials agreed with our recommendations. They have begun debarment procedures against the firm and have initiated an asset investigation to determine whether the firm or its chairman has property that can be attached for recovery of the missing funds.

Farmers Sentenced for Selling Pledged Cattle

A Texas farmer, who was a former FmHA employee, was sentenced to 4 years' imprisonment and ordered to pay over \$271,000 in restitution after a jury convicted him of illegally selling cattle mortgaged to FmHA, bank fraud, and money laundering.

In an unrelated case, a farmer in Oklahoma was sentenced to 2 years' probation and ordered to make full restitution after he pled guilty to using his son's name to illegally sell 96 head of cattle mortgaged to FmHA and worth about \$40,000.

Dairy Farmer Transfers Assets To Hide Collateral

A dairy farmer in Minnesota served a 5-month jail sentence after being convicted of selling 1.3 million pounds of milk that had been mortgaged to FmHA. The farmer concealed the sales by telling FmHA that his herd was dwindling because of disease and starvation. The investigation found that the farmer was actually using a trust to transfer his assets, including his herd and the proceeds from the milk it produced, to his 13-year old son.

The farmer appealed his conviction, arguing that the herd and milk belonged to his son. The U.S. court of appeals, however, upheld the conviction.

Servicing Delinquent Loans Resulted in Large Error Rate

The Agriculture Credit Act of 1987 and the Food, Agriculture, Conservation, and Trade Act of 1990 required FmHA to restructure delinquent Farmer Program loans to avoid losses and allow borrowers to continue their farming operations. We reviewed FmHA's servicing of farmer program loan accounts that were delinquent over 180 days. We randomly selected cases within 18 States that had 72 percent of all delinquencies nationwide.

We reviewed 27 borrowers who either had their debts written down or were allowed to buy out their indebtedness at a reduced amount of about \$2.8 million. We found that half the borrowers' applications contained inaccurate or incomplete information and that almost a third of the borrowers were approved for unauthorized writedowns and writeoffs totaling \$902,000. We statistically estimated that in the 18 States, borrowers were approved for unauthorized benefits totaling \$73.3 million.

FmHA's servicing decisions were based on incomplete reviews: counties did not adequately verify information from the borrowers, and States did not adequately review the counties' servicing decisions. We obtained corrected information from the borrowers and from ASCS county offices to conduct our review.

We also found that FmHA's servicing of delinquent borrower accounts was not timely for about one-third of the cases reviewed. The servicing delays averaged 1.8 years, and resulted in additional losses to the Government (e.g., excess interest accrual, real estate taxes, and depreciation of collateral) totaling almost \$1.9 million. In computing delays, we did not count any time associated with the potentially extensive administrative appeals process nor the time needed by FmHA to write regulations to enact changes stemming from new statutory provisions. We statistically estimated that in the 18 States, FmHA will experience delays in servicing actions that will increase program losses by \$149.2 million.

We recommended that county staffs (1) require borrowers to provide documentation to support income, expenses, debts, etc. when they apply for loan-servicing programs, and (2) compare information borrowers submit to FmHA with information they submit to ASCS. We also recommended that FmHA State offices (1) ensure that counties follow up on servicing items identified for their correction, and (2) monitor accounts that have been delinquent over 180 days to ensure timely servicing decisions.

FmHA officials agreed to draft regulations requiring an extensive evaluation of the financial condition of the borrower. In addition, FmHA directed State offices to develop followup systems to improve servicing actions.

Careful Reviews Could Have Saved Over \$31 Million in Unneeded Subsidies on Farm Loans

FmHA lends money to farmers to buy farms and ranches and to operate them. These loans may be made at reduced interest rates if the borrower cannot generate enough cash-flow to pay FmHA's regular rate. Because FmHA itself borrows the funds for these loans, it effectively subsidizes any reduced rate. It is required to review the financial condition of borrowers annually to ensure the additional subsidy is still needed. As of December 31, 1992, more than 60 percent of FmHA's outstanding farmer program loan portfolio, totaling about \$5.6 billion, was at the reduced rate.

Our nationwide audit, conducted in 36 States, disclosed that FmHA did not properly calculate the borrowers' cash-flow when trying to determine their ability to pay FmHA's regular interest rate. One-third of the loans in our statistical sample either were incorrectly made at reduced interest rates or were allowed to remain at those rates even once the borrowers became ineligible. All of the ineligible borrowers we reviewed could afford to pay FmHA's regular interest rate. We estimate that through the 1993 payment dates, FmHA incurred unnecessary interest subsidies of about \$31.9 million on about 26,000 loans nationwide.

FmHA staff incorrectly determined the borrowers' cash-flow because they (1) did not always include all of the borrowers' income and expenses on the farm and home plans, and (2) did not properly compute borrowers' cash carryover. In some cases, annual reviews of the borrowers were not performed.

FmHA's regulations governing reduced rates appear to give an advantage to larger farms. For example, a small operation that achieves a cash-flow margin of 10 percent or greater will become ineligible to retain the reduced interest rate while a large operation with the same dollar (but lesser percentage) cash-flow can still remain eligible.

We recommended that FmHA increase the interest rates for the ineligible borrowers we identified, clarify instructions for granting reduced loan rates, perform annual reviews, and strengthen monitoring to detect county office errors in a timely manner. We also recommended that FmHA study the need for a regulatory change to benefit smaller farming operations.

FmHA agreed to review all the loans we cited as being ineligible for reduced interest rates and raise them to regular rates, where appropriate. FmHA also agreed to improve its controls over loan making and servicing to ensure that those borrowers who can pay regular rates are not granted reduced rates.

Louisiana Seafood Company Guilty of Price Fixing

As a result of an investigation into price fixing in the crawfish industry, the owner of a Louisiana seafood company pled guilty to obstructing justice. During the investigation, an individual furnished false records to a Federal grand jury. The company pled guilty to price fixing and the company's bookkeeper was found guilty of perjury.

The bookkeeper was sentenced to 3 years' probation, home confinement, and community service. Sentencing is pending for the company and the company president. This investigation was conducted with the Department of Justice's Antitrust Division.

FmHA's Management Control Review System Needs Better Focus and Coverage

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires each Federal agency to establish financial and management control systems and evaluate them on an ongoing basis.

FmHA's system of management control reviews existed before FMFIA was enacted. The reviews assessed the agency's compliance with its own policies and procedures and provided management with status reports on

operations. In 1983, to conform with FMFIA, FmHA expanded the reviews to address the requirements of the act.

We found problems in the performance of the reviews, and in the timeliness and use of their results.

- FmHA's review system did not fully comply with FMFIA. The reviews primarily tested compliance with procedures deemed to be controls, but the review guides did not identify control objectives or specific controls to be evaluated. The reviews did not assess whether control objectives were achieved or whether the controls were effective, nor did they identify specific control weaknesses or their causes.
- Although FmHA conducts hundreds of management control reviews annually, the results of these efforts were often not available in a timely manner. Therefore, FmHA management did not use the review results in its annual status reports on internal controls. The agency maintained an automated tracking system to track all review results but because resources were limited, the results of State reviews of district and county offices were not recorded in the system.
- Generally, the same review guides were used from year to year with few revisions. Coverage was often duplicated in the agency's three review efforts (one run by the National office and two by the State offices), and the review guides were not updated to target recurring problems, assess their causes, develop corrective action plans, or make better use of available review resources.

FmHA officials have recognized for several years that improvements in their control review system were needed. In 1991, an FmHA task force recommended that a new system be developed and, in 1992, a pilot review project was initiated in eight States. During 1994, a task force again assessed the review system and proposed modifications to improve its effectiveness and compliance with FMFIA.

We recommended that FmHA improve its reviews to comply with control requirements, improve the timeliness of review results, update the review guides routinely, evaluate whether automated tracking of review results can be enhanced, and ensure that reviews assess the actions taken to correct previous deficiencies.

FmHA officials generally agreed with our recommendations and are including corrective actions in task force plans. We are providing technical advice to the task force and believe that its proposals can improve the review system.

Federal Crop Insurance Corporation (FCIC)

FCIC is a wholly owned Government corporation, designed to improve the economic stability of agriculture through a sound system of crop insurance. This insurance provides farmers with protection against losses caused by natural hazards, such as insect and wildlife damage, plant diseases, fire, drought, flood, wind, and other weather conditions. It does not protect farmers against losses resulting from negligence or failure to observe good farming practices.

In 1994, FCIC provided crop insurance protection amounting to approximately \$13.2 billion. The FY 1994 appropriation provided coverage on 96.8 million acres, with an estimated \$925 million in total premium income, including \$248 million in premium subsidy.

Policyholder Intentionally Planted Crops To Fail

An FCIC policyholder in Illinois was convicted of submitting false claims totaling \$210,000 after an investigation revealed that he intentionally planted for crop failure. The policyholder began his hybrid seed corn business in the 1980's but did not sell a single bag of seed corn during his first 5 years of operation. Over these years, he collected \$1.6 million in FCIC payments. Inspections disclosed that the policyholder was using bad farming practices which ensured low yields. Sentencing is pending.

Planting Pattern Requirements Violated

Under "optional units" insurance, producers may insure different parts of their field at different rates, depending on which farming practices they use (e.g., whether they irrigate some acres and not others.) Rules governing crop insurance require that producers use different planting patterns (direction of rows, etc.) to differentiate these subparts; otherwise, the field is to be considered as one unit. (See Figure 4.)

Our audit found that producers who used center pivot irrigation systems, which irrigate only a circular part of the field, did not use different planting patterns but continued the same pattern across both irrigated and nonirrigated acres.

Insurance companies and their agents did not hold the producers to the planting pattern requirement, and adjusters determined losses irrespective of the pattern. Planting pattern requirements were violated in each of the five counties reviewed. Indemnities on one-third of the policies in our sample were overpaid by \$127,000 during 1991. Administrative expenses were overpaid by another \$3,400.

We recommended that FCIC recover the overpayments and remind insurance companies of the planting pattern requirements for optional units insurance. FCIC officials agreed to take corrective action.

Reducing Units Could Result in Significant Savings

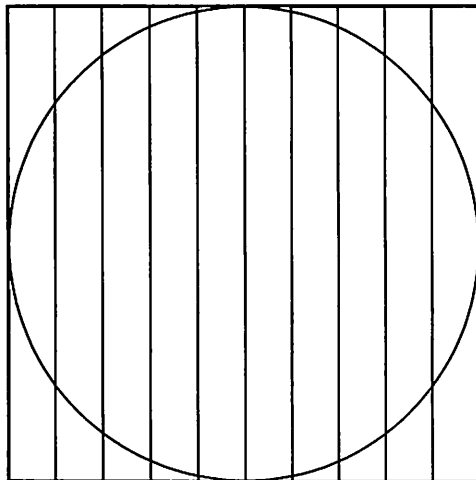
FCIC regulations allow producers, under certain circumstances, to divide their farms into more than one unit per county for crop insurance purposes. Multiple units enable producers to separately insure various portions of their operation and to receive indemnity payments if some of these units suffer losses even though other units' production may be equal to or greater than the guarantee. Generally, combining multiple unit policies will reduce the amount of indemnity on the farming operation.

Our review found that participation did not materially increase and that multiple-unit divisions substantially raised net costs when indemnities were paid. From our sample of crop year 1991 policies, we estimated that crop year 1991 net costs could have been reduced by about \$336.7 million, or about one-third of total costs, if FCIC had limited the number of units for each crop.

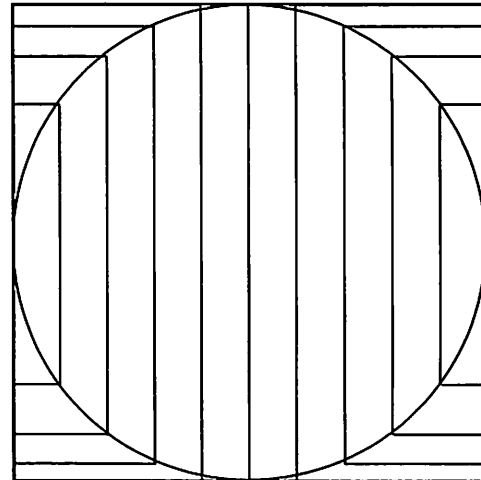
We recommended that FCIC reduce the number of units allowable on each crop or otherwise compensate for the monetary impact that multiple units present. FCIC officials stated that previously proposed actions to limit the number of allowable units were met with negative reaction from producers. Since a significant segment of FCIC's customer base wants multiple units at a fair price, officials believe they must consider alternatives

Figure 4

Center Pivot Irrigation Planting Patterns



**Uniform Planting Pattern
Insurable As One Unit**



**Separate Planting Pattern
Insurable As Two Units**

that satisfy this customer requirement at a cost that is reasonable to taxpayers and equitable to all insured producers.

In our view, FCIC has not given sufficient weight to the added cost being borne by taxpayers due to the decision to allow multiple units. We demonstrated that taxpayers paid over \$336 million during crop year 1991 because losses on a particular unit or units were not offset by increased production of the same crop on other units. Thus, we believe that FCIC needs to address immediately a segment of the program that is not cost effective and one that is likely to increase with FCIC catastrophic coverage being mandatory for all producers who participate in Federal programs. We are working with FCIC officials to reach management decision on this issue.

Rural Electrification Administration (REA)

REA helps rural electric and telephone companies obtain the financing they need to provide electric and telephone service to rural areas. As of September 30, 1993, REA lent funds to about 2,000 active telephone and electric borrowers with outstanding revolving fund loans of about \$15 billion, telephone bank loans of about \$2.5 billion, and loan guarantees of about \$21 billion.

Electric Borrowers' Investments Appear Excessive

Under law, REA electric borrowers are allowed to invest some of their funds without prior REA approval. The original investment amount was administratively restricted to 3 percent of the borrower's total plant value but a subsequent amendment and the Rural Electrification Act raised this amount to 15 percent. REA implementing regulations allow borrowers to make unlimited investments of specified types and to exclude them when reporting to REA.

Our audit found that if total investments are considered, 64 percent of the 914 electric borrowers had invested in excess of 15 percent of total plant value. For those borrowers, the average investment-to-total-plant value ratio was 26 percent. These 588 borrowers had made investments, loans, and loan guarantees in 1992 totaling \$8 billion which was \$3.4 billion in excess of the 15 percent. Included in these investments was an estimated \$2.5 billion in cash and temporary investments. When computing their own investment-to-plant

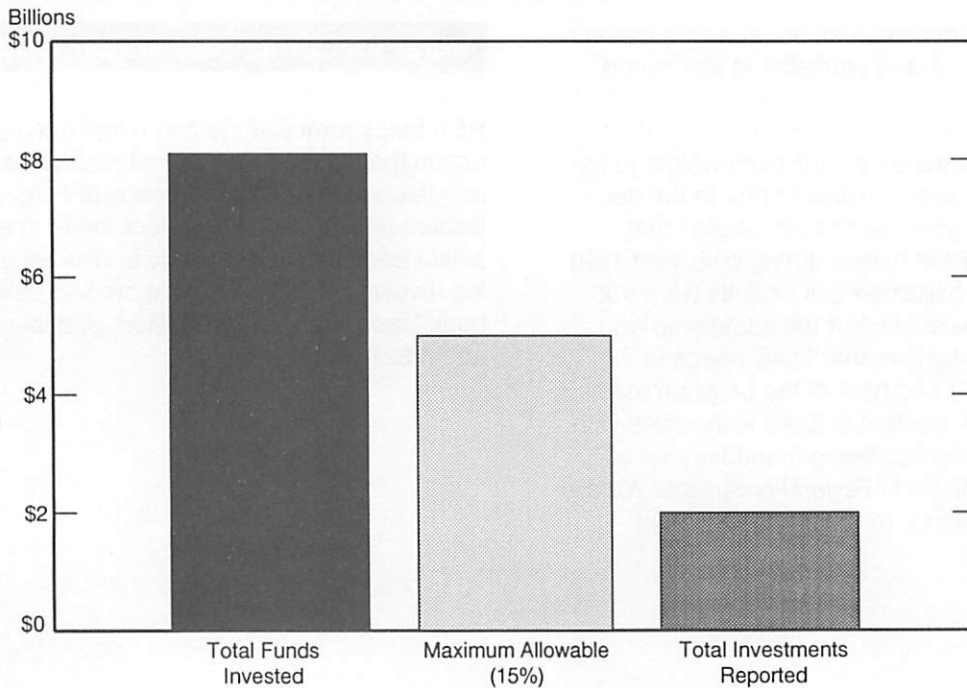
ratios, these 588 borrowers used only \$2 billion of their \$8 billion total investments, and arrived at an average of less than 7 percent. Figure 5 illustrates the extent of investments the borrowers included and the extent of the investments they held.

Although the amendment to the REA Act did not mention rural development as an investment, the *Congressional Record* clearly indicated that the purpose of allowing investments up to 15 percent was to give electric borrowers an incentive to invest in rural areas. REA, in its policy statement implementing the law, stated it assumed borrowers would use the latitude afforded them to invest in rural community infrastructure projects, job creation, and other similar activities. However, our analysis revealed that less than 1 percent of the total investments went to rural development.

We recommended that the results of our evaluation be used by an REA task force studying the administration of the 15-percent rule. REA officials agreed to provide the audit report to the task force.

Figure 5

Actual Investments vs. Allowable and Reported Investments



Financial, Administrative, and Information Resources Management

Financial Management

The Chief Financial Officers (CFO) Act of 1990 designated USDA as part of the pilot program to prepare and audit financial statements beginning with FY 1990. Financial statements are now being prepared each year covering all departmental activities, including all revolving and trust funds and programs that perform substantial commercial functions. Accounting controls over all transactions processed in USDA are provided by the central accounting system of the Office of Finance and Management/National Finance Center (OFM/NFC) and by five other accounting systems in the Department: CCC, FCIC, FmHA, FNS, and REA/Rural Telephone Bank (RTB). These systems also provide financial reports to agency managers as well as to nondepartmental entities.

Financial Statement Audits

Previously, we reported unqualified (clean) opinions on the FY 1993 financial statements for CCC, FmHA, FCIC, REA, and RTB. During this reporting period, we completed audits of the statements of FNS, the FS, and the Department (consolidated). The FNS audit resulted in an unqualified opinion, but audits of both the FS and USDA consolidated statements resulted in qualified opinions. The FS received a qualified opinion because property assets and associated depreciation were misstated and because data was insufficient to validate the FY 1992 ending balances used in computing the statement of cash-flows and to audit the accrual of accounts receivable. The USDA consolidated statements received a qualified opinion because property and equipment values and the associated depreciation were misstated, data was insufficient to determine the validity of certain account balances, and the statement of cash-flows was based on unreliable prior-year data.

We also identified several material weaknesses and two instances of material noncompliance with laws or regulations. The material weaknesses led to the conclusions that FNS must:

- provide a corrective action plan that will ensure that its financial management system will produce accurate and reliable data;

- in conjunction with ASCS, correct the inventory management system for processed commodities to produce accurate commodity figures that can be used in its financial statements; and
- also in conjunction with ASCS, ensure that the inventory management system can assign a value to the commodity inventory balance and compile reports by program.

Material control weaknesses also led to the conclusion that the FS must:

- integrate all major accounting functions into the general ledger and develop procedures to reconcile budgetary and accrual-based expenditures; and
- develop a strategy to improve the quality of field-level accounting data, especially in the areas of property, accounts receivable, and accounts payable.

Material control weaknesses in the consolidated statements led to the conclusion that USDA must:

- continue efforts to integrate departmental and agency accounting systems and achieve compliance with Federal financial laws and guidelines;
- develop additional policies for interagency transactions, financial reporting processes, and supporting documentation;
- develop a policy to ensure that manual adjustments at the central accounting system are appropriate for consolidated financial reporting purposes, that supporting documentation is retained, and that “abnormal balances” are corrected prior to fiscal yearend;
- ensure that all material weaknesses or nonconformances with the FMFIA are identified, reported, and corrected; and
- continue to implement a plan to ensure that automated data processing security of the central accounting system is reviewed and strengthened.

The two instances of material noncompliance with laws and regulations involve the CFO Act and FMFIA. Although improvements have been made in the Department's financial management processes, full compliance with all aspects of the CFO Act has not yet been achieved. The Department needs to fully integrate its financial systems and enhance its methods of reporting supplemental information and performance measures. Regarding FMFIA, the Department has made enhancements in the 1993 review process, but it still needs to improve the implementation of corrective actions, the timeliness of internal control reviews, the certification of automated systems, the documentation of internal control analyses, and the implementation of Core Financial System Requirements.

Agency management generally agreed with our findings and recommendations.

Information Resources Management

Management must increasingly rely upon computers to streamline operations and improve service to the public. USDA has invested heavily in automated resources which are an integral part of the management of billions of dollars of Department payments, and it plans to spend billions of dollars in the future to modernize business processes. Audits of the Department's information resources, including equipment, processing environments, and communications networks, continue to disclose weaknesses that leave operations vulnerable to misuse.

PC-TARE Data Is Vulnerable to Unauthorized Alteration

The Personal Computer Time and Attendance Remote Entry System (PC-TARE) is the system used by most USDA agencies to transmit Time and Attendance (T&A) data to the central accounting system at OFM/NFC.

Our evaluation disclosed that T&A data prepared on PC-TARE is vulnerable to unauthorized alteration from the time it is certified by a designated approving official to the time it is transmitted to central accounting. Controls do not exist within the PC-TARE software to prevent unauthorized changes to the data, and manual operating controls will not prevent or detect such

changes. Also, the effectiveness of "leave audits" as a control is diminished because the audits are often performed by the timekeeper responsible for maintaining the T&A records.

We recommended that (1) a report confirming the T&A data received by central accounting be developed and distributed to all designated approving officials; and (2) leave audits be performed by someone other than the timekeeper.

Management agreed and has initiated corrective action.

ASCS Needs To Improve Its Security Program

During a limited audit of computer security at ASCS, we found that ASCS did not complete its contingency plan by identifying critical applications that would be processed at a "hotsite" in the event of a disaster at the National Computer Center. ASCS may be susceptible to lengthy delays in restoring computer processing during disruption of services. We recommended that the contingency plan be completed in a timely manner.

We also found that ASCS needs to improve its security over Integrated Database Management System (IDMS) files and scheduling software. We recommended that ASCS (1) expand its oversight over IDMS and provide technical training to ensure that security activities are coordinated, (2) assign unique passwords to users, and (3) limit special authorities to modify data and the ability to execute system commands and restrict access to the scheduling software.

We are working closely with the agency to reach management decisions on these recommended actions.

Monitoring of Info Share Continues

The goal of the Info Share project is to integrate information systems and business processes in order to improve delivery of services to customers of farm service and rural development agencies. This is a multiyear project whose costs are expected to total over \$1 billion. During this period, we continued to monitor Info Share developments and to provide technical assistance to project staff. We raised the following concerns.

- Info Share staff has accelerated its acquisition strategy by dividing the planned procurement into several phases. We believe this approach will make it more difficult to meet the overall objectives of the program. The strategy emphasizes the use of computers rather than the redesign of business processes. In addition, we questioned the need for some of the acquisitions, the time available to test products, and the cost effectiveness of the new strategy.
- Problems in staffing Info Share continue. The project is being staffed under a matrix management concept: agencies provide personnel who retain their current job responsibilities. Project managers complain that this organizational structure does not give them adequate control over personnel assigned to the project.
- Info Share managers need to implement a usable project management system to track critical activities and milestones. The current system is not used because it requires a large volume of data entry. Also, there are no instructions on how to use the system even though managers said they would develop such a guide in response to one of our previous recommendations. Info Share officials are currently evaluating alternative systems and methods for managing and tracking project activities.
- We questioned the need for and costs of some items purchased with training funds. In addition, we found that Info Share management had entered into an agreement with the USDA Graduate School to provide training, then dealt directly with the training subcontractors instead of first going through the Graduate School in accordance with procurement regulations. Info Share management agreed to increase its oversight of the Graduate School agreement to ensure training funds are spent in the most cost-effective manner.
- Info Share has developed the "Common Access Manager (CAM)," a hardware and software system that, if successful, would connect partner agency systems and facilitate data sharing. However, we found that CAM, as presently designed, would not be able to provide data sharing. We also questioned the purpose and costs of CAM.

Info Share management generally agreed with our concerns and is reevaluating the program. All projects have been put on hold pending the outcome of this analysis. We will continue our monitoring effort and will work closely with management to help ensure successful completion of the project when it is resumed.

Administrative Operations

Improvements Needed in Aircraft Management Reviews

We participated in an audit, coordinated by the President's Council on Integrity and Efficiency, of Federal aircraft management. As of the end of 1992, three USDA agencies (FS, APHIS, and ARS) owned and operated 75 aircraft which were flown about 16,000 hours in FY 1992 at a cost of about \$10.6 million. One of these agencies also owned 236 aircraft which were on loan to States under cooperative agreements for fighting forest fires. Our review showed that the agencies had adequate aircraft maintenance and safety programs and that pilots were qualified and proficient. We did find other areas, however, that did not comply with requirements for Government-owned aircraft.

- USDA agencies had not performed reviews of the continuing need for, and cost effectiveness of, owning and operating aircraft in conformance with guidelines. USDA agencies had not identified all of their activities that required aircraft operations, and they had not included all owned and operated aircraft on the inventory of activities.
- Agencies acquired four aircraft worth \$2.5 million that were not adequately justified. The reviews did not consider that other aircraft were performing the same missions and that three of the four aircraft generally had not been used for the purposes for which they had been acquired.
- One agency's cost-comparison studies were not accurate or complete and resulted in the questionable acquisition of at least two aircraft. The cost-comparison analysis, performed to justify the acquisition of two Sabreliner jets, was materially misstated. The agency estimated that the annual in-house operating cost of a Sabreliner was \$637,000 and the cost of comparable commercial air service was \$1.96 million. We estimated, however, that the cost of the Sabreliner was \$923,000 and the cost of commercial service was \$658,000.

- At the direction of former senior USDA officials, agency staff overstated aircraft mission needs in order to have a Sabreliner jet available in the Washington, D.C., area for executive transport. The agency subsequently altered its plans for stationing aircraft in the Washington, D.C., area.
- Agencies did not announce the results of their decisions to acquire and operate aircraft in the *Commerce Business Daily*. Announcing these decisions gives commercial vendors an opportunity to respond to the cost comparisons and provides a control to ensure the adequacy of estimated commercial service costs.

We recommended the Department improve controls over its reviews for justifying and acquiring aircraft. Management generally agreed and has begun corrective action.

Better Coordination of Multiuser Contracts Needed

We evaluated the Department's procedures for purchasing information processing resources through multiuser contracts (that is, contracts entered into on behalf of more than one agency). We reviewed the technical approval process, administered by the Office of Information Resources Management (OIRM), and the delegation of procurement authority administered by the Office of Operations (OO).

We noted that OO and OIRM need to improve their coordination and tracking systems to ensure effective oversight of procuring agencies. Agencies have, in some instances, procured resources without obtaining the required technical approval and delegation of procurement authority.

We recommended that OO and OIRM develop a coordinated approach to inform agencies of the availability of multiuser contracts and the requirements for procuring from these contracts. We also recommended that an automated tracking system be developed to provide a more uniform and accurate data base of agency procurements.

Both OO and OIRM officials agreed that better coordination is needed and are instituting measures to that effect.

Allocation of Unemployment Compensation Costs Could Be Improved

The Unemployment Compensation for Federal Civilian Employees (UCFE) program is administered by Federal agencies in cooperation with State departments of labor. During 1993, USDA paid 22,647 claims totaling \$27.4 million to former employees. That year, 19 USDA agencies used a servicing contractor to manage their UCFE programs. These agencies incurred 95 percent of the total 1993 program costs.

Our review showed that the USDA contractor was satisfactorily managing the program. Furthermore, we believe that those USDA agencies not under contract could reduce program costs and improve program efficiency by using the contractor.

We did find a problem with the method used to allocate costs to the responsible agency. During FY 1993, USDA incurred unemployment compensation costs of \$921,000 which for several reasons were not assessed to any responsible agencies; therefore, the \$921,000 was allocated among all agencies. The method of allocation resulted in some agencies paying disproportionately more of the unidentified costs and, in some agencies, not paying the costs they were responsible for. ASCS, for example, incurred about \$554,000 of the unidentified costs but was assessed less than \$3,000.

We recommended that agencies review and reconcile all unidentified charges at least annually, and that all agencies use the services of the contractor to manage their unemployment compensation programs.

Department officials agreed with our recommendations and are planning corrective actions.

Improvements Needed To Meet EPA Deadline on Underground Storage Tanks

USDA has accepted a leadership role in protecting the environment and abating environmental hazards that result from practices in agriculture and forestry. The Department recognizes its responsibility to adhere to all Federal, State, and local standards for environmental quality. In FY 1994, funds appropriated for pollution abatement activities exceeded \$235 million.

Environmental Protection Agency (EPA) regulations require owners of underground storage tanks to prevent leaks and spills. USDA owns over 3,000 tanks primarily used for fuel storage and must meet EPA standards by the end of 1998. The Department has made substantial progress in meeting this goal; it has already removed or replaced 2,269 tanks at a cost of \$29 million. Still, our audit found that the Department has not established controls to ensure tank registration, leak detection, tank closure, and site clean-up at all installations.

- Three agencies had no written policies, regulations, or monitoring systems specifically addressing underground storage tank requirements. These agencies had several hundred underground storage tanks in need of upgrade or replacement even though funds were available to remove and replace them.
- Two agencies did not maintain accurate inventories of underground tanks. Accurate inventories are necessary to ensure compliance with EPA regulations for leak detection, corrosion prevention, and spill protection. These inventories are also needed to plan for the removal and replacement of damaged tanks.
- Three agencies did not register all their tanks or fit them for leak detection. Of the 238 underground storage tanks we reviewed, 96 were not registered or did not have leak detection capabilities. When underground storage tanks are not registered with local authorities, those officials cannot monitor them.
- Four agencies had 91 underground storage tanks that were no longer used but had not been removed or properly closed.
- Three agencies continued to operate fuel dispensing facilities even though nearby commercial facilities were available. At the locations we visited, 20 facilities with 42 underground storage tanks did not meet departmental requirements for remaining open. We estimate that if these facilities were closed, the Government would not have to spend \$1.17 million to upgrade the tanks. Approximately \$514,000 has

already been spent to upgrade tanks at nine facilities that should have been closed.

We recommended that the Department monitor agencies' underground storage tank compliance. We also recommended that the agencies maintain accurate tank inventories, ensure that underground tanks are registered, provide adequate leak detection monitoring, remove underground tanks no longer in service, and close fuel dispensing facilities that do not meet requirements.

Management agreed with our findings and either accepted the recommendations or proposed acceptable alternatives.

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 12 State and local governments for which we have been assigned single audit cognizance under OMB Circular A-128, Audits of State and Local Governments, we work closely with both the auditee and the independent auditors, meeting with them frequently to monitor the progress of each audit and to provide technical assistance. For such audits, OIG reviews the work performed by non-Federal auditors to determine that it meets the requirements of OMB Circular A-128 and the standards promulgated by the Comptroller General. In addition, OIG participates in quality control reviews, led by other assigned cognizant Federal audit organizations, of State agencies administering major USDA programs.

During this reporting period, we issued seven audit reports covering areas over which we have been assigned cognizance. Of these reports, four contained recommendations with questioned costs of about \$3 million in USDA assistance. In addition, we received and distributed 34 reports furnished to us by other cognizant Federal agencies. Of these, 11 contained recommendations with associated monetary values of about \$3.2 million in USDA assistance.

As the assigned cognizant audit agency for single audit activities for the Hawaii State Department of Agriculture, we processed the single audit report for the year ended June 30, 1993. The audit questioned \$9,400 in funds reimbursed to the State by FSIS. Hawaii overstated these reimbursable funds because it did not consider credits for reimbursements before it calculated fringe benefits. In response to the audit, Hawaii officials stated that credits for fringe benefit reimbursements would be adjusted prior to the calculation of fringe benefits, and the adjustment will be reflected in the revised financial status report.

FSIS reimbursements were also questioned by the single audit report we processed for the Illinois Department of Agriculture for the 2-year period ended June 30, 1993. Illinois included \$64,000 in its indirect cost plan and also charged the same amount as direct costs to the Federal Cooperative Meat and Poultry Inspection Program. Since FSIS pays for 50 percent of the inspection program, it overpaid \$32,000 in program costs due to the duplicate charge. Illinois officials replied that an adjustment would be made to the costs charged to the program for the 2-year period.

As the assigned cognizant audit agency for Pennsylvania, we processed the single audit report for the State for the year ended June 30, 1993. The audit questioned approximately \$3 million in funds furnished to the State by FNS and the FS. Of this, \$2.3 million was questioned because the State's Public Health and Human Services Comptroller could not show expenditures to support the funds withdrawn. Another \$650,000 was similarly questioned because the State's Public Protection and Recreation Comptroller could not show expenditures to support all withdrawals. The State replied that procedures have now been implemented to ensure expenditures are transferred to the proper Federal appropriation before funds are withdrawn.

We also processed the single audit report for the Michigan Department of Agriculture for the 2-year period ended September 30, 1992. The audit questioned \$4,084 in funds furnished by the FS. This condition occurred because payroll costs for field inspectors were based on estimates instead of records which showed what was worked. State officials said procedural changes have been made to prevent this.

Employee Integrity Investigations

OIG's main concerns in investigating serious allegations of employee misconduct include conflicts of interest, misuse of official position for personal gain, allegations of bribery and extortion, and the misuse or theft of Government property and money. During the past 6 months, our investigations of these types of matters resulted in 8 convictions of current or former USDA employees and 34 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations which yielded results during the past 6 months.

FmHA Employee Pleads Guilty to Embezzling Borrowers' Payments

An FmHA county office assistant in upstate New York pled guilty to embezzling almost \$32,000 in borrowers' loan payments. The assistant stole cash that borrowers submitted in payments to the county office and, when these borrowers became listed as delinquent, she applied other borrowers' payments to the delinquent accounts and submitted falsified documents to the finance office. The assistant quit her job at FmHA during the investigation. Sentencing is pending.

SCS Employee Sentenced in Narcotics Violation

An SCS employee in Arkansas was given a 10-year suspended sentence after an investigation conducted jointly with the Drug Enforcement Administration revealed that the man was arranging for sales of marijuana while on duty and selling the drug in the SCS office parking lot. The court also fined the man \$10,000 and ordered the forfeiture of his personal vehicle, which was seized during his arrest. The man resigned from SCS. An associate of his, a county conservation district employee working in the same office, also resigned.

ASCS County Executive Director Pleads Guilty to Loan Fraud

A Kentucky ASCS county executive director and a local farmer each pled guilty to defrauding the ASCS farm-stored loan program. In 1987 and 1988, the two men furnished false information to ASCS concerning the ownership of corn placed under loan. Pretending to own the corn, the men were able to obtain farm-stored grain loans which they later redeemed with CCC commodity certificates in order to realize a cash profit.

The county executive director and the farmer were each sentenced to 1 year of probation and were ordered to pay \$1,500 and \$5,000, respectively, in restitution. The county executive director retired as part of his plea agreement and agreed, along with the farmer, not to participate in any ASCS program for 5 years.

Overtime Fraud Discovered

In Washington, D.C., a secretary for the Office of Personnel pled guilty to making false statements on overtime records and embezzling USDA funds. The secretary, who was also a time and attendance (T&A) clerk, falsely entered 708 hours of overtime for herself over a 10-month period, crediting herself with nearly \$12,000 of overtime pay to which she was not entitled.

The investigation found that after the employee's supervisor had signed accurate T&A reports, the employee altered and transmitted them to the National Finance Center. The employee has resigned and sentencing is pending.

FmHA Employee Sentenced to Prison in Extortion Scheme

A California FmHA assistant county supervisor was sentenced to 2 years in prison after she pled guilty to conspiring to accept bribes from RRH loan applicants and submitting false tax returns. Six other defendants were placed on probation after they also pled guilty to charges related to the scheme.

Our investigation, conducted jointly with the IRS and the FBI, disclosed that the six defendants solicited bribes from RRH loan applicants on behalf of the assistant county supervisor and received a share of the illegal proceeds. They collected over \$127,000 in bribes from 79 applicants who had applied for \$4.7 million in housing loans. FmHA is currently reviewing all 79 applications to determine if they were properly processed.

The FmHA employee also prepared falsified tax returns for her husband's coworkers at an INS detention facility. On the returns, she fabricated over \$350,000 in fraudulent deductions. Her husband was sentenced to 6 months in prison after he pled guilty to helping file falsified tax returns.

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	12/11/92	1. 1991 Livestock Emergency Feed Program (03099-159-Te)*	\$449,360	\$421,987
	04/01/93	2. 1990-1991 Disaster Payments for Non-program Crops in Texas (03002-2-Te)*	\$565,486	\$0
	06/11/93	3. Payment Limitation for Hughes and Sully County Entities (03600-27-KC)*	\$593,193	\$131,670
	06/16/93	4. Payment Limitation for Rosebud, Yellowstone, Cascade and Daniels County Entities (03600-30-KC)*	\$260,273	\$110,273
	06/16/93	5. 1991 Maximum Payment Limitation, State of Arizona (03600-18-SF)*	\$1,322,101	\$624,912
	06/18/93	6. Adjusted World Prices for Rice and Upland Cotton (50600-8-At)*	\$193,000,000	\$153,000,000
	09/16/93	7. 1991 Livestock Emergency Feed Program in Texas (03099-166-Te)*	\$515,937	\$515,937

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Mgmt. Decision
	09/30/93	8. Disaster Program, Nonprogram Crops, Mitchell County, Georgia (03097-2-At)*	\$5,273,795	\$1,482,759
	09/30/93	9. Control of Maximum Limitations for 1991 (03600-33-Te)*	\$14,940,144	\$14,940,144
	9/30/93	10. Security and Control Over ASCS Distributed Processing (03600-10-FM)	\$0	\$0
CSRS	03/31/94	11. Grantee Compliance with Small Business Innovation Research Program Provisions (13099-2-KC)	\$407,733	\$407,733
FCIC	03/13/91	12. Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management (05600-3-Te)*	\$122,588	\$105,667
	03/31/92	13. Audit of Large Claims in Florida (05099-20-At)*	\$1,034,814	\$859,857
	07/16/92	14. Soybean Losses in Three Arkansas Counties for 1988 and 1989 (05099-55-Te)*	\$110,312	\$110,312
	09/30/93	15. Crop-Year 1991 Claims (05600-4-Te)*	\$8,916,815	\$0
	01/31/94	16. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia (05099-22-At)	\$88,631	\$88,631

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Mgmt. Decision
FmHA	07/16/92	17. Accrued Interest on Guaranteed Loan Repurchases (04099-173-Te)*	\$1,488,056	\$417,873
	09/30/93	18. Payment of Losses on Guaranteed Farmer Program Debt Writedowns (04600-14-Te)	\$4,587,953	\$4,556,541
FNS	03/13/93	19. Mississippi Department of Education-Day Care Homes (27099-54-At)*	\$18,889	\$18,889
	02/28/94	20. Issues Identified During Audit of FNS' Fiscal Year 1992 Financial Statements Requiring Management Action (27070-6-Hy)	\$154,555,957	\$154,555,957
	03/31/94	21. Child and Adult Care Food Program, Day Care Homes, Kansas State Board of Education (27099-3-KC)	\$10,355	\$10,355
FS	10/27/92	22. Historic Aircraft Exchange Program (08097-2-At)*	\$35,260,665	\$1,079,189
RDA	09/30/93	23. Business and Industrial Loan Program - Loan Servicing (32676-1-SF)*	\$0	\$0

* Reported in last Semiannual Report

Audits Without Management Decision - Narrative

1. 1991 Livestock Emergency Feed Program, Issued December 11, 1992

Some producers in New Mexico received ineligible benefits because (1) a producer did not fully disclose his involvement in a joint venture, (2) two producers received assistance for ineligible livestock fed in a commercial feedlot, (3) a producer's gross income exceeded the \$2.5 million gross revenue limit, and (4) a producer claimed pasture loss on ineligible land. ASCS has agreed with the audit recommendations. However, one producer is appealing the ASCS determination and ASCS is reevaluating two producers' overpayments based on the appeals' results.

2. 1990-1991 Disaster Payments for Nonprogram Crops in Texas, Issued April 1, 1993

Producers misrepresented their shares in nonprogram crops, underreported crop production, and exceeded the \$2 million gross qualifying income limitation. We recommended that ASCS recover overpayments from the cited producers, review other payments not included in our audit, and institute procedures to verify crop shares, production, and income. ASCS agreed to collect the overpayments and institute procedures to verify crop shares, and is in the process of reviewing other payments not included in the audit.

3. Payment Limitation for Hughes and Sully County Entities, Issued June 11, 1993

A partnership included in our review did not conduct its farming operations as presented to the county committee. The Hughes County partnership submitted a farm operating plan showing a four-member partnership in 1991, although two of the partners had sold their interests in the partnership prior to the time the plan was filed. Also, the third partner did not meet requirements to be determined a separate "person." ASCS National Office officials initially advised us that they agreed with the finding. However, this was subsequently reversed, and we are currently working with ASCS to reach management decision.

4. Payment Limitation for Rosebud, Yellowstone, Cascade and Daniels County Entities, Issued June 16, 1993

Two of the partnerships included in our review did not conduct farming operations as presented to the county committees. Consequently, they received excessive ASCS production adjustment program payments. Required "left-hand" contributions for members of the Daniels County partnership were guaranteed and/or financed by another partnership which had an interest in the farming operation. Also, two of the four partners in the Cascade County partnership maintained negative account balances, which made their claimed shares not commensurate with their contributions. We are working with ASCS National Office staff to reach management decision.

5. 1991 Maximum Payment Limitation, State of Arizona, Issued June 16, 1993

We determined that a producer had evaded payment limitation provisions in 1991 and 1992 through the use of a scheme or device. ASCS State officials initially agreed with our finding, but the State Committee disagreed. We are elevating this case for further consideration.

6. Adjusted World Prices for Rice and Upland Cotton, Issued June 18, 1993

We recommended that ASCS review, correct, and document the costs, values, and weights used in its formula for calculating the weekly adjusted world prices of rice and establish procedures for periodically collecting and updating those formula components. Although ASCS officials agreed to obtain current data, they have not agreed to use current and accurate data in the adjusted world price formula. We are currently working to resolve these issues.

7. 1991 Livestock Emergency Feed Program in Texas, Issued September 16, 1993

We reported that various producers were ineligible for emergency livestock feed assistance because the producers' annual gross receipts exceeded the program's \$2.5 million limit, or at least 10 percent of their most recent total gross annual revenues were not derived from the production of grain or livestock, or they received payments for pasture losses on ineligible land. The findings and recommendations have been accepted by ASCS and corrective actions are in process.

8. Disaster Program, Nonprogram Crops, Mitchell County, Georgia, Issued September 30, 1993

We found that disaster payments on nonprogram crops, primarily squash, were not proper because producers had reported incorrect (1) crop production, (2) acreages, (3) planting dates, and (4) ownership interest in the crops. Many producers also did not follow recommended farming practices. In 11 cases, the producers were allowed to submit revised acreage reports as much as 17 months after the established reporting dates and to significantly increase their reported acreages. In some instances, it was questionable if the total acreage was planted. County staff accepted the inaccurate information even though, in many cases, other data was readily available that would have shown inaccurate information was provided. ASCS officials agreed with our recommendations. However, claims cannot be established until all investigation and/or court actions are completed. Also, the ASCS State office staff has not provided us with the results of its review of farms not included in our review.

9. Control of Maximum Limitations for 1991, Issued September 30, 1993

In a statistical sample of end-of-year reviews conducted by ASCS for 1991, we projected that 181 of the 836 producers reviewed by ASCS did not comply with their farm operating plans and/or payment limitation rules and, therefore, were not entitled to program payments totaling about \$16.5 million. ASCS implemented our recommendations to improve controls over the end-of-year process. However, ASCS has reserved judgment on our statistical projection of questioned costs pending a review of the specific sample cases. We are currently working with ASCS officials to obtain agreement on the individual cases and the projected questioned costs.

10. Security and Control Over ASCS Distributed Processing, Issued September 30, 1993

We recommended that the facility security classifications for ASCS Kansas City Management Office, State Offices' and county offices' computer systems be revised to reflect the current operating environment. We also recommended tightening security over telecommunications and obtaining security clearances for selected employees. We have reached agreement in principle with ASCS on long-term solutions. However, we are continuing to work with the ASCS officials to develop interim solutions.

11. Grantee Compliance with Small Business Innovation Research Program Provisions, Issued March 31, 1994

We reported questionable expenditures by eight grantees totaling \$404,733, or 47 percent of the grant funds distributed over the period covered by our review. Questioned uses of these funds included expenditures made without proper authorization, improper indirect cost charges, expenditures unsupported by source documentation, and expenses incurred outside of grant periods. We are awaiting the agency's final determination on the propriety of these expenditures and a timeframe for collection of any outstanding amounts.

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

We questioned insurance payments to four entities because the adjuster did not properly adjust the claim or the insureds failed to report their crop sales. Management decision has been obtained for three cases; the fourth case is under OIG investigation.

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

One Florida producer insured tomatoes on ineligible acreage and failed to report the planting, production, and sale of tomatoes produced on an uninsured field. OIG investigation confirmed the insured's unreported interest in another farm but the U.S. Attorney's Office declined prosecution. The case was referred back to FCIC for administrative action. FCIC is coordinating with OGC regarding recovery of the insurance payment. We will be unable to reach a management decision on this report until any needed claims are established.

14. Soybean Losses in Three Arkansas Counties for 1988 and 1989, Issued July 16, 1992

Three producers incorrectly reported crop production on their 1988 and 1989 claims. Soybean production was harvested from insured acres and sold under the names of an employee and a friend. Management decision is pending the completion of an OIG investigation.

15. Crop-Year 1991 Claims, Issued September 30, 1993

We recommended FCIC shift more of the risk from the Government to reinsured companies through restructure of the standard reinsurance agreement and Bulletin MGR-001. FCIC's staff is currently working on MGR-001. Regarding the standard reinsurance agreement, FCIC maintained essentially the same risk for loss as currently stated in the 1994 Standard Reinsurance Agreement. However, FCIC increased the underwriting gains to be retained by the reinsured companies. We will continue to seek resolution on this issue.

16. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia, Issued January 31, 1994

We identified an individual actively selling Federal crop insurance without a State license. Additionally, one producer received an improper FCIC indemnity payment of \$88,631 as a result of incorrectly reporting his production. Several of these matters are under investigation by OIG. Management decision is pending completion of the investigation.

17. Accrued Interest on Guaranteed Loan Repurchases, Issued July 16, 1992

Eighty noteholders had been overpaid more than \$355,000 in excessive interest because FmHA continued to allow interest to accrue indefinitely. In response to our recommendation, FmHA identified another 33 noteholders who had been overpaid about \$62,000. FmHA and RDA officials told us that the loans were already recorded as receivables; however, the amounts involved that were overpaid to the holders had not been established in the agencies' accounting records. We are working with the agencies to resolve this issue.

18. Payment of Losses on Guaranteed Farmer Program Debt Writedowns, Issued September 30, 1993

FmHA erroneously paid loss payments for 89 percent of the borrowers we reviewed because it did not have an effective system to preclude or detect errors in computing cash-flow projections, net recovery values, present value of the payments for restructured loans, and the loss amounts. We recommended FmHA recover over \$4.5 million. We also recommended that FmHA review loss payments from January 1, 1992, until the implementation of our recommendations, clarify regulations over the application of loss to principal before interest, and develop a loss report form for guaranteed loan writedowns. FmHA management has completed its review of the cases and generally agrees with the overpayment amounts. However, they questioned whether the amounts should be recovered since FmHA shared responsibility for most of the improper writedowns.

19. Mississippi Department of Education/Day Care Homes, Issued March 13, 1993

Our audit recommended that FNS recover meal claim overpayments of \$18,889 received by 19 day care homes. We concur with FNS' plans for recovery; however, we have requested that FNS and the State not initiate claim actions for 16 of the 19 day care homes until investigative actions have been completed. Acceptance of FNS' management decision is pending the outcome of these actions.

20. Issues Identified During Audit of FNS' Fiscal Year 1992 Financial Statements Requiring Management Action, Issued February 28, 1994

FNS has not provided definitive actions that will be taken to correct problems in claims processing and management. FNS' response regarding the timely processing of claims indicated that further study was needed before corrective action could be taken. We are working with FNS officials to reach management decision.

21. Child and Adult Care Food Program, Day Care Homes, Kansas State Board of Education, Issued March 31, 1994

We recommended that claims be established to recover for (1) administrative-type errors, (2) the entire month where the claim for some days in the month was false, and (3) the entire audit period in cases where we could not determine that a child had ever participated in the program. Management decision can be reached once a determination has been made as to the amount that should be billed to the State agency.

22. Historic Aircraft Exchange Program, Issued October 27, 1992

We recommended that FS officials (1) resolve ownership issues involving the C-130A and P-3A aircraft that were improperly exchanged for private aircraft, and (2) disallow the airtanker contractors from charging costs associated with cost of the aircraft they traded in against future firefighting contracts. The Department established a task force to resolve the aircraft ownership issues and the future role of the FS in providing aircraft for airtanker operations. Based on the task force recommendations, the FS has proposed legislation. However, until the legislation is acted on, the issues cannot be resolved.

23. Business and Industrial Loan Program - Loan Servicing, Issued September 30, 1993

RDA's policies and procedures covering servicing requirements did not always protect the Government's interest. RDA's policy of enforcing its loan-servicing requirements was limited by law and by a reluctance on management's part to discourage lender participation. By law, RDA cannot withdraw its guarantee in cases of negligent servicing unless there has been a loss. We asked RDA officials to seek a legal opinion regarding two borrowers who had not acknowledged responsibility for assuming loans by signing assumption agreements. The cases are currently under review by OGC and RDA.

Indictments and Convictions

Between April 1, 1994, and September 30, 1994, OIG completed 530 investigations. We referred 390 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 430 indictments and 418 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 418 convictions do not necessarily relate to the 430 indictments. Fines, recoveries/collections, administrative penalties, restitutions and claims established resulting from our investigations totaled about \$15.8 million. Costs of about \$5.3 million were avoided.

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

Indictments and Convictions April 1, 1994 - September 30, 1994

Agency	Indictments	Convictions*
AMS	1	1
APHIS	3	5
ARS	1	0
ASCS	42	14
FAS	1	2
FCIC	8	15
FGIS	1	2
FmHA	28	29
FNS	325	335
FS	12	8
FSIS	1	1
OFM	0	1
OICD	1	0
OP	1	1
REA	1	1
SCS	4	3
Totals	430	418

* This category includes pretrial diversions.

The OIG Hotline

The OIG Hotline serves as a national receiving point for reports from both 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 2,909 calls and letters. These contacts included allegations of participant fraud, employee misconduct, and mismanagement as well as opinions about USDA programs. Figure 6 displays the volume and type of the various calls and letters we received during this reporting period and Figure 7 displays the disposition of those complaints.

Figure 6

Hotline Complaints Received

April 1, 1994 to September 30, 1994
(Total = 2,909)

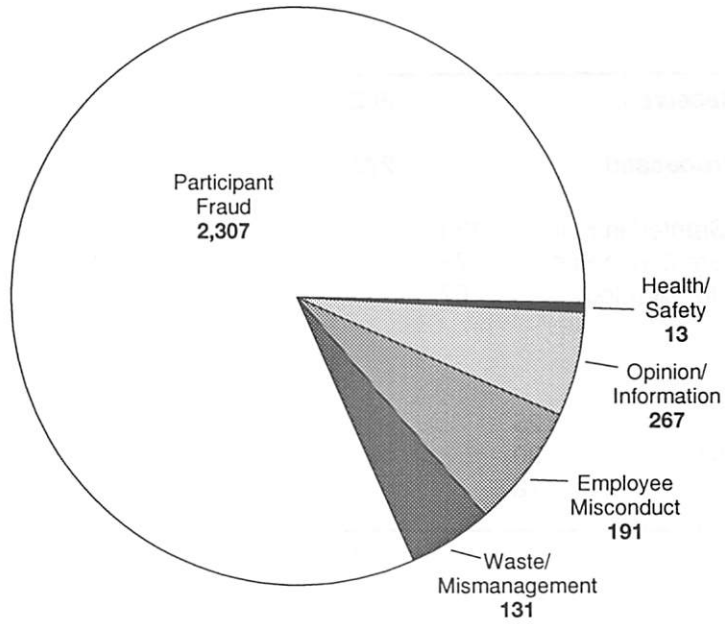
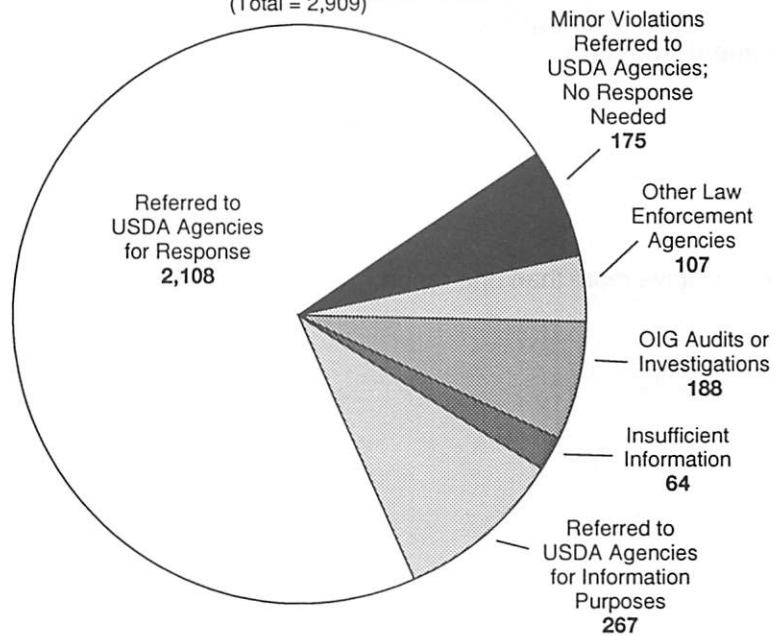


Figure 7

Disposition of Complaints

April 1, 1994 to September 30, 1994
(Total = 2,909)



Freedom of Information Act and Privacy Act Activities

During this period, OIG processed 302 requests under the Freedom of Information Act and the Privacy Act. Details follow:

Number of Requests Received*	302
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Number of Requests Processed	272
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Number of Requests Granted in Full	133
Number of Requests Granted in Part	72
Number of Requests Not Granted	67

Reasons for Denial:

No Records Available	25
Requests Denied in Full	30
Referrals	12

Appeals Processed	12
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Appeals Granted	0
Appeals Denied in Full	8
Appeals Denied in Part	4

Number of OIG Reports Released in Response to Requests	344
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Requests for OIG Reports from Congress and other Government Agencies

Received	52
Processed	53

*NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

	<u>DOLLAR VALUES</u>		
	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED^a COSTS AND LOANS</u>
A. REPORTS FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1994	52	\$330,440,102	\$71,904,004
B. REPORTS WHICH WERE ISSUED DURING THIS REPORTING PERIOD	51	\$227,167,245	\$1,964,544
TOTALS	<u>103</u>	<u>\$557,607,347</u>	<u>\$73,868,548</u>
C. REPORTS FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	45		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$29,567,235	\$23,751,746
NOT RECOMMENDED FOR RECOVERY		\$3,888,511	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$46,407,592	\$43,362,874
D. REPORTS FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	58	\$477,058,592	\$6,753,928
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	21	\$251,357,301	\$5,084,044

^aUnsupported values are included in questioned values.

Appendix II

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

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. REPORTS FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1994	20	\$258,633,091
B. REPORTS WHICH WERE ISSUED DURING THE REPORTING PERIOD	16	\$1,676,607,395
TOTALS	<u>36</u>	<u>\$1,935,240,486</u>
C. REPORTS FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	16	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$81,683,322
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$7,207,761
D. REPORTS FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	20	\$1,847,121,028
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	8	\$172,746,135

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994, OIG ISSUED 125 AUDIT REPORTS, INCLUDING 6 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 RESEARCH SERVICE	1			\$83,450
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	24	\$168,269,132		\$1,094,418,728
FARMERS HOME ADMINISTRATION	16	\$33,247,968	\$263,608	\$226,750,633
FEDERAL CROP INSURANCE CORPORATION	2	\$130,478		\$336,692,780
FOREIGN AGRICULTURAL SERVICE	2	\$6,700,000		\$3,500,000
FOREST SERVICE	7			\$1,980,857
RURAL ELECTRIFICATION ADMINISTRATION	2			
SOIL CONSERVATION SERVICE	1			
OFFICE OF FINANCE AND MANAGEMENT	2			
COOPERATIVE STATE RESEARCH SERVICE	1			\$9,285,092
OFFICE OF OPERATIONS	1			
FOOD SAFETY AND INSPECTION SERVICE	1			
FOOD AND NUTRITION SERVICE	11	\$3,052,989	\$1,259,272	
RURAL DEVELOPMENT ADMINISTRATION	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3	\$558		
MULTIAGENCY	50	\$15,766,120	\$441,664	\$3,895,855
TOTALS	125	\$227,167,245	\$1,964,544	\$1,676,607,395
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	75			
MULTIAGENCY	50			
TOTAL RELEASED NATIONWIDE	125			
TOTAL COMPLETED UNDER CONTRACT^b	6			
TOTAL SINGLE AUDIT ISSUED^c	43			

^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, 1994 AND SEPTEMBER 30, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE				
02-545-0010-SF 94/04/28	EQUITABLE ADJUSTMENT CLAIM - BOUILLON, CHRISTOFFERSON AND SCHAIRER, SEATTLE, WA			\$83,450
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>1</u>		<u>\$83,450</u>
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE				
03-097-0004-AT 94/06/17	PAYMENT LIMITATIONS - SEMINOLE COUNTY, GA	\$891,255		
03-099-0035-FM 94/07/01	UPLAND COTTON USER MARKETING CERTIFICATE PROGRAM	\$165,000,000		
03-099-0036-FM 94/09/30	SELECTED ASPECTS OF ASCS COMPUTER SECURITY			
03-099-0038-FM 94/09/30	EVALUATION OF COMMODITY PURCHASES FOR THE NEWLY INDEPENDENT STATES			
03-099-0161-TE 94/04/07	EMERGENCY CONSERVATION PROGRAM OPERATIONS IN TX	\$152,941		
03-099-0168-TE 94/08/31	PAYMENT LIMITATIONS IN LA	\$299,459		\$168,195
03-099-0171-TE 94/09/02	PEANUT HANDLER OPERATIONS IN GAINES CO., TX	\$222,528		
03-099-0181-KC 94/09/30	MARKETING LOAN PROGAM FOR WHEAT AND FEED GRAINS			\$348,628
03-600-0016-AT 94/07/12	MARKETING LOAN PROGRAM OBJECTIVES AND ACCOMPLISHMENTS			\$1,093,900,000
03-600-0018-FM 94/07/12	MANAGEMENT ISSUES, FY 1993 CCC FINANCIAL STATEMENTS			\$1,905
03-600-0019-CH 94/07/20	1993 - CROP DISASTER PAYMENTS - MN	\$1,809		
03-600-0022-SF 94/06/13	DISASTER ASSISTANCE PROGRAM 1993 NONPROGRAM CROPS - TULARE COUNTY, CA			
03-600-0024-SF 94/09/30	DISASTER ASSISTANCE PROGRAM - 1993 NONPROGRAM CROPS - STANISLAUS COUNTY, CA	\$44,151		
03-600-0032-KC 94/06/10	MALTING BARLEY ASSESSMENTS			
03-600-0035-TE 94/07/13	1990-1991 DISASTER PAYMENTS FOR NONPROGRAM CROPS, WASHINGTON, DC			
03-600-0036-KC 94/08/29	1993 CROP DISASTER PAYMENTS IN MONONA CO., IA	\$844		
03-600-0037-KC 94/09/15	1993 CROP DISASTER PAYMENTS IN GAGE CO., NE	\$414		
03-600-0038-TE 94/08/04	1993 CROP DISASTER PAYMENTS IN TX			
03-600-0040-TE 94/09/30	1993 CROP DISASTER PAYMENTS - COMANCHE CO., TX	\$156,903		
03-600-0041-TE 94/09/30	1993 CROP DISASTER PAYMENTS - EASTLAND CO.,TX	\$31,106		
03-600-0042-TE 94/09/30	1993 CROP DISASTER PAYMENTS - ZAVALA CO., TX	\$267,992		
03-600-0043-TE 94/08/19	WOOL AND MOHAIR PAYMENT LIMITATION, TERRELL COUNTY, TX	\$1,199,730		
03-600-0050-TE 94/09/29	EVALUATION OF THE DISASTER ASSISTANCE PROGRAM			
03-800-0004-KC 94/08/29	EVALUATION OF 1993 PROGRAM PAYMENTS TO CORN PRODUCERS			
TOTAL: AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE		<u>24</u>	<u>\$168,269,132</u>	<u>\$1,094,418,728</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FARMERS HOME ADMINISTRATION				
04-099-0089-HY 94/06/30	SPECIAL REVIEW OF RRH HUD SECTION 8/515 PROJ	\$223,564	\$223,564	
04-099-0116-CH 94/05/05	RRH MANAGEMENT OPERATIONS - MN	\$3,391	\$3,391	
04-099-0120-CH 94/07/20	MANAGEMENT OF RRH PROJECTS - PETERSON INVESTMENTS (WI)	\$44,885		\$29,194
04-099-0205-TE 94/07/26	INDECO MANAGEMENT OF RURAL RENTAL HOUSING PROJECTS, DALLAS, TX			\$5,000,000
04-099-0210-TE 94/09/28	WATER AND WASTE DISPOSAL GRANTS TO THE COLONIAS			
04-099-0336-AT 94/04/15	COST CERTIFICATION FOR CARROLTON CLUB, LTD.			
04-600-0016-KC 94/05/11	MANAGEMENT OF RRH PROJECTS IN MO	\$36,335		
04-600-0021-FM 94/08/02	FISCAL YEAR 1993 FMHA FINANCIAL STATEMENTS MANAGEMENT ISSUES			
04-600-0025-TE 94/09/30	SERVICING OF DELINQUENT FARMER PROGRAM LOAN ACCOUNTS	\$902,188		\$221,596,439
04-600-0028-AT 94/08/24	MANAGEMENT CONTROL REVIEW SYSTEM			
04-600-0028-TE 94/06/21	RURAL RENTAL HOUSING PROGRAM - MANAGEMENT OPERATIONS, GREEN DEV. CO., INOLA, OK	\$42,917	\$36,653	
04-600-0032-AT 94/06/08	RRH PROGRAM - MANAGEMENT OPERATIONS IN GA	\$11,854		
04-600-0032-CH 94/09/29	FMHA-LIMITED RESOURCE LOANS ELIGIBILITY AND SERVICING ACTIONS	\$31,953,870		
04-600-0040-CH 94/07/21	MANAGEMENT OF RRH PROJECTS - ROOFTREE, INC. WI	\$8,107		
04-600-0041-CH 94/07/21	MANAGEMENT OF RRH PROJECTS BY DAYMAC MANAGEMENT COMPANY - IN	\$20,857		\$125,000
04-600-0047-CH 94/09/30	RURAL RENTAL HOUSING PROGRAM - MANAGEMENT OPERATIONS			
TOTAL: FARMERS HOME ADMINISTRATION		<u>16</u>	<u>\$33,247,968</u>	<u>\$263,608</u>
FEDERAL CROP INSURANCE CORPORATION				
05-099-0059-TE 94/09/30	OPTIONAL UNIT DETERMINATION WITH CENTER PIVOT IRRIGATION SYS. & CONTINUOUS PLNTG. PATTERNS	\$130,478		
05-600-0006-TE 94/09/30	CROP YEAR 1991 UNITS			\$336,692,780
TOTAL: FEDERAL CROP INSURANCE CORPORATION		<u>2</u>	<u>\$130,478</u>	<u>\$336,692,780</u>
FOREIGN AGRICULTURAL SERVICE				
07-020-0006-HY 94/08/11	P.L. 480, TITLE I-SHIPPING REGULATIONS			
07-050-0001-HY 94/07/08	HUMANITARIAN FOOD AID TO POLAND	\$6,700,000		\$3,500,000
TOTAL: FOREIGN AGRICULTURAL SERVICE		<u>2</u>	<u>\$6,700,000</u>	<u>\$3,500,000</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FOREST SERVICE				
08-099-0049-AT 94/06/10	FS FINANCIAL STATEMENTS - FY 1993			
08-099-0146-SF 94/05/05	CONSULTATION WITH PRIVATE INTEREST GROUPS			
08-099-0147-SF 94/09/30	PROPOSED SKI RESORT FEE SYSTEM			
08-545-0024-HY 94/05/26	LABAT ANDERSON INCURRED COST FOR FS			
08-545-0066-SF 94/04/26	INTERIM INCURRED COSTS AUDIT - FOURTH GENERATION TECHNOLOGY, INC., SAN DIEGO, CA			
08-545-0068-SF 94/07/27	EQUITABLE ADJUSTMENT CLAIM - INTERSTATE MECHANICAL, INC. (SUBCONTRACTOR), PORTLAND, OR			\$47,418
08-550-0001-AT 94/05/19	AIRTANKER CONTRACTING PROCEDURES			\$1,933,439
TOTAL: FOREST SERVICE		<u>7</u>		<u>\$1,980,857</u>
RURAL ELECTRIFICATION ADMINISTRATION				
09-097-0001-HY 94/08/02	REA APPROVAL OF COMMONWEALTH TELEPHONE CO. EXTENSION CONTRACTS			
09-600-0002-TE 94/06/08	ELECTRIC GENERATION AND DISTRIBUTION BORROWER INVESTMENTS			
TOTAL: RURAL ELECTRIFICATION ADMINISTRATION		<u>2</u>		
SOIL CONSERVATION SERVICE				
10-800-0001-KC 94/08/17	EVALUATION OF EMERGENCY WETLANDS RESERVE PROGRAM			
TOTAL: SOIL CONSERVATION SERVICE		<u>1</u>		
OFFICE OF FINANCE AND MANAGEMENT				
11-099-0037-FM 94/09/30	REVIEW OF THE OFM/NFC AUTOMATED TIME AND ATTENDANCE SYSTEM			
11-550-0001-FM 94/08/01	AUDIT OF PROCUREMENT PRACTICES BY THE NATIONAL FINANCE CENTER (NFC)			
TOTAL: OFFICE OF FINANCE AND MANAGEMENT		<u>2</u>		
COOPERATIVE STATE RESEARCH SERVICE				
13-006-0001-TE 94/09/30	USE OF NONCOMPETITIVE AUTHORITIES UNDER SECTIONS 1472 AND 1473A OF PUBLIC LAW 95-113			\$9,285,092
TOTAL: COOPERATIVE STATE RESEARCH SERVICE		<u>1</u>		<u>\$9,285,092</u>
OFFICE OF OPERATIONS				
23-545-0017-HY 94/09/27	CANTEEN INCURRED COST			
TOTAL: OFFICE OF OPERATIONS		<u>1</u>		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FOOD SAFETY AND INSPECTION SERVICE				
24-800-0002-KC 94/06/10	INSPECTION OPERATIONS OF IBP INC., PORK PLANT PERRY, IA			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		<u>1</u>		
FOOD AND NUTRITION SERVICE				
27-023-0204-AT 94/05/12	CITY OF ATLANTA - SCHOOL CHILD NUTRITION PROGRAMS	\$977,982	\$964,612	
27-031-0029-HY 94/05/05	NY- ADMINISTRATION/MANAGEMENT OF WIC PROGRAM	\$250,045	\$247,190	
27-070-0007-HY 94/05/16	FNS FY 1993 FINANCIAL STATEMENT AUDIT			
27-094-0002-CH 94/05/13	FOOD STAMP PROGRAM ISSUANCE OPERATIONS CENTER - ST. PAUL, MN	\$52,416		
27-099-0003-FM 94/08/31	EVALUATION OF FNS FINANCIAL MANAGEMENT SYSTEM			
27-099-0029-SF 94/04/01	EMERGENCY FOOD STAMP PROGRAM - LOS ANGELES COUNTY, CA			
27-099-0045-TE 94/04/29	CHILD AND ADULT CARE FOOD PROGRAM	\$47,470	\$47,470	
27-545-0080-HY 94/09/27	MATHEMATICA POLICY RESEARCH FY 90 & FY 91			
27-600-0005-HY 94/09/13	FOOD STAMP PROGRAM - ADMINISTRATIVE COST NJ DEPT OF HUMAN SERVICES	\$1,725,076		
27-600-0005-KC 94/09/16	FOOD STAMP PROGRAM - ERROR RATE REDUCTION			
27-600-0006-TE 94/09/29	FSP ERROR RATE REDUCTION - TX			
TOTAL: FOOD AND NUTRITION SERVICE		<u>11</u>	<u>\$3,052,989</u>	<u>\$1,259,272</u>
RURAL DEVELOPMENT ADMINISTRATION				
32-097-0001-HY 94/08/15	RURAL BUSINESS ENTERPRISE GRANT-SPECIAL REVIEW			
TOTAL: RURAL DEVELOPMENT ADMINISTRATION		<u>1</u>		
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-003-0001-AT 94/09/30	QUALITY CONTROLS OVER POINT-OF-ENTRY LOCATION	\$558		
33-099-0009-HY 94/08/94	RELEASE OF BIOENGINEERED PRODUCTS			
33-545-0001-SF 94/09/02	PRICE PROPOSAL REVIEW - SYNBIOTICS CORPORATION, SAN DIEGO, CA			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>3</u>	<u>\$558</u>	
MULTIAGENCY				
50-050-0004-AT 94/08/02	FEDERAL CIVILIAN AGENCIES' AIRCRAFT MANAGEMENT			\$2,724,660
50-099-0037-AT 94/05/12	UNDERGROUND STORAGE TANKS	\$513,970		\$1,171,195
50-099-0042-FM 94/05/26	DEPARTMENTAL ADMINISTRATION OF MULTIUSER CONTRACTS			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1, 1994 AND SEPTEMBER 30, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-099-0043-AT 94/09/30	UNEMPLOYMENT COMPENSATION PROGRAM	\$871		
50-550-0019-HY 94/06/10	CONTRACT ADVISORY AND ASSISTANCE SERVICES			
50-560-0001-HY 94/05/20	UNIVERSITY OF MAINE SYSTEM A-133 6/30/91	\$427		
50-566-0017-TE 94/04/14	SINGLE AUDIT NEW MEXICO ST UNIV FOR THE FY ENDED JUNE 30, 1993			
50-566-0018-CH 94/06/24	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF AGRICULTURE	\$4,084	\$4,084	
50-566-0019-CH 94/06/24	SINGLE AUDIT ILLINOIS DEPARTMENT OF AGRICULTURE	\$32,153		
50-566-0020-CH 94/08/11	SINGLE AUDIT STATE OF MINNESOTA			
50-566-0029-SF 94/05/09	A-128 AUDIT OF THE DEPARTMENT OF AGRICULTURE, STATE OF HAWAII, FOR THE FYE 6/30/93	\$9,476		
50-566-0030-SF 94/08/23	A-128 AUDIT OF ID STATE DEPT OF AGRICULTURE FOR FY'S ENDED 6/30/91 & 6/30/92			
50-566-0031-SF 94/08/25	A-128 AUDIT OF IDAHO STATE DEPT OF AGRICUL- TURE, FOR FYE 6/30/93			
50-566-0043-HY 94/09/30	PENNSYLVANIA SINGLE AUDIT, A-128, STATE FISCAL YEAR ENDED JUNE 30, 1993	\$3,002,454		
50-568-0122-HY 94/04/22	STATE OF MASSACHUSETTS SINGLE AUDIT, A-128, SFYE 6/30/92			
50-568-0123-HY 94/04/06	STATE OF MASS A-128 SFYE 6/30/91			
50-568-0124-HY 94/05/19	STATE OF WEST VIRGINIA A-128, SFYE 6/30/90	\$1,034,721		
50-568-0125-HY 94/05/31	STATE OF WEST VIRGINIA A-128 SFYE 6/30/91	\$871,293		
50-568-0126-HY 94/05/24	STATE OF VERMONT A-128 6/30/91	\$47,785		
50-568-0127-HY 94/05/31	COMMONWEALTH OF VIRGINIA A-128, 6/30/91	\$426,246	\$426,231	
50-568-0128-HY 94/07/08	CLARION COUNTY HOUSING AUTHORITY, PA A-128 SFYE 6/30/91			
50-568-0129-HY 94/07/11	RANDOLPH COUNTY HOUSING AUTHORITY, WEST VA A-128 SFYE 12/31/91			
50-568-0132-HY 94/09/27	STATE OF DELAWARE, A-128, FYE 6/30/92	\$9,396		
50-568-0190-TE 94/04/12	SINGLE AUDIT OF NEW MEXICO DPT. OF EDUCATION FOR THE YEAR ENDED JUNE 30, 1993			
50-568-0191-TE 94/07/14	SINGLE AUDIT OF THE ST. OF LOUISIANA FOR FY ENDED JUNE 30, 1993			
50-568-0192-TE 94/07/14	SINGLE AUDIT OF THE STATE OF TEXAS FOR FISCAL YEAR ENDED AUGUST 31, 1993			
50-568-0258-CH 94/06/24	SINGLE AUDIT STATE OF OHIO	\$8,047	\$8,047	
50-568-0259-CH 94/07/12	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF PUBLIC HEALTH	\$667,524		
50-568-0260-CH 94/07/18	SINGLE AUDIT - STATE OF ILLINOIS DEPARTMENT OF PUBLIC AID			
50-568-0261-CH 94/08/18	SINGLE AUDIT - FOREST COUNTY POTAWATOMI COMMU- NITY, INC., WI	\$3,142	\$3,142	
50-568-0262-CH 94/08/18	SINGLE AUDIT OF THE ST. CROIX CHIPPEWA OF WISCONSIN	\$2,985		
50-568-0273-KC 94/06/16	A-128, STATE OF COLORADO (FY 6/92), DENVER, CO			
50-568-0274-AT 94/04/01	A-128, AUDIT OF COBB COUNTY, GA, FYE 9/30/92			
50-568-0274-KC 94/06/07	A-128, WYOMING DEPT. OF HEALTH (FY 6/93), CHEYENNE, WYOMING			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 1993 AND MARCH 31, 1994**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	
50-568-0275-KC 94/07/19	A-128, POLK COUNTY (FY 6/93) DES MOINES, IA				
50-568-0276-KC 94/07/19	A-128 STATE OF KANSAS (FY 6/93) TOPEKA, KS	\$45,101	\$160		
50-568-0277-AT 94/07/07	A-128 AUDIT OF STATE OF FLORIDA, FYE 6/30/92	\$164,989			
50-568-0277-KC 94/08/02	A-128 STATE OF NEBRASKA (FY 6/92) LINCOLN, NE	\$960			
50-568-0278-AT 94/07/07	A-128 AUDIT OF FLORENCE COUNTY, SC, FOR THE FYE 6/30/92				
50-568-0279-AT 94/07/07	A-128 AUDIT OF KNOX COUNTY, TN, FOR FYE 6/30/92				
50-568-0280-AT 94/07/06	A-128 AUDIT OF THE STATE OF SOUTH CAROLINA, FYE 6/30/92				
50-568-0281-AT 94/07/07	A-128 AUDIT OF KNOX COUNTY, TN, FYE 6/30/93				
50-568-0566-SF 94/04/07	A-128 AUDIT OF STATE OF ARIZONA - STATEWIDE - FYE 6/30/90				
50-568-0577-SF 94/04/05	A-128 AUDIT OF THE FEDERATED STATES OF MICRONESIA FOR FISCAL YEAR ENDED 9/30/92				
50-568-0580-SF 94/04/05	A-128 AUDIT OF THE DEPARTMENT OF HEALTH, STATE OF HAWAII, FOR FYE 6/30/92				
50-568-0581-SF 94/04/28	A-128 AUDIT OF MARION COUNTY, OREGON, FOR THE FISCAL YEAR ENDED JUNE 30, 1992				
50-568-0582-SF 94/04/28	A-128 AUDIT OF MARION COUNTY, OREGON, FOR THE FISCAL YEAR ENDED JUNE 30, 1993				
50-568-0583-SF 94/04/28	A-128 AUDIT OF JACKSON COUNTY, OREGON, FOR THE FISCAL YEAR ENDED JUNE 30, 1993				
50-600-0013-FM 94/08/08	FISCAL YEAR 1993 USDA FINANCIAL STATEMENTS				
50-800-0001-HQ 94/09/21	EVALUATION OF CONTROLS OVER FOOD AND ASSISTANCE TO THE NIS	\$8,920,496			
TOTAL: MULTI-AGENCY		<u>50</u>	<u>\$15,766,120</u>	<u>\$441,664</u>	<u>\$3,895,855</u>
TOTAL: RELEASE - NATIONWIDE		<u>125</u>	<u>\$227,167,245</u>	<u>\$1,964,544</u>	<u>\$1,676,607,395</u>

