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FY 1995—Second Half



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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

WASHINGTON, D.C. 20250

October 30, 1995

Honorable Dan Glickman  
Secretary of Agriculture  
Washington, D.C. 20250

Dear Mr. Secretary:

I am pleased to submit the Office of Inspector General's Semiannual Report to Congress summarizing our activities for the 6-month period ended September 30, 1995.

During this period, our audits and investigations yielded significant results, including approximately \$33.9 million in recoveries, collections, restitutions, fines, claims established, and administrative penalties. Management agreed to put an additional \$170.5 million to better use. We also identified \$8.8 million in questioned costs that cannot be recovered. Our investigative efforts resulted in 494 indictments and 439 convictions.

The results described in this report were made possible through the team efforts of all OIG employees nationwide, in cooperation with staff and managers from the Department's mission areas. In addition, we received significant support from Congress, particularly from the Agriculture and Appropriations Committees of both the House of Representatives and the Senate.

I look forward to continuing our joint efforts with you as we seek to improve the efficiency and effectiveness of the Department of Agriculture's programs.

Sincerely,

A handwritten signature in black ink that reads "Roger C. Viadero".

ROGER C. VIADERO  
Inspector General

Enclosure

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# Executive Summary

This is the 34th 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, 1995, through September 30, 1995.

## Monetary Results

During this period, we issued 153 audit reports and reached management decisions on 118 audits. Based on this work, management officials agreed to recover \$9.9 million and to put an additional \$170.5 million to better use.

We also issued 503 reports of investigation during this period. Our investigative efforts resulted in 494 indictments, 439 convictions, and approximately \$24 million in recoveries, fines, restitutions, administrative penalties, and claims established.

## Investigative Efforts

During this period, we continued to concentrate substantial investigative resources to uncover fraud in the Food Stamp Program (FSP). As part of our commitment to ensure that food stamps get to the people who really need them, we ran "Operation Checkout." Over a 7-week period, this intense operation brought to fruition 106 indictments, arrests, and convictions related to over \$22 million in FSP fraud. OIG is continuing these intense enforcement efforts to help preserve the integrity of the FSP by identifying as many violators as possible and having them prosecuted. In other food stamp cases, as a result of our investigations into food stamp trafficking in North Carolina, the leader of a drug gang was sentenced to life in prison and fined \$2 million after his arrest for selling crack cocaine and firearms for food stamps and cash during an undercover operation. In addition to the gang leader, 17 other people were convicted of drug trafficking as a result of the investigation. In another major case, 55 people were indicted in Tennessee on food stamp trafficking and money-laundering charges for illegally redeeming over \$6.5 million in food stamps.

Elsewhere, the owner of a New York City grocery store was convicted of food stamp trafficking, conspiracy, and money laundering in connection with \$11.7 million in food stamps he redeemed illegally. He was found guilty at trial, and his personal and business accounts were seized. His sentencing is pending. Another store

owner, this time in Georgia, was sentenced to 2 years in prison and ordered to pay \$250,000 in restitution after pleading guilty to charges of food stamp trafficking. He and several associates purchased and illegally redeemed over \$2.7 million in food stamps. Three other cases resulted in the arrests of from 13 to 23 people. We also investigated "rolling" stores—converted motor vehicles that carry merchandise—in Los Angeles and Honolulu, and found that they were often a front for substantial food stamp fraud.

Other significant cases in the food and consumer area involved fraud in the National School Lunch Program and in the Child Care Feeding Program.

We also investigated several cases relating to the Department's Rural Rental Housing (RRH) Program assistance subsidies. In addition to these efforts, this report describes our investigations into cases of fraud relating to disaster relief, crop insurance, crop production reporting, and commodity exports. We also investigated cases of the conversion of property mortgaged to the Government, smuggling of endangered plants, embezzlement of grant funds, and employee misconduct.

## Audit Efforts

During this reporting period, we continued to audit the 1993 Ad Hoc Disaster Assistance Program and recommended about \$8.9 million be recovered, including about \$6 million resulting from false certifications by producers. In the area of payment limitations, we found that producers are continuing to abuse those limitations by manipulating their farming operations. We also audited the Wool Program and found that some participants received excessive incentive payments because inappropriate charges were included in the adjusted sales price.

In addition, during this period, we reviewed the Interest Assistance (IA) Program, which subsidizes guaranteed loans to farmers. We found that a large percentage of borrowers who had received loans were not eligible for benefits, resulting in substantial overpayments. We concluded that program requirements need strengthening to provide reasonable assurance that only eligible borrowers receive IA. We are working with agency officials to achieve management decision. In another area, we found that the quality of hearing officers' appeal decisions has improved substantially since our prior audit in 1991. However, program staff need to

support their decisions better to avoid reversals. Also, the backlog of cases is rising; we made several recommendations that are being implemented to correct that situation.

We performed a nationwide sweep of stores authorized to accept food stamps to determine if they met eligibility criteria, during this reporting period. We found that one-sixth of the more than 5,000 stores visited were clearly not eligible to participate in the FSP. Stores snared in our sweep included what was strictly a pizza restaurant in California and a vacant store in St. Louis, Missouri. Presently, the Food and Consumer Service (FCS) does not require preauthorization visits to applicant stores. After authorization, periodic visits are not made unless trafficking is suspected. We recommended that FCS withdraw the authorizations from the obviously ineligible stores and incorporate routine preauthorization visits into its procedures. We also recommended that FCS officials schedule visits to other high-risk stores.

In another effort, we evaluated FCS' oversight of "rolling" stores in the Southeast. Because of their mobility, rolling stores lend themselves to food stamp fraud. As a result of our review, we questioned the need to authorize rolling stores to accept food stamps in metropolitan areas. In accordance with our recommendations, FCS officials are evaluating the need to authorize rolling stores. Other audits completed in the food and consumer area focused on the Special Supplemental Food Program for Women, Infants, and Children; automated controls in the FSP; food stamp printing operations; the Child Nutrition Programs; and the Commodity Supplemental Food Program. Agency officials generally agreed with our findings and recommendations. In addition, at the request of the President's Council on Integrity and Efficiency, we consolidated concerns of the OIG community regarding the implementation of Electronic Benefits Transfer (EBT). These concerns will be addressed by the Federal EBT Task Force.

In the area of natural resources conservation, we found that significant soil savings were achieved since the enactment of legislation in 1985 that required producers to meet certain conservation requirements for highly erodible land in order to remain eligible for USDA farm programs. However, we determined that the Natural Resources Conservation Service (NRCS) could gather additional information and conduct analyses through its status review process to concentrate resources on

those producers who had not applied acceptable conservation systems. NRCS officials generally agreed with our recommendations and will begin collecting additional information with the 1996 status review process.

In the research, education, and economics area, we audited the Oceanic Institute in Hawaii because of concerns raised about the construction of a research facility administered by the Institute. Our audit augmented the work of an earlier quality control review and found that the Institute expended Agricultural Research Service funds for unauthorized construction and equipment; used Cooperative State Research, Education, and Extension Service construction funds for security services already included in the indirect cost rate; and subcontracted construction without approval. Our primary recommendation was that \$5 million in questioned and unsupported costs be recovered. Management officials agreed with the audit findings and recommendations, and are taking corrective actions.

During this reporting period, we completed audits of the FY 1994 financial statements of the Commodity Credit Corporation (CCC), FCS, the Forest Service (FS), and the Department as a whole. CCC received an unqualified opinion. FS received a qualified opinion mainly because errors pervaded the supporting data for two significant line items and because financial personnel were diverted to extensive forest fire-related duties and could not timely complete two other major line items. We issued a disclaimer of opinion on both the FCS and USDA consolidated financial statements. FCS received a disclaimer because it could not fully support \$14 billion of operating and program expenses and over \$3 billion of nonoperating changes. The USDA consolidated statements received a disclaimer because of the cumulative problems with the FCS, FS, and Farmers Home Administration financial statements.

In addition to the results just described, this report summarizes our reviews of the Conservation Reserve Program, the Salmonella Enteritidis Traceback Program, marketing order compliance, preclearance of fruits and vegetables entering the United States, the FS' research program, the Wetlands Reserve Program, rural rental housing borrowers, the Financial Information System Vision and Strategy, and other programs. We continue to collaborate with agency management at all levels to help solve problems and meet the challenges facing USDA.

## Summary of Audit Activities

<b>Audit Reports Issued</b> .....		153
Audits Performed by OIG .....	85	
Audits Performed Under Single Audit Act .....	59	
Audits Performed by Others .....	9	
<b>Management Decisions Made</b>		
Number of Reports .....		118
Number of Recommendations .....		791
<b>Dollar Impact (Millions)</b>		
Questioned/Unsupported Costs .....	\$18.7 <sup>ab</sup>	
Recommended for Recovery .....	\$9.9	
Not Recommended for Recovery .....	\$8.8	
Funds To Be Put to Better Use .....	\$170.5	
<b>Total</b> .....		\$189.2

<sup>a</sup>These were the amounts the auditees agreed to at the time of management decision.

<sup>b</sup>The recoveries realized could change as the auditees implement the agreed-upon corrective action plans and seek recovery of amounts recorded as debts due the Department.

## Summary of Investigative Activities

Reports Issued .....		503
Cases Opened .....		625
Cases Closed .....		530
Cases Referred for Prosecution .....		424
<b>Impact of Investigations</b>		
Indictments .....		494
Convictions .....		439 <sup>a</sup>
Searches .....		80
Arrests .....		474
<b>Total Dollar Impact (Millions)</b> .....		\$24.0
Recoveries/Collections .....	\$7.0 <sup>b</sup>	
Restitutions .....	\$10.6 <sup>c</sup>	
Fines .....	\$3.3 <sup>d</sup>	
Claims Established .....	\$2.3 <sup>e</sup>	
Administrative Penalties .....	\$0.8 <sup>f</sup>	

### Administrative Sanctions

Employees .....	26
Businesses/Persons .....	467

<sup>a</sup>Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 439 convictions do not necessarily relate to the 494 indictments.

<sup>b</sup>Includes money received by USDA or other Government agencies as a result of OIG investigations.

<sup>c</sup>Restitutions are court-ordered repayments of money lost through a crime or program abuse.

<sup>d</sup>Fines are court-ordered penalties.

<sup>e</sup>Claims established are agency demands for repayment of USDA benefits.

<sup>f</sup>This category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

# Farm and Foreign Agricultural Services

## Consolidated Farm Service Agency (CFSA)

CFSA administers domestic commodity price and income support programs; crop insurance and other risk management programs; farm ownership, operating, emergency, and disaster loan programs; and certain conservation programs such as the Conservation Reserve Program. Financing for the CFSA domestic commodity programs comes through the Commodity Credit Corporation (CCC), a Government corporation.

For FY 1995, CFSA estimates expenditures of \$2 billion for conservation programs, \$1.8 billion for the crop insurance program, \$167 million for farm credit programs, and \$1 billion for salaries and expenses. CCC funds all other program operations, with estimated outlays of \$19 billion. As of September 30, 1994, about 212,000 borrowers owed CFSA \$12.9 billion for farm program loans. In addition, CFSA guaranteed more than \$5.4 billion in farm program loans made by private lenders to about 58,000 borrowers.

### Further Abuse Reported in the 1993 Ad Hoc Disaster Assistance Program

In our last semiannual report to Congress, we reported problems in the 1993 Ad Hoc Disaster Assistance Program. As a result, Congress made several legislative changes which CFSA implemented administratively. We continue to audit the new procedures, but cannot yet assess their effectiveness.

We also continued to audit the 1993 ad hoc disaster program and issued another 10 reports concerning county offices in 9 States. We recommended approximately \$8.9 million be recovered, including about \$6 million resulting from false certifications. Producers falsely certified such items as gross income, information for payment limitation determinations, actual production, type of farming practices followed, crop shares, and planted acreages. We also attributed about \$1.5 million in overpayments to the use of incorrect acreages, rates, and yields, and about \$1 million to overpayments in other than disaster programs. Examples follow:

- At a Georgia county office, the county executive director and another employee were fired because of questionable management practices and conduct.

The employees falsified data and back-dated documents to qualify producers for payments. The employees were also involved in a number of conflicts-of-interest, or the appearance of conflicts-of-interest, with local producers and showed favoritism to certain producers. We recommended that \$2.5 million in overpayments be recovered because the payments were based on inaccurate information, incorrect acreages, and payment limitation violations.

- At a Tennessee county office, county committee members, county office employees, and their families received questionable disaster payments of about \$313,000. A county committee member and his wife received payment for losses on Bermuda sod that was not intended for harvest until the next year, making it ineligible for disaster assistance. Another committee member received a questionable payment because he was prevented from planting tomatoes on acreage which was not suitable for the crop. However, he replanted soybeans, which had the same planting dates as tomatoes, on the same acreage. Overall, we recommended about \$1.8 million be recovered. A Federal grand jury returned 4 indictments charging 7 defendants, including 2 suspended employees, with 93 counts of false claims, false statements, and conspiracy. The county executive director was also suspended.
- At a Florida county office, eight producers, including a county committee member, received over \$850,000 in payments that were improper because their qualifying gross incomes exceeded the \$2 million limit. Also, a county office employee primarily responsible for administering the Disaster Assistance Program received questionable payments of over \$50,000 based on inaccurate supporting information. Further, office staff did not timely and properly handle the large number of loss claims generated by Hurricane Andrew. We located over 2,000 unissued checks totaling more than \$11 million in producer files. Some of these checks were kept in unlocked files for extended periods. CFSA officials took immediate action to correct this problem and, ultimately, either issued or canceled all checks. We also questioned payments of over \$2 million to nursery producers because they inflated their projected disaster year production well beyond historical amounts.



### **Potato Grower Pleads Guilty to Converting Disaster Assistance**

A North Dakota potato grower pled guilty to converting to his own use CCC disaster assistance funds for 1993 potato losses. He received 3 years' probation and must pay \$33,000 restitution to CFSA. The grower did not report 3,800 tons of potato production on an application for disaster assistance. An OIG audit of the 1993 disaster program led to this investigation.

### **Four Farmers Repay Funds, Barred From USDA Programs**

Four Arkansas farmers agreed to repay CFSA \$307,000 for having filed false claims for crop insurance and disaster payments. They hid production of soybeans and wheat from 1988 to 1992. Three of the farmers agreed to a lifetime exclusion from any USDA farm programs, and the fourth agreed to a 20-year exclusion.

### **Producers Continue To Abuse Payment Limits**

The Food, Agriculture, Conservation, and Trade Act of 1990 continued the \$50,000 payment limit on 1991 through 1995 program crops and the \$100,000 limit on disaster payments. We found that producers are continuing to abuse the payment limit by manipulating their farming operations.

- Six Georgia producers, including a member of the county committee, provided false information to CFSA regarding their cotton operations in crop year 1993. One producer claimed he owned an entire cotton crop when he insured it with the Federal Crop Insurance Corporation (FCIC); yet to receive more Government payments, he reported to CFSA that six people operated the farm, three of whom were his wife (a county committee member) and two sons. However, when the producer sold the cotton, none of the other five individuals received their claimed shares of the proceeds. At our recommendation, the Georgia State CFSA Committee determined that the producer engaged in a scheme to evade payment limitations, directed the producer to refund \$492,000 in program payments, and suspended the county committee member, pending the outcome of an OIG investigation.

- Three Oklahoma producers, including a State committee member, misrepresented to CFSA the extent of their involvement in the farming operation of one of the producers. Furthermore, once the farming operation of this producer was selected for review, the three producers conspired to submit false information to the county committees, the CFSA end-of-year review team, and the Oklahoma State CFSA Office. This false information, presented to support one producer's claim to being "actively engaged" in farming, included bogus rent checks, altered checks used to pay farming expenses, and bogus receipts to support the altered checks. We determined that this information was submitted to CFSA solely to enhance the producers' eligibility for CFSA program payments. As a result, between 1992 and 1995 these three producers received \$532,000 in program payments for which they were not eligible. We recommended that CFSA determine whether the three producers adopted a scheme to evade the rules of payment limitation and payment eligibility, and that if so, appropriate action be taken. CFSA's response is pending.

- A Louisiana joint venture misrepresented its 1995 farming operation by submitting false information and certifications to CFSA regarding its capital contribution. Further, the joint venture did not meet the cash-rent tenant rule because it did not contribute significant equipment, and so was ineligible to receive 1995 program payments. The Natchitoches County Committee agreed that the joint venture did not meet the cash-rent tenant rule and withheld 1995 projected payments of \$197,000. The National Appeals Division upheld the county committee determination.

### **Two Plead Guilty in Fraudulent Peanut Scheme**

Two owners of an Alabama cotton gin company pled guilty to conspiracy and making false claims and false statements in connection with a scheme to conceal the production of peanuts. They must pay fines and restitution of \$33,000 and serve 3 years' probation. One was also permanently barred from USDA's Peanut Price Support Program.

The two cotton gin owners handled and bought peanuts for a large peanut corporation and the Georgia, Florida, and Alabama Peanut Association. They financed the production of peanuts for farmers who marketed their

crops through the cotton gin company. The owners required the farmers to insure their crops and allow the company to be assigned the indemnity payments.

Our investigation revealed that, in the fall of 1989 and 1991, the owners of the company convinced several farmers whose crops were mortgaged to the company to participate in a scheme to defraud FCIC and CFSA. They concealed the production of peanuts for insurance purposes and marketed peanuts grown in Florida (nonsubsidized sales at \$135 per ton) as quota peanuts grown in Alabama (subsidized sales at \$700 per ton). The owners transmitted numerous false documents to CFSA through the company computer system. Revenue from the peanut sales and crop insurance indemnity payments went to the company, where the owners held mortgages on the farmers' crops.

#### **Annual CRP Overpayments of \$1.3 Million Made in One County**

CFSA, with technical assistance from the Natural Resources Conservation Service (NRCS), is responsible for administering the Conservation Reserve Program (CRP). The program was established to assist farmers in preventing and controlling soil erosion on highly erodible and environmentally sensitive cropland.

Our audit, requested by officials of the NRCS Wisconsin State Office, assessed the extent of inaccurate land eligibility determinations which had been initially identified during a 1993 internal quality review of CRP cases. Our analysis of a statistical sample showed that incorrect eligibility determinations had been made on 34 of the 41 sampled contracts; all or part of the acres enrolled under each of these contracts should have been rejected because they did not meet the regulatory definition of "highly erodible land." The contracts were accepted because the NRCS official responsible for making the eligibility determinations failed to follow program procedures. For example, the official took numerous shortcuts in his analyses, such as making a single eligibility determination for an entire farm instead of making field-by-field determinations as required. We have been informed that disciplinary action will be taken against the official.

Based on our statistical projections, 16,000 of the 46,500 CRP acres in Iowa County, Wisconsin, were ineligible for the program, resulting in annual overpayments to producers of almost \$1.3 million. We recom-

mended that CFSA and NRCS review all contracts in Iowa County whose enrollment terms are to be extended, so that any ineligible acres can be eliminated before the contracts are extended.

#### **Convictions for Converting Mortgaged Property**

Under the terms of many USDA loan programs, ranchers and farmers mortgage their property, equipment, livestock, or crops to the Government, and then repay the loans when livestock or crops are sold. "Conversion" is the illegal sale of the property mortgaged to the Government and personal use of the proceeds. During this reporting period, we encountered a number of cases of conversion. Three representative cases follow, all of which involved selling CFSA-mortgaged cattle in other persons' names.

- A Texas cattle rancher pled guilty to selling 331 head of cattle, valued at \$140,000, without remitting the proceeds to the Government. After initially alleging to CFSA that his cattle were stolen, the rancher admitted he sold the cattle without CFSA's consent in the name of his cattle company, his wife, and himself.
- A cattle rancher in Oklahoma pled guilty to illegally selling 69 head of cattle, valued at \$31,000. The rancher admitted selling the cattle in his, his wife's, and his children's names. He told investigators that he would have sold the cattle in anyone's name if he thought he could have concealed the sale from CFSA.
- Another cattle rancher in Oklahoma was sentenced to 2 years' probation and ordered to make restitution of \$12,000 after he admitted selling 27 head of cattle in his son's name and keeping the money. The rancher readily admitted selling the mortgaged cattle and said that, during a chattel inspection, he showed a CFSA representative his brother's cattle in order to hide the sale.

#### **Wool Program Participants Received Excessive Payments**

During this period, we audited the Wool Program and found that some participants received excessive incentive payments because inappropriate charges were included in the adjusted sales price. Sales evidence provided by wool buyers did not clearly identify whether the sales were cash or consignment, and county office

personnel did not always verify the type of sale when questions arose.

Inappropriate charges were allowed in 17 cases, resulting in excessive incentive payments of about \$147,000. For example, one Wyoming producer originally submitted a sales document showing a cash sale totaling \$19,000. The incentive payment computed by CFSA would have been \$57,000; however, the producer submitted a revised sales document which increased the sale price to \$22,200 and included marketing charges of \$3,200. County office personnel did not question why the producer resubmitted information that changed the cash sale to a consignment sale. This change increased the incentive payment by about \$9,500.

We recommended that CFSA recover the excessive 1993 incentive payments to the producers, verify the accuracy of these same producers' payments for the 1994 program, and work more closely with wool buyers to properly differentiate between cash and consignment sales. CFSA officials indicated that they will take corrective actions.

### **Attorney and Rancher Conspire on False Wool Claims**

A Wyoming attorney and his client, who is a rancher and wool producer, were found guilty of inflating incentive wool payments by \$121,000. They conspired to falsify claims to CFSA for the 1991, 1992, and 1993 Wool Incentive Program.

The incentive program encourages producers to improve the quality and marketing of their wool, as a better market price earns a higher support payment. The defendants submitted contracts to CFSA showing that the attorney's wool company had purchased wool from the rancher at high prices, making the rancher eligible for high incentive payments. Our investigation revealed that the rancher actually sold the wool to a legitimate wool buyer for prices much lower than those submitted on the bogus contracts. The funds from the legitimate sales were funneled through the attorney's bank account and returned to the rancher the same day. Sentencing is pending.

Our investigation was conducted jointly with the Internal Revenue Service (IRS).

### **\$6.9 Million Settlement in Guaranteed Loan Program Fraud**

Previously, we reported that a production credit association in Iowa and the farm credit bank in Nebraska paid the Government \$4.2 million as a partial civil settlement of charges that association employees made false statements to CFSA to obtain Government loan guarantees. The employees made false cash-flow projections, falsified financial statements, and submitted false chattel and real estate appraisals to CFSA. As a result of these false statements, the association received payments from CFSA on losses the association claimed to have had on 20 different borrowers in Iowa. By obtaining the loan guarantees, the association reduced its risk of loss on the loans by up to 90 percent.

During this period, criminal prosecutions were obtained and a final civil settlement was reached. In the civil settlement, the association and the bank paid the Government an additional \$2.7 million, bringing the total settlement to \$6.9 million. The U.S. Attorney for the Northern District of Iowa said that the settlement was the largest monetary recovery in the history of that district.

In the criminal case, five former employees of the production credit association, including the former president and chief executive officer, each pled guilty to charges of giving incorrect financial information to CFSA. Each defendant was sentenced to a \$5,000 fine (suspended), 1 year probation, and 150 hours of community service.

### **Requirements for Interest Assistance Need Strengthening**

The Interest Assistance (IA) Program subsidizes guaranteed loans to farmers. Under the program, CFSA pays private lenders up to 4 percentage points of the loan interest rate, provided that the borrower's cash-flow can meet all operating expenses, taxes, scheduled debt payments, family living expenses, and provide for a reserve of at least 10 percent.

We reviewed IA agreements for a random sample of loans made to 30 borrowers in 6 States that were approved or renewed in FY's 1991 and 1992. We concluded that the use of cash-flow analyses to make program eligibility determinations did not provide reasonable assurance that only eligible borrowers

received interest assistance. We projected that borrowers with an estimated 1,523 loans (85 percent), from the universe of 1,799 loans, either were not eligible for IA or were eligible for only a reduced rate of IA and that IA subsidy payments to the respective lenders were overpaid by about \$3 million. We also projected that borrowers who had received 522 guaranteed loans, totaling about \$61.8 million, were not eligible for the guarantee. The borrowers received guaranteed loans because the agency's instructions for the loans needed to be strengthened. For example, the requirement that lenders use applicants' 5-year averages for estimating crop yields was considered only a guideline, not a stipulation. As a result, yields were used that had no documented support and could not be adequately explained.

Agency officials informed us that lenders were given the discretion to make loans based on what they considered reasonable information. We also found that the reviews performed by both the lenders and CFSA staff of the data used to prepare the projected cash-flows and related information were not sufficient to prevent errors, particularly in the computation of the balance available for debt repayment, annual debt payments, and the projected average principal balance. Instructions were not always followed, and support for prices, yields, and acres used in the projected cash-flows was lacking. Also, no instructions for computing projected farm program payments or operating expenses existed. Even after cash-flows were adjusted to reflect the best information available at the time of application, they did not provide reliable assurance of borrower eligibility. In our opinion, analyzing the results of the farm operations at the end of the production and marketing cycle, rather than at the outset, would be preferable to determine the need for IA.

We recommended that officials (1) revise procedures to require determination of a borrower's need for IA at the end rather than beginning of the year, and (2) revise regulations to specify lenders' requirements. Management disagreed with our recommendations, but we are working to achieve management decision.

### **Quality of Administrative Appeal Decisions Has Improved**

At the request of the Administrator of the former Farmers Home Administration (FmHA), we evaluated whether hearing officers' administrative decisions on borrower and applicant appeals were proper and whether the program staff decisions which led to appeals were adequately supported.

We found that the quality of appeal decisions has improved substantially since our prior audit in 1991 when we questioned over 50 percent of the decisions evaluated. Nevertheless, the overall rate of reversal of program staff decisions remained at about 35 percent. Most of the reversals occurred because program staff did not adhere to instructions and were not prepared to support their decisions at appeal hearings. Our review of 46 sampled appeal decisions rendered by hearing officers in the South disclosed that, in 24 cases, hearing officers reversed the field office program staffs' decisions because the staffs did not follow procedures. In another eight cases, we questioned hearing officers' reversals.

Although the rate of reversal remained constant, the number of program staff decisions overturned at administrative hearings represented only a small percentage of thousands of adverse decisions that field office staffs make each year. For example, 37,490 farm and housing loan applications were rejected during the period July 1, 1993, through June 30, 1994. During the same period, 1,436 appeal hearings (3.8 percent) involving denied loan applications were held, and only 441 cases (1.2 percent) were overturned.

In late 1994, USDA was reorganized with the administrative appeal functions of the former farm and housing programs consolidated under the newly created National Appeals Division (NAD). NAD has been functioning since October 13, 1994, without final regulations and on the basis of limited resources drawn from former agencies. Appeals are being heard and the number of backlogged cases is rising. As a result, program participants' cases and the integrity of USDA payments could be jeopardized.

We recommended that steps be taken to (1) complete the transfer of funds and personnel, (2) finalize regulations to establish operating policies and procedures, and (3) provide training to decisionmakers on the administrative appeal process, including the presentation of evidence to support adverse decisions. Officials of NAD and the affected agencies generally agreed with the recommendations and have taken or are in the process of implementing corrective action.

### **Foreign Agricultural Service (FAS)**

FAS' mission is to develop and expand foreign markets for U.S. food and agricultural products. Using the funds and facilities of CCC, FAS administers such programs as Export Credit Guarantees; the Title I, Public Law 480 Program (for sales of commodities to foreign countries); and the Food for Progress Program. FAS also administers ocean transportation agreements, agreement negotiations, planning, and reporting.

#### **Grain Trader Pleads Guilty to Subsidy Fraud**

A New York City grain trader pled guilty to making false statements and claims to FAS. He misrepresented the sales price of wheat being sold to Yemen so that USDA would give a larger Export Enhancement Program (EEP) "bonus" to make up the supposed difference between the sales price and the market price. The trader's actions caused about \$1.4 million in EEP bonus overpayments to his firm.

The grain trader's employer paid the Government over \$7 million to settle civil claims arising from the trader's illegal actions. Sentencing for the trader is pending.

#### **Continuing Investigation Nets More Participants in Sugar Export Scheme**

As reported in the last semiannual report, a New Jersey food broker was sentenced to 4 months in prison and ordered to pay \$1.9 million in fines, forfeitures, and restitution for his participation in an export diversion scheme affecting the Sugar-Containing Product Reexport Program. Another participant in the scheme is awaiting sentencing after pleading guilty to wire fraud, false claims for refunds of duties, and false statements.

The investigation also resulted in a 122-count indictment that charges three more conspirators with numerous crimes for their part in several related export schemes, one of which was connected to the Sugar-Containing Products Reexport Program. All three have been arrested. Two were arrested pursuant to international arrest warrants and are being detained by French and Swiss authorities pending extradition to the United States.

Additional participants in this export scheme have been identified, and the investigation is continuing. It is being conducted jointly with the U.S. Customs Service (USCS) and the Food and Drug Administration (FDA).

# Food, Nutrition, and Consumer Services

## Food and Consumer Service (FCS)

FCS 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.

FCS funding levels for FY 1995 total approximately \$38.7 billion. Three of FCS' programs are receiving the bulk of this funding: The Food Stamp Program (\$25.2 billion), Child Nutrition Programs (\$8.2 billion), and WIC Program (\$3.7 billion).

## Food Stamp Program (FSP)

### Operation Checkout Yields Big Results

In response to the commitment of the Administration and the Department to ensure that food stamps get to the people who really need them, OIG initiated "Operation Checkout," an intensified effort to improve the integrity of the FSP. This operation brought to fruition 106 court actions (indictments, arrests, or convictions) over a 7-week period. These were related to investigations identifying over \$22 million in FSP fraud. OIG is continuing these intense enforcement efforts to help preserve the integrity of the FSP by identifying as many violators as possible and having them prosecuted.

### Ineligible and Questionable Stores Were Authorized To Accept Food Stamps

FCS authorizes food stores to accept food stamps. Stores may be authorized if they sell an ample variety of foods for home preparation in the four staple food categories—breads or cereals; vegetables or fruits; dairy products; and meat, poultry, or fish. As of May 1995, there were over 200,000 authorized stores nationwide.

Because of continuing reports about the illegitimacy of stores participating in the FSP, we performed a nationwide sweep of authorized food stores to determine if they met FCS' eligibility criteria. We visited

5,162 authorized stores during May and June 1995 in 7 locations: Washington, D.C.; City of St. Louis and St. Louis County, Missouri; Alameda County, California; and selected areas in Cook County, Illinois; New York City, Borough of Manhattan, New York; Dade County Florida; and Dallas and Tarrant Counties, Texas. The locations were selected because prior investigations had identified problems there. Excluded from our review were chain stores such as Safeway, Kroger, and 7-Eleven because experience has shown that these types of stores generally do not violate FSP regulations.

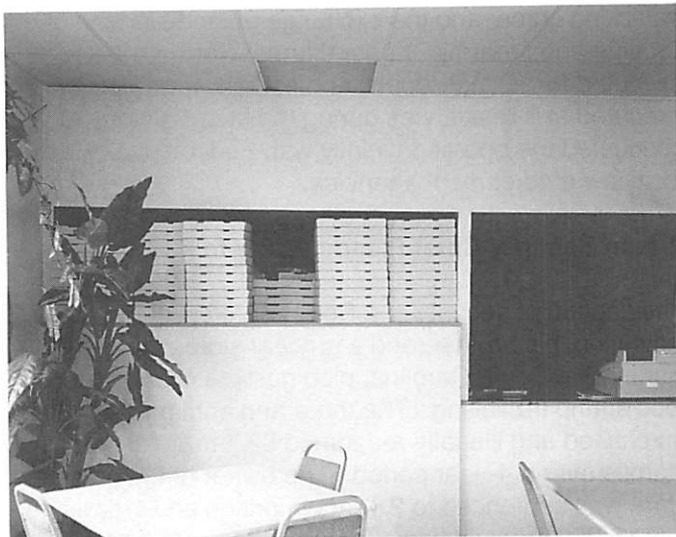
We found that 857 of the stores visited were clearly not eligible to participate in the FSP because they had little or no staple foods, were out of business, did not exist, or had more than 1 assigned authorization number. We questioned the eligibility of another 450 stores because they had limited inventories of staple food items or because their inventories did not appear to support their food stamp redemptions. (FCS officials need to review these stores further to determine their eligibility.) These 1,307 stores redeemed over \$42.1 million in food stamps between April 1994 and March 1995.

The following are examples of stores we found ineligible:

- An Alameda County, California, pizza restaurant was authorized to accept food stamps even though it did not offer any staple foods intended for home preparation. It was strictly a restaurant, with eat-in seating on the premises.



This pizza restaurant was improperly authorized to accept food stamps. OIG photo.



Inside view of the pizza restaurant. OIG photo.

An employee of the restaurant told us they did not accept food stamps, but FCS' records showed that food stamp redemptions were made under the store's authorization number on a regular basis. Between April 1994 and March 1995, the restaurant redeemed over \$42,000 in food stamps, an average of \$3,500 a month.

- A St. Louis, Missouri, store was still authorized to redeem food stamps even though it appeared to have ceased operations some time ago. We observed through a window that the building was empty, yet the store redeemed twice as many food stamps in July 1995, a month after our visit, as it did on average between April 1994 and March 1995.

Presently, FCS does not require preauthorization visits to applicants' stores. Once a store is authorized, periodic visits are not made unless trafficking is suspected.

We recommended that FCS withdraw the authorizations from the obviously ineligible stores and incorporate routine preauthorization visits into its procedures. We also recommended that FCS schedule visits to other high-risk stores.

### **Store Owner Convicted in \$11.7 Million Food Stamp Fraud**

The owner of a New York City grocery store was convicted of food stamp trafficking, conspiracy, and money laundering in connection with \$11.7 million in food stamps he redeemed illegally over an 18-month period. The man conspired with two other grocery store owners, securing power of attorney to control the other two stores' bank accounts. These accounts allowed the man to redeem a larger volume of food stamps than could be traced to him, and to issue checks without having the transactions appear on his financial ledgers. The man then bought food stamps by check from delivery truck drivers, who got the stamps from unauthorized stores as payment for merchandise delivered. The truck drivers used the checks to pay the wholesalers for the merchandise, so the transactions appeared legitimate on paper.

One of the store owners and two truck drivers cooperated with OIG and testified against the principal trafficker. He was found guilty at trial, and his personal and business accounts were seized. Another man also pled guilty in the case. Sentencing for both is pending.



This vacant store ceased operations but continued to redeem food stamps as late as July 1995. OIG photo.

Although the wholesalers who exchanged merchandise for the checks from the truck drivers did not profit from the scheme, they were aware of the wrongdoing. Two have entered into civil settlements totaling \$50,000.

This investigation was conducted jointly with the U.S. Secret Service (USSS).

### **55 Indicted in Broad-Scale Trafficking Scheme in Tennessee**

Fifty-five people were indicted in Tennessee on food stamp trafficking and money-laundering charges for illegally redeeming over \$6.5 million in food stamps. From June 1994 to their arrests in June 1995, the suspect retailers and their "runners" (individuals hired to make the transactions) illegally exchanged food stamps for cash, guns, stolen property, and other goods. Fourteen Federal search warrants were executed as a result of the investigation, and seizure warrants were served on two residences and a number of bank accounts and automobiles.

Although authorized to accept food stamps, the retailers ran sham grocery stores that did little or no business. They deposited large amounts of food stamps into their bank accounts on a daily basis and made immediate cash withdrawals. They met nightly to divide the illegally obtained food stamps among each other and thus control the amount of redemptions reported to FCS.

This investigation was conducted jointly with the IRS, the Federal Bureau of Investigation (FBI), the Memphis Police Department's Organized Crime Unit, and the Bureau of Alcohol, Tobacco, and Firearms (BATF). FCS staff also provided support during the investigation.

### **Food Stamp Trafficker Gets Life for Dealing Drugs**

The leader of a drug gang in Ahoskie, North Carolina, was sentenced to life in prison and fined \$2 million after his arrest for selling crack cocaine and firearms for food stamps and cash during an undercover investigation. The drug gang had acquired the crack cocaine through connections in New York City.

In addition to the gang leader, 17 other people were charged and convicted of drug trafficking. A "lieutenant" in the gang was sentenced to 21 years in prison after pleading guilty to separate charges of conspiracy to distribute crack cocaine, use of a firearm in a drug

trafficking crime, and the exchange of food stamps for cocaine and firearms. Federal arrest warrants were executed for 18 individuals, and search warrants were executed at 3 residences during the investigation. OIG conducted the operation jointly with Federal, State, and local law enforcement agencies.

### **Prison Security Chief Pleads Guilty to FSP Fraud**

The captain of security at a South Carolina correctional institution, his brother, and a grocery store owner in Harleyville, South Carolina, pled guilty to charges of food stamp trafficking. The three and another associate purchased and illegally redeemed \$2.7 million in food stamps over a 4-year period. The owner of the grocery store was sentenced to 2 years in prison and ordered to pay \$6,000 in restitution. The security captain and his brother were each sentenced to 3 years in prison and ordered to pay \$6,000 in restitution. A fourth member of the trafficking enterprise also pled guilty and is awaiting sentencing.

FCS staff provided support during the investigation.

### **Three Plead Guilty in \$675,000 Trafficking Scheme**

A grocery store owner in Glennville, Georgia, was sentenced to serve 3-1/2 years in prison for bank fraud and illegally redeeming approximately \$675,000 in food stamps. He was also ordered to pay \$202,000 in restitution. Two accomplices similarly pled guilty and are awaiting sentencing.

The store owner had previously been disqualified from participating in the FSP. After losing his authorization to accept food stamps, he placed his business in the name of an accomplice, who subsequently applied for and received his own FCS authorization. During our investigation, two store employees engaged in food stamp trafficking. The store owner was also charged with bank fraud because he transacted the illegally acquired food stamps through a local bank.

### **Georgia Store Owner Sentenced for \$2.7 Million Fraud**

The owner of a produce store in Atlanta, Georgia, was sentenced to 2 years in prison and ordered to pay \$250,000 in restitution after pleading guilty to charges of food stamp trafficking. He and several associates purchased and illegally redeemed over \$2.7 million in food stamps over a 10-month period. The produce



store owner bought the stamps at two-thirds of their face value and redeemed them at full value. Sentencing is pending for the associates in the case.

### **Continuing Investigation Nets 20 in Texas**

Over the last 6 months, a continuing investigation into food stamp trafficking in the Dallas-Ft. Worth area in Texas has resulted in 20 arrests of people buying food stamps at cash discounts. Sixteen of those arrested have been indicted and await trial in State court; indictments have not yet been handed down on the remaining four. This investigation is being conducted jointly with the Office of Inspector General of the Texas Department of Human Services.

### **Traffickers Prosecuted in Three Cleveland Cases**

- The clerk in a grocery store in Cleveland, Ohio, has pled guilty for the second time in 5 years to trafficking in food stamps through the store. The clerk had owned the store when he pled guilty to trafficking in 1990, but he sold the business less than a week after his guilty plea and continued working for the second owner. The second owner and the clerk were subsequently indicted on a second set of food stamp trafficking charges in 1994. The second owner was charged with redeeming over \$1.9 million more in food stamps than the store's total sales for a 3-year period. He sold the business in December 1992. The third owner paid an administrative penalty of \$50,000 for redeeming food stamps without authorization during 6 months of 1993. Sentencing of the clerk and the second owner is pending.
- The manager of a grocery store in Cleveland was sentenced to 2 to 10 years in jail after pleading guilty to trafficking in food stamps. The store manager had been convicted in 1988 on an earlier charge of trafficking and had been permanently disqualified from the FSP in 1989. Nevertheless, from 1990 through 1992, the store continued to accept food stamps, and over a 26-month period it redeemed over \$1.3 million more in food stamps than its reported gross sales. Three other adults were sentenced to probation in this case, and a juvenile was judged delinquent for his role in trafficking at the store.
- A husband and wife have been sentenced to jail for trafficking in food stamps out of their Cleveland delicatessen. During the period of investigation, the

husband purchased food stamps for cash at the delicatessen and redeemed a total of \$370,000 more in food stamps than the gross food sales he reported on his tax returns for those years. He was sentenced to serve 4 to 15 years in prison and was ordered to pay \$370,000 in restitution. His wife pled guilty to trafficking in food stamps and was sentenced to 18 months' probation and ordered to help pay the restitution.

### **Father, Daughter Sentenced for Food Stamp Fraud**

The owner of a meat market in Los Angeles, California, was sentenced to 6 years in prison and ordered to pay \$100,000 in restitution after he was convicted on charges of conspiracy, making false statements, and trafficking in food stamps. His daughter, who aided him in his illegal enterprise, was also convicted on charges of conspiracy and illegal acquisition of the stamps and sentenced to 1 year of home detention. A third member of the conspiracy was sentenced to 1-1/2 years in prison.

The meat market owner employed "runners" to purchase food stamps from recipients near food stamp issuance centers at several locations throughout the greater Los Angeles area. The runners would buy the stamps at discounted prices from recipients as they left the centers, then bring the stamps to the meat market owner, who would pay the runners a fee for their services. During a 9-month period, the owner redeemed over \$450,000 more in food stamps than the store's total reported food sales.

### **13 Arrested in Indiana for Trading Food Stamps for Cocaine, Cars, and Cash**

As a result of a year-long investigation conducted by OIG and State and local law enforcement agencies in LaPorte County, Indiana, 13 people were arrested for State welfare fraud and narcotics violations. During the investigation, the suspects exchanged food stamps for cash, two automobiles, and crack cocaine. Trials of all defendants are pending.

### **Missouri Store Manager Ruins Business While Trafficking in Food Stamps**

The manager of a small grocery store in St. Louis, Missouri, was convicted of illegally purchasing and redeeming \$500,000 worth of food stamps over a

4-year period. The manager was hired to run the store but spent most of his time buying food stamps for cash at a discount. Although he redeemed the stamps through the store account, he subsequently transferred the proceeds to himself. The store owner, who was unaware of the manager's activities, found the store losing money and was unable to pay its bills. He was forced to close the business permanently. He testified against the manager at the trial. The manager was sentenced to 2 years' imprisonment and 2 years' supervised release.



Defunct grocery store whose manager illegally redeemed \$500,000 in food stamps while the store went bankrupt. OIG Photo.

### Multiple Arrests in Virginia Food Stamp Trafficking Case

A 6-month investigation in Petersburg and Hopewell, Virginia, ended with the arrest of 23 people for food stamp trafficking and narcotics violations. Eighteen of the people have already pled guilty to the charges, including a father and son who owned a grocery store in Petersburg and bought \$19,000 in food stamps for \$12,000 cash. A man who had exchanged crack cocaine for food stamps also pled guilty. This defendant was sentenced to 20 years in Federal prison and ordered to forfeit \$59,000 in cash to the Government. Sentencing in the other 15 cases is pending.

This investigation was conducted jointly with the USSS, the Drug Enforcement Administration (DEA), and the Petersburg and Hopewell Police Departments.

### "Rolling" Stores Are a High Risk for Food Stamp Trafficking

"Rolling" stores are converted trucks, vans, and buses that travel from place to place carrying a variety of merchandise. The route operators may accept food stamps from customers in exchange for eligible food items. We evaluated FCS' oversight of rolling store activities in the Southeast where 655 such stores operate.

Rolling stores are more apt to be used to defraud FSP because of the mobility of their operations and the relative ease with which anyone can get into the business (used vehicles are cheap, and FCS authorizations are easily acquired). FCS did not have procedures to ensure consistent monitoring of rolling stores and to resolve suspected program violations. Furthermore, FCS field office staff did not inspect rolling store vehicles to ensure the eligibility of their stock, keep a description of the vehicles and trade routes in the casefiles, and follow up on reports that showed which retailers redeemed more food stamps than they had food sales.

We reviewed the activities of 48 rolling stores operating in the Atlanta, Georgia, and South Carolina areas. During 1993 and 1994, these stores redeemed over \$8 million in food stamps. We found that almost half of the stores either could not verify the amount of food stamps they redeemed or were ineligible to participate in the program because their sales did not consist primarily of eligible food items. For the 2 years reviewed, these questionable stores redeemed over \$6.9 million in food stamps. Many of the questionable cases occurred in metropolitan areas, where mobile stores serve little purpose since these areas generally have accessible food stores and public transportation.

The following are two examples of the cases we found:

- An Atlanta retailer redeemed \$529,000 in food stamps during the period July 1993 through December 1994. She could not produce the van from which she claimed she sold the \$529,000 in food and did not have any financial records to support the amount of food stamps redeemed. The retailer redeemed \$202,000 between July and December 1993, but her tax returns showed sales of only \$25,000. This retailer is under investigation.

- A South Carolina retailer redeemed \$323,000 in food stamps in 1993 and 1994. This retailer owned a fleet of 12 neighborhood ice cream trucks and was ineligible to redeem food stamps because the trucks did not stock the required staple food items. The trucks only stocked popsicles, ice cream treats, soft drinks, candies, and potato chips.

We recommended that FCS officials evaluate the need to authorize rolling stores in metropolitan areas, establish claims against the cited cases, evaluate the sales activities of rolling store retailers appearing on high-redeemer reports, and inspect the food stocks of rolling store vehicles. They agreed and have begun corrective actions.

### **Investigation of Rolling Stores Reveals Substantial Food Stamp Fraud**

During this period, we also investigated several rolling stores in Los Angeles and Honolulu, and established that many were a front for substantial food stamp fraud. As a result, we requested that FCS consider immediate withdrawal of authorization, or refusal of reauthorization, of all such businesses in those locations. To date, FCS has withdrawn authorization of, or refused to reauthorize, 81 rolling stores in Honolulu and 24 in Los Angeles.

### **WIC Violators Allowed To Redeem Over \$8.7 Million in Food Stamps**

FCS assesses sanctions against stores that violate the Food Stamp Program or other programs the agency administers. A store that participates in both the Food Stamp and WIC Programs may be removed from both programs if it has committed a serious violation in either program.

Our audit was conducted to determine if stores that commit serious violations in one FCS program were considered for disqualification from all FCS programs. We found that stores that had been disqualified from the WIC Program for serious violations were allowed to redeem over \$8.7 million in food stamps after their WIC disqualifications. FCS did not impose sanctions on 22 of these stores because the stores either voluntarily withdrew from the WIC Program or did not renew their WIC contracts, and FCS officials believed that existing laws only allowed them to sanction FSP stores that had been officially disqualified from the WIC Program.

FCS did not impose sanctions on another 45 stores in a timely manner because WIC investigators either did not promptly notify the FSP staff of the disqualifications or did not determine if a subsequent sale of the business constituted a bona fide change of ownership. Finally, 28 stores delayed FSP sanctions by appealing the disqualification attempts.

Because the administration of the WIC Program has been delegated to States, sanction policies were inconsistent for stores in different States that committed identical program violations.

We recommended that FCS officials develop uniform national sanctions for WIC violations and seek legislation to eliminate the requirement that FSP and WIC disqualifications run concurrently.

FCS officials agreed with the findings and recommendations.

### **Electronic Benefit Transfer (EBT) Concerns Need To Be Addressed Now**

Vice President Gore's September 1993 Report of the National Performance Review, *From Red Tape to Results*, called for the rapid development of a nationwide system to deliver Government benefits electronically. The Federal EBT Task Force was chartered in November 1993 to meet this challenge. Its goal is to make EBT available nationwide in the fullest sense—one card, user friendly, with unified electronic delivery of Government benefits under a Federal-State partnership.

There are at least 12 Federal and State benefit programs which could use EBT to replace paper delivery methods. These include the FSP and WIC Programs, administered by USDA; the Aid to Families With Dependent Children Program, administered by the U.S. Department of Health and Human Services; and the Social Security and Supplemental Security Income Programs, administered by the Social Security Administration.

The Federal EBT Task Force designed a plan to achieve rapid implementation nationwide by early 1999. The President's Council on Integrity and Efficiency (PCIE) asked us to consolidate concerns of the OIG community regarding the implementation of EBT so that these concerns could be addressed by the task force. OIG's from 10 Federal departments participated.

Cross-program issues which the task force will need to address include:

- making program record retention requirements consistent with statute of limitation provisions of criminal statutes;
- making EBT processor records accessible to Government auditors and investigators;
- increasing security measures over employee access to EBT systems by limiting the number of users, particularly those authorized to make additions or changes to program benefits; and
- limiting the number of unsuccessful attempts to access benefits, reducing the time that cards are valid (currently all EBT cards are valid through 1999), securing returned EBT cards, and prohibiting the selection of personal identification numbers during nonbusiness hours.

FSP issues which FCS officials will need to address include:

- addressing the large numbers of potential trafficking cases that EBT systems are now capable of identifying;
- influencing State lawmakers to define trafficking in EBT benefits as a criminal activity; and
- ensuring that reconciliations are made between letter-of-credit drawdowns and the reported EBT transactions.

We also reported on some issues which may impact States' EBT systems.

- *States may be faced with an unfunded mandate.* The Electronic Fund Transfer Act, known as Regulation E, stipulates that a provider of electronic fund transfer services may hold a consumer liable for no more than \$50 of any disputed charge, leaving the card provider liable for the rest. The Federal Reserve Board voted to apply Regulation E to EBT systems, effective March 1997. States have expressed strong opposition to such an application and, in some cases, have delayed pursuit of EBT until the issue is resolved. States are concerned that the \$50 requirement would result in an unfunded

liability to the States and that the requirement to resolve claims may further burden already over-worked social service workers.

FCS is currently conducting projects in New Jersey and New Mexico to assess the impact of Regulation E. The first report was due in October 1995. In the meantime, legislation has been proposed that would exempt State-administered benefits from Regulation E.

- *States may be asked to implement an expanded reporting system.* Based on OIG's earlier recommendations, FCS staff began developing an exception reporting system that would analyze patterns in transaction data and "flag" suspect transactions. The concept is to create a national data base; this would be more effective than the current separate data bases for each State, which would have to be analyzed individually. Similar analyses may have to be considered for other programs where limitations are placed on use of program benefits, such as the WIC Program, Social Security, etc.
- *States may be asked to overhaul their systems' controls after the systems are in place.* States are implementing their own EBT systems while the Federal task force is developing a nationwide model. This model will identify all recipients, functions, relationships, and activities of the nationwide system. Once it is completed, the task force will analyze the vulnerability of the system. Until the risk management assessment is completed, the system's control features cannot be assessed.

The task force responded to a draft of the report and has begun to address the recommendations and issues.

### **Improved Automated Controls Are Needed in FSP**

The Food Stamp Act of 1977 provides for a maximum certification period of 12 months for food stamp recipients. When the certification period ends, the entitlement to food stamps ends. Benefits are not to be continued beyond the end of a certification period.

Prior audits conducted in New York City and in Florida identified control weaknesses in systems that did not automatically terminate benefits at the end of a certification period or limit periods to the statutory 12 months.

To measure the magnitude of this problem, 24 States were reviewed to determine whether their systems contained controls to automatically cut off benefits at the end of a certification period. We also reviewed the systems to verify that their controls would limit any certification period to the maximum 12 months. All States reviewed had controls to cut off benefits at the end of a certification period; however, 4 of the 24 States did not have sufficient controls to limit certification periods. We found that over 1,500 households in the 4 States were certified for \$771,000 in benefits beyond the legally authorized 12-month period. Officials in all four States concurred with our findings and initiated corrective actions.

We conducted an analysis of the National Integrated Quality Control Schedule to assess whether data gathered from quality control reviews could also identify certification period problems. We found that the quality control data confirmed the problems we had found in the four States. We, therefore, used the data for the remaining 26 states and found another 9 States where eligibility workers had assigned excess certification periods.

We recommended that FCS ensure the 13 States implement the proper automated controls. We also recommended that FCS ensure that automated systems prohibit certification periods from exceeding 12 months and that it use the National Integrated Quality Control Schedule data base to monitor compliance with statutory certification periods.

FCS officials agreed with the audit findings, but must take some specific actions before management decisions can be reached on the recommendations.

### **Food Stamp Printing Needs Better Controls**

Since 1975, FCS has contracted with the American Bank Note Company to print the coupons used in the FSP. Food stamps are currently printed at two sites, one in Pennsylvania and the other in Illinois, with annual printing and distribution costs of over \$17 million. A 1991 OIG audit disclosed weaknesses in both security and accountability at the Pennsylvania plant. As a result, FCS hired a certified public accounting (CPA) firm to review the company's operations monthly in both Pennsylvania and Illinois.

Our audit this period resulted from a complaint that the Illinois plant was having problems counting printed sheets, particularly those that were spoiled during the printing process, and that plant employees had been told by management to conceal these problems from USDA personnel. We evaluated accountability and security over food stamp printing at the Illinois plant. We also talked to plant employees to determine whether they were asked to conceal any problems, and we evaluated how thoroughly FCS monitored the company's compliance with its contract.

While we found no evidence the company tried to conceal problems, we did find inadequate accounting controls that could increase the risk of theft or loss of printed food stamps in the company's custody. For example, numerous alterations had been made to the daily accountability logs showing different numbers of blank sheets used in the printing process, different numbers of sheets that were printed, and different numbers of sheets that were spoiled. While the employees were able to give general explanations for such alterations, we could not verify individual alterations because no record was kept of who made the adjustments or why they were needed.

We also found inadequate controls over the blank watermark paper used to print the food stamps. These blank sheets are accountable documents and could be used to counterfeit food stamps. On several occasions during 1992 and 1993, the company was forced to adjust its inventory records when it found that the records did not match the amounts of paper observed at the warehouse. Finally, we noted instances where physical security, particularly video monitoring of critical areas within the plant, needed to be improved.

As previously noted, a CPA firm was hired, as a result of the last audit, to review operations. However, the firm did not review paper accountability and other areas where we found problems. We suggested it broaden its monitoring activities.

We recommended that FCS require the American Bank Note Company to document and review any changes made to the accountability records to ensure their propriety. We also recommended that the company implement tighter controls over its inventory for blank watermark paper, and improve its video monitoring of printing operations.

FCS officials agreed with the findings and recommendations as presented. The agency is currently taking corrective actions.

## **Child Nutrition Programs (CNP)**

### **Company Officials Plead Guilty to \$1.4 Million School Lunch Fraud**

Three former officials of a food manufacturing and processing plant pled guilty in Los Angeles, California, to charges that they defrauded the National School Lunch Program (NSLP) by diverting donated commodities to other uses. The company received USDA-donated commodities to make burritos for school lunches served under the NSLP, but our investigation disclosed that the company used some of the commodities illegally to prepare products for commercial sale. The investigation also disclosed that the company used products that did not meet the quality specified in the Government contract and, on several occasions, used adulterated meat to manufacture Mexican food products. As a result of these actions, the company defrauded the Government out of \$1.4 million. Sentencing is pending.

This investigation was conducted jointly with the FBI and USDA's Food Safety and Inspection Service (FSIS).

### **Procurement Practices Restrict Competition for School Lunch Contracts**

Last reporting period, we reported on procurement practices by school districts which resulted in higher prices for food under the NSLP. This period we continued our audit efforts at the Milwaukee Public Schools District to determine if it awarded NSLP contracts through open and fair competition. We found it did not. The district's practices could result in prices that are higher than necessary for NSLP food purchases. Neither FCS nor the State was aware that the district's policies and practices restricted competition.

- *The district did not advertise its bid solicitations.* Federal procurement regulations require such public advertisement to notify vendors of upcoming contracts. In Milwaukee, competition for contracts was restricted to those vendors invited by the district to bid.

- *The district did not send bid solicitations to all interested vendors.* The food buyer determined which vendors would receive bid solicitations based on their proximity to Milwaukee.
- *The district extended contracts with vendors for several years.* District officials stated that they had not rebid the contracts because they were satisfied with their current vendors. Because of the extended contracts, the district did not benefit from the competitive process and downward market fluctuations.

We recommended that the Milwaukee Public Schools District comply with Federal regulations, adhere to contract termination dates, and rebid all contracts that had been extended beyond their original expiration dates. In addition, we recommended that monitoring be implemented at either the Federal or State level to provide oversight of procurement activities.

FCS and State officials agreed to require the district to modify its procurement system to comply with Federal regulations and rebid all contracts that were extended. FCS has delegated oversight of procurement activities to the State.

### **Four Convicted of Defrauding the Child Care Feeding Program**

The executive director of a northern California agency that administered a USDA-funded child care feeding management agency pled guilty to falsifying the cost of services rendered to the program. The director and three co-defendants defrauded the program of about \$300,000 by paying each other for services they never provided. The co-defendants, who also operated a child care feeding management agency, pled guilty to mail fraud. Sentencing is pending for all defendants. This investigation was conducted jointly with the FBI.

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

### **Direct Distribution Saves Up to \$1.3 Million in Reduced Fraud**

The WIC Program provides nutritious supplemental food to pregnant, postpartum, and breastfeeding women, infants, and young children from low-income families

during critical times of growth and development. Participating women receive WIC food vouchers they use to purchase the supplemental food items at retail grocery stores. As part of an Illinois Department of Public Health initiative to reduce retailer fraud and abuse in the program, a 3-year pilot test of a direct distribution system was implemented in May 1993 in the inner city of Chicago. The State agency made the determination to implement this initiative at the site for several reasons: Fraud was prevalent in the pilot areas, security for WIC participants was low, and there was an absence of suitable vendors for authorization. Under the direct distribution system, participating women may use WIC food vouchers only at food centers run exclusively for them by a WIC-contracted facility, in this case the Archdiocese of Chicago (Catholic Charities).



Interior view of the WIC food center, which provides nutritious supplemental food by direct distribution. OIG photo.



Exterior view of a WIC food center in Illinois. OIG photo.

We evaluated the operating procedures of the direct distribution system to determine if it could provide a viable alternative to the retail purchase system. We concluded that for the pilot area the direct distribution system works better than the violation-prone retail purchase system. Based on a study performed by the Illinois Department of Public Health, costs to the program in Illinois were reduced by up to \$1.3 million through decreased retailer fraud.

The reduction in retailer fraud was accomplished by eliminating retailers and substituting WIC food centers. At the time of our review, eight WIC food centers had been established in the inner city of Chicago. The centers stocked only the foods authorized under the WIC Program and were closed to food shoppers other than WIC participants.

Fraud was also controlled by the use of a specially designed, nonnegotiable WIC voucher. The voucher, developed by the Illinois Department of Public Health for use only at the WIC food centers, identified the food items that could be obtained with it. Because the food voucher had no cash value, the opportunity to exchange it for cash was eliminated. This helped reduce or eliminate participant and retailer fraud.

We have suggested that the regional office encourage municipalities to use the system where benefits could be obtained through reduced costs to the WIC Program.

FCS officials agreed with our findings and recommendations.

### **Oregon Did Not Properly Account for \$1.5 Million in WIC Administrative Costs**

Oregon's WIC program is administered by the State through 34 local agencies that provide WIC services. In FY 1994, the State received \$10 million for WIC administrative costs.

Our audit found that the State's largest local agency did not keep adequate time and distribution records to support its WIC administrative claim. The local agency usually performed time and effort studies, but it neglected to do the studies during the period of June 1993 through September 1994. We tried to determine the local agency's actual costs, but could not account for \$1.4 million because of insufficient records.

Our review of the State's data processing charges found that it used budgeted amounts rather than actual costs in its WIC administrative claim. FCS had earlier notified the State to use actual costs. The State had claimed \$430,000 in data processing costs, but our review found that the records could only support \$230,000 of its claim. The State later reduced its administrative cost claim by \$79,000, leaving questioned costs of \$121,000.

We recommended that FCS officials collect \$1.5 million from the State based on questioned costs disclosed during the audit. We also recommended that they instruct State staff to maintain records to support administrative costs, and that they periodically monitor the State for compliance.

### **Commodity Supplemental Food Program (CSFP)**

#### **Reduced Services, Excessive Costs Found in Illinois CSFP**

The CSFP provides federally purchased commodities to States to be distributed to low-income pregnant, post-partum, and breastfeeding women, infants, and children up to age 6, and the elderly. Some of the States' administrative costs are paid for with Federal funds. In FY 1994, CSFP had a national caseload of 239,000 women and children and 212,000 elderly persons in 17 States, the District of Columbia, and 3 Indian Reservations. The total appropriation level for 1994 was \$104.5 million.

Our audit focused on the administration of the program by the State of Illinois and the local agency for Chicago. We found that the State exceeded the annual limit of \$30,000 allowed for State CSFP administrative expenses. The State did not have procedures to monitor the amount of funds used. Excessive State reimbursements totaled \$12,000 during FY 1994. The local agency also received \$28,000 in excessive reimbursements for rental and payroll costs because the agency used budgeted figures instead of actual costs to request reimbursement.

Procedures at distribution sites did not safeguard donated commodities or ensure adequate service to clients. We noted instances in which commodities were damaged, consumed by the local agency personnel at the distribution sites, or improperly diverted to other programs. One distribution site served its clients outdoors and was open only 2 days per month instead of the 2 days per week required by the contract. Program recipients, mainly senior citizens, were sometimes required to wait in lines outside the center to receive their commodities, in cold or otherwise inclement weather. Both the State and local agencies were aware of this problem but took no actions to remedy it.

We also found that the State and local agency did not have a way to prevent recipients from participating simultaneously in both the CSFP and WIC programs. Although the State had intended to use a computerized system to detect dual participation, the system it authorized for the local agency was not compatible with its own. As a result, some clients may be participating in both programs undetected.

We recommended that the local agency enforce contract provisions at the cited distribution center and ensure the proper handling of commodities. We also recommended that FCS recover the excessive State administrative funds and local agency costs, and that the State implement a system for the detection of dual participation.

FCS officials agreed with the findings and recommendations.



# Food Safety

## 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 1995 totaled approximately \$431 million.

### Salmonella Enteritidis (SE) Traceback Program Less Effective

The SE Traceback Program traces SE infection outbreaks in humans from chicken eggs back to an egg production flock. If SE is identified in a flock, there must be proper restriction on disposition of eggs. The primary objective of our audit was to evaluate the program's effectiveness in reducing and controlling SE outbreaks in humans and in egg-production flocks.

SE is one of over 2,000 different serotypes of salmonella. In 1988 the Centers for Disease Control reported a significant increase in SE infections in humans and said that a large portion of the SE outbreaks in humans was caused by Grade A shell eggs. The Secretary declared an SE emergency in February 1990 and began the traceback program.

We found that the traceback program was not as effective as it once was in helping to control and reduce SE outbreaks in humans and in egg-production flocks. Although the reported number of human SE illnesses decreased after the program began in 1990, it has risen significantly since then. We found the following:

- The percentage of successful tracebacks of eggs from an SE outbreak site to the probable flock of origin declined from 86 percent (19 of 22 outbreaks) in 1990 to 14 percent (3 of 21 outbreaks) in 1993. The 1994 results had not been finalized. The percentage of successful tracebacks since 1990 decreased significantly because traceback ended when several suspected flocks were identified. The Department proposed regulatory changes in August 1993 to trace to multiple flocks, but as of April 1995, no changes had been made. The delay has occurred because responsibility for the traceback program transferred from the Animal and Plant Health Inspection Service to FSIS in late 1994 and FSIS must finalize its applicable regulations.

- Tracebacks were often untimely and redundant. The average traceback took about 4 months from an outbreak until a decision was made to test a suspected flock or end the trace. This time could be reduced if FSIS accepted State agencies' traceback work. Also, the automated system used by program officials to track, document, and follow up on tracebacks was not adequate.
- Data on egg-implicated SE infections (the accuracy and completeness of which we could not verify) was not used to measure program effectiveness. The agency primarily used data on SE outbreaks in humans to evaluate the traceback program, but that data was inaccurate. Also data from sporadic infections was not always maintained and used. Overall, we estimated that 133,000 sporadic SE infections were caused by eggs in 1994.

The traceback program was the impetus for establishing voluntary egg quality assurance programs and for research on transmission and prevention of SE in chicken flocks and eggs. Voluntary egg quality assurance programs have been established in Pennsylvania and Maine, proposed for California, and proposed nationwide by egg producer organizations with assistance from State agencies and USDA. The objective of these programs is to help reduce the risk of SE contaminating egg-production flocks. More needs to be done to encourage implementation of effective voluntary programs and egg-producer participation. Proposed regulatory changes, if finalized, will exempt flocks participating in USDA-approved quality assurance programs from traceback regulations if voluntary program requirements equal or exceed traceback requirements. Our review found the following:

- Minimum national standards have not been established for egg quality assurance programs because the programs were voluntary and were not federally sponsored. Also, acceptable levels of risk of SE in flocks have not been established. Minimum standards are necessary to accurately measure SE in egg-production flocks nationwide and to ensure that all voluntary programs are consistent and effective in reducing SE and controlling the uses of eggs from SE-positive flocks.

- Compliance with egg diversion requirements of the Pennsylvania Egg Quality Assurance Program was not monitored as agreed in the agency's response to an OIG Management Alert. Egg diversion occurs when eggs from SE-positive flocks are sent to processing plants to be pasteurized or hard cooked rather than entering shell egg markets. We found that controls over eggs from SE-positive flocks were inadequate. No shipping controls and no identifying marks were required to ensure that the eggs were pasteurized or hard cooked. Our tests identified two pasteurization plants that also sold fresh shell eggs. The two plants were not aware that they received eggs from SE-positive flocks and could have sold those eggs as fresh shell eggs.

Traceback program funding for 1994 transferred to USDA's National Veterinary Services Laboratory was excessive because the amount was based on 1993 activities without input from program officials. The amount transferred in 1994 was \$764,000, an increase of \$68,000 over the 1993 amount of \$696,000, yet 15,000 fewer tests were performed in 1994 with no increase in testing costs. Using the rate per test based on 1993 data, we determined that \$600,000 was used to support laboratory work in 1994 unrelated to the traceback program. Similar testing and funding was planned for 1995, but the agency agreed to conduct additional program testing to justify the fund allocation.

We recommended that FSIS expedite the issuance of the proposed regulations which include provisions for traces to multiple flocks; seek formal agreements with State agencies to permit them to conduct traces; establish controls and assign sufficient staffing to ensure that tracebacks are tracked, documented, and timely completed; determine acceptable risk levels for SE in flocks; and establish minimum national standards for egg quality assurance programs. We also recommended that FSIS ensure that approved egg quality assurance programs meet or exceed the requirements of the revised traceback regulations, ensure that eggs from SE-positive flocks participating under USDA-approved quality assurance programs are properly diverted to pasteurization plants and that pasteurization plants do not unknowingly sell eggs from SE-positive flocks as fresh shell eggs, use data from outbreaks and sporadic infections to help assess accomplishment of program goals, and ensure that laboratory funding is commensurate with services provided.

# Marketing and Regulatory Programs

## Agricultural Marketing Service (AMS)

AMS enhances the marketing and distribution of agricultural products by, among other things, collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1995 was approximately \$242 million.

### New Audit Requirements Will Improve Compliance With Marketing Orders

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. There are 34 active marketing orders and agreements covering 32 commodities. Committees of growers, handlers, and nonindustry representatives administer and ensure compliance with marketing orders.

Over the past 3 years, we have worked closely with AMS officials to improve marketing order compliance. In previous semiannual reports, we discussed a joint project with AMS to help marketing order committees establish effective compliance programs and help AMS better evaluate committees' compliance efforts.

Before this project, each committee determined its own compliance activities and the need for audit work. As part of the special project, we collaborated with AMS personnel and committee representatives to develop:



An almond grader at work. AMS photo.

- compliance profiles to establish minimum compliance requirements for regulatory activities authorized by the marketing orders,
- compliance plans for all committees which specified strategies, resources, and activities, and
- a program for auditors to review handlers in accordance with agreed-upon procedures.

During this reporting period, we developed uniform procedures for auditors to review the quality control systems used by committees to test compliance activities. We tested these procedures on site visits to a representative sample of four marketing order committees: Oregon-Washington Filberts, California Almonds, Texas Citrus, and Vidalia Onions. These committees were judgmentally selected to provide for a variety of commodities, regulatory authorities, compliance activities, and geographic locations.

Our test indicated that the new audit procedures will effectively evaluate whether the committees implemented the required compliance activities and whether they are treating handlers and growers consistently, properly determining marketing order violations, and complying effectively overall.

### More Effective Controls Are Needed for Checkoff Funds

At the request of AMS officials, we audited the U.S. Meat Export Federation's (USMEF) use of and controls over funds from commodity assessments and the Department. USMEF is a nonprofit organization founded to enhance the ability of U.S. producers to export wholesome, high-quality meats and red meat products. AMS is charged with oversight responsibilities for the federation's use of beef, pork, and other agricultural commodity checkoff funds, while FAS provides funds to develop overseas markets.

Our audit examined if the federation used and accounted for Government beef and pork checkoff funds properly and if it ensured that the funds were not used to finance lobbying activities.

USMEF's accounting and management control structures did not provide reasonable assurance that checkoff funds were adequately protected from waste, loss, and misuse. We attributed this condition to systemic

weaknesses in the federation's financial operations and structure, and the inability of the pork and beef promotion boards and AMS to bring about needed improvements to USMEF's accounting and business practices. Specifically, we noted USMEF's use of three accounting systems, an ineffective voucher system, and the federation's inability to identify lobbying activities and costs.

We recommended that AMS coordinate with FAS and require USMEF to develop and maintain a single, integrated accounting system and improve internal controls accounting for the funds.

AMS and FAS officials agreed to collaborate to ensure that USMEF has adequate internal controls.

### **Animal and Plant Health Inspection Service (APHIS)**

Through its inspection 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 1995 activities are estimated to total over \$462 million.

#### **APHIS' Monitoring of Precleared Program Operations Needs To Be Improved**

As part of its participation in preclearance programs, APHIS' International Services staff inspects foreign packing and treatment (sizing, washing, fumigation, etc.) facilities, commodities, and the treatment of commodities in the country of origin. APHIS helps host countries develop work plans to prevent, control, and eradicate animal and plant diseases and pests that threaten American agriculture. Commodities from foreign facilities that work with APHIS are "precleared" and may enter the United States without undergoing the inspection procedures required of uncleared commodities.

Our audit evaluated APHIS' procedures for implementing the preclearance program for fruits and vegetables in the countries of origin and at U.S. ports of entry, and the inspection and quarantine of animals entering the United States through Canadian and Mexican border ports, and air and ocean ports.

We reviewed preclearance operations in three countries of origin: Chile, Venezuela, and Mexico. Preclearance programs in Chile and Venezuela were generally operating as prescribed. However, preclearance operations in Mexico did not always follow APHIS procedures. Mexican contract inspectors working for APHIS at packing facilities in Mexico did not ensure that exportable and nonexportable fruit were kept separate and did not require the removal of damaged fruit from the facilities. Packing houses were also not properly safeguarding fumigated fruit from reinfestation and were not shipping it in contamination-proof containers.

We also found that APHIS needed to better monitor precleared fruits and vegetables at U.S. ports of entry. Dockworkers stored precleared fruits and vegetables with uncleared shipments, and APHIS inspectors did not always verify that shipments marked as precleared were in fact precleared. In addition, longshoremen routinely removed USDA seals from precleared cargo containers, but APHIS inspectors did not enforce regulations which prohibited doing so. APHIS is developing guidelines for inspectors at ports of entry to improve enforcement efforts.

APHIS' reviews of port operations did not identify any of those conditions because the reviews did not specifically address preclearance activities. Also, preclearance work plans did not always contain port-of-entry monitoring procedures and were not always distributed to port personnel, so inspectors were not fully aware of their monitoring responsibilities.

APHIS also inspects animals entering the United States. It quarantines the animals prior to entry, based upon the type of animal and the risk assessment of the animal's country of origin. Generally, these inspection and quarantine operations were conducted in accordance with procedures; however, we found some areas that needed clearer procedures and stronger controls. Specifically, APHIS should clarify the responsibilities of the port veterinarian at the Canada-U.S. border for certifying animals free of disease. In addition, animal import documents and USDA seals and stamps were not properly controlled throughout ports of entry.

We recommended that APHIS improve its monitoring of offloaded cargo and its verification of precleared cargo, and enforce existing requirements. We also recommended that APHIS clarify and document inspection procedures, establish procedures to review preclearance operations at ports of entry, and assess the effectiveness of preclearance programs in each country.

With regard to animal inspection and quarantine operations, we recommended that APHIS reexamine inspection procedures along the Canadian border to determine if changes are needed, and establish controls over import documents, USDA seals, and stamps throughout ports of entry.

APHIS agreed to improve controls over preclearance operations, and provided instructions to regional offices to satisfy our recommendations.

### **Three Convicted of Smuggling Endangered Plants**

In California, a deputy county prosecutor, a medical doctor, and a businessman pled guilty to charges that they smuggled endangered “pitcher” plants from Malaysia and Indonesia into the United States in violation of the Convention on International Trade in Endangered Species (CITES) treaty. The three individuals unlawfully obtained plants in the two foreign countries and smuggled them into the United States by means of the U.S. mail. They addressed the packages containing the plants to friends and relatives, and identified the contents as T-shirts, gifts, and souvenirs.

Sentencing is pending.

OIG conducted this investigation jointly with APHIS and the U.S. Fish and Wildlife Service.

# Natural Resources and Environment

## Forest Service (FS)

FS manages natural resources on over 191 million acres of the National Forest System. It provides cooperative forestry assistance to States, communities, forest industries, and private forest landowners; manages a comprehensive forest research program; and applies conservation treatment to preserve wilderness and outdoor recreation areas. For FY 1995, the FS appropriation was \$3.4 billion, with timber sales and other receipts expected to be approximately \$1 billion.

### Research Stations Needed To Improve Accountability Over Project Costs

FS' research program is designed to improve the stewardship of 1.6 billion acres of forests and rangelands, both privately and publicly owned. In fulfilling this mission, FS research is authorized to cooperate with other Government agencies, universities, businesses, and private landowners and to share scientific information with them. FS' research program operates 9 research stations and employs over 700 research

scientists. For FY's 1992 and 1993, FS research received \$92.5 million from external clients and other FS units for research studies.

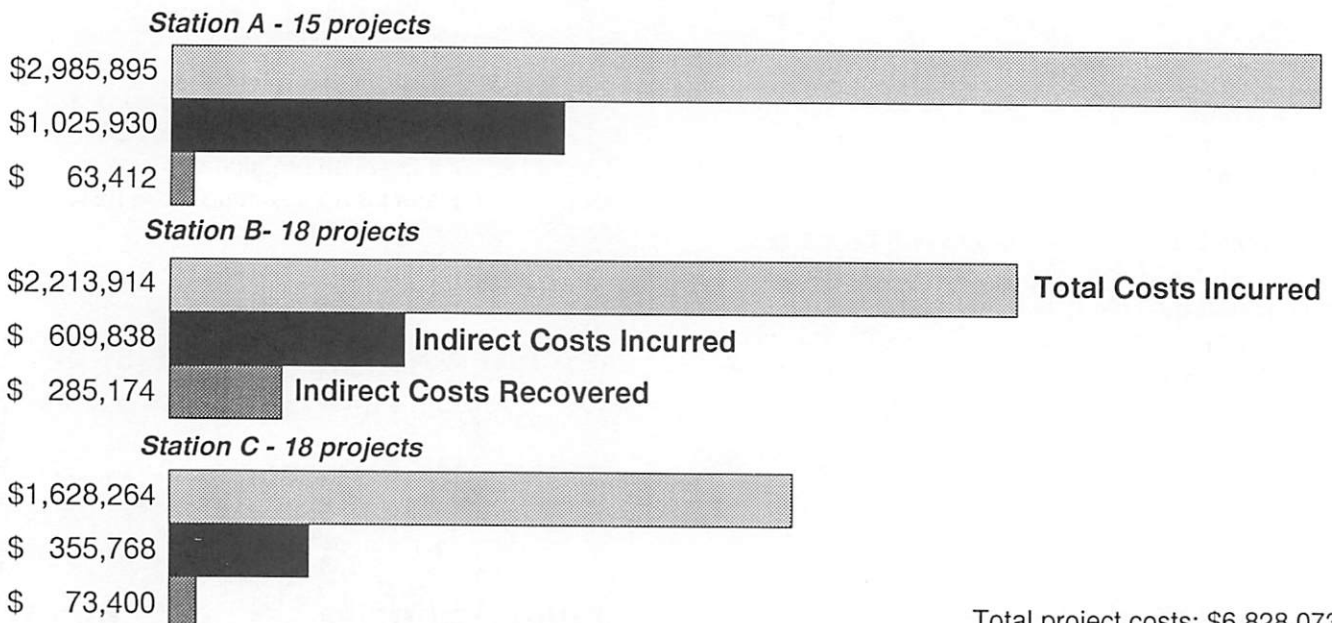
Our audit reviewed operations at three research stations. We reviewed the procedures by which the stations recovered indirect costs from customers and prevented the research appropriation from being augmented by funding from other sources.

We found that the three research stations did not adequately account for indirect costs (overhead, etc.) for services provided to external clients and other FS units. Although the stations recovered the direct costs of these services from their clients, they did not have a consistent policy of recovering indirect costs. FS directives did not provide guidance on computing indirect costs and on determining the extent to which such costs must be recovered.

The three stations were owed almost \$2 million in indirect costs on 51 research projects we reviewed, but only \$422,000 was recovered. The following figure summarizes the results of our analysis by station.

Figure 1

### Indirect Costs Incurred vs. Indirect Costs Recovered



Total project costs: \$6,828,073  
 Total indirect costs incurred: \$1,991,536  
 Total indirect costs recovered: \$421,986

We also found that FS actions resulted in unauthorized augmentation of research appropriations. FS managers improperly used their operating funds to obtain research services from the stations. Congress established the research appropriation as the sole funding source for research work within FS. Research stations may perform additional reimbursable work for other FS units, as long as that work is not research in nature.

However, FS directives do not provide clear guidance for determining the type of reimbursable work research stations can perform.

We reviewed 25 projects that provided reimbursable services and found that half contained research work. The cost of these projects, \$850,000, augmented the research appropriation by the same amount.

Finally, research stations enabled FS managers to circumvent Federal procurement regulations by using cooperative agreements to transfer their projects to non-FS research organizations. Procurement rules require FS managers to use contracting procedures if they want research projects handled by non-FS organizations. However, FS staff believed contracting would have been difficult and time consuming. Because research stations could form cooperative agreements with these organizations instead of using contracts, FS units were able to pass the projects through the research stations to the other organizations without having to use contracts.

Our review of 18 projects showed that FS gave the stations \$3.3 million, and the stations transferred \$2.6 million to non-FS research organizations.

We recommended that FS officials provide stations direction on calculating and collecting indirect costs, issue guidance on the type of reimbursable work that stations may perform for other FS units, and direct stations to review cooperative agreements to ensure that the proper authority was used to obtain scientific information and studies from external research organizations.

FS officials concurred with our audit recommendations.

## Natural Resources Conservation Service (NRCS)

NRCS provides technical assistance through local conservation districts on a voluntary basis to land users, communities, watershed groups, Federal and State agencies, and other cooperators. NRCS's work focuses on erosion reduction, water quality improvement, wetlands restoration and protection, fish and wildlife habitat improvement, range management, stream restoration, water management, and other natural resources problems. For FY 1995, NRCS' appropriation was about \$1 billion.

### Significant Reduction in Soil Loss Achieved Through Conservation Compliance

Legislation enacted in 1985 required producers to meet certain conservation requirements for highly erodible land in order to remain eligible for USDA farm programs. The objectives of the provisions were to (1) reduce soil loss due to wind and water erosion, (2) protect the Nation's long-term capacity to produce food and fiber, and (3) reduce sediment and improve water quality. The USDA farm program payments affected by these provisions approached \$8 billion for 1994. NRCS is responsible for identifying highly erodible land as well as providing technical assistance to producers for planning the required conservation systems to significantly reduce existing erosion levels.

We found that significant soil savings were achieved since the enactment of the legislation in 1985. NRCS assisted about 1.3 million producers in developing conservation plans for approximately 135 million acres identified as highly erodible.



Producers who applied effective conservation systems may have used contouring, terracing, and residue management. Photo courtesy of Soil and Water Conservation Society.

Although erosion was significantly reduced, we determined that the agency could gather additional information and conduct analyses through its status review process to concentrate review resources on those producers (21 percent of our sample) who had not applied acceptable conservation systems.

The ultimate goal of conservation is to reduce soil losses to the tolerance level—the maximum annual rate of soil erosion that can take place without causing a decline in long-range productivity. However, legislation and NRCS procedures require that, to maintain eligibility for USDA farm program benefits, producers need only apply a conservation system that results in a “substantial reduction” in soil erosion. We analyzed and projected the average soil loss (1) before the law was enacted, (2) if the planned systems were applied, (3) if the least restrictive alternative conservation systems were implemented, (4) at the tolerance level, and (5) at the current rate.

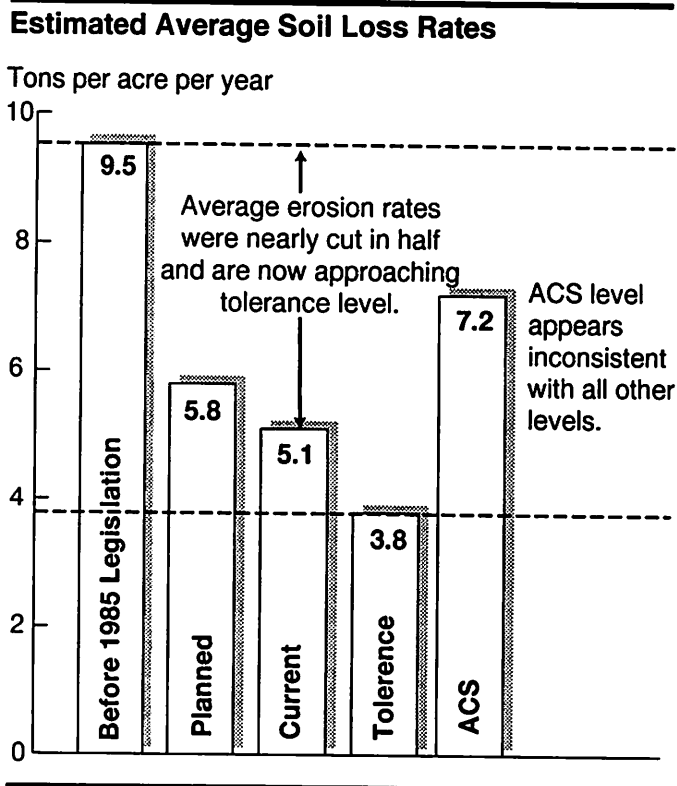
Significant progress has been made, as evidenced by the erosion rate, which we estimate to be now about 5.1 tons per acre per year. We estimate that before implementation of the legislation the erosion rate was 9.5 tons per acre per year. Using the conservation systems that the agency planned for highly erodible land would have resulted in an erosion rate of 5.8 tons per year. Allowing the producers to follow an alternative conservation plan would have resulted in a higher erosion rate of 7.2 tons per year. The ultimate goal (tolerance level) was estimated at 3.8 tons per year. (See figure 2.)

We recommended that NRCS revise its status review process to gather information needed to assess producer progress in meeting soil loss goals. NRCS officials generally agreed with our recommendations and will begin collecting additional information with the 1996 status review process.

#### Administration of the Wetlands Reserve Program Could Be Improved

The Wetlands Reserve Program (WRP) was authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 to encourage the voluntary restoration and protection of wetlands by landowners through permanent easements. The FY 1995 funding was about \$83.2 million for the enrollment of 115,000 acres. In FY 1995, administration of WRP was transferred from CFSA to NRCS.

Figure 2



Our review disclosed that Federal and State conservation agencies sometimes competed for the same land. In one Mississippi case, the Corps of Engineers offered a producer about \$525 an acre for 4,620 acres of land that was already offered for enrollment in the WRP at a cost of about \$450 per acre. In addition, a CFSA county office approved a WRP easement purchase on a 120-acre site already covered by a Corps of Engineers' flowage easement. As a result, this producer received a total of \$710 per acre for the land even though its agricultural value was only about \$425 per acre. Also, the process used to rank offers for enrollment into the program did not provide reasonable assurance that land which had the most restoration potential would be given priority over land with less restoration potential.

In addition, landowners were not required to submit competitive bids, and offers were not ranked on the basis of expected environmental benefits per dollar cost of restoration and easement purchase. This did not reasonably ensure that easements would be obtained at the lowest cost or that program accomplishments would be maximized. For example, one State



office determined that it would be able to accept 30 offers (about 13,210 acres) into the WRP based on its allocation of about \$5.6 million. However, we found that ranking the offers on the basis of expected environmental benefits per dollar cost of restoration purchase would have allowed the State to accept 52 offers (about 15,300 acres). We also found that easement payments could exceed the actual land value because bid caps were established at the State rather than local level.

We recommended that the easement purchases among competing agencies be coordinated to ensure that they are obtained at the lowest cost to the Government. We also recommended that the existing site condition be considered and offers ranked on the basis of the expected environmental benefits per dollar cost of restoration and easement purchase. In addition, we recommended that competitive bids be required and that bid caps be established by area or county.

NRCS officials generally agreed with our findings and recommendations and have initiated corrective action.

#### **Excessive Cost Shares Disbursed for Salinity Control Program in Colorado**

The Colorado River Basin Salinity Control Act authorizes USDA to share with individuals and others the cost of reducing the amount of salt entering the Colorado River from agricultural irrigation. The Colorado River Salinity Control (CRSC) Program can finance up to 70 percent of the cost of installing salinity control conservation practices in salt source areas.

We performed an audit because of program irregularities we found in last year's review. In our current review, we found that 33 CRSC participants in 2 counties in Colorado received unearned cost shares totaling \$126,000. Participants used various methods to increase cost share payments from NRCS. For example, a vendor routinely gave up to 10-percent discounts for irrigation equipment purchases, but the discounts were not reported to the agency. Another participant claimed cost shares for labor charges from another business that he owned in an effort to circumvent the county committees' established labor rate. By showing that a contractor performed the labor, the participant was able to inflate the labor cost from \$7 to \$40 per hour and thus was overpaid almost \$10,000. In another case, a group project inflated labor and machinery costs and overstated individual contributions made by members. As a result, the group did not incur out-of-pocket expenses as claimed and was overpaid \$35,000.

We recommended that NRCS officials collect unearned cost shares. We also recommended that they develop average costs for program practices to routinely identify related program irregularities. They concurred and have initiated corrective action.

# Rural Economic and Community Development

Under the Department's reorganization, the Farmers Home Administration, the Rural Development Administration, and the Rural Electrification Administration were abolished. Most of the loan programs these agencies administered were reassigned to three newly created agencies: The Rural Housing and Community Development Service (rural housing and community facility loans), the Rural Business and Cooperative Development Service (cooperative assistance and business and industry loans), and the Rural Utilities Service (electric distribution, telephone, and water and waste loans). Farmer program loans were reassigned to the Consolidated Farm Service Agency.

## Rural Housing and Community Development Service (RHCDS)

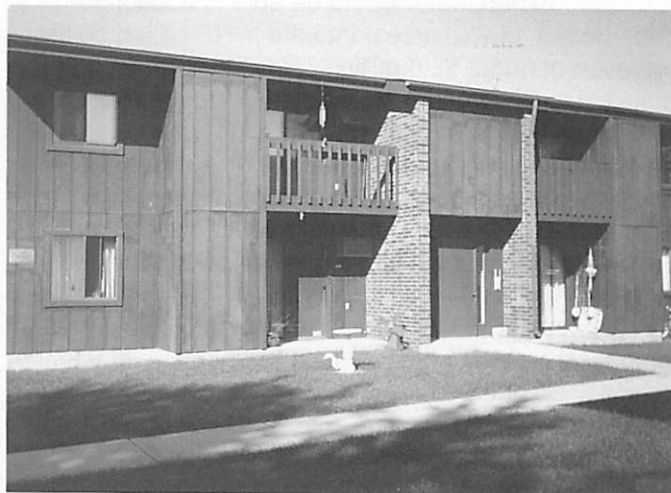
RHCDS makes loans for rural family housing, apartment complexes, and community facilities. As of the end of FY 1994, about 658,000 borrowers owed RHCDS \$19 billion in single-family housing loans, 22,000 owed \$11 billion in multifamily housing loans, and about 2,600 borrowers owed more than \$1 billion in community facility loans. An additional 24,000 borrowers had obtained single-family housing loan guarantees through RHCDS totaling \$1.5 billion.

During this period, we conducted several audits of the Rural Rental Housing (RRH) program. Because of its history of problems, this program is on the Office of Management and Budget's "high risk" list.

### Conflicting Laws Preclude Limiting Assistance to Developers

Under the RRH program, developers receive RHCDS loans to build low-income housing projects in rural communities. Our review covered FY's 1990 through 1992, during which time RHCDS obligated \$1.7 billion to construct 1,700 of these projects.

We found that conflicting legislative requirements precluded RHCDS from fully implementing the provisions of the Housing and Urban Development Reform Act of 1989. This act, which amended the Housing Act of 1949, requires that Government assistance to RRH projects, including loans, grants, and tax credit benefits, be limited to the level necessary to provide affordable housing. However, a further amendment limited a developer's required contribution to the project to



A typical RRH project, which provides low-income housing in rural communities. OIG photo.

5 percent (RHCDS' loan covers the other 95 percent). Because State tax authorities, not RHCDS, have control over the awarding of tax credits, the only way RHCDS could limit assistance to a developer is by decreasing the amount of the loan, thereby forcing the developer to increase his contribution beyond the 5-percent limit. As a result of this legislative conflict, RHCDS has not attempted to define the necessary level of assistance.

If the legislative barrier did not exist, we project that during FY's 1990 through 1992, a total of about \$285 million in loan funds would have been subject to reduction once RHCDS determined the necessary level of assistance. Since a significant backlog of eligible projects exists, the freed-up funds could have been used to build other needed facilities. Further, we estimate that the present value of the interest credit associated with the loan funds subject to reduction would total approximately \$287 million over the 50-year period of the loans.

Since RHCDS did not take into account tax credit benefits when determining the loan amounts to be granted, developers may have received unjust enrichment. We found that developers received returns on their investments ranging from 92 to 654 percent when they "sold" their tax credits to other investors. For example, one developer in our sample, whom we considered to be typical, made a cash contribution of \$39,700 and received a loan from the agency of \$1,282,300 to finance the project. The State tax agency allocated \$574,660 in tax credits which the developer syndicated for \$236,719. The loan and tax credit proceeds of \$1,519,019 exceeded total development

costs of \$1,431,595 by \$87,424. The developer's return, therefore, in this example, was about 220 percent ( $\$87,424 \div \$39,700$ ).

We recommended that RHCDS immediately seek a change to the Housing Act of 1949 which restricts the equity contribution that can be required of the borrowers if tax credits are received. We further recommended that RHCDS define and implement the necessary level of assistance as soon as the legislative encumbrance is removed. Agency officials generally agreed with our recommendations and will seek the legislative remedy needed.

#### *Use of Tax Credits May Not Be the Least Costly Alternative*

Our audit disclosed that the use of tax credits by the Government to provide the incentive necessary to construct low-income housing is more costly than other alternatives. If RHCDS had had the authority to forgo the use of tax credits, the Government could have saved \$80 million during the period covered by our audit. RHCDS could achieve these savings by providing a cash incentive to the developers equal to what they currently receive through the sale of tax credits. The cash incentive would cost the Government less than tax credits because the developers greatly discount the credits when they sell them in return for cash (sometimes getting less than half their value) at loan closing. Thus, the buyers of the tax credits cost the Government revenue that is not used or needed as an incentive to the developers.

#### *RHCDS Needs To Improve Funding Allocation to RRH Projects*

During our audit of RRH tax credits, we also reviewed how RHCDS allocates RRH program funds to States. We concluded that the agency needed to allocate the funds based on more current demographic data. RHCDS currently allocates program funds to the States based on census data gathered every 10 years. We found that this information was outdated, resulting in an inequitable distribution of projects. For example, for 1991 through 1993, RHCDS used 1980 census data. We recalculated each State's allocation based on the 1990 Census and determined that RHCDS overallocated \$100 million to Eastern and Central States whose need had declined since the 1980 Census, while underallocating the same amount to States in

the South and West whose need had increased since the census. (See figure 3.)

RHCDS also did not include data such as land and construction costs in its allocation methodology. If these cost factors are not considered, funds are not equitably distributed to provide needed housing units. As an example, Ohio and California were both approved for about \$19 million in RRH loans for 1991. However, Ohio was able to provide 640 housing units with these funds, while California was able to provide only 411.

State and district offices review preapplications to determine a developer's eligibility and a project's feasibility and priority for available funds. Points are assigned based on factors such as income levels in rural areas. We found that the States in our sample funded low-priority projects because the national office had not required the States to establish a minimum point level for rejecting preapplications. Of the 900 projects that the States funded, 100 received 30 or fewer priority points (less than a fourth of the total points possible). (See figure 4.) Funding of low-priority projects could mean that higher priority projects elsewhere go unfunded.

One district office funded projects with 20 and 25 priority points, when more than half of the projects in the State ranked with 60 priority points. A minimum point level would free funds for higher priority projects. If, for example, the States had established a 30-point minimum for the years we audited, they could have used \$85.1 million to fund higher priority projects.

We recommended that RHCDS periodically update its data to reflect current conditions, include a cost allocation factor, and ensure that each State implement a minimum point level to establish which applications should be returned to the developers without further processing. Agency officials generally agreed with these recommendations.

#### **RRH Borrower Misdirects Project Funds for Personal Gain**

RRH borrowers are required to deposit funds monthly to project reserve accounts to ensure that maintenance needs can be met. If borrowers manage their own properties, they are prohibited from doing business with undisclosed related-party companies (those whose financial interests are identical to the borrower's) when contracting for maintenance.

Figure 3

**Eastern and Central States Received \$100 Million More for a 3-Year Period Than Supported by the 1990 Census**

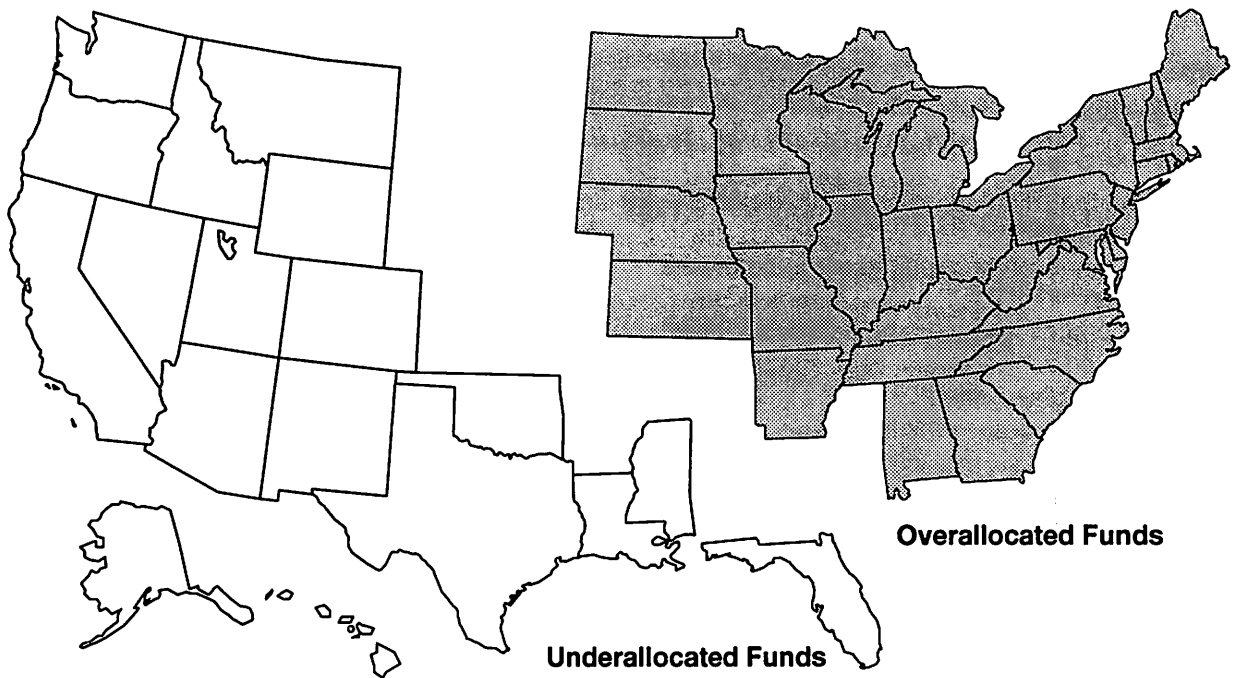
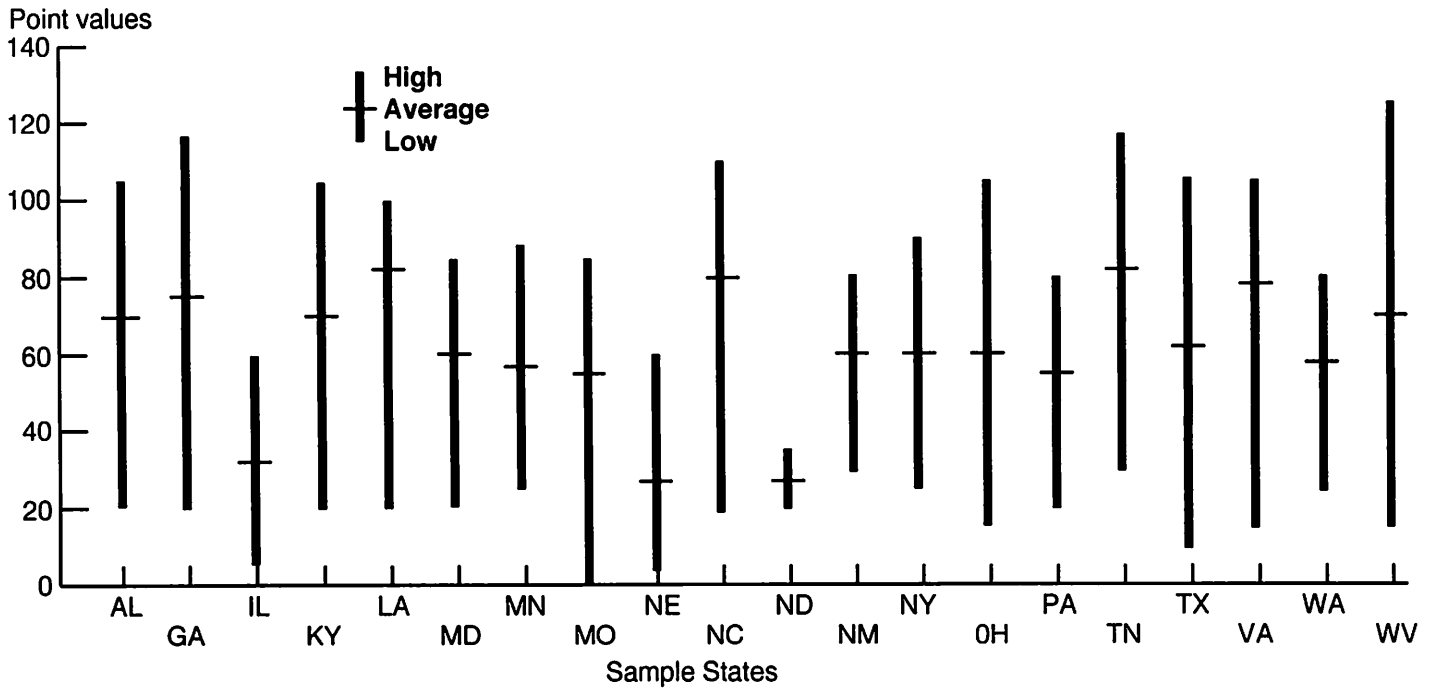


Figure 4

**Ranges of Priority Points for Projects  
Fiscal Years 1990-1992**



We reviewed the operations of a borrower who owned or managed a total of 77 RRH projects, with one consisting of 3,400 rental units in Florida, Oklahoma, Texas, and Virginia. We found that a vendor doing business with the projects under several names had an undisclosed identity-of-interest with the borrower. Almost \$1.2 million in RRH funds had been funneled through the vendor to the borrower's other interests, even though RRH project reserve accounts were in arrears by more than \$1.8 million. The borrower also spent over \$145,000 in misdirected and duplicated payments, withdrew almost \$13,000 from reserve accounts and failed to repay it, and commingled funds for unauthorized investments. During our review, the borrower relinquished management responsibilities for his Texas and Oklahoma RRH projects.

We recommended that RHCDS require the borrower to refund the \$1.36 million in transfers, charges, and withdrawals to the reserve accounts and to work out a plan to fully fund the balance of the accounts. We also recommended that RHCDS (1) ensure that the borrower not receive any compensation from the sale of any project until the reserve accounts are fully funded and (2) debar the borrower and his associated companies, officers, and directors from obtaining future loans and managing additional projects. RHCDS agreed with the conditions we reported. We will be working with the individual State offices to achieve corrective action.

### **RRH Borrower Settles Civil Case, Pleads Guilty to Criminal Charge**

In South Dakota, a borrower who owned and managed three RRH projects with 16 apartments agreed to settle a civil suit charging him with making 108 false claims for RRH rental assistance subsidies over a 6-year period. The false claims inflated rent subsidies sought by the borrower to compensate for reduced rental payments from low-income tenants. In addition to receiving excessive funding from the false claims, the borrower concealed from the Government that he was overcharging his low-income tenants, many of whom were on fixed incomes such as Social Security. Under the terms of the civil settlement, the borrower agreed to permanently stop participating in all Federal housing programs and to hire new managers for his apartments. He also agreed to make restitution of \$7,600 to tenants he overcharged, pay triple damages of \$26,700, and pay a civil penalty of \$65,000.

In a related criminal case, the borrower pled guilty to a felony charge for converting tenant rental payments pledged as collateral to USDA. He was placed on probation for 3 years and ordered to pay fines and assessments of \$2,100. In addition, he was ordered to pay restitution of \$2,300 to the apartment project reserve bank account.

### **Guilty Plea in RRH Embezzlement Case**

The manager of several federally funded apartment projects in Arizona pled guilty to theft of project funds. The manager made loans to himself totaling \$79,500 from an RRH reserve account and took almost \$60,000 from the U.S. Department of Housing and Urban Development's (HUD's) rental assistance program. The manager also paid his wife over \$30,000 in consultant's fees for work that he was under contract to perform at his manager's salary. Sentencing is pending.

This investigation was conducted jointly with HUD's Office of Inspector General.

### **Borrowers and Management Companies Misused RRH Program Funds**

Borrowers are required to submit annual reports to RHCDS on the financial operations of RRH projects. RHCDS reviews these annual reports and approves proposed budgets for the upcoming year.

We examined the operations of eight RRH projects in three States. We audited six of these projects at the request of the State directors. These projects were managed by four management companies and, in one case, by the borrower himself. All four of the management companies held financial interests with the borrowers.

Our audits disclosed that the borrowers and management companies had misused \$314,000 in project funds. They had charged unallowable and unsupported costs to project operating accounts, made improper payments to related-party maintenance companies, and underfunded or made unauthorized withdrawals from reserve and tenant security deposit accounts. The unallowable costs were duplicate charges for management expenses, excessive site management fees, improper markups added to the actual costs incurred for labor and materials, improper returns on investments, and miscellaneous costs for items such as personal expenses, holiday parties, and gifts.

We also questioned \$113,000 in unearned management fees because the management company that received the fees had contracted with another company to perform 100 percent of the management services for 55 percent of the total fee. Consequently, the projects involved were actually being managed at a cost of \$139,000, rather than the \$252,000 charged by the management company.

Two of the borrowers used employees or related-party companies to perform maintenance services to which they charged questionable labor rates for repairs and maintenance and added markups on services, supplies, and materials.

We recommended that RHCDS collect the funds improperly charged by the borrowers and that certain borrowers be prohibited from using related-party companies to provide services and materials to RRH projects. We also recommended that RHCDS improve its oversight over project operations and reporting. Program officials agreed with our findings and have initiated corrective action on the recommendations.

#### **Former Texas Police Chief Convicted of Defrauding USDA**

A former Texas police chief was convicted of falsely reporting his marital status and income in order to receive an RHCDS housing loan. Our investigation showed the chief received both the RHCDS loan to build a home and over \$1,000 in interest subsidies to which he was not entitled. He was fined \$5,000, sentenced to serve 1 day in jail, and placed on 3 years' supervised release. While our investigation was in progress, he was indicted on unrelated charges in State court and was fired from his job.

This investigation was conducted jointly with the FBI.

#### **Rural Utilities Service (RUS)**

RUS makes loans to companies to provide electric and telephone service in rural areas. RUS also makes loans and grants for water and waste facilities. As of September 30, 1994, RUS had about 2,200 telephone and electric borrowers with an outstanding insured loan portfolio of approximately \$19 billion, and electric loan guarantees of about \$21.3 billion. In addition, about 7,600 borrowers owed \$4 billion for water and waste disposal loans.

#### **RUS and RHCDS Are Competing With Private Sector Funds**

RUS and RHCDS provide loans and grants for community development. These loans and grants supplement, but should not compete with, credit available from commercial lenders. Borrowers must graduate to commercial credit sources when they are able to do so.

Our review of graduation activities associated with water and waste and community facility loans disclosed that RUS and RHCDS were competing with commercial credit sources. We statistically sampled 75 of 8,140 loans that the agencies had found ineligible for refinancing, and we located investment lenders interested in refinancing 65 of these loans.

Because some borrowers might experience substantial rate increases if their loans were refinanced at higher interest rates, we determined that not all 65 loans could be considered for graduation, according to regulations. We concluded that 37 loans in our sample could be refinanced with little detrimental effect on the borrowers. We statistically projected that 4,672 loans totaling over \$1 billion of the agencies' portfolios could be graduated.

We recommended that RUS and RHCDS ask the borrowers of the 37 sample loans to refinance. We also recommended that the agencies establish a review team to assess the graduation status of all borrowers with water and waste and community facility loans to determine which loans should be refinanced. Agency officials generally agreed with our recommendations and have instituted corrective action.

# Research, Education, and Economics

## **Agricultural Research Service (ARS)**

ARS is USDA's in-house research agency. It supports a nationwide infrastructure of laboratories that conduct research in agriculture and forestry, human nutrition and home economics, marketing, and rural development. It is also authorized to enter into grants with other institutions to obtain research it is not equipped to perform itself. Its 1995 appropriation was \$756 million.

## **Cooperative State Research, Education, and Extension Service (CSREES)**

CSREES coordinates USDA's agricultural research efforts with the land-grant institutions that support them. CSREES is authorized to provide financial support for research, education, and construction projects related to the food and agricultural sciences. During FY 1995, CSREES distributed \$531 million in research grants and agreements.

### **Research Institute Charged \$5 Million for Unauthorized Expenditures**

The Oceanic Institute is a private, nonprofit organization established to research ways to improve the growth of food fish and to make fish farming more commercially feasible. Located in Hawaii, the Institute is primarily supported by Federal, State, and private grants. Since 1985, it has received \$37.8 million through ARS and CSREES grants.

We performed an audit of the Oceanic Institute at the request of the Administrators for CSREES and ARS because of concerns raised by a CSREES and ARS inspection team about the construction of a research facility administered by the Institute. The inspection team had been directed to determine the value of the uncompleted facility after an earlier quality control review had questioned \$3.3 million of the Institute's grant expenditures. Part of these expenditures related to the research facility. The Institute had reportedly spent \$9 million on the facility, while the facility appeared to be worth only two-thirds of that amount.

Our audit augmented the work of the quality control reviewers and concurred with their conclusion that the Institute did not comply with Federal regulations or with the terms of its grant agreements. The Institute expended ARS funds for unauthorized construction

purposes, purchased equipment which was not in the grant budget or approved by ARS, and used CSREES construction funds for security services already included in the indirect cost rate. We also found, in corroboration of the quality control reviewers' conclusions, that the Institute subcontracted construction without ARS or CSREES approval. The questioned costs from both the quality control review and our audit totaled \$5 million.

Part of the amount questioned was for goods and services that the Institute improperly procured. The Institute contracted with related parties and generally did not justify a lack of competition when acquiring goods and services. We concluded that the inefficiencies of the Institute's management practices resulted in some loss of value to the research facility under construction. However, we were able to account for the expenditures of Federal funds on the research facility.

Because of the issues raised by our audit, we concluded that CSREES and ARS needed to intensify their monitoring of the Oceanic Institute's activities. Many of the concerns identified occurred (1) because CSREES and ARS did not closely monitor expenditures, even though the Institute had reported some overruns, and (2) because CSREES and ARS did not consider the Institute a "high-risk" grantee that made inaccurate statements in its reports.

We recommended that ARS and CSREES recover from the Oceanic Institute the \$5 million in questioned and unsupported costs identified during both our audit and the quality control review. We also recommended that CSREES and ARS disallow payments to related parties, ensure that the Institute's procurement manual complies with Federal procurement standards, and determine the possibility of entering into an interagency agreement with the State of Hawaii to perform onsite monitoring.

Management officials agreed with the audit findings and recommendations and are taking corrective action.

### **Better Planning Needed To Improve Capacity Building Grants Program**

The Capacity Building Grants Program was authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 to make grants to the 1890 Land-Grant Institutions and Tuskegee University for the purpose of strengthening the quality of their programs in the food and agricultural sciences. Grant funds support salaries,

equipment purchases, and other expenditures that will make the colleges competitive with other ranking institutions in the agricultural disciplines.

We reviewed the six institutions that received almost half of the capacity building grants CSREES awarded in FY's 1990 through 1993 and almost half of the Federal grant funds awarded for the same years. Our purpose was to determine if CSREES' policies and grant procedures could ensure that grant funds were being used to increase the academic standing of the colleges in the relevant disciplines.

We found that neither CSREES nor many institutions had established a verifiable implementation plan with measurable objectives, goals, or outcomes for the program. Two institutions had addressed capacity building as part of their long-range planning efforts, but the other four had generally relied upon the competitive nature of the grant approval process; they let grant awards determine immediate areas of research rather than submit proposals as part of long-range priorities. As a result, there is an increased risk that CSREES could fund disciplines, such as animal husbandry, etc., that the colleges do not plan to support in the future.

Increased CSREES involvement is needed to maximize the impact of the program and to ensure that program funds are properly targeted. The agency had not conducted the required program evaluation, and administrative reviews did not look into compliance with program provisions. Our audit found that some budget changes had not been approved, some required reports were not submitted, and accountability for matching funds was inadequate.

We recommended that CSREES develop a long-term strategic plan to guide the implementation of the Capacity Building Grants Program and that it encourage such planning at the college level. We also recommended that CSREES increase its monitoring of the program through program evaluations and administrative reviews.

CSREES officials were in general agreement with the audit findings and stated that appropriate corrective actions will be taken.

### **Grantee Pleads Guilty to Embezzling Grant Funds**

The former executive director of a private organization in Virginia which received CSREES grant awards pled guilty to embezzling over \$226,000 in grant funds. His sister, who aided the embezzlement scheme, pled guilty to wire fraud.

The private organization received \$1.7 million in CSREES grant funds which were to be used to promote education programs and research projects designed to strengthen higher education in the food and agricultural sciences. The former director embezzled the money by withdrawing travel advances which were never repaid, charging personal items on a company credit card, and establishing a fictitious business to which he authorized payments for services never performed. His sister and her husband established a second fictitious business to assist the former director in the embezzlement scheme.

The former director was sentenced to 18 months in prison and supervised probation for 3 years. He was also ordered to pay \$226,000 in restitution. His sister was fined \$1,000 and sentenced to 4 months' home detention and 2 years' probation.



# Financial, Administrative, and Information Resources Management

## Financial Management

USDA is required by the Chief Financial Officers (CFO) Act and the Government Management Reform Act to prepare and audit financial statements for all departmental accounts and activities. USDA's FY 1994 financial statements were prepared using seven accounting systems maintained by six separate agencies and USDA's National Finance Center (NFC).

### Financial Statement Audits

During this reporting period, we completed audits of the FY 1994 financial statements of CCC, FCS, FS, and the Department as a whole. CCC received an unqualified opinion. FS received a qualified opinion primarily because (1) errors pervaded the supporting data for two significant line items and (2) financial personnel could not timely complete their work on two other major line items because they had been diverted to performing fire-related duties during an especially bad forest fire season.

We issued a disclaimer of opinion on both the FCS and the USDA consolidated financial statements. FCS received a disclaimer because it could not fully support \$14 billion of operating and program expenses and over \$3 billion of nonoperating changes. The USDA consolidated statements received a disclaimer because of the cumulative problems with the FCS, FS, and FmHA financial statements.

The audits identified several reportable conditions, which are significant control deficiencies that could adversely affect an entity's ability to develop financial data. These reportable conditions are as follows:

- CCC must continue to improve its financial management systems and procedures to ensure reliable financial reports.
- CCC's Processed Commodity Inventory Management System does not provide management with reliable information on the amount and location of inventory.
- FCS' financial management system lacked fundamental internal and accounting controls.
- Improvements were made in FS' financial statement compilation process but significant weaknesses still exist, and inadequacies continue to exist in field-level data.
- Weaknesses reported under the Federal Managers' Financial Integrity Act (FMFIA) adversely impact the Department's consolidated financial statements.
- Improvements are needed in USDA's automated data processing (ADP) security and controls. The vulnerability arises because of weaknesses in the automated scheduling software used by the National Computer Center.
- CCC's and FmHA's internal control objectives and techniques are not documented to ensure that management's overall goals are achieved consistently and uniformly.

All but the last reportable condition are considered to be material weaknesses. A material weakness is a control flaw that could result in a significant error that would not be detected in normal business.

The audits also identified four instances of material noncompliance with laws and regulations. These are as follows:

- USDA must fully comply with Office of Management and Budget (OMB), U.S. Department of Treasury, and U.S. General Accounting Office requirements to implement the U.S. Government Standard General Ledger chart of accounts at the transaction level.
- FS does not have authority to incur expenditures for the salary and expenses of the Department's Office of the General Counsel attorneys.
- USDA needs to integrate its financial information system, ensure agencies follow departmental policies and procedures, and enhance the methodology used for identifying and reporting on performance measures in order to comply with all aspects of the CFO Act.
- USDA needs to improve oversight of corrective actions, ensure weaknesses are accurately reported, and strengthen supporting documentation for weaknesses identified in the Department's FMFIA reports.

Lesser financial statement issues are reported in corresponding management reports. During this reporting period, we completed management reports related to the FY 1994 Rural Electrification Administration/Rural Telephone Bank, CCC, FmHA, FCS, and USDA consolidated financial statement audits.

Agency management and the Office of the CFO (OCFO) generally agreed with our findings and recommendations.

### **Progress Being Made in Developing New Financial Information System**

Departmental management has recognized the need to improve USDA's financial systems to correct problems identified in prior audits. OCFO developed long-term initiatives which, when implemented, will result in better accountability departmentwide. One initiative is the Financial Information System Vision and Strategy (FISVIS). FISVIS will result in the establishment of a foundation financial information system (FFIS) along with standards, guidance, and definitions that will apply to all USDA agency financial information systems.

We continue to monitor the Department's progress in reinventing its financial systems and establishing standards and guidance. We have actively participated in identifying security requirements departmentwide and for the FISVIS local area network, reviewing both standard and agency-specific reporting needs, ensuring that implementation of FFIS corrects weaknesses noted during prior audits, and testing FFIS software to ensure that it meets USDA needs and established accounting requirements.

### **NFC Systems Should Be Used for Administrative Payments Issued Through CFSA Field Offices**

The reorganization of USDA has resulted in Federal employees of the former FmHA working in the same offices as non-Federal employees of the former Agricultural Stabilization and Conservation Service. The Federal employees are paid and serviced through administrative systems maintained by NFC, while the non-Federal employees are paid and serviced through CFSA's County Office Administrative Expense (COE) System.

We conducted a review to determine the need for further development and maintenance of the COE

system in lieu of using existing NFC payroll and personnel systems. It is essential that CFSA address the issue of payrolling its employees through two separate payroll systems with different payroll dates. We are concerned that unnecessary costs associated with the development and maintenance of the COE system will continue unless CFSA begins to use NFC's systems for all employees' payroll and administrative functions.

We recommended that CFSA postpone further major system development and enhancements until CFSA determines, in consultation with the CFO, whether the payroll and administrative functions for CFSA's non-Federal employees should be transferred from the COE system to NFC's systems. CFSA officials agree that such a determination is needed but plan to evaluate the issue further in conjunction with a study of the platform CFSA should use for its future administrative accounting system. However, we believe the issue needs to be addressed promptly to take advantage of the potential cost savings from consolidating all administrative services at NFC.

## **Information Resources Management (IRM)**

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' worth of payments, and it plans to spend billions of dollars in the future to modernize business processes. Audits of the Department's information resources, including modernization efforts and software and hardware management, continue to disclose weaknesses that leave operations vulnerable to waste and misuse.

### **Stronger Leadership Needed for the InfoShare Program**

The mission of InfoShare is to improve the delivery of services to USDA customers by integrating agency computer systems and "reengineering," or substantively changing, the way the agencies do business. The InfoShare program is a partnership among farm service, rural development, and natural resource agencies, and departmental administration. The project underwent a reevaluation beginning in September 1994 to deemphasize the role of computers and concentrate on reengineering business processes.

During this period, we initiated the second phase of our monitoring effort. This coincided with the hiring of the new InfoShare program manager, in January 1995, and the initiation of partner agency IRM projects. Our objectives were to determine if the initiatives were progressing towards InfoShare's goals and if the program was being performed cost effectively.

We determined there was a need for stronger leadership of the InfoShare program at the most senior levels in the Department. Partner agencies continue to view themselves as independent of any centralized project management and do not agree with the InfoShare program manager's views. If action is not taken, we believe the Department will have problems implementing many of the InfoShare objectives or accomplishing them cost effectively.

Partner agencies also have moved forward with IRM and reengineering projects without coordinating with the InfoShare staff. Contrary to what many USDA managers believe, some projects, such as the Kentucky Test, which has been touted as a "reinvention laboratory," have limited value.

Communication is also a problem. The InfoShare staff and the Office of Information Resources Management (OIRM) have duplicative responsibilities; there is confusion among the partner agencies, the executive committee, and the InfoShare program staff over the definition of "business process reengineering"; and procedures clarifying the InfoShare staff's role in the IRM acquisition process have not been implemented.

We recommended that the roles of the InfoShare staff, partner agencies, and others be defined; a strong centralized team be permanently staffed; memorandums of understanding between the partner agencies and InfoShare be developed to promote cooperation; projects at the Kentucky Test site be pursued only after cost-benefit analyses; and responsibilities of OIRM and InfoShare be clarified. We are working with administrators to reach management decision.

#### **FCS Should Move Its Minneapolis Computer Operations to Kansas City**

We reviewed FCS' Computer Support Center in Minneapolis, Minnesota. Our objectives were to evaluate the center's workload and determine how sensitive its data

was and what controls existed over its hardware, software, and communications. We also determined if the center's work could be more efficiently performed by the National Computer Center (NCC) in Kansas City, Missouri.

We concluded that FCS needs to develop a plan to phase out its mainframe computers at the center and to determine whether to keep the center's backup site. The computer resources available at the center could be obtained more economically at the NCC in Kansas City, where the processing environment is more secure. Numerous security deficiencies at the Minneapolis Center will need correction in order to bring the center into compliance with security requirements. These deficiencies represent a material internal control weakness.

The center processes data subject to the Privacy Act of 1974. For this reason, it needs to increase the efficiency and security of the facility until a decision is reached to move its operations to NCC. It needs to develop a computer performance management program, update and test its contingency plan, certify sensitive applications, improve inventory controls, and ensure the proper handling of sensitive ADP media.

The security of the data in the system also needs attention. The center should improve controls over access to sensitive systems and user passwords. It should obtain the required security clearances for contract personnel and institute a security briefing and debriefing process for them.

We recommended that operations at the Minneapolis Center and FCS Headquarters be consolidated at NCC. We also recommended that until the operations are consolidated, FCS improve the efficiency of the center and the security of its systems.

#### **FCS Needs To Improve Oversight of ADP Security in Missouri**

In order to evaluate FCS' oversight of Federal requirements for the operation of the ADP system in the State agencies that directly manage FCS programs, we reviewed the FSP computer systems for the State of Missouri. We evaluated system and data security at the central ADP data center responsible for processing FSP eligibility and benefit determinations.

We found that FSC' regional office responsible for FSP oversight in Missouri needed to improve its oversight of ADP security. The regional office did not adequately analyze the State's 1992 and 1994 biennial security reviews. Known security weaknesses were not included in these reviews. Consequently, FCS was not aware of the weaknesses when authorizing new projects.

Our review disclosed security weaknesses at the data center. The center did not ensure adequate protection of its automated systems. The center's decentralized security precluded adequate oversight of the center's overall activities. We found that system libraries needed to be restricted and controlled, security software features needed to be implemented, violation reports needed to be created and reviewed, and access to the computer room needed to be protected. Without appropriate controls, both data and programs were susceptible to unauthorized access.

We recommended that FCS properly analyze the State's biennial security reviews and periodically follow up to determine if deficiencies are corrected. We also recommended that FCS advise the State to centralize its control of security functions and establish a comprehensive security program that included restriction to the system libraries and implementation of security software features.

FCS and State officials were in general agreement with the audit findings and recommendations.

### **Improvements Needed in Controls Over ARRS**

The All Resources Reporting System (ARRS) was developed to improve the reliability of financial and management accomplishment information used by FS. The objective of ARRS is to help FS manage its finances and report its accomplishments.

The objective of our evaluation was to assess the system's development, ARRS financial statements of receipts and expenses, and the National Forest System program accomplishments, reported in terms of performance measures.

Our evaluation disclosed that FS did not adequately document ARRS administrative procedures, ensure that the system controls were effective, nor ensure that the system complied with accounting principles. There was no written methodology explaining such things as how

macros (programming codes used to extract data from data bases) were developed or how the data extracted was to be reconciled. Internal controls over the macros did not ensure that all revenue and expense items were reflected in ARRS statements, that deadlines were established for ARRS reports, and that access to macros was restricted to ensure their integrity. ARRS' preparation of financial statements should be based on the FS general ledger, but undocumented methodologies do not guarantee consistency.

Concerning ARRS performance measures, we concluded that some agency performance measures were not clearly defined, that wildlife measures required clarification, and that program outcomes requiring observation and projection techniques lacked a sound statistical basis. We also found that many ARRS work activities were not included in the FS' handbook.

We recommended that FS officials document ARRS procedures and develop controls to enhance statement accuracy and consistency.

In the area of ARRS performance measures, we recommended that FS managers develop supporting documentation for the measures, define a "standard" accomplishment, and establish procedures in the wildlife program to combine like units of measure and distinguish between measures that appear similar.

We also recommended that FS reconcile receipts and expenses calculated by ARRS to information in the unit financial statements.

FS officials generally agreed with our findings and recommendations. However, they stressed that resolution of the recommendations will be a long-term process.

### **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 professional auditing standards. 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 if it meets the requirements of OMB Circular A-128 and the Comptroller General standards. In addition, OIG commonly participates in quality control reviews, led by other assigned cognizant Federal audit organizations, of State agencies administering major USDA programs.

During this 6-month period, we issued four audit reports covering areas over which we have been assigned cognizance. Of these reports, three contained recommendations with questioned costs of \$453,000 in USDA assistance. For example, as the assigned cognizant audit agency for single audit activities for the Puerto Rico Department of Agriculture, we processed the single audit report for the fiscal year ending June 30, 1992. The audit questioned \$196,000 in funds furnished to the Puerto Rico Department by APHIS. The questioned costs were the result of reimbursements received from USDA agencies which exceeded actual expenses incurred by the Department. It was recommended that the Puerto Rico Department of Agriculture improve its accounting controls in order to minimize time between the receipt of USDA funds and actual expenditures. This was a repeat condition from the previous fiscal year for which an adequate correction had not been implemented.

During this 6-month period we also received, distributed, and tracked recommendations addressing USDA assistance as identified by 32 audit reports furnished to

us by other cognizant Federal agencies under OMB Circular A-128. Of these, 16 contained recommendations with an associated monetary value of almost \$2.5 million in USDA assistance. For example, an audit of the State of Virginia for the fiscal year ending June 30, 1993, revealed that the Women, Infants, and Children Division did not have adequate internal controls to manage assistance received from FCS. Redeemed food instruments were not being reconciled with valid certificate records so that variances were identified and resolved. In addition, the replacement check system lacked reconciliations and supporting documentation. As a result of the internal control weaknesses, over \$400,000 in questioned costs were identified during the audit and it was recommended that the State's Women, Infants, and Children Division perform and document the needed reconciliations.

For audit reports where no cognizance had been assigned, we accepted general oversight and performed desk reviews for four reports, one of which involved questioned costs of \$19,500 in USDA assistance.

For audit reports prepared by non-Federal auditors under the requirements of OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, we accepted general oversight and performed a desk review for one report during the 6-month period. The report contained recommendations with an associated monetary value totaling over \$50,000 in USDA assistance.

# Employee Integrity Investigations

## Employee Integrity Investigations

A top priority for OIG is the investigation of serious allegations of employee misconduct, including 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 into these types of matters resulted in 11 convictions of current or former USDA employees and 26 personnel actions, including reprimands, removals, suspensions, and resignations.

The following are examples of some recent investigations:

### **CFSA Office Manager Defrauds Government of Nearly Half a Million Dollars**

A Mississippi county executive director pled guilty to defrauding CFSA and FCIC of \$476,000 over a 7-year period. The employee was indicted on nine counts for making false statements and false claims to FCIC and CFSA to receive payments through insurance claims and through the disaster assistance and crop deficiency programs. He used nine different names for his illegal actions.

From 1987 to 1994, the employee fraudulently obtained \$458,000 in CFSA program funds by submitting false claims, altering official CFSA documents, and using unwitting farmers' production and crop bases. He also falsely certified the amount of his crop production and understated crop yield, resulting in FCIC indemnity payments of \$18,000. He was sentenced to 10 months in prison and ordered to pay restitution of \$123,000.

### **Former Employee Sentenced to Prison for Embezzlement**

A former Rural Economic and Community Development (RECD) program assistant in Georgia was sentenced to serve 18 months in Federal prison and to repay \$80,000 after she pled guilty to embezzling cash and money orders which she received from loan recipients as payment on their accounts. She must also pay half the cost of an audit of her former office if conducted within 1 year of her sentencing. Her spouse pled guilty to one count of receiving stolen property and was sentenced to probation and must pay restitution of \$888.

In this 3-year scheme, the employee set up a separate set of books at RECD and used payments made by other loan recipients to cover the embezzled accounts. Some accounts became delinquent because she did not repay all the embezzled funds as she had planned. She whited out the payee (formerly FmHA) on the money orders, made them payable to herself, and deposited them into her personal account. She also took some of the money orders to her husband, a convenience store manager, who cashed them.

This investigation was conducted jointly with the FBI.

### **Former FAS Official Guilty of False Travel Claims and Telephone Misuse**

In Washington, D.C., a former FAS official pled guilty to falsifying travel vouchers, making personal long-distance telephone calls from Government telephones, and misusing Government telephone credit cards. He resigned in 1995 as part of a plea agreement in which he also must pay \$19,000 in restitution.

The official served as agricultural attache in two South American posts. The investigation disclosed that he also falsified per diem claims, submitted false claims for the storage of FAS furniture, and used his Government secretary to perform personal work for him on Government time. Sentencing is pending.

### **Cashier Fired for Imprest Fund Fraud**

An imprest fund cashier in Maryland was fired after pleading guilty to embezzling \$8,000 in USDA funds from May 1992 to September 1993. The investigation found that after embezzling \$2,000, the cashier forged several documents each month to balance the account and conceal the shortage. The crime was uncovered during a routine ARS audit of the imprest fund. Sentencing is pending.

### **FS Employee Convicted of Weapons Violation**

An FS law enforcement officer pled guilty in California to unlawful possession of an unregistered firearm silencer. The investigation disclosed that the employee had manufactured the silencer at an unauthorized gun shop which he operated on FS property. The silencer was seized during the execution of a search warrant. Sentencing is pending.

This investigation was conducted jointly with FS and BATF.

# 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.

## Audits Pending Agency Action

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
APHIS	12/06/94	1. Assessment of User Fees (33600-1-At)	1,525,339	0
CFSA	06/11/93	2. Payment Limitation for Hughes and Sully County Entities (03600-27-KC)*	593,193	87,780
	06/16/93	3. Payment Limitation for Rosebud, Yellowstone, Cascade, and Daniels County Entities (03600-30-KC)*	260,273	110,273
	06/16/93	4. 1991 Maximum Payment Limitation, State of Arizona (03600-18-SF)*	1,322,101	624,912
	06/18/93	5. Adjusted World Prices for Rice and Upland Cotton (50600-8-At)*	193,000,000	153,000,000
	09/30/93	6. Control of Maximum Limitations for 1991 (03600-33-Te)*	14,940,144	14,940,144
	09/30/93	7. Payment of Losses on Guaranteed Farmer Program Debt Writedowns (04600-14-Te)*	4,587,953	4,556,541
	09/30/93	8. Crop-Year 1991 Claims (05600-4-Te)*	8,916,815	0
	07/01/94	9. Upland Cotton User Marketing Certificate Program (03099-35-FM)*	165,000,000	165,000,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount with No Mgmt. Decision (in dollars)
	07/12/94	10. Marketing Loan Program Objectives and Accomplishments (03600-16-At)*	1,227,700,000	1,227,700,000
	09/30/94	11. Servicing Delinquent Farmer Program Accounts (04600-25-Te)*	222,498,627	902,188
	10/11/94	12. Information Management Consultants Indirect Cost Rate (03545-23-Hy)	99,141	99,141
FCS	03/31/95	13. Child and Adult Care Food Program - Day Care Homes (27600-6-At)	0	0
FmHA	03/30/95	14. Farmers Home Administration/ Rural Development Administration's Consolidated Financial Statements for Fiscal Year 1994 (04400-3-FM)	0	0
RHCDS	09/30/94	15. Rural Rental Housing Program - Management Operations (04600-47-Ch)*	918,059	918,059
	02/08/95	16. Rural Rental Housing Projects - Special Review (04099-90-Hy)	584,887	584,887
	02/17/95	17. Rural Rental Housing Program - Life Style, Inc. (04099-130-Ch)	0	0

**Audits Pending Judicial, Legal, or Investigative Proceeding**

CFSA	03/13/91	18. Insurance Contracts with Large Indemnity Payment Adjusted by Crop Hail Management (05600-3-Te)*	122,588	105,667
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<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount with No Mgmt. Decision (in dollars)</b>
	09/30/93	19. Disaster Program, Nonprogram Crops, Mitchell County, Georgia (03097-2-At)*	5,273,795	1,482,759
	01/31/94	20. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia (05099-22-At)*	88,631	88,631
	04/07/94	21. Audit of Emergency Conservation Measures in Texas (03099-161-Te)*	152,941	124,022
	08/19/94	22. Wool and Mohair Payment Limitation, Terrell County, Texas (03600-43-Te)*	1,199,730	30,000
	01/18/95	23. Disaster Assistance Program - Autauga County, Alabama (03099-153-At)	628,570	628,570
	01/19/95	24. Disaster Assistance - Geneva County, Alabama (03099-157-At)	1,667,814	229,828
	03/02/95	25. Disaster Assistance Program - Jackson County, Florida (03099-158-At)	359,265	359,265
	03/31/95	26. Disaster Assistance Program - Yuba County, California (03600-26-SF)	484,972	420,255
FS	10/27/92	27. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	1,079,189

\*Reported in last semiannual report.

## **Audits Without Management Decision - Narrative**

### **1. Assessment of User Fees, Issued December 6, 1994**

We recommended that APHIS develop and implement cross-serving agreements with U.S. Customs and the U.S. Immigration and Naturalization Service (INS) to maximize its ability to review the collections and proper remittance of user fees for all the agencies. APHIS officials agreed that cross-servicing reviews with INS are in the Government's best interest and are pursuing this agreement. However, APHIS is not pursuing a similar arrangement with U.S. Customs, citing that such an arrangement is not beneficial due to different review methodologies and scope, types of fees collected, and difficulties in coordination. We still believe that coordination with U.S. Customs is needed and are currently working with APHIS to reach management decision.

### **2. Payment Limitation for Hughes and Sully County Entities, Issued June 11, 1993**

A partnership we reviewed 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. CFSA National Office officials initially advised us that they agreed with the finding. We recently obtained advice from the Office of the General Counsel (OGC) on this matter. If we are unable to reach management decision we plan to elevate the matter to the Under Secretary for Farm and Foreign Agricultural Services.

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

Two of the partnerships we reviewed did not conduct farming operations as presented to the county committees. Consequently, they received excessive 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 recently obtained advice from OGC on this matter and are working with the CFSA National Office staff to reach management decision.

### **4. 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. CFSA State officials initially agreed with our finding, but the State Committee disagreed. We recently obtained advice from OGC on this matter. If we are unable to reach management decision, we plan to elevate the matter to the Under Secretary for Farm and Foreign Agricultural Services.

### **5. Adjusted World Prices for Rice and Upland Cotton, Issued June 18, 1993**

We recommended that CFSA 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 CFSA staff developed written policies and procedures regarding the adjusted world price calculation process, they did not detail (1) data collection methods for valuing broken rice kernels, (2) requirements for documenting and periodically validating the adjusted world price determination process, and (3) steps for adjusting the formula when values change. OIG is evaluating CFSA's position with the intent to elevate it to the Under Secretary for Farm and Foreign Agricultural Services.

### **6. Control of Maximum Limitations for 1991, Issued September 30, 1993**

In a statistical sample of CFSA end-of-year reviews for 1991, we projected that 181 of the 836 producers reviewed by CFSA staff 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. CFSA staff implemented our recommendations to improve controls over the end-of-year process. However, they have reserved judgment on our statistical projection of questioned costs

pending a review of the specific sample cases. We are currently working with them to reach agreement on the individual cases and the projected questioned costs.

#### **7. Payment of Losses on Guaranteed Farmer Program Debt Writedowns, Issued September 30, 1993**

CFSA staff erroneously paid loss payments to 89 percent of the borrowers we reviewed because they 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 the agency recover over \$4.5 million. We also recommended that program staff 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. Agency management has completed its review of the cases, but the collection process has not yet been initiated.

#### **8. Crop-Year 1991 Claims, Issued September 30, 1993**

We recommended CFSA shift more of the risk from the Government to reinsured companies through restructure of the standard reinsurance agreement and Bulletin MGR-001. CFSA staff is currently working on MGR-001. Regarding the standard reinsurance agreement, CFSA maintained essentially the same risk for loss as currently stated in the 1995 Standard Reinsurance Agreement. However, CFSA increased the underwriting gains to be retained by the reinsured companies. We will continue to seek resolution on this issue.

#### **9. Upland Cotton User Marketing Certificate Program, Issued July 1, 1994**

CFSA officials have neither satisfactorily responded nor provided suitable alternatives to the recommendations in this report, but are in the process of developing another response. The recommendations address program abuses occurring under the forward contracting and payment rate setting provisions of this program. If we are still unable to reach agreement, the recommendations will be elevated to the Under Secretary for Farm and Foreign Agricultural Services for decision.

#### **10. Marketing Loan Program Objectives and Accomplishments, Issued July 12, 1994**

We recommended that CFSA staff revise cotton program regulations to determine marketing loan redemption rates based on domestic rather than world cotton prices and seek a legislative change to do the same in the rice program. We also recommended that they revise regulations to stop automatically paying accrued storage on cotton and be consistent with the treatment of other crops. We have expressed our concerns to the Under Secretary for Farm and Foreign Agricultural Services. CFSA staff is now drafting an additional response. If we are unable to reach agreement, the outstanding recommendations will be elevated to the Under Secretary for resolution.

#### **11. Servicing Delinquent Farmer Program Accounts, Issued September 30, 1994**

We found that CFSA staff made improper servicing decisions for borrowers who were approved for net recovery buyouts. As the result of these decisions, eight borrowers were approved for unauthorized benefits (excess writedowns and writeoffs) totaling \$902,188. We recommended that the agency review the borrowers cited in the report, and in consultation with OGC, take appropriate action to recover the unauthorized benefits. Program management agreed and its review is underway.

#### **12. Information Management Consultants Indirect Cost Rate, Issued October 11, 1994**

The audit questioned the contractor's accounting for State income tax and indirect employee salaries. The contractor's general and administrative cost pool was overstated and a 1.5-percent reduction was needed. Based on this determination, we recommended that CFSA should determine how this reduction affects its contract with Information Management Consultants. The contracting officer has not responded as to whether or not the audit-determined rate will be used to close out the contract.

**13. Child and Adult Care Food Program - Day Care Homes, Issued March 31, 1995**

We recommended that FCS (1) require that sponsor and State monitoring visits to day-care homes be unannounced and that routine contacts with parents be made; (2) establish minimum sponsor review coverage, enrollment information, and meal claim edits; (3) require that all day-care home providers receive specified minimum training; (4) establish minimum State agency review coverage; (5) work with the Department of Defense to define the scope and frequency of audits of military sponsors; and (6) require that FCS management evaluations include tests to assess and evaluate the effectiveness of State and sponsor day-care home monitoring. We are working with FCS officials to reach management decision.

**14. Farmers Home Administration/Rural Development Administration's Consolidated Financial Statements for Fiscal Year 1994, Issued March 30, 1995**

We determined that procedures for accumulating and documenting relevant, sufficient, and reliable data used to establish and reestimate the loan subsidy costs for direct loan and loan guarantees, as required by the Federal Credit Reform Act of 1990, needed improvement. We have been unable to reach agreement with agency officials on the necessary procedures, but we are continuing to work with them.

**15. Rural Rental Housing Program - Management Operations, Issued September 30, 1994**

We found 13 management companies that misused project funds totaling \$918,059. A significant amount of the misused funds was attributed to related party company transactions. The misused funds included unallowable and unsupported charges such as: Salary and overhead expenses related to management company operations; improper markups added to actual costs incurred; expenses related to non-RRH projects; personal expenses; and holiday bonuses, gifts and parties. We recommended that RHCDs staff develop controls to monitor the reasonableness of costs charged by related party companies that provide service, supplies, or materials to RRH projects. We are continuing to work with them on this matter.

**16. Rural Rental Housing Projects - Special Review, Issued February 8, 1995**

We recommended that the management company reimburse the projects for unauthorized, unsupported, and unallowable costs charged to project accounts. In addition, we recommended that the borrower fund the reserve account to the required level. RHCDs officials have notified the borrower of our recommendations, and are in the process of pursuing administrative actions.

**17. Rural Rental Housing Program - Life Style, Inc., Issued February 17, 1995**

A management company, through a related party relationship with another company, was charging unreasonable markups on products and services to the RRH projects operated by the management company. The related party company was not a truly separate entity from the management company, but existed primarily as a means of increasing the management company's profits at the expense of the projects. RHCDs officials disagreed, stating that any company properly licensed by the State to do business was to be considered a "viable, ongoing business," and was therefore entitled to charge reasonable markups on its sales. We are currently working with them to reach a management decision.

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

We questioned insurance payments to four entities because the adjuster did not properly adjust the claim or the insured failed to report their crop sales. Management decision has been obtained for three cases. The fourth case has been referred to the U.S. attorney for prosecutive determination. Management decision cannot be reached until criminal action is complete.

**19. 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. CFSA officials agreed with our recommendations. However, claims cannot be established until all investigation and/or court actions are completed.

**20. 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 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.

**21. Audit of Emergency Conservation Measures in Texas, Issued April 7, 1994**

We reported that four producers received ineligible cost shares of about \$123,000 because they used a scheme or device to evade payment limitation provisions of the program. These sample producers also falsely reported the practice costs used to compute the cost-share payments and did not report contributions made by others. Three other producers were overpaid \$18,000 because cost shares were paid for restoration of a cattle corral and dikes along the river, both ineligible cost-share items. The false certification issues are being considered for civil action by the U.S. attorney. No action can be taken by CFSA until a decision is made.

**22. Wool and Mohair Payment Limitation, Terrell County, Texas, Issued August 19, 1994**

CFSA staff determined that a family group adopted a scheme or device to evade the Wool and Mohair Program's payment limitation. Action on the remaining dollar amount and recommendation is pending completion of investigative action.

**23. Disaster Assistance Program - Autauga County, Alabama, Issued January 18, 1995**

We identified program payments of \$628,570 resulting from suspected intentional program violations by producers. CFSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

**24. Disaster Assistance Program - Geneva County, Alabama, Issued January 19, 1995**

We identified program payments of \$229,828 resulting from suspected intentional program violations by producers. CFSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

**25. Disaster Assistance Program - Jackson County, Florida, Issued March 2, 1995**

We identified program payments of \$359,265 resulting from suspected intentional program violations by producers. CFSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

**26. Disaster Assistance Program - Yuba County, California, Issued March 31, 1995**

There are two recommendations without management decision, both dealing with the county committee determining whether producer applications for assistance were made in good faith. We recommended that the entire disaster assistance payments be collected if the producers acted in bad faith. Since we referred many of the producers to be investigated, CFSA has suspended corrective action on the referred producers pending completion of the investigations.

**27. 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 charging costs associated with cost of the aircraft they traded in against future firefighting contracts. The U.S. Department of Justice is investigating these issues. No action can be taken until the investigation is complete.

## Indictments and Convictions

Between April 1 and September 30, 1995, OIG completed 503 investigations. We referred 424 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 494 indictments and 439 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 439 convictions do not necessarily relate to the 494 indictments. Fines, recoveries/collections, administrative penalties, restitutions, and claims established resulting from our investigations totaled about \$24 million.

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

### Indictments and Convictions April 1 - September 30, 1995

Agency	Indictments	Convictions*
AMS	0	2
APHIS	5	8
CFSA	62	41
CSRS	2	2
FAS	5	2
FCS	391	355
FS	2	1
FSIS	5	0
GIPSA	1	0
MULTI	0	2
NRCS	0	2
OIG	0	1
OIRM	1	0
RHCDS	20	22
RUS	0	1
Totals	<u>494</u>	<u>439</u>

\* 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 2,558 calls and letters. These contacts included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 5 displays the volume and type of the various calls and letters we received and figure 6 displays the disposition of those complaints.

Figure 5

### Hotline Complaints

April 1 to September 30, 1995  
(Total = 2,558)

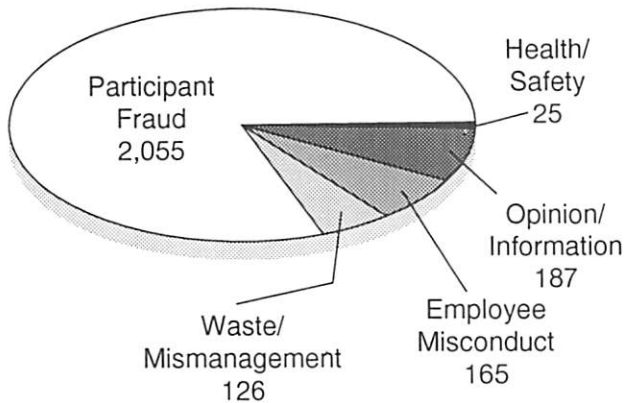
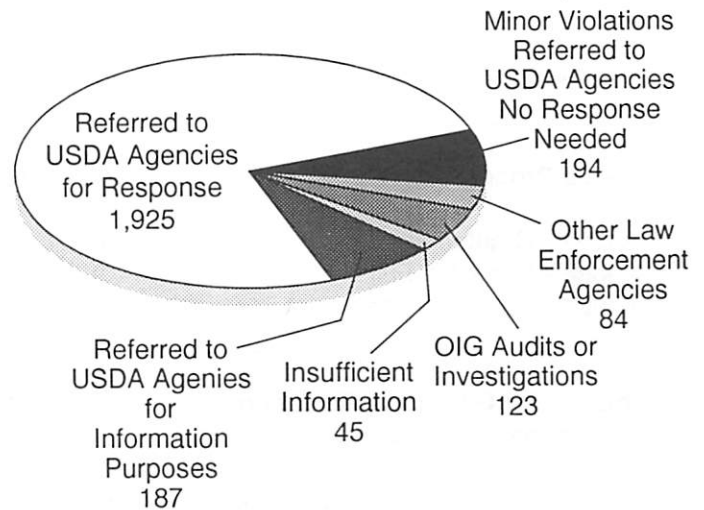


Figure 6

### Disposition of Complaints

April 1 to September 30, 1995



**Freedom of Information Act (FOIA) and Privacy Act (PA) Requests  
for the Period April 1 to September 30, 1995**

**Number of FOIA/PA Requests Received** 331

**Number of FOIA/PA Requests Processed** 335

Number of Requests Granted in Full 170

Number of Requests Granted in Part 100

Number of Requests Not Granted 65

**Reasons for Denial:**

No Records Available 22

Requests Denied in Full 28

Referrals to Other Agencies 15

**Requests for OIG Reports from Congress  
and Other Government Agencies**

Received 55

Processed 57

**Appeals Processed** 10

Appeals Granted 0

Appeals Denied in Full 9

Appeals Denied in Part 1

**Number of OIG Reports Released  
in Response to Requests** 451

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<sup>a</sup> COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1995	76	\$ 443,259,463	\$9,220,985
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	68	1,766,466,721	3,848,428
TOTALS	<u>144</u>	<u>\$2,209,726,184</u>	<u>\$13,069,413</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	67		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$9,880,070	\$2,600,726
NOT RECOMMENDED FOR RECOVERY		\$8,792,572	\$2,023,378
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$8,471,287	\$284,642
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	77	\$2,184,957,032	\$8,201,522
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	22	\$419,223,540	\$4,353,094

<sup>a</sup>Unsupported 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. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1995	21	\$1,495,752,847
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	22	\$241,153,357
TOTALS	<u>43</u>	<u>\$1,736,906,204</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	19	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$170,533,198
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$169,164
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	24	\$1,567,971,221
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN SIX MONTHS OF ISSUANCE	9	\$1,333,209,426

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1 AND SEPTEMBER 30, 1995

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 1995, THE OFFICE OF INSPECTOR GENERAL ISSUED 153 AUDIT REPORTS, INCLUDING 9 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	<u>AUDITS RELEASED</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED<sup>a</sup> COSTS AND LOANS</u>	<u>FUNDS BE PUT TO BETTER USE</u>
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	2			\$26,676
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2	\$600,000		\$609,000
CONSOLIDATED FARM SERVICE AGENCY	24	\$148,205,402	\$1,902,832	\$2,363,211
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE	2	\$2,606,405		\$2,034,076
FOOD AND CONSUMER SERVICE	27	\$17,748,948	\$566,429	\$43,012,088
FOREST SERVICE	8	\$559,163		\$5,024,245
NATIONAL APPEALS DIVISION	1			
NATURAL RESOURCES CONSERVATION SERVICE	5	\$125,660		\$724,994
OFFICE OF OPERATIONS	1			
RURAL HOUSING AND COMMUNITY DEVELOPMENT SERVICE	11	\$574,907,803	\$1,176,987	\$186,604,884
RURAL UTILITIES SERVICE	2	\$1,016,705,123		
MULTI-AGENCY	67	\$5,008,217	\$202,180	\$754,183
<b>TOTALS</b>	<u>153</u>	<u>\$1,766,466,721</u>	<u>\$3,848,428</u>	<u>\$241,153,357</u>
<b>TOTAL COMPLETED:</b>				
SINGLE AGENCY AUDIT	86			
MULTI-AGENCY	67			
<b>TOTAL RELEASED NATIONWIDE</b>	153			
<b>TOTAL COMPLETED UNDER CONTRACT<sup>b</sup></b>	9			
<b>TOTAL SINGLE AUDIT ISSUED<sup>c</sup></b>	59			

<sup>a</sup>Unsupported values are included in questioned values

<sup>b</sup>Indicates audits performed by others

<sup>c</sup>Indicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>AGRICULTURAL MARKETING SERVICE</b>				
01-801-0001-TE 95/05/01	MANAGEMENT OF THE SHIPPING POINT INSPECTION PROGRAM			
TOTAL : AGRICULTURAL MARKETING SERVICE		<u>1</u>		
<b>AGRICULTURAL RESEARCH SERVICE</b>				
02-017-0001-AT 95/06/06	JONES MGT. SER., INC - INCURRED COSTS FOR CY'S 1991 & 1992: AND LABOR FLOORCHECKS FY 95			
02-017-0001-HY 95/09/26	CLOSE-OUT AUDIT-ARS CONTRACT OF HNRCA AT TUFTS UNIVERSITY - SPECIAL REQUEST			\$26,676
TOTAL : AGRICULTURAL RESEARCH SERVICE		<u>2</u>		<u>\$26,676</u>
<b>CONSOLIDATED FARM SERVICE AGENCY</b>				
03-004-0001-AT 95/09/07	A&B PROFESSIONAL CONSULTING, INC.	\$530,692		\$98,284
03-006-0001-AT 95/09/18	MANAGEMENT OF THE DADE COUNTY, FL CFSA OFFICE	\$75,175,410		
03-006-0001-CH 95/06/08	CONSERVATION RESERVE PROGRAM - IOWA COUNTY, WI			\$1,292,871
03-006-0001-KC 95/06/02	1993 SWEET CORN DISASTER PAYMENTS IN NORTHEAST IOWA	\$242,213		
03-006-0001-SF 95/06/22	DISASTER ASSISTANCE PROGRAM - 1993 NONPROGRAM CROPS - SUTTER COUNTY, CA	\$1,217,475		
03-006-0002-AT 95/04/04	DISASTER ASSISTANCE PROGRAM - ATKINSON COUNTY, GA			
03-006-0002-CH 95/09/29	CLAIMS ON POLICIES WRITTEN BY NORTH CENTRAL CROP INSURANCE, INC.	\$110,542		
03-006-0002-TE 95/06/23	1993 CROP DISASTER PAYMENTS - DONA ANA CO., NM	\$122,250		
03-006-0003-AT 95/06/05	DISASTER ASSISTANCE PAYMENTS - SAMPSON COUNTY, NC	\$266,694		
03-006-0003-TE 95/09/06	PECAN DISASTER PROGRAM CLAIMS IN THREE TEXAS COUNTIES	\$984,701		
03-006-0004-AT 95/09/28	DISASTER ASSISTANCE PAYMENTS - LAUDERDALE, TN	\$1,805,828	\$1,805,828	
03-006-0005-AT 95/09/08	MANAGEMENT OF THE SUMTER COUNTY, GA CFSA OFFICE	\$4,479,035		
03-006-0006-AT 95/07/26	DISASTER ASSISTANCE PROGRAM, CHILTON CO, AL			\$705,594
03-017-0001-AT 95/05/10	COST PROPOSAL FOR D.J. MILLER & ASSOCIATES, CONTRACT NO. 53-3151-5-0001			
03-099-0001-KC 95/09/29	WOOL PROGRAM	\$147,358		
03-099-0003-AT 95/08/09	DOMESTIC TOBACCO CONTENT OF U.S. MANUFACTURED CIGARETTES: AMERICAN TOBACCO CO.			

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	
03-099-0005-TE 95/06/09	LARGE OPERATORS' COMPLIANCE WITH PAYMENT LIMITATION - GEORGIA	\$491,680			
03-099-0008-KC 95/09/07	LARGE OPERATORS' COMPLIANCE WITH PAYMENT LIMITATION PROVISIONS IN STEPHENSON COUNTY, IL	\$165,069			
03-601-0001-KC 95/09/29	INTEREST ASSISTANCE PROGRAM FOR GUARANTEED FARMER PROGRAM LOANS	\$61,934,621	\$97,004		
03-801-0001-FM 95/08/11	EVALUATION OF ADMINISTRATIVE PAYMENT ISSUES				
03-801-0004-TE 95/09/19	SPECIAL REQUESTS-PAYMENT LIMITATION IN OKLAHOMA	\$531,834		\$69,382	
03-801-0012-TE 95/09/26	SPECIAL REQUEST-PAYMENT ELIGIBILITY IN LOUISIANA			\$197,080	
06-401-0001-FM 95/04/26	COMMODITY CREDIT CORPORATION FINANCIAL STATEMENTS - FY 1994				
06-401-0002-FM 95/07/31	FY 1994 CCC FINANCIAL STATEMENTS - MANAGEMENT LETTER				
TOTAL : CONSOLIDATED FARM SERVICE AGENCY		<u>24</u>	<u>\$148,205,402</u>	<u>\$1,902,832</u>	<u>\$2,363,211</u>
<b>RURAL HOUSING AND COMMUNITY DEVELOPMENT SERVICE</b>					
04-004-0002-CH 95/08/16	RRH LAND COSTS				
04-010-0001-CH 95/08/17	RRH PROJECT OPERATIONS - SMITH MGMT CO., MI	\$259,899			
04-010-0002-CH 95/05/19	RRH PROJECT OPERATIONS - SUNBURY HEIGHTS LIMITED, OHIO	\$7,759			
04-010-0003-CH 95/08/14	RRH PROGRAM - MANAGEMENT OF THE HEBRON MEADOWS AND OTTER CREEK PROJECTS, IL	\$17,600		\$4,865	
04-010-0004-CH 95/08/04	RRH PROJECT OPERATIONS - ALLIANCE MANAGEMENT CO., MI	\$147,605			
04-010-0007-CH 95/05/19	RRH PROJECT OPERATIONS - MUSKINGUM, LTD., OH			\$32,664	
04-099-0001-KC 95/06/22	RURAL RENTAL HOUSING PROGRAM INCENTIVES TO AVERT PREPAYMENT			\$156,361	
04-099-0002-HY 95/05/25	BUILDING VENTURES AND ASSOCIATES, JOHNSTOWN, NY	\$116,160			
04-601-0001-SF 95/08/03	RRH PROJECT FUNDING AND ELIGIBILITY	\$572,868,841		\$186,410,994	
04-801-0001-AT 95/06/20	RURAL RENTAL HOUSING - REQUESTED BORROWERS AND PROJECTS	\$155,142			
04-801-0001-TE 95/09/29	SPECIAL REQUEST-EVALUATION OF M&R ASSOCIATES MANAGEMENT OPERATIONS OF RRH PROJECTS	\$1,334,797	\$1,176,987		
TOTAL : RURAL HOUSING AND COMMUNITY DEVELOPMENT SERVICE		<u>11</u>	<u>\$574,907,803</u>	<u>\$1,176,987</u>	<u>\$186,604,884</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>FOREST SERVICE</b>				
08-017-0001-HY 95/06/28	INCURRED COSTS-THE ADVERTISING COUNCIL			
08-017-0001-KC 95/06/28	INDIRECT COST RATE OF AIR RESOURCE SPECIALISTS, INC.			
08-099-0001-TE 95/06/16	CITY OF CHICAGO GREENSTREETS PROGRAM	\$556,645		
08-099-0002-TE 95/06/30	DISTRICT OF COLUMBIA TREE PLANTING PROGRAM, WASHINGTON, D.C.	\$2,518		
08-401-0001-AT 95/06/20	FY 1994 FS FINANCIAL STATEMENTS			
08-601-0007-SF 95/05/23	FOREST SERVICE CONTROLS OVER RESEARCH SERVICES PROVIDED EXTERNAL AND FS CLIENTS			\$5,024,245
08-801-0001-SF 95/09/21	PLUMAS NATIONAL FOREST - WORKFORCE ISSUES			
08-801-0002-AT 95/05/05	ALL RESOURCE REPORTING SYSTEM OPERATIONS			
TOTAL : FOREST SERVICE		<u>8</u>	<u>\$559,163</u>	<u>\$5,024,245</u>
<b>RURAL UTILITIES SERVICE</b>				
09-099-0001-KC 95/09/29	GRADUATION OF COMMUNITY PROGRAM LOANS	\$1,016,705,123		
09-401-0001-HQ 95/06/02	FY 94 - REA MANAGEMENT ISSUES			
TOTAL : RURAL UTILITIES SERVICE		<u>2</u>	<u>\$1,016,705,123</u>	
<b>NATURAL RESOURCES CONSERVATION SERVICE</b>				
10-004-0001-KC 95/06/07	COLORADO RIVER SALINITY CONTROL PROGRAM COST SHARES	\$125,660		
10-017-0001-KC 95/08/04	PROPOSAL OF MBI CORPORATION AND PROPOSED CONTRACTOR, SYNERGETICS, INC.			\$724,994
10-099-0001-KC 95/09/29	WETLANDS RESERVE PROGRAM			
10-099-0002-KC 95/07/06	GREAT PLAINS CONSERVATION PROGRAM			
10-601-0001-KC 95/09/29	CONSERVATION COMPLIANCE PROVISIONS			
TOTAL : NATURAL RESOURCES CONSERVATION SERVICE		<u>5</u>	<u>\$125,660</u>	<u>\$724,994</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE</b>				
13-011-0001-AT 95/09/28	CAPACITY BUILDING GRANTS PROGRAM	\$51,835		\$2,034,076
13-099-0001-HQ 95/08/17	COOPERATIVE STATE RESEARCH SERVICE QUALITY CONTROL REVIEW - THE OCEANIC INSTITUTE	\$2,554,570		
TOTAL : COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE		<u>2</u> \$2,606,405		<u>\$2,034,076</u>
<b>OFFICE OF OPERATIONS</b>				
23-017-0004-HY 95/06/30	PRE-AWARD OF UNISYS CORPORATION			
TOTAL : OFFICE OF OPERATIONS		<u>1</u>		
<b>FOOD AND CONSUMER SERVICE</b>				
27-002-0001-SF 95/08/07	FCS CHILD NUTRITION PROGRAM - STATE ADMINISTRATIVE EXPENSE FUNDS	\$20,523		\$41,042
27-002-0001-TE 95/07/18	CHILD NUTRITION PROGRAMS - STATE ADMINISTRATIVE EXPENSE FUNDS	\$71,082		\$80,994
27-002-0003-CH 95/07/28	MANAGEMENT OF THE COMMODITY SUPPLEMENTAL FOOD PROGRAM - IL	\$40,206		
27-002-0004-CH 95/07/27	WIC PROGRAM - DIRECT DISTRIBUTION	\$59,181		
27-002-0005-CH 95/06/06	CNP - STATE ADMINISTRATIVE EXPENSE FUNDS	\$12,800		
27-004-0001-CH 95/08/31	WIC ADMINISTRATIVE COSTS - OHIO	\$213,417		
27-004-0001-SF 95/09/14	WIC ADMINISTRATIVE COSTS - OREGON	\$1,541,161		
27-004-0001-TE 95/08/29	FSP CERTIFICATION PERIODS			\$770,695
27-004-0002-SF 95/04/19	CALIFORNIA STATE DEPARTMENT OF EDUCATION STATE CONTRACTING PROCESS	\$46,841		
27-010-0001-CH 95/06/22	NATIONAL SCHOOL LUNCH PROGRAM - PROCUREMENT ACTIVITIES			
27-010-0001-HY 95/05/16	FCS-CACFP VA - JACK N BOX DC	\$548		
27-010-0002-HY 95/05/23	FCS-CACFP VA - EMBASSY SCHOOL	\$15,783		
27-010-0003-HY 95/07/14	FCS-CACFP VA - WOODLAND GARDENS PRIVATE SCHOOL	\$3,833		
27-017-0001-KC 95/08/03	LA PETITE ACADEMY CONTRACT NO. 53-3142-1-6007			
27-017-0003-HY 95/06/30	INCURRED COST AUDIT OF SIGMA ONE CORPORATION			\$104
27-099-0001-AT 95/08/14	REVIEW OF PROCESSOR'S ACTIVITIES			
27-099-0001-FM 95/09/29	WORKLOAD AND SECURITY AT FCS MINNEAPOLIS COMPUTER SUPPORT CENTER			
27-099-0002-AT 95/05/08	FOOD STAMP RETAILERS - ROLLING STORES	\$6,914,466	\$457,322	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-099-0002-CH 95/07/25	FOOD STAMP PROGRAM - AMERICAN BANK NOTE COMPANY, BEDFORD PARK, IL			
27-099-0002-FM 95/09/25	SECURITY AND CONTROL OVER NON-FEDERAL ADP SYSTEMS			
27-401-0001-HY 95/07/10	FY 1994 FCS FINANCIAL STATEMENTS			
27-601-0001-KC 95/07/13	STATE ADMINISTRATIVE EXPENSE FUNDS - COLORADO STATE AGENCY			
27-601-0004-CH 95/09/12	DISQUALIFICATION OF VENDORS FROM FCS PROGRAMS	\$8,700,000		
27-601-0005-HY 95/08/29	NATIONAL SCHOOL LUNCH PROGRAM - MEAL ACCOUNTABILITY SYSTEMS	\$109,107	\$109,107	
27-801-0001-HQ 95/08/16	FSP - RETAILER REVIEW			\$42,119,253
27-801-0001-HY 95/05/30	EFFECTIVENESS OF EBT PILOT PROJECT RESULTS			
27-801-0002-HQ 95/08/25	PCIE IMPLEMENTING EBT SYSTEM			
TOTAL : FOOD AND CONSUMER SERVICE		<u>27</u>	<u>\$17,748,948</u>	<u>\$566,429</u>
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
24-601-0001-AT 95/08/18	SALMONELLA ENTERITIDIS TRACEBACK PROGRAM	\$600,000		\$609,000
33-099-0001-HY 95/06/13	APHIS INTERNATIONAL PROGRAMS			
TOTAL : ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>2</u>	<u>\$600,000</u>	<u>\$609,000</u>
NATIONAL APPEALS DIVISION				
46-001-0001-AT 95/09/28	ADMINISTRATIVE APPEALS			
TOTAL : NATIONAL APPEALS DIVISION		<u>1</u>		
MULTI-AGENCY				
03-099-0001-SF 95/09/22	PRODUCER PARTICIPATION IN CFSA/FCIC PROGRAMS- OREGON	\$346,892		
50-018-0001-CH 95/08/17	SINGLE AUDIT STATE OF MINNESOTA FY 1994	\$38,589		
50-018-0001-HY 95/04/19	PUERTO RICO DEPARTMENT OF AGRICULTURE A-128 FYE 6/30/92	\$216,995		
50-018-0001-KC 95/08/31	A-128 WY STATE LAND AND FARM LOAN OFFICE (2 FYS ENDED 6/30/94), CHEYENNE, WY			
50-018-0003-HY 95/09/29	PENNSYLVANIA SINGLE AUDIT, A-128, STATE FISCAL YEAR ENDED JUNE 30, 1994	\$197,458		
50-019-0001-HY 95/06/09	TOWN OF WESTERNPORT, MARYLAND A-128 6/30/92			



**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-019-0003-HY 95/06/07	STATE OF CONNECTICUT, DEPT. OF ADMIN. SERV. BUREAU OF GENL. SERV., A-128, 6/30/91 & 92	\$19,491		
50-019-0004-HY 95/06/22	COUNTY OF ESSEX, NEW YORK, A-128, FYE 12/31/92			
50-019-0005-HY 95/06/07	NEW MILFORD MUNICIPAL AUTHORITY, A-128, SFYE 12/31/92			
50-020-0001-AT 95/08/02	A-128, AUDIT OF THE STATE OF FL, FYE 6/30/94			
50-020-0001-CH 95/06/05	SINGLE AUDIT OF THE STATE OF WISCONSIN FOR 1993			
50-020-0001-HY 95/04/13	STATE OF WEST VIRGINIA, A-128, SFYE 6/30/92	\$5,760		
50-020-0001-SF 95/04/05	A-128 AUDIT OF STATE OF ARIZONA - STATEWIDE - FOR FISCAL YEAR ENDED 6/30/92	\$242		
50-020-0001-TE 95/05/23	OMB CIRCULAR A-128, AUDIT OF THE STATE OF LOUISIANA FOR THE YEAR ENDED JUNE 30, 1994			
50-020-0002-AT 95/08/07	A-128, AUDIT OF THE STATE OF GA, FYE 6/30/93 AND 6/30/94			
50-020-0002-CH 95/06/12	SINGLE AUDIT OF THE STATE OF OHIO			
50-020-0002-HY 95/04/13	UNIVERSITY OF PUERTO RICO, A-128, FYE 6/30/93			
50-020-0002-KC 95/04/06	A-128 STATE OF MONTANA (2 FY'S ENDED 6/93) HELENA, MT	\$4,337		
50-020-0002-SF 95/07/11	A-128 AUDIT OF REPUBLIC OF THE MARSHALL ISLANDS FOR THE FISCAL YEAR ENDED 9/30/93			
50-020-0002-TE 95/08/08	OMB CIRC. A-128, AUDIT OF THE STATE OF TEXAS FOR THE YEAR ENDED 8/31/94			
50-020-0003-AT 95/08/08	A-128, AUDIT OF CITY OF ALBANY, GA, FOR THE FYE 6/30/94			
50-020-0003-CH 95/05/25	SINGLE AUDIT BOARD OF EDUCATION OF THE CITY OF CHICAGO, IL			\$295,496
50-020-0003-HY 95/04/14	STATE OF DELAWARE, A-128, SFYE 6/30/93			
50-020-0003-KC 95/05/17	A-128 STATE OF NEBRASKA (6/93), LINCOLN, NE			
50-020-0003-SF 95/08/14	A-128 AUDIT OF GUAM TELEPHONE AUTHORITY FOR FISCAL YEAR ENDED 09/30/94			
50-020-0003-TE 95/08/16	OMB CIRC. A-128, AUDIT OF THE STATE OF OKLAHOMA FOR THE YEAR ENDED 06/30/94			
50-020-0004-CH 95/06/05	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF CONSERVATION	\$788,171		
50-020-0004-HY 95/04/14	STATE OF RHODE ISLAND & PROVIDENCE PLANTATION A-128, SFYE 6/30/90			
50-020-0004-KC 95/05/18	A-128 STATE OF UTAH (6/93) SALT LAKE CITY, UT	\$111,137		
50-020-0004-SF 95/08/30	A-128 AUDIT OF STATE OF NEVADA, FYE 6/30/94			
50-020-0004-TE 95/09/05	OMB CIRCULAR A-128, AUDIT OF ARKANSAS DEPT. OF HEALTH FOR THE YEAR ENDED 6/30/94			
50-020-0005-AT 95/08/17	A-128, AUDIT OF THE COMMONWEALTH OF KY, FRANKFURT, KY, FOR THE FYE 6/30/94	\$4,131		
50-020-0005-CH 95/06/16	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF EDUCATION			\$437,540
50-020-0005-HY 95/04/25	COMMONWEALTH OF VIRGINIA, A-128, 6/30/93	\$440,881		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1995**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0005-KC 95/05/18	A-128 WYOMING DEPARTMENT OF HEALTH (6/94) CHEYENNE, WYOMING			
50-020-0005-SF 95/08/31	A-128 AUDIT OF REPUBLIC OF PALAU, FYE 9/30/93			
50-020-0006-AT 95/08/21	A-128 AUDIT OF LEXINGTON-FAYETTE COUNTY, LEXINGTON, KY, FOR THE FYE 6/30/93			
50-020-0006-CH 95/06/16	SINGLE AUDIT OF THE UNIVERSITY OF WISCONSIN SYSTEM			
50-020-0006-SF 95/09/05	A-128 AUDIT OF COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS - FOR FYE 9/30/94	\$778		
50-020-0007-AT 95/09/11	A-128, AUDIT OF THE STATE OF MISSISSIPPI, JACKSON, MS, FOR THE TWO FYE'S 6/30/94			
50-020-0007-CH 95/07/28	SINGLE AUDIT OF THE STATE OF WISCONSIN			
50-020-0007-HY 95/07/11	DISTRICT OF COLUMBIA PUBLIC SCHOOLS A-128, FYE 9/30/92	\$15,764		
50-020-0007-SF 95/09/12	A-128 AUDIT OF STATE OF WASHINGTON - FOR FISCAL YEAR ENDED 6/30/94	\$372		
50-020-0008-AT 95/09/26	A-128 AUDIT OF THE STATE OF NC, FYE 6/30/93			
50-020-0008-HY 95/08/11	STATE OF NEW HAMPSHIRE, A-128, SFYE 6/30/94		\$322,300	
50-020-0008-SF 95/09/14	A-128 AUDIT OF STATE OF OREGON, FYE 6/30/94			
50-020-0009-AT 95/09/26	A-128 AUDIT OF FLORENCE CO., SC, FYE 6/30/93			
50-020-0009-SF 95/09/19	A-128 AUDIT OF STATE OF ARIZONA, FYE 6/30/93		\$494	
50-020-0010-SF 95/09/14	A-128 AUDIT ON THE STATE OF HI DEPT. OF LABOR AND INDUSTRIAL RELATIONS - FOR FYE 6/30/94			
50-020-0011-SF 95/09/19	A-128 AUDIT OF STATE OF HAWAII - DEPARTMENT OF EDUCATION - FOR FISCAL YEAR ENDED 6/30/94	\$549		
50-020-0012-SF 95/09/19	A-128 AUDIT OF STATE OF HAWAII - EXECUTIVE OFFICE ON AGING - FOR FYE 6/30/94			
50-020-0013-SF 95/09/19	A-128 AUDIT OF STATE OF HAWAII - DEPT OF LAND AND NATURAL RESOURCES - FOR FYE 6/30/94			
50-020-0014-SF 95/09/19	A-128 AUDIT OF THE CITY OF SACRAMENTO, CA - FOR FISCAL YEAR ENDED 6/30/94			
50-020-0015-SF 95/09/19	A-128 AUDIT OF THE STATE OF HAWAII - DEPT. OF HEALTH - FOR FISCAL YEAR ENDED 6/30/94			
50-020-0016-SF 95/09/19	A-128 AUDIT OF THE CITY OF LONG BEACH, CA - FOR FISCAL YEAR ENDED 6/30/94			
50-020-0017-SF 95/09/29	A-128 AUDIT OF POWDER VALLEY WATER CONTROL DISTRICT-UNION COUNTY, OR-FOR FYE 10/31/94	\$35,118		
50-020-0018-SF 95/09/25	A-128 AUDIT OF TULE RIVER TRIBAL COUNCIL - PORTERVILLE, CA - FOR FYE 9/30/94	\$5,211		
50-022-0001-HY 95/05/05	NATIONAL FIRE PROTECTION ASSOCIATION, A-133, FYE 12/31/93	\$15,802	\$3,800	\$21,147
50-023-0001-SF 95/09/25	A-133 AUDIT OF THE UNIVERSITY OF GUAM - FOR FISCAL YEAR ENDED 9/30/93	\$24,019		
50-023-0002-SF 95/09/29	A-133 AUDIT OF THE UNIVERSITY OF CALIFORNIA - FOR FYE 6/30/94			
50-099-0001-HQ 95/05/04	REVIEW OF INFOSHARE PROGRAM			
50-099-0001-HY 95/07/31	CONTRACT ADVISORY AND ASSISTANCE SERVICES			
50-099-0001-KC 95/07/21	MEAT EXPORT FEDERATION EXPENDITURES			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
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AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	
50-099-0001-SF 95/08/17	OCEANIC INSTITUTE - WAIMANALO, HAWAII	\$2,413,472	\$198,380		
50-401-0001-FM 95/07/26	FISCAL YEAR 1994 FINANCIAL STATEMENTS MANAGEMENT ISSUES	\$254			
50-401-0004-FM 95/08/23	FISCAL YEAR 1994 USDA FINANCIAL STATEMENTS				
50-401-0007-FM 95/09/29	FISCAL YEAR 1994 USDA FINANCIAL STATEMENTS MANAGEMENT LETTER				
TOTAL : MULTI-AGENCY		<u>67</u>	<u>\$5,008,217</u>	<u>\$202,180</u>	<u>\$754,183</u>
TOTAL : RELEASE - NATIONWIDE		<u>153</u>	<u>\$1,766,466,721</u>	<u>\$3,848,428</u>	<u>\$241,153,357</u>

