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Department of  
Agriculture

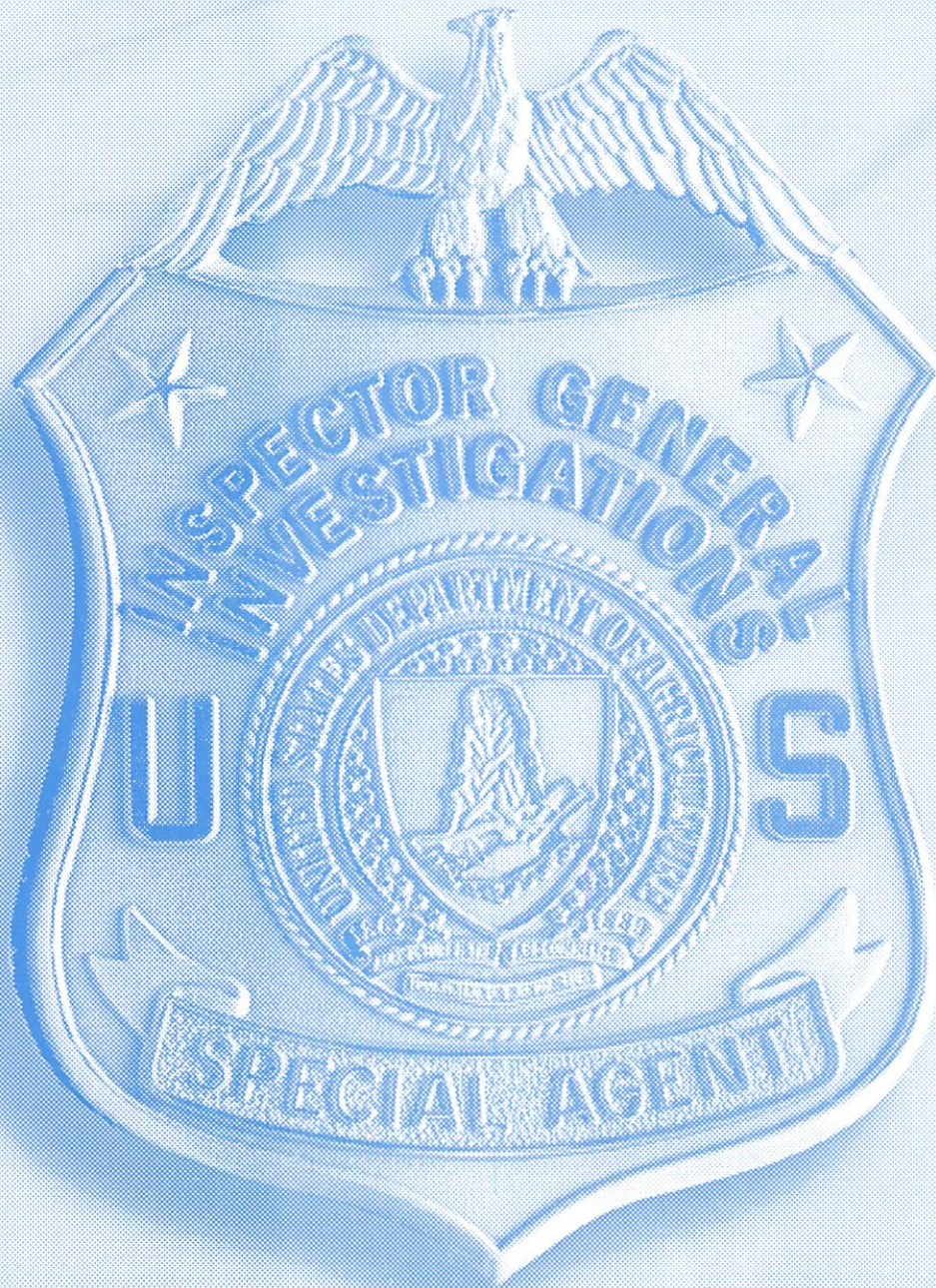
Office of  
Inspector  
General

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# Office of Inspector General Semiannual Report to Congress

FY 1996—Second Half



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

October 17, 1996

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, 1996.

During this period, our audits and investigations produced approximately \$41.5 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional \$29 million to better use. We also identified \$912 million in questioned costs that cannot be recovered. Our investigations yielded 517 indictments and 383 convictions.

I would like to extend my appreciation to you and the Deputy Secretary for your support throughout this reporting period. I would also like to thank all the committee members we work with in the Congress, especially those on the Agriculture and Appropriations Committees of both the Senate and the House of Representatives.

We have taken many positive steps together to improve programs and operations in the Department. I look forward to continuing these efforts with you.

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 36th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended. This report covers the period April 1 through September 30, 1996.

## Monetary Results

During this reporting period, we issued 131 audit reports and reached management decisions on 108 audits. Based on this work, management officials agreed to recover \$5.4 million and to put an additional \$29 million to better use.

We also issued 432 reports of investigation during this period. Our investigative efforts resulted in 517 indictments, 383 convictions, and approximately \$36.1 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

## Investigative Efforts

During this period, our investigation of a Nebraska rancher who was heavily indebted to the Farm Service Agency (FSA) led to a \$6 million recovery. The investigation revealed that the rancher had established sham corporations to hide and liquidate his assets without making repayment to FSA.

As a result of an OIG investigation, assets worth an estimated \$6 million were seized from the vice president of a North Carolina vegetable oil supply company. The company's vice president, plant manager, and a former USDA grain inspector were convicted of conspiring to defraud the Commodity Credit Corporation (CCC) of \$2 million by underfilling contracts to deliver vegetable oil to CCC. Included in the seized property were two homes, an ocean front condominium, manufacturing equipment, and over \$400,000 in cash. Some of the illegal proceeds were also used by the vice president to pay kickbacks to the plant manager and the USDA inspector, as well as to fund the construction of a baseball field, which bears his name, at a local college.

An OIG investigation led to the payment of \$11.7 million to CCC by a major forklift manufacturer. The settlement followed a warehouse fire, caused by an overheated forklift, which destroyed 11 million pounds of USDA butter.

Two separate investigations in Alexandria, Louisiana, resulted in the conviction of eight persons for conspiracy to traffic in approximately \$5.9 million worth of food stamps. All eight were sentenced to 1 to 4 years in prison, fined nearly \$200,000, and ordered to pay restitution of \$6.2 million. To date, assets worth \$383,000 have been seized.

Following separate OIG investigations, the owners of two small Baltimore, Maryland, "mom and pop" grocery stores pled guilty to trafficking in nearly \$1.5 million worth of food stamps through the Electronic Benefits Transfer (EBT) system. Sentencing is pending, but over \$92,000 from the proceeds of these illegal actions has been seized or forfeited to the Government.

A Georgia woman remains a fugitive after failing to appear for sentencing after her conviction for illegally redeeming over \$800,000 in food stamps through a bank account for a store which did not exist. Although she failed to appear, the Federal judge sentenced her to 8 years in prison and fined her \$150,000. Property valued at over \$60,000 was also seized by the Government.

Criminal action brought against USDA personnel included an FSA employee who was sentenced to serve 1½ years in prison for embezzling nearly \$157,000 from payments made by program borrowers. Sentencing is pending for a Forest Service (FS) firefighter who pled guilty to intentionally setting a fire in a national forest. A Natural Resources Conservation Service (NRCS) soil technician is also awaiting sentencing after being convicted of making false statements to conceal his theft of over \$500,000 worth of excess property from U.S. Army depots. The employee claimed the equipment was to be used for firefighting on his home Indian reservation; however, it was found to be scattered around the reservation in private use.

## Audit Efforts

During this period, we evaluated the impact of the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 Act) on the Department's farm programs. We reviewed various issue papers and regulations developed by FSA and NRCS to implement the 1996 Act, and provided suggestions for strengthening controls in many areas.

For example, we provided early comments on issue papers and regulations developed by FSA to implement the Agricultural Market Transition Act (AMTA) provisions of the 1996 Act. We expressed concern about several areas, especially the division of contract payments, producer eligibility, crop rotations, and reduction of payments for planting fruits and vegetables. We also initiated a three-phase review of the "flexibility contracts" entered into pursuant to AMTA. This review is a cooperative effort between OIG and FSA and is being conducted concurrently with program implementation. In the first phase, we focused on producer enrollment and reported early concerns, including a finding that some States were inconsistent in identifying regions that could be approved to double-crop fruits and vegetables. FSA took immediate corrective action on the issues reported where warranted. Phases two and three, which cover contract payments and contract compliance, respectively, are under way.

We are currently using the same concept to review the impact of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the so-called Welfare Reform Act) on the Food Stamp Program and Child Nutrition Programs. We are reviewing regulations and question-and-answer papers as the Food and Consumer Service (FCS) drafts them to implement new provisions so that consideration is given to control features that will strengthen program controls before program implementation.

Problems continue with the 1994 disaster assistance program, as additional payments have been questioned. We issued a summary audit report that presented the results of 26 audits. In our audits of loss claims involving \$13 million in 17 States, we identified overpayments of more than \$5 million.

We also found that the Raisin Crop Insurance Program is susceptible to abuse. We reviewed 1994 raisin indemnity payments totaling \$20.9 million paid to producers for four Federal Crop Insurance Corporation (FCIC) reinsured companies. Some raisin producers may be able to inflate insured production in loss years to maximize indemnity payments and underreport insured production in nonloss years to minimize premium payments. We recommended strengthening controls to ensure rain-damaged raisins are reconditioned by insured producers whenever feasible. To strengthen controls over the raisin insurance program, we recommended that insured tonnage be limited to a

producer's history of production, insured liability be established prior to loss adjustment, reconditioning costs be insured as part of the raisin policy, and a methodology be developed to value raisins sold as salvage using historical data.

After a drought in south Texas last spring, we received complaints about an insurance loophole that was giving insureds in that area an unfair advantage. Three primary issues have been identified: Producers are not replanting the original crop, some damage may result from chemical carryover, and questionable assessments have been made of seed viability. Based on the review, the Risk Management Agency has issued guidance to reinsurance agencies. In addition, FCIC plans to review all the insurance claims filed in the area for evidence of abuse, and OIG will monitor this review.

For its Emerging Democracies program, the Foreign Agricultural Service (FAS) generally complied with legislative requirements but needed to improve public access to program results. FAS also needed to document analyses of proposed technical assistance projects to provide a basis for measuring program accomplishments, and projects needed to be consistently evaluated to ensure goals were met. FAS concurred and is implementing the recommendations to include publishing assessment reports and their recommendations in FAS' monthly magazine and on the Internet.

We continue to be lead agency on the review of EBT systems nationwide for the President's Council on Integrity and Efficiency. This period, we found that FCS' control over retailer eligibility could diminish if States expand their EBT systems into non-EBT States. FCS' retailer data base does not indicate which retailers are authorized to transact EBT sales. Also, security features of EBT cards for operational, as well as future EBT systems, may not be adequate. In addition, inconsistencies in procedures between States may affect interstate operability of the EBT system.

A review of EBT contractors revealed that security requirements for contractor personnel were not clearly defined, certification standards for third-party processors had not been established, and additional audit requirements for the systems needed to be included in the contracts. In addition, FCS' national office could improve its oversight of the nationwide implementation of EBT.

In the Child and Adult Care Food Program, we continued to monitor the program administration of the organizations that are responsible for program operations. One of these "sponsors," as the organizations are called, did not perform thorough onsite reviews of its day care providers. As a result, the sponsor was not aware that a significant number of providers did not keep accurate or complete records, leading to inaccurate claims for meals. Another sponsor received over \$46,000 in excessive program payments for meals it claimed for participants who were in transit, absent, or off-site, and the sponsor inflated claims for thousands of other meals.

In reviewing the Animal and Plant Health Inspection Service's (APHIS) licensing of animal exhibitors, we found some individuals are keeping exotic pets that could endanger the public. Broad wording in APHIS regulations allowed many people who were not true exhibitors to keep dangerous animals (lions, bears, wolves, etc.) in populated areas. APHIS officials agreed to measures that will better restrict the keeping of dangerous animals to true exhibitors.

APHIS also needs to implement Occupational Safety and Health Administration requirements for its hazardous materials, including explosives and pesticides, which are used to control damage to agriculture caused by pests and wildlife. APHIS officials generally agreed with our recommendations, which will lead to improved storage and handling of these hazardous materials.

The Congress recently enacted legislation we proposed which we believe will significantly strengthen the Rural Rental Housing program. In the course of analyzing various statutory requirements, we found that a key U.S. Department of Housing and Urban Development requirement, titled "equity skimming," which specifically established misuse of project funds as a Federal offense, was not included in Rural Housing Service (RHS) statutes. We believe that the new equity skimming passage in the RHS law will foster successful prosecutions and strongly deter wrongdoing.

We completed audits of the fiscal year (FY) 1995 financial statements of FCS, CCC, FS, and the Department as a whole. We issued an unqualified opinion to both FCS and CCC, rendered FS an adverse opinion, and issued a disclaimer of opinion on the USDA consolidated financial statements. FCS made improvements to obtain an unqualified opinion, but more will have to be done if an unqualified opinion is to be warranted in the future. CCC continues to improve its financial management operations, but we identified several control deficiencies that could adversely affect the agency's ability to develop financial data. Our audit of FS' financial statements identified material weaknesses in five significant areas. Corrective action plans are being developed through a coordinated effort by FS, OIG, and the Office of the Chief Financial Officer. We did not express an opinion on USDA's consolidated financial statements for FY 1995 because we were unable to satisfy ourselves as to the reasonableness of certain line items representing the value of assets, liabilities, equity, and related revenues and expenses. Action plans to improve USDA's financial systems have been developed, but long-term efforts are necessary to accomplish those plans.

The Alternative Agricultural Research and Commercialization (AARC) Corporation asked us to evaluate the activities of a private company with which it had a cooperative agreement to develop and promote kenaf. Kenaf is a papyrus grass used in the manufacture of nonwoven mat products. Our audit found problems with the company's accounting records and failure to report significant debts. In March 1996, the plant burned to the ground, and AARC may not recover its investment. We recommended that AARC suspend business arrangements with the company pending outcome of our investigation, and apply this experience to improve management of future project agreements. AARC has made appropriate changes in its project management.

## Summary of Audit Activities

<b>Audit Reports Issued</b> .....		131
Audits Performed by OIG .....	80	
Audits Performed Under the Single Audit Act .....	41	
Audits Performed by Others .....	10	
<b>Management Decisions Made</b>		
Number of Reports .....		108
Number of Recommendations .....		754
<b>Dollar Impact (Millions)</b>		
Questioned/Unsupported Costs .....	\$917.4 <sup>ab</sup>	
Recommended for Recovery .....	\$5.4	
Not Recommended for Recovery .....	\$912.0	
Funds To Be Put to Better Use .....	\$29.0	
<b>Total</b> .....		\$946.4

<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 plan and seek recovery of amounts recorded as debts due the Department.

## Summary of Investigative Activities

Reports Issued .....		432
Cases Opened .....		485
Cases Closed .....		448
Cases Referred for Prosecution .....		281
<b>Impact of Investigations</b>		
Indictments .....		517
Convictions .....		383 <sup>a</sup>
Searches .....		95
Arrests .....		262
<b>Total Dollar Impact (Millions)</b> .....		\$36.1
Recoveries/Collections .....	14.5 <sup>b</sup>	
Restitutions .....	12.9 <sup>c</sup>	
Fines .....	4.1 <sup>d</sup>	
Claims Established .....	2.8 <sup>e</sup>	
Administrative Penalties .....	0.4 <sup>f</sup>	
Cost Avoidance .....	1.4 <sup>g</sup>	
<b>Administrative Sanctions</b>		
Employees .....		32
Businesses/Persons .....		1,942

<sup>a</sup>Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 383 convictions do not necessarily relate to the 517 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.

<sup>g</sup>This category consists of loans or benefits not granted as the result of an OIG investigation.



# Farm and Foreign Agricultural Services

## Farm Service Agency (FSA)

Farm programs have undergone major changes with the enactment of the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 Act), popularly termed the "1996 Farm Bill." The 1996 Act replaces target prices, deficiency payments, and acreage reduction programs with fixed, but declining, payments to producers. The 1996 Act also determines the direction over the next 7 years of farm and conservation programs, as well as rural development, credit and trade, and food aid. Federal outlays to the farm sector are set to decline over the 7-year term of the act.

For FY 1996, FSA estimates expenditures of \$2 billion for conservation programs, \$80 million for noninsured assistance programs, \$181 million for farm credit programs, and \$1 billion for salaries and expenses. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations, with estimated outlays of \$18.2 billion. As of September 30, 1995, approximately 194,000 borrowers owed FSA \$11.5 billion for farm program loans, and the agency had guaranteed more than \$5.9 billion in farm program loans made by private lenders to more than 46,000 borrowers.

### Implementation of the Federal Agriculture Improvement and Reform Act of 1996

The Federal Agricultural Improvement and Reform Act of 1996 removes the link between Federal crop support payments and market prices. Whereas past support payments depended on the difference between market prices and target prices, payments under the 1996 Act are based solely on historical farm acreage; once the contract acreages are established, the number of acres in the contract will not change, even if planted acreage and market prices do change, but the total payments will decline over a period of 7 years. Planting requirements are flexible; producers may plant any crop except fruits and vegetables to be eligible for the payments, and they need only comply with the wetland and conservation requirements established by earlier statutes. Eligible crops are called "contract commodities," and the instrument under which payments are made is called a "production flexibility contract." The transition from a market-based commodities program to a phaseout of Federal support is named after the section of the law that provides for it, the Agricultural Market Transition Act (AMTA).

Because the law was enacted late in the current crop year, the Department faced the challenge of implementing its requirements within a short timeframe. We evaluated the impact of the act on the Department's farm programs and reviewed various issue papers and regulations developed by FSA and the Natural Resources Conservation Service (NRCS) to implement it. We provided FSA and NRCS officials with suggestions for strengthening controls in many areas, most importantly AMTA.

### • Some AMTA "Flexibility Contracts" Need More Deliberation

We commented on the issue papers and regulations developed by FSA to implement AMTA. We expressed concern about several areas, especially (1) the division of production flexibility contract payments, (2) the eligibility of producers, (3) the establishment of crop rotations within cropland acreage bases, and (4) the reduction of payments for planting fruits and vegetables.

We also initiated a three-phase review to assess the implementation of AMTA. This review is a cooperative effort between OIG and FSA and is being conducted concurrently with program implementation. FSA is receptive to our early involvement and is taking immediate action on review findings when needed.

In the first phase, we focused on producer enrollment and visited 52 county offices in 13 States. We worked jointly with FSA in developing the audit methodology, determining review sites, and developing the system queries needed to determine the review's focus and direction. During this phase, OIG and FSA officials met weekly to discuss findings and recommendations. In addition, FSA held regular conference calls with their State offices to immediately notify them of any concerns or actions needed. Overall, we believe FSA personnel did a commendable job, considering the short timeframe they had to accomplish enrollment. FSA had less than 5 months to sign up all producers interested in entering into a production flexibility contract over the 7-year payment period.

Examples of concerns brought to FSA's attention are described below.

- States were inconsistent in identifying the regions that could be approved to double-crop fruits and vegetables. Double-cropping occurs when a producer either precedes or follows a program crop (e.g., wheat) with a nonprogram crop (e.g., squash), and both are harvested within the same 12-month period. (FSA subsequently removed some questionable regions from the list before it was printed in the *Federal Register*.)
- Designated payment shares for landlords and tenant farmers were approved beyond 1996 even though there were no lease agreements between the two parties.
- Farms were approved for payment even though their contracts did not show all the necessary signatures.
- Proper powers of attorney were not on file to support signatures on contracts and crop insurance waivers.

We recommended that FSA staff (1) obtain the landowner's concurrence in cases of share leases, (2) obtain proper documentation for contracts, and (3) reconsider the criteria for double-cropping history. FSA informed us that these recommendations have been addressed through written and verbal communications with their State offices. A formal response to OIG is forthcoming.

During this period, we began the second and third phases of our assessment of AMTA implementation. Phase Two will review FSA's controls over the computer software that calculates producer payments. It will verify that payments are properly computed and reconciled to each producer's supporting contract data, and that required administrative offsets are made. We will also verify that program benefits are paid to only authorized individuals.

Phase Three will assess FSA's controls over AMTA compliance activities. This review will examine internal controls over conversion of contract acreage to nonagricultural use, planting flexibility, protection of contract acreage from weeds and erosion, and producers' reporting of fruit and vegetable acreage.

During the second and third phases, FSA officials are assisting us in developing system queries for use in the audits.

#### • **Instructions on Farm Loans Need Revision**

We commented on the early notices being developed to implement the act's provisions pertaining to farm credit. We expressed concern that FSA's instructions were silent regarding hazard insurance and made crop insurance optional for loan eligibility for farm ownership loans, operating loans, and emergency loans. We also expressed concern that limiting debt forgiveness to losses on direct loans was inconsistent with the definition of debt forgiveness provided for in the act; losses on guaranteed loans also needed to be considered. FSA has issued an instruction stating that applicants who had a direct farm loan forgiven were not eligible for direct or guaranteed loan assistance. However, it appears that an applicant who had a guaranteed loan forgiven could still be eligible for both direct and guaranteed loan assistance. The law does not specifically prohibit this. Therefore, if FSA is prevented from taking action administratively, a technical amendment to the act should be sought. FSA has developed, but not yet published, instructions that address these two issues.

#### • **Acquired Farm Properties Need More Time To Sell**

The 1996 Act has changed the manner in which USDA handles acquired farm properties. Inventory properties not under lease when the act went into effect are to be sold to beginning farmers and ranchers within 75 days at current market value. If a property is not sold after 75 days have lapsed, it is to be sold at public sale within another 30 days. The law required immediate implementation of this provision; agency employees had little time to develop procedures.

We reviewed FSA's actions in 3 States involving 260 farm inventory properties. We found that circumstances beyond the control of local FSA office managers (e.g., pending wetland and conservation easements) sometimes prevented the sale of inventory properties within prescribed timeframes. In other cases, marketing strategies did not ensure recovery of market value, local managers leased inventories they should have sold, and State officials

did not get timely information from FSA systems so that they could effectively track leases and sales of the properties.

We recommended that FSA propose a technical amendment to the 1996 Act, increasing the time allotted for sale of inventory properties. We also recommended that FSA develop a new memorandum of understanding with the U.S. Fish and Wildlife Service that outlines the responsibilities of each agency in wetland determinations, develop guidance to improve marketing methodologies, divide large inventory properties into smaller parcels to attract beginning farmers and ranchers, discontinue leasing acquired properties, and train personnel to obtain up-to-date farm property information from agency data files. FSA responded favorably to the reported issues and has either taken or is in the process of taking corrective actions.

- **Environmental Quality Incentives Program**

The 1996 Act combined the former Water Quality Incentive Program with three other improvement conservation programs to form the new Environmental Quality Improvement Program (EQIP). EQIP was established to maximize environmental benefits per dollar expended.

NRCS, with FSA concurrence, is currently formulating plans to implement EQIP. Because the water quality incentive program was one of the foundation programs of EQIP, we evaluated how effectively water quality program provisions addressed water problems. We evaluated the level of program participation and assessed whether funds were obligated to lands with the highest priority, so that the greatest economic benefit would result. We also provided NRCS with comments on its revised draft program provisions concerning the Wetlands Reserve Program, and other conservation programs.

#### **Additional Payments Questioned Under 1994 Disaster Program**

FSA paid approximately \$1 billion for crop disaster losses claimed under the 1994 disaster assistance program. We issued a summary audit report that presented the results of 26 audits. In our audits of loss claims involving \$13 million in 17 States, we identified overpayments of \$5.3 million.

Approximately \$3 million of the overpayments were caused by administrative error and were forgiven under a rule that prohibits collection of overpayments resulting from agency errors that are not detected within 90 days. The agency is taking action to collect the other \$2.3 million in overpayments caused by improper reporting by the producers.

The following examples of problems were found.

- **Maine Producers Improperly Received \$2.7 Million**

In Maine, 388 producers received payments totaling \$9.3 million. We concentrated our review in 1 county where 296 potato producers received \$8.9 million, or approximately 97 percent of the total 1994 disaster payments for the State.

We found approximately \$900,000 in overpayments because the State committee improperly established the payment rate and yield used to compute the payments. Also, 21 of the 25 producers we reviewed, including the county committee chairman, received approximately \$1.6 million after they provided misleading or inaccurate information concerning their crop interest, qualifying gross income, production, and crop insurance coverage. Three of these producers falsified production and acreage information for claims under the 1992 disaster assistance program and received questioned payments of approximately \$100,000.

We recommended that FSA recompute the 1994 potato disaster payments using the correct payment rates and yields, and recover the overpayments. We also recommended that FSA determine whether the 21 producers and the State executive director and his spouse used schemes to circumvent program requirements and take action to recover the \$1.7 million in 1992 and 1994 overpayments. Cases involving 15 of the producers have been referred for investigation.

- **Crop Production Unreported in Colorado**

In two counties in Colorado, we found problems with unreported crop production. For example, in Pueblo County, we found that 9 of 11 producers in our sample had not reported all of their crop production to FSA. As a result, these producers were overpaid \$398,000 in disaster assistance for their 1994 crops.

We recommended that FSA determine if the producers used a scheme or device to qualify for the disaster assistance. If such a determination is made and criminal action is not taken, FSA needs to collect the payments plus accrued interest. Investigations have been completed regarding two of these producers; others are under way.

- **Program Mismanaged in a New Jersey County**

Officials in one New Jersey county did not effectively manage the 1994 disaster assistance program. They did not properly collect all relevant farm information, did not perform second-party reviews and spot checks, did not provide prompt service to producers, and did not maintain the integrity of farm history data. As a result, FSA made overpayments of approximately \$23,000 and underpayments of approximately \$11,000.

We also found that four producers had understated production by up to 50 percent and another producer had overstated his disaster-affected acreage by 17 percent. These producers received over \$94,000 in disaster payments.

FSA officials agreed to recover the cited overpayments, issue the cited underpayments, and determine whether the five producers who filed questionable documents should refund all 1994 disaster payments.

- **Payment Errors Found in Minnesota and Michigan**

In Minnesota, State officials did not get national office approval to use a payment rate that exceeded the payment rate established by procedure (*i.e.*, they used a payment rate of 83 percent, rather than the approved payment rate of 79 percent, for unharvested fresh potatoes). This resulted in overpayments of approximately \$33,500 to producers at two counties. These two counties also made production and acreage errors when calculating seven producers' payments, resulting in overpayments of approximately \$109,000 and underpayments of approximately \$1,800.

In Michigan, producers in one county received \$9,000 in excessive disaster payments because the State disaster payment rate exceeded the contract prices paid to these producers. Also, county officials made incorrect disaster payments to over two-thirds of the producers reviewed. Inaccurate production data and farming acreage determinations resulted in overpayments totaling \$22,000.

We recommended that State officials provide guidance to county staffs in monitoring market prices and instruct them to report substantial differences between payment rates and market prices. FSA officials agreed and are taking corrective action.

Legislative changes were made in the 1994 program as a result of our audit of the 1993 program. These changes included authority to reduce the payment rate for crops not planted or harvested. Regulations were also changed to require that producers provide evidence that nonprogram crops, such as fruits and vegetables, were produced on the farm for an identified market. FSA has also implemented better controls over compliance with the \$2 million gross income limitation provisions, which exclude a farmer from the program.

#### **Family Members Sentenced for Faking Crop Disaster in 1992**

In Georgia, a father and his two sons were sentenced to prison after their convictions on charges of conspiring to defraud USDA and of making false statements on their 1992 disaster claims on vegetable crops. Evidence presented at the trial showed that the family members hid crop production sales of almost \$330,000 and claimed a fraudulent disaster that netted them \$134,000 in FSA benefits.

One brother, who was a member of the FSA county committee, was sentenced to 2 years in jail, while his father and brother received sentences of 1½ years each. Additionally, the family was ordered to pay \$127,700 in restitution, and the father and brothers will serve 3 years of supervised release after completing their sentences.

#### **USDA Obtains \$6 Million Civil Settlement Against Nebraska Rancher**

A Nebraska rancher agreed to a negotiated settlement of \$6 million resulting from unpaid debts to FSA.

The rancher, who farmed extensively in Nebraska and South Dakota, established a sham corporation, with his daughters as its officers, to hide and liquidate his assets. The corporation paid all of the rancher's taxes and other first-lien liabilities, and thus assumed the position of first lienholder over the rancher's assets, ahead of FSA. Monies accruing to the rancher were not used to pay off the debts owed to FSA, but were funneled to the corporation to finance its first-lien status. When FSA attempted to foreclose on the rancher's property, at least \$600,000 worth of the property was already "owed" to the corporation. Although the rancher denied in court that he had an interest in the corporation, a financial analysis showed that he did.

The rancher agreed to enter into a civil settlement with the U.S. attorney's offices in South Dakota and Nebraska. As a result of the settlement, \$6 million was recovered and the sham corporation was dissolved.

#### **Former Lieutenant Governor of North Carolina Pleads Guilty**

A former lieutenant governor of North Carolina, who operated tobacco warehouses in North Carolina and Tennessee, pled guilty to income tax charges as a result of selling tobacco stolen from other producers.

In previous semiannual reports, we described a sting operation in which OIG agents targeted tobacco warehouse operators who were surreptitiously selling excess tobacco (tobacco that could not be sold without penalty). During the operation, we discovered that the former lieutenant governor of North Carolina accepted a tobacco dealer's identification card (a card strictly controlled by USDA) and used it to sell approximately 170,000 pounds of tobacco valued in excess of \$200,000. Further investigation showed that the tobacco was stolen from producers who had stored their tobacco at the lieutenant governor's warehouses. OIG obtained video recordings of one theft which had been carried out by warehouse employees at the lieutenant governor's instructions. Employees identified in the video subsequently stated to OIG investigators that similar thefts of tobacco had also taken place at the lieutenant governor's other warehouses.

Sentencing is pending.



Interior of one of the tobacco warehouses operated by the former lieutenant governor of North Carolina. This warehouse, located in Tennessee, is seen after the tobacco sales season. OIG photo.

#### **Improper Administration of Programs in a Montana County Office**

This audit was requested by the Montana State Committee as a result of complaints about the County Executive Director's (CED) oversight of FSA operations in Dawson County. The audit, conducted jointly with FSA, disclosed that program operations were not conducted in a manner that ensured compliance with significant program requirements. Also, controls designed to assure proper administration of programs at the county level were not functioning as intended. These conditions not only compromised the integrity of county office operations but also eroded producer confidence and trust.

The CED has since resigned, and FSA is in the process of taking corrective action on our recommendations.

#### **Producers Continue To Circumvent Payment Limits**

The Food, Agriculture, Conservation, and Trade Act of 1990 continued the \$50,000 limit on 1991 through 1995 deficiency payments and the \$100,000 limit on disaster payments. Our reviews continue to find that producers are abusing the payment limitation requirements by misrepresenting their farming operations. Following are examples of our reviews.

- We reviewed the disaster assistance program in two counties in Georgia and one county in North Carolina, with emphasis on 1994 payments. In the three counties, we recommended recoveries of approximately \$3.3 million because producers engaged in apparent schemes to avoid the payment limits.

- Based on a special request from FSA, we reviewed a family farming operation in Texas and found that the producers misrepresented to FSA the true operators of the farm, submitted false information to FSA regarding land rents and crop inputs, and did not maintain accounts separate from each other. Consequently, FSA based its payment decisions on erroneous information, and the producers did not qualify as separate "persons" for payment limitation purposes. We recommended withholding or recovering 1993 and 1994 disaster and deficiency payments totaling \$242,000 because the producers adopted apparent schemes to evade payment eligibility and limitation provisions.
- In Louisiana, two producers submitted false information to FSA regarding their farming operation. Although the two producers certified that the capital contribution to the operation was not made through a loan from someone with an interest in the farm, it, in fact, came from their employer, who was one of the landlords of the operation. We recommended recovering 1994 and 1995 payments totaling \$76,800 because the producers engaged in apparent schemes to avoid the payment limit.

FSA officials are reviewing the cited cases to determine appropriate action.

#### **Some FSA Payment Recipients Were Listed as "Deceased"**

A match between FSA and Social Security Administration (SSA) files showed that 34,673 individuals who received \$184 million in FSA payments over a 10-year period were listed as deceased. We randomly selected 60 cases for review and found that the payments were actually earned by individuals entitled to them for all of the 60 cases. (Based on our sample size, we could statistically estimate that at least 95 percent of the people were eligible.)

Although the payments were earned by the 60 individuals to whom they were issued, FSA assigned the wrong Social Security number (SSN) or payee in 58 of the cases, and SSA assigned the wrong number in 2 cases.

- In 30 cases, FSA issued payments to the deceased individual's estate, spouse, son, or trust using the deceased individual's SSN.

- In 17 cases, FSA issued payments to the deceased individual prior to the individual's death or because the spouse signed for the deceased *person*.
- In 11 cases, FSA recorded SSN's incorrectly in its records.

We recommended that FSA (1) inform its personnel of the procedures to follow when a person earning payment dies and (2) remind its personnel to verify SSN's when producers sign up for the 1996 farm program. When notified, FSA immediately issued a notice to its field offices regarding these recommendations.

#### **Producers Received Ineligible Livestock Feed Payments**

The Emergency Feed Program (EFP) provides emergency feed assistance for the preservation of livestock where an emergency exists due to disease, flood, drought, and other natural disasters. Producers can receive up to 50 percent of the cost of the feed they need to buy to replace the feed destroyed by the disaster. Program benefits are limited to \$50,000 per producer, per crop year. To be eligible for program benefits, 10 percent or more of a producer's income must be derived from the production of grain or livestock, and the producer cannot earn more than \$2.5 million a year (gross). As of January 1996, approximately 15,000 producers nationwide received EFP benefits totaling \$75.3 million for the 1994 crop year, and as of July 1996 approximately 15,800 producers received benefits totaling \$54.7 million for the 1995 crop year.

Our review of 1994 and 1995 EFP payments in California, South Dakota, and Texas disclosed that producers did not always meet program requirements. Of the 100 producers we reviewed, 37 received over \$740,000 in ineligible program benefits. In addition, 1 county office approved EFP payments totaling over \$400,000 to more than 50 producers who did not sign contracts to participate in EFP. Following are some of the problems we noted:

- Producers received benefits even though they earned more than \$2.5 million a year or were not actively engaged in ranching,
- producers submitted ineligible or inflated receipts for feed purchases,

- producers claimed livestock they did not own,
- producers claimed feed costs for livestock they had owned for less than 6 months or that had been fed to weights in excess of the normal selling weights, and
- counties computed losses and feed costs incorrectly and approved ineligible feed costs.

We recommended recovery of the cited overpayments and improved controls over EFP applications. FSA agreed with the findings and is taking corrective action.

### **Corporation Pays \$11.7 Million for USDA Commodities Loss**

A forklift manufacturer has paid CCC \$11.7 million as settlement of a civil suit and judgment for damage caused by a 1991 fire at a Madison, Wisconsin, warehouse which destroyed 11 million pounds of USDA butter. Investigation of the fire by local authorities and OIG determined that it was caused by an overheated battery-operated forklift with which the manufacturer had a history of problems. The Government alleged in its civil suit that the corporation was negligent in the design and manufacture of the forklift.

### **Convictions in CCC Contract Fraud Case Lead to \$6 Million in Seized Assets**

Assets worth an estimated \$6 million were seized from the vice president of a North Carolina vegetable oil supply company after the vice president, a plant manager, and a former USDA grain inspector were convicted of conspiring to underfill contracts to deliver vegetable oil to CCC. CCC purchased the packaged oil from the supplier for export and free distribution to developing countries under the Public Law 480, Title II, Food for Peace Program. As a result of the scheme, CCC was defrauded of over \$2 million in vegetable oil.

Investigation disclosed that the supplier bought 4.2 million fewer pounds of oil than he billed CCC for under his contract, and diverted another 1 million pounds of oil that was earmarked for the CCC contract. The supplier sold this oil to two domestic oil companies in New Jersey and New York.

The supply company vice president used over \$130,000 of the illegally obtained CCC funds to pay kickbacks to his plant manager for underfilling the contracts. The

plant manager in turn paid the USDA inspector over \$2,000 to falsify official USDA weight reports. The vice president then laundered the remaining funds, paying off his home mortgage in South Carolina, making a downpayment on a lavish home in the mountains of North Carolina, and purchasing an ocean front condominium. He also funded a baseball field that bears his name for a private college in South Carolina, bought gemstones from a New York diamond broker, and made downpayments on canning and bottling manufacturing equipment. The assets seized from the vice president include the two homes, the condominium, the manufacturing equipment, and \$410,000 in cash.

Sentencing and forfeiture action on the seized property are pending. This case represents one of the largest successful prosecutions involving CCC contract fraud.

The case was worked jointly with the U.S. Agency for International Development OIG, the Federal Bureau of Investigation (FBI), and the Internal Revenue Service (IRS).

### **Two Warehouses Fined for Concealing Shortages of USDA Grain**

Two grain storage facilities in the State of Washington were each fined \$5,000 after the companies pled guilty to providing false statements to CCC. Our investigation disclosed that the two companies gave false inventory records to CCC in order to conceal shortages of CCC-owned grain that the warehouses were being paid to store. The unearned profits from the sales were paid back to CCC soon after USDA warehouse examiners discovered the shortages.

### **Producers Inflate Costs Under the Emergency Conservation Program**

The Emergency Conservation Program provides benefits to producers to share the cost of rehabilitating farmlands damaged by natural disasters. The producers can be reimbursed for up to 64 percent of the costs of the restoration.

We reviewed cost-share payments received by all producers in one Texas county for restoring terraced farmland damaged by floods. Of the 19 producers reviewed, 9 submitted contractor invoices which were used to calculate program payments, and 10 performed the work themselves, for which they were reimbursed

according to an established county rate. We found that the costs shown on invoices submitted for work performed by contractors were inflated to ensure that the Government's payment would equal 100 percent of actual costs. For example, one producer received \$28,500 in cost-share payments for repairs reportedly costing \$44,500, but paid the contractor only \$28,500, the agreed-upon price for doing the work.

A county committee member was the contractor in four cases where the work was performed for the cost-share payment. The files do not show that the committee member withdrew from the approval process for these four cases or for the approval of payments on his own farm, where he received the largest payment in the county. His reported cost for doing the work exceeded that reported by the other producers who did their own work. We are investigating the involvement of the county committee member.

We recommended that FSA determine whether the nine producers submitted false invoices. If it determines they did, it should recover the entire cost-share payments of \$154,000. It should also ensure that county committee members do not participate in any decisions affecting farms in which they have an interest. FSA has agreed to take action on cases that did not involve the committee member. Action regarding the committee member is pending the completion of an OIG investigation.

### **Reviews Disclose Poor Administration at Minnesota County Office**

An FSA review of a county in Minnesota found problems in the county office's administration of several farm programs. We performed a joint review of the county with FSA. We sampled 78 farms that had received \$694,000 of the \$5 million disbursed by the county for 1993 disaster assistance. We found that county office errors on 61 of these farms resulted in over \$300,000 in disaster overpayments. The county office (1) reduced crop production figures by quality adjustment factors it could not support, (2) based disaster assistance benefits on inaccurate and unsupported production information, (3) assigned inaccurate production yields, and (4) did not determine if the producers complied with conservation provisions or were actually prevented from planting any of their crop acres. Another five producers did not report all crop production and received \$36,000 in excessive disaster assistance.

We reviewed 11 price support loans made by the county and questioned 8 loans totaling approximately \$249,000. The county office did not obtain all necessary eligibility documents from the producers. In addition, the county office did not obtain test weight and moisture samples when it spot-checked the collateral on 6 of these 11 loans. The county made 266 loans totaling \$3.7 million.

We recommended that FSA take administrative actions against the county office staff, district director, and county committee members. We also recommended that FSA train the staff and require it to implement better controls. The agency agreed with our findings and recommendations and is currently implementing corrective actions.

### **Managers of the Options Pilot Program Need To Analyze the Impact of Their Decisions**

The Options Pilot Program (OPP), authorized by the Food, Agriculture, Conservation and Trade Act of 1990, is designed to test whether options trading on the commodities market could provide reasonable price protection to producers and work as an alternative to the traditional forms of price supports, namely deficiency payments and commodity loans.

Under OPP, FSA supplies the funds (called a "premium") that cover a producer's costs to trade on the options market. The producer buys an option to sell his commodity at a later date at FSA's target price. The support price a producer can realize is determined by the pricing of the grain and the reselling of the option.

To participate in OPP in 1994, producers were required to place their commodities under option in 5,000-bushel increments but were limited to 70,000 bushels. As an incentive for producers to enroll in OPP, FSA paid producers 5 cents a bushel for the pricing of commodities placed under option.

We performed our review in Champaign County, Illinois, and Grand Forks County, North Dakota, because these counties had the largest enrollments of corn and wheat options. Our audit evaluated whether FSA had properly implemented OPP. We determined that it had and that USDA agencies gathered and analyzed data relevant to determining if options trading was an effective alternative to the standard farm program. However, we noted several areas needing management's attention.



- FSA increased program expenditures unnecessarily when it increased the number of wheat bushels a producer could place under option in 1994. Producers were aware at that time that FSA's combined premium and incentive payments exceeded the rate paid under the deficiency program. These producers simply received larger payments under OPP for the additional bushels of wheat they would otherwise have left under the deficiency program; FSA gained nothing from the increased enrollment.
- Program eligibility requirements were not uniformly applied between States and counties. One county issued partial incentive payments to producers who priced less than the 5,000-bushel increment under option.
- Several producers provided questionable information to support the pricing of grain.

We recommended that, for future option programs, managers analyze the costs and benefits of allowing additional enrollments of grain. We also recommended that FSA clarify eligibility criteria, especially the amount of grain under option which must be priced and the mechanisms that will be acceptable for pricing grain. FSA's response is pending.

### **Risk Management Agency (RMA)**

RMA was established as an independent office within USDA with the passage of the 1996 Act. RMA is responsible for supervision of the Federal Crop Insurance Corporation (FCIC) and for all other programs involving revenue insurance, risk management savings accounts, or the use of the futures market to manage risk and support farm income. For FY 1996, premiums from producers are estimated at \$677 million, while indemnities are estimated at \$2 billion and program delivery expenses at \$470 million.

#### **Raisin Insurance Program Susceptible to Abuse**

The Raisin Crop Insurance Program, administered by RMA, provides protection to insured raisin producers for any rain damage sustained to raisins laid down for drying. Raisin policies are adjusted by contractors working for insurance companies reinsured by FCIC. Insurance is based upon the total tonnage of raisins that could be produced from the grapes laid down for drying.

If the grapes are damaged by rain while on the ground, loss adjusters determine the number of bunches of ruined grapes and convert this to the equivalent weight of dry raisins.

If producers deliver some of their crop to the marketplace, the indemnities are calculated by deducting the value of the delivered raisins from the insurance amount. Raisins sold at less than the amount they were insured for (salvage raisins) or raisins left in the vineyard (valued at zero or the salvage value) would result in an indemnity payment to the producer.

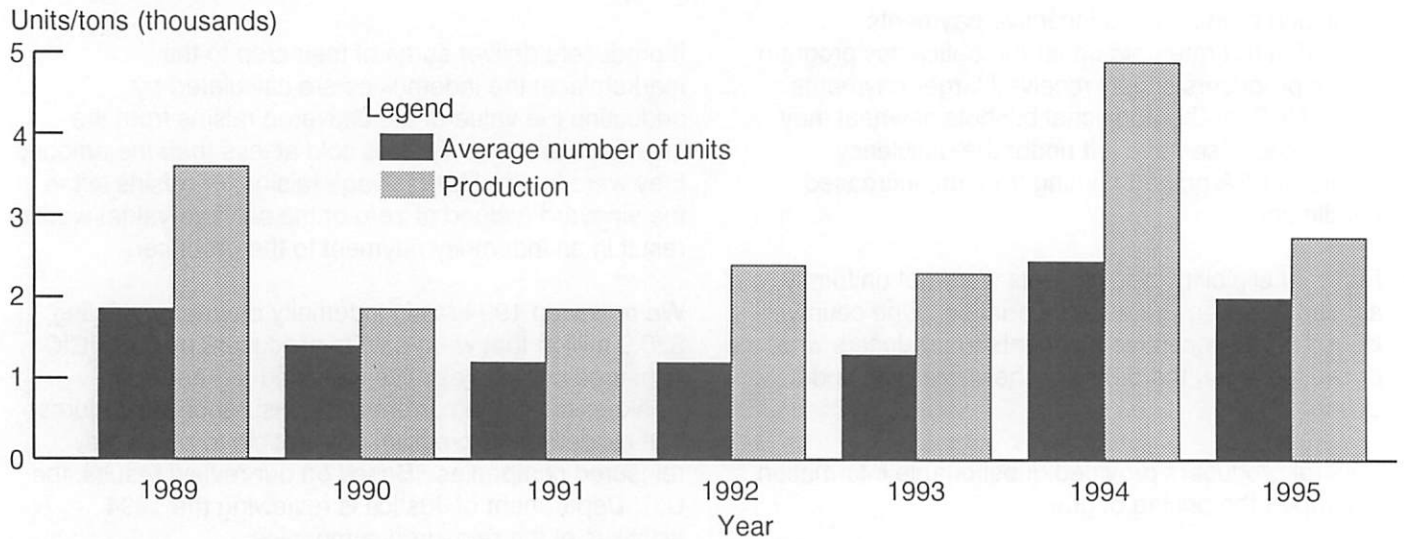
We reviewed 1994 raisin indemnity payments totaling \$20.9 million that were paid to producers by four FCIC-reinsured companies. We identified a number of weaknesses in the current raisin insurance procedures that rendered the program susceptible to abuses by reinsured companies. Based on our review results, the U.S. Department of Justice is reviewing the 1994 activities of the reinsured companies.

Unlike other crop policies, the raisin policy does not limit insured production to a history of production. In addition, the insured liability for raisins is not established until the raisin crop is delivered or the loss is adjusted (after damage has occurred). As a result, raisin producers may be able to inflate insured production in loss years to maximize indemnity payments, and underreport insured production in nonloss years to minimize premium payments. Figure 1 shows that the 14 producers we reviewed insured more acreage and almost twice as much production in the disaster years 1989 and 1994 than they did during the intervening nondisaster years.

Controls also need to be strengthened to ensure that rain-damaged raisins are reconditioned by insured producers whenever feasible. Reconditioned raisins may be sold at market prices, but because reconditioning costs are borne by the producer if the crop becomes marketable, the producer has a greater incentive to sell his raisins as salvage material and assure himself of a larger indemnity payment. Also, the "reconditioners" who can profit from buying raisins at salvage prices and reconditioning them for resale are the same people who determine if a raisin crop is fit only for salvage. Some adjusters were releasing raisins as salvage even though the raisins may have been reconditionable. We estimate that if salvage raisins had been reconditioned, the \$20.9 million in indemnities we reviewed could have been reduced by over one-third.

Figure 1

### Raisin Production by Year For 14 Insured Producers



To strengthen controls over the raisin insurance program, we recommended that (1) insured tonnage be limited to a producer's history of production, (2) insured liability be established prior to loss adjustment, (3) reconditioning costs be insured as part of the raisin policy, and (4) a methodology be developed to value raisins sold as salvage using historical data. RMA generally agreed to implement our recommendations.

#### Farmers Agree to Civil Settlement To Resolve Crop Insurance Fraud

Two couples who engaged in joint farming operations in Kansas have agreed to pay civil fines totaling \$360,000 to settle allegations that they were defrauding RMA. Between 1990 and 1993, the couples submitted false claims to USDA and collected indemnity payments totaling more than \$277,000. The couples insured crops that they had never planted and reported planting dates that they had never met. In addition to the fines, the couples have been disqualified from participating in the crop insurance program for the next 3 years.

#### Audit Verifies Allegation of Crop Insurance Abuse

During the spring of 1996, the Coastal Bend area in south Texas experienced a severe drought that impacted the three primary crops in the area: corn, cotton, and grain sorghum. FCIC had established the

same final planting date (April 15) and late planting period (April 16 to May 10) for these three crops. We received complaints that insurance agents were using a loophole in the standard crop insurance policy to give insureds in this area an unfair advantage. According to the allegations, double and even triple indemnities were paid to producers who planted two or three different crops sequentially on the same acreage before the May 10 deadline. The normal practice was to replant the original crop if it did not make an adequate stand.

The allegations are being jointly reviewed by OIG and FCIC compliance investigators. To date, the review has identified three primary issues.

- *Producers are not replanting the original crop.* Because of the extended drought, some initial crops had failed, and the reinsurance companies had the acreage appraised and released for further use. Some producers then planted a second, but different, crop on the released acreage prior to the final planting date or during the late planting period. In most cases, these crops also failed because of the continuing drought. Depending on the dates the acreage was released, it was possible to have as many as three different crops fail on the same acreage during the same crop year. We question whether it was the intent of the crop insurance laws to allow multiple indemnity payments in this situation.

- *Some damage may result from chemical carryover.* Some producers planted grain sorghum or corn after their cotton failed to mature in soil treated with a yellow herbicide (e.g., Treflan). Area producers normally apply a yellow herbicide in late October to December in fields where they plan to plant cotton in the spring. The Treflan label restricts the planting of sorghum or annual crops during the 12 to 18 months following application. Some insureds are attempting to plant a second crop on acreage applied with Treflan by planting deep enough to avoid the chemical's effects.
- *Questionable assessments made of seed viability.* Some loss adjusters have determined potential crop production of zero based on seed appearance and condition. This appraisal method has not been approved by RMA and, according to Extension Service representatives, may not accurately determine seed viability. If an accurate assessment of potential crop production cannot be made, the adjuster should postpone the appraisal.

Based on the initial results of the joint review, RMA issued guidance to reinsurance companies. FCIC plans to review all of the insurance claims filed in the area for evidence of abuse, and OIG will monitor this review.

### **Improved Quality Adjustment Provisions Are Needed**

The audit disclosed that quality adjustment provisions did not provide reasonable assurance that crop insurance indemnities would accurately reflect the losses actually sustained by producers. We found that the quality adjustments applied to farm-stored crop production were not reflective of the grade and quality determined at the time of delivery to a warehouse for sale. Also, the measured and delivered quantities were not always commensurate due to test weight, dockage, and moisture percentage differences. Based on the audit results, we are 95 percent confident that the 1993 crop wheat insurance indemnities in 14 counties (3 States) were overstated at least \$7.5 million.

We recommended that the agency determine the impact of proposed modifications to the quality adjustment provisions on the production to count quantities that would have been determined for the random sample of 32 cases selected by OIG. This included taking action to identify and eliminate the reason(s) for any significant differences that would otherwise continue to exist.

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

FAS represents the interests of U.S. farmers and the food and agricultural sector abroad. It also collects, analyzes, and disseminates information about global supply and demand, trade trends, and emerging market opportunities. FAS seeks improved market access for U.S. products and implements programs designed to build new markets and to maintain the competitive position of U.S. products in the global marketplace. FAS also carries out food aid and market-related technical assistance programs, and helps increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth.

### **Management Improvements Could Enhance the Emerging Democracies Program**

FAS' Emerging Democracies program was established to share agricultural expertise with countries like those of the former Soviet Union that only recently instituted democratic governments. Under the Food, Agriculture, Conservation and Trade Act of 1990, which directs USDA to develop markets for U.S. agricultural exports, the Secretary of Agriculture was charged with assessing the need of these countries for U.S. expertise and enhancing the effectiveness of their food and agricultural systems.

We determined that FAS generally complied with legislative requirements in implementing the Emerging Democracies program but that public access to program results (assessments of foreign markets, etc.) needed to be improved to enhance the program's effectiveness. Analyses of proposed technical assistance projects also needed to be documented to provide a basis for measuring program accomplishments, and projects needed to be consistently evaluated to ensure project goals were met.

We recommended that FAS ensure that assessment reports and their recommendations are made available to the public through publication in FAS' monthly magazine *AgExporter* and through announcements on the Internet. Also, we recommended that the administrator of the Emerging Democracies program implement (1) a formal project analysis system to identify each proposed project's objectives and justification for funding and (2) a formal evaluation process to ensure that each project's program and financial requirements were evaluated.

FAS concurred with the findings and is taking action to implement the recommendations. Notices have been published in the *Federal Register* and have been entered on the FAS home page at:

<http://www.fas.usda.gov/fasprograms/fas-tech-training/homepage.html>.

# Food, Nutrition, and Consumer Services

## Food and Consumer Service (FCS)

FCS administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); 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 for FY 1996 is \$40 billion. Three FCS programs receive the bulk of this funding: FSP (\$27 billion), CNP (\$8 billion), and WIC (\$4 billion).

## Food Stamp Program (FSP)

### Issues Affecting Nationwide Implementation of Electronic Benefits Transfer (EBT)

FCS has been at the forefront of EBT technology for delivering food stamp benefits for several years. During the last 10 years, EBT has evolved from the demonstration stage to the beginning of nationwide implementation. EBT uses existing debit card technology developed by financial institutions to provide benefit access through retail point-of-sale devices. Contractors such as financial institutions and network processors install the necessary equipment in retail food stores and operate the EBT system on behalf of the States.

During this semiannual period, we completed audits of online systems for delivery of FSP benefits to recipients in three States: Maryland, New Jersey, and Texas. We also performed work at FCS headquarters. We continue to be the lead agency for the President's Council on Integrity and Efficiency on EBT activities.

Security policies and control processes in the States we reviewed were adequate to ensure timely and accurate availability of benefits to recipients and payments to retailers. However, we did identify some areas needing improvement, as well as issues that could affect nationwide implementation of EBT.

- A proposal by some States to expand their EBT systems into non-EBT States could, if implemented,

diminish FCS' control over authorized retailers' eligibility to transact EBT benefits. Without any action by FCS, non-EBT authorized retailers could transact sales with out-of-State EBT cardholders independently of FCS' authorization and without an FCS site visit to the store. (For example, if Missouri (an EBT State) were to tie into a nationwide system, Missouri FSP recipients could travel to California (a non-EBT State) and redeem their food stamps there.) FCS' retailer data base does not currently indicate which retailers are authorized to transact EBT sales although work is under way to do this. Also, the security features of the EBT cards for operational systems, as well as future EBT systems, may not be adequate. Security features such as fine-line printing and holograms are not being included on the cards. FCS has drafted and is clearing regulations that include these EBT card security specifications. We continue to support the implementation of these regulations and have provided assistance to FCS to expedite their publication in the *Federal Register*.

- Some inconsistencies in procedures may affect interstate operability of the EBT system. Some States reimburse retailers daily for their sales, while at least one waits until the retailers request payment. This procedure potentially would allow the company that contracted to operate the State's EBT system to hold Government funds indefinitely for future interstate transactions. Consistency in procedures will allow an effective exchange of data between States.
- Our review of operating controls established by EBT contractors showed that these controls were being followed. However, we had some concerns in this area: security requirements for contractor personnel were not clearly defined, certification standards for third-party processors had not been established, and additional audit requirements for the systems themselves needed to be included in the contracts. Without this additional audit work, audit opinions of financial statements of agencies being serviced by the EBT contractor may have to be qualified.
- Finally, we concluded that the FCS national office could improve its oversight of the nationwide implementation of EBT. FCS' regional offices did not fully reconcile EBT contractor drawdowns of Federal funds to reported retailer transaction data; we found \$37 million in discrepancies. However, we

determined the contractors requested the proper amount of Federal funds from the U.S. Treasury. The national office also needs to ensure that inaccuracies in contractor data bases are corrected, that controls over system access are strengthened, and that disaster recovery plans are fully tested.

We recommended that FCS modify its data base to identify retailers eligible to process EBT transactions and that it continue to develop procedures to ensure that the out-of-project retailers it authorizes to accept EBT transactions are eligible to do so. We also recommended that FCS expedite the issuance of proposed regulations concerning EBT card security specifications, and ensure that the EBT procedures regarding settlement with retailers are consistent.

To strengthen contractors' controls, we recommended that FCS direct the States to develop minimum personnel security requirements, develop certification guidance for third-party processors, and include additional requirements for audits of EBT systems in all contracts. Concerning FCS oversight, we recommended that the national office ensure that complete reconciliations between contractor drawdowns and retailer transactions are performed and that contractors maintain accurate EBT retailer data bases. We also recommended that FCS strengthen controls over access to EBT systems and direct States to require the EBT contractors to complete the testing of their disaster recovery plans.

FCS officials generally agreed with our findings and recommendations. Work is under way to address many of these issues.

OIG has an ongoing involvement with the implementation of EBT nationwide. Interstate EBT in the Southern Alliance of States (a regional group of eight Southern States) has hit a critical impasse as a result of a recent U.S. Court of Appeals decision. At issue is whether the U.S. Treasury properly decided to use an Invitation for Expressions of Interest process instead of a more typical bidding process governed by the Competition in Contracting Act to choose its EBT administrator. As decisions are made and these States again pursue EBT, we will monitor their developments.

We have also begun audit work in two States (Ohio and Wyoming) that use offline technology to issue program benefits. Offline technology uses "smart cards," which contain a microcomputer chip with all processing

capabilities built in. We will report on the results of these reviews in the next semiannual report.

### **OIG-FCS "Sweep" in Milwaukee Identifies Problem Retailers**

OIG continues to assist FCS in conducting sweeps of authorized food stamp retailers in major metropolitan areas in an effort to remove from the program those who are ineligible or are trafficking in food stamps. In a joint operation with FCS and the local police department, 283 of the 610 authorized retailers in Milwaukee County, Wisconsin, were visited. These retailers redeemed approximately \$210 million in food stamps annually.

The operation identified violations, or potential violations, at 71 of the retailers visited, or approximately 25 percent. Of the 71 retailers, 44 were identified as potentially trafficking in food stamps because their food inventories did not support the amount of their food stamp redemptions. Further reviews will determine if trafficking is occurring.

Another 27 retailers were ineligible because they did not meet food inventory requirements or they had gone out of business. FCS is acting to remove from the program the 27 ineligible stores, which redeemed over \$470,000 in food stamps last year.

WIC program personnel also accompanied the teams on visits as 95 of the stores visited redeemed WIC vouchers for food. Separate WIC program violations were discovered at 67 of the 95 stores. The police officers issued 67 municipal citations to retailers for various violations, and closed 8 retailers that did not have valid business licenses. The police also arrested 1 felon in the course of a store visit and seized 40 unlicensed firearms from various stores.

### **122 Ineligible New Orleans and Houston Stores Removed From FSP**

A total of 122 authorized retailers were removed from FSP in New Orleans, Louisiana, and Houston, Texas, as a result of task force reviews to determine if the businesses were maintaining sufficient food stocks to be bona fide food stores. These task forces comprised FCS personnel, OIG agents and auditors, and State personnel for the respective cities (New Orleans, Louisiana Office of Family Support; and Houston, Texas

Department of Human Services). A total of 2,000 stores were visited during the sweeps, which lasted approximately 1 week each, in the 2 metropolitan areas. The authorized retailers removed from FSP had combined annual food stamp redemptions of \$1.6 million.

### **Action Needed To Reduce Food Stamp Error Rate in Tennessee**

In 1992, Tennessee installed a new benefits management system called the Automated Client Certification and Eligibility Network for Tennessee (ACCENT). In FY 1995, the system supported an average monthly caseload of approximately 281,337 households, who were issued approximately \$554.2 million in food stamps for the year. We evaluated ACCENT to determine (1) whether it has been effective in improving FSP administration and reducing error rates and (2) whether its design includes checks and edits for critical program requirements and whether those controls are effective.

The ACCENT system has been effective in improving FSP administration and reducing paperwork. The system accurately computed recipients' benefit levels and reduced the time it took eligibility workers to process applications and recertifications. Users at all levels indicated a high satisfaction with system performance. ACCENT has not, however, resulted in reduced error rates. The development cost of the system was justified primarily by expected significant cost savings from error reductions. However, the State's payment error rates have increased since 1992: from 8.51 percent in FY 1991 to 10.67 percent in FY 1995. The 10.67 payment error rate equated to \$59.1 million of improperly issued food stamps. During this same period, the State reduced the number of eligibility workers while the number of program participants increased significantly, resulting in a combined caseload growth of 99 percent per worker.

The ACCENT system lost effectiveness because eligibility workers did not always use the Income Eligibility Verification System (IEVS) to verify households' eligibility and benefit levels. We estimate that payment errors totaling nearly one-third of the State's \$33.8 million improper issuances involving eligibility and benefit levels could have been avoided had eligibility workers timely and properly resolved matches.

IEVS should be expanded to include matches with data files of other agencies, such as the U.S. Department of Veterans Affairs, court systems, and school systems. In FY 1995, approximately \$1.1 million in food stamp benefits were improperly issued to households because of unreported veteran benefits and child support payments.

Payment errors could be reduced if ACCENT automatically updated fixed Government benefit payments to recipients' food stamp budgets. In FY 1995, food stamp benefits of approximately \$4.5 million were improperly issued because inaccurate amounts of Government benefit payments, such as Social Security, were included in households' food stamp budgets.

Payment errors could also be reduced and worker efficiency improved if the ACCENT system were enhanced. The system was not programmed to automatically assign certification periods compatible with a household's circumstances. Because the system automatically assigns a 12-month certification period to everyone, eligibility workers must manually assign appropriate certification periods. In addition, worker time could be saved if unnecessary system alerts were eliminated. All told, eligibility workers potentially spend up to 11,800 unproductive hours a year reviewing and resolving alerts that result in no change to food stamp budgets.

We recommended that FCS work with the State through discussion and negotiation to maintain sufficient staffing levels, require the State to enforce requirements for taking accurate and timely followup action on income matches, and have the State modify the ACCENT system to automatically update Government benefit payments to food stamp casefiles, exchange data with additional Federal and State agencies, and eliminate unnecessary alerts generated by the system. FCS officials agreed to take corrective action.

### **Social Security Numbers Not Used To Prevent Fraud in FSP**

FSP regulations require that Social Security numbers (SSN) of applicant and recipient members of food stamp households be used to prevent duplicate participation in FSP. Duplicate and/or fraudulent participation can occur when more than one person uses the same SSN or when someone uses an unissued SSN.

Our audit of four States disclosed that three (Texas, California, and New York) did not use the SSN effectively to prevent duplicate participation and one (Florida) did make effective use of SSN's. In California, for November 1995, we identified 29,399 duplicate SSN's out of 1,601,909 FSP participants in Los Angeles County and 136 duplicate SSN's out of 152,548 FSP participants in Sacramento County. Of the 2,142,863 FSP participants in New York, there were 5,971 duplicate SSN's. In Texas there were 947 duplicates out of 2,498,915 FSP participants. The monetary effect of not using the SSN to prevent multiple and/or fraudulent participation was not determined.

We recommended that FCS modify its regulations to require that SSN's on a data base be unique. FCS officials disagreed, stating that existing policy is sufficient. Rather, they prefer to focus on compliance. We are continuing to work with FCS to reach management decision.

### **Bank Encoding Procedures Need Monitoring**

Approximately \$21 billion annually from FSP is deposited by 10,000 financial institutions into 37 Federal Reserve Banks (FRB). Food stamps must be attached to a redemption certificate when deposited in a financial institution. Under agreements with FRB's, the financial institutions are responsible for verifying that retailers have properly totaled food stamps and correctly prepared redemption certificates before accepting deposits of food stamps from the authorized retailers.

We reviewed redemption certificates that had been altered to show that total food stamp redemptions were for amounts greater than the food retailers' original deposits. We also evaluated FCS' controls to ensure that redemption certificates received from retailers and processed by financial institutions were accurately recorded in the agency's tracking system.

Analysis of data on high-redeemer stores and reviews of food stamp redemption certificates at the Minneapolis Computer Support Center identified five financial institutions with questionable redemptions totaling over \$8.5 million. Although we did not find evidence of fraud, our review disclosed food stamp deposits were not always processed in a manner that provided FCS with accurate redemption information. Although we found procedural problems at most of the financial institutions, the most serious problem occurred at a large financial

institution in Indiana which severely hindered FCS' ability to properly monitor the FSP redemption process. We found that over a 2-year period this financial institution had altered at least 625 redemption certificates by changing totals and encoding redemption certificates for amounts more than authorized retailers had deposited in food stamps. Because the financial institution lacked internal controls to ensure that employees correctly processed food stamps, bank officials revised their operating procedures to include reviewing food stamp transactions in their internal audits.

Although FCS recognized possible alterations of redemption certificates, it did not perform the followup actions necessary to determine the underlying problems. Agency operating routines did not provide for reviews to disclose unusual or altered data on redemption certificates to ensure the integrity of the tracking system.

We recommended that FCS (1) obtain the assistance of all FRB's and issue guidance to all authorized food retailers and financial institutions regarding the correct procedures to redeem and process food stamps, (2) advocate that financial institutions incorporate reviews of food stamp transactions in their internal auditing procedures or similar review, and (3) instruct field office personnel on how to properly follow up on indications of irregular activities disclosed during their food stamp processing review.

FCS officials are taking corrective actions.

### **Store Owner Sentenced to 7 Years' Imprisonment**

In Fort Wayne, Indiana, the owner of two grocery stores was sentenced for food stamp trafficking and illegal food stamp redemptions totaling \$3 million over 7 years. The owner was sentenced to 7 years' imprisonment and 3 years of supervised release; he was also ordered to pay \$100,000 in restitution.

### **Store President Convicted, Store Owner Pleads Guilty in Interstate Fraud**

The president of a New York City grocery store and wholesale business was convicted of food stamp trafficking and conspiracy charges in connection with \$418,000 in food stamps he redeemed illegally.



This investigation began after the United Parcel Service notified OIG that a broken package being shipped from Orlando, Florida, to New York City contained approximately \$6,000 in uncanceled food stamps. The food stamps were being shipped from a store that had been disqualified from participation in FSP to the authorized store in New York. During the investigation, two more packages with a total of approximately \$37,000 in food stamps were shipped from the Orlando store to the New York store. After the packages were intercepted, OIG special agents documented the contents and made controlled deliveries of the food stamps to the New York store. Analysis of the New York authorized retailer's business records identified another \$375,000 in fraudulent food stamp deposits.

The Orlando store owner pled guilty to the food stamp charges. Sentencing for both subjects is pending.

### **Stiff Sentences in \$40 Million Food Stamp Fraud Case**

We previously reported multiple arrests, indictments, and convictions in an investigation of food stamp fraud and money laundering in New York City. Two more individuals have been sentenced in this \$40 million fraud case.

A New York businessman was sentenced to 2 years in prison, 5 years' probation, and ordered to pay more than \$1.5 million in restitution to FCS. A second individual was sentenced to 3½ years in prison, 3 years' probation, and ordered to pay \$100,000 in restitution. The second person also forfeited \$10,000 from seized business accounts. These individuals pled guilty to fraudulently obtaining food stamp authorizations so they could launder millions of dollars in illegally obtained food stamps.

To date, this investigation has resulted in the indictments of 73 defendants and 55 arrests. Forty-four defendants have been convicted, and eight are pending trial.

This investigation was conducted jointly with the IRS, FBI, and U.S. Customs Service.

### **Store Owner, Wife, and Employee Plead Guilty to Conspiracy**

The owner of an East St. Louis, Illinois, convenience store, his wife, and an employee pled guilty to conspiring over a 1-year period to illegally acquire and

redeem \$420,000 worth of food stamps. Another store employee pled guilty to buying food stamps for cash during undercover transactions.

The store owner was sentenced to 21 months' imprisonment, ordered to pay \$210,000 in restitution, and fined \$500. The employee who pled guilty to trafficking was sentenced to 2 years' probation, ordered to pay \$410 restitution, and received a \$1,000 fine. Sentencing is pending for the other two subjects.

This investigation was conducted jointly with the Illinois Department of Revenue.

### **Store Owner Sentenced in \$180,000 Food Stamp Fraud**

The owner of a small St. Louis, Missouri, neighborhood store pled guilty and was sentenced for illegally redeeming over \$180,000 worth of food stamps over a 4-year period. The owner was sentenced to 1 year and 1 day in Federal prison, to be followed by 2 years of supervised release. No successful undercover food stamp transactions were conducted with the owner because he refused to purchase food stamps from strangers. The illegal redemptions were identified as a result of extensive interviews, coupled with an examination of business and tax records.

### **\$6.2 Million Restitution Ordered in Louisiana**

Eight persons were convicted of conspiring to defraud the U.S. Government by unlawfully purchasing and trafficking approximately \$5.9 million in food stamps



More than \$400,000 in food stamps were trafficked through this convenience store in East St. Louis, Illinois. OIG photo.

between October 1990 and January 1995, as a result of two investigations in Alexandria, Louisiana, involving separate food stamp fraud rings. In addition, two of the subjects were convicted of money laundering more than \$550,000. All eight subjects were sentenced to Federal prison terms, ranging from 1 to 4 years, fined a total of \$185,000, and ordered to make restitution totaling \$6.2 million.

The court further ordered the forfeiture of property in these investigations. Assets seized to date include \$271,900 cash from bank accounts, vehicles worth \$50,750, and land valued at \$60,000.

Both cases were worked jointly with IRS.

**New Orleans Meat Vendor Ordered To Pay More Than \$363,000 Restitution**

A meat vendor in New Orleans, Louisiana, was ordered to pay \$363,200 restitution and sentenced to serve 18 months in a Federal prison for food stamp trafficking and submitting false claims. The meat vendor routinely purchased food stamps from recipients outside a food stamp issuance office in New Orleans. Also, the vendor could not account for the redemption of approximately \$370,000 in food stamps.

**\$700,000 EBT Fraud in Baltimore**

An OIG investigation of a small convenience store in Baltimore, Maryland, has led to a guilty plea by the store owner for conspiring to traffic food stamp benefits and for structuring monetary transactions. The owner of the store pled guilty to trafficking more than \$700,000 in EBT benefits between September 1994 and February 1996. The store owner instructed his employees to add \$3 and change to all transactions involving trafficking at the store (rather than use even \$10 increments, e.g., transactions of \$20, \$30, \$50, etc.) in order to disguise the illegal activity. A total of \$745,600 in transactions, or 92 percent of all food stamp sales over \$20 at the store, was done using this scheme during the 18 months the store was open. Sentencing is pending.

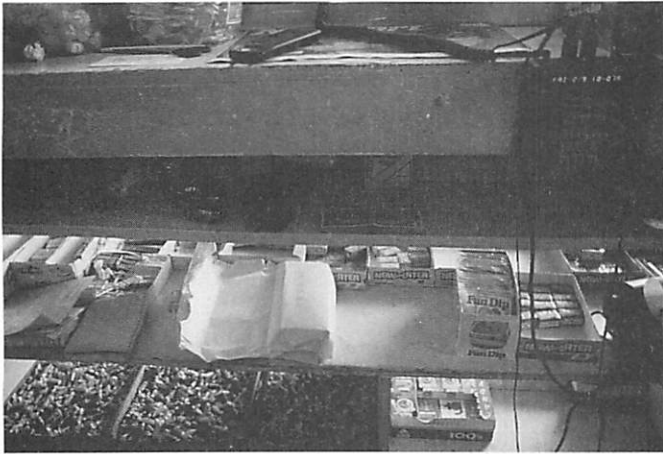
This case was worked in concert with the Criminal Intelligence Division, IRS, and resulted in the seizure and forfeiture of \$92,600 in proceeds from the trafficking scheme.

Figure 2 shows a printout of the first hour of transactions for 1 day at the store, starting just before 8:39 a.m. A total of 311 such transactions, totaling nearly \$22,600, were recorded for that day.

Figure 2

**Transactions at Store Using EBT System To Engage in Food Stamp Trafficking**

DATE	TIME	AMOUNT
01/10/1996	0838:57	123.89
01/10/1996	0840:23	123.97
01/10/1996	0841:35	163.96
01/10/1996	0843:27	203.89
01/10/1996	0844:37	83.97
01/10/1996	0846:40	43.96
01/10/1996	0848:11	83.97
01/10/1996	0849:22	83.96
01/10/1996	0850:49	83.96
01/10/1996	0852:52	123.97
01/10/1996	0855:59	43.96
01/10/1996	0858:48	43.96
01/10/1996	0901:37	123.97
01/10/1996	0903:12	43.96
01/10/1996	0904:26	163.97
01/10/1996	0905:42	203.97
01/10/1996	0910:44	83.97
01/10/1996	0911:30	43.96
01/10/1996	0913:04	83.96
01/10/1996	0918:25	123.89
01/10/1996	0919:49	123.97
01/10/1996	0921:06	83.97
01/10/1996	0922:25	83.96
01/10/1996	0926:14	83.89
01/10/1996	0933:35	43.89
01/10/1996	0937:14	123.89
01/10/1996	0938:53	63.97



Behind the counter of a small convenience store in Baltimore, Maryland, where the owner attempted to disguise food stamp trafficking by adding \$3 and change to each illegal transaction. In this photograph, taken during the execution of a search warrant, cash is stacked ready to exchange for benefits, below the EBT terminal and alongside two pistols. OIG photo.

### **Grocer Sentenced to Serve 1 Year in \$780,000 EBT Trafficking Scheme**

A grocery store owner in Baltimore, Maryland, was sentenced to 1 year and 1 day to be served in a halfway house after pleading guilty to trafficking food stamp benefits via the EBT system from October 1994 through August 1995. The fraud scheme totaled approximately \$780,000. The grocery store's vendor receipts could not support the amount of food stamp benefits redeemed by the store. In addition, large amounts of cash were withdrawn from the store's bank account during the timeframe that most recipients received their EBT benefits. During our execution of a Federal search warrant at his business, the store owner admitted guilt to the trafficking.

### **Two Grocery Stores Launder \$1.8 Million in Food Stamps**

In the last semiannual report, we described efforts to combat food stamp trafficking at issuance centers in Philadelphia, Pennsylvania, which resulted in the arrests of 40 "runners" (individuals who buy food stamps from recipients as they exit issuance centers with their monthly food stamp allotment). This period, we are

reporting the conviction of two authorized grocery store owners who were involved in a conspiracy by purchasing food stamps from runners and redeeming them at their stores. The two store owners and two of the runners pled guilty in Federal court to illegally redeeming \$1.8 million in food stamps. One owner was sentenced to 4 years in prison, fined \$1,500, and ordered to pay restitution of \$5,000. One runner was sentenced to 2½ years in prison, fined \$1,000, and ordered to pay restitution of \$1,000. Sentencing for the other owner and runner is pending.

### **Joint Operation Nets 16 Arrests at 8 Businesses in California**

In Riverside, California, 16 business owners/managers and their associates were arrested and charged with trafficking in food stamps and receiving stolen property. Over \$61,000 in food stamps was exchanged at eight businesses for cash, guns, and three vehicles. Only four of the eight businesses were authorized to accept food stamps.

OIG agents worked jointly with California Alcohol Beverage Control investigators and the Riverside Police Department.



In Riverside, California, \$61,000 in food stamps was exchanged for this and two other vehicles, cash, and guns. OIG photo.

## Police Officer Convicted of Food Stamp Trafficking and Conspiracy

A 20-year veteran Atlanta police officer was convicted by a Federal jury for food stamp trafficking, conspiracy to defraud the United States, and filing false income tax returns. The officer's wife and mother-in-law ran a small convenience store that deposited \$1.2 million in food stamps, most of which were obtained fraudulently.

Our undercover investigation revealed that these individuals purchased food stamps from recipients at discounted rates. A Federal search warrant was executed on the store, which produced minimal business records relative to the large food stamp deposits. A subsequent audit proved that the majority of food stamps deposited were fraudulently obtained. To date, \$93,600 in cash and a minivan have been seized.

The three pled guilty to the charges before trial. Sentencing is pending for all three subjects.

The IRS' Criminal Investigation Division assisted in the investigation.

## Subject Sentenced to 8 Years *in Absentia* While Fugitive Investigation Continues

An Atlanta, Georgia, woman remains a Federal fugitive after failing to appear for sentencing in a scheme to illegally redeem \$803,600 in food stamps through her "ghost" store. The woman had multiple runners illegally purchase food stamps from recipients, later depositing the stamps through a bank account for a store which did not exist.



A 20-year veteran Atlanta police officer used this small convenience store to deposit more than \$1 million in food stamps, most of which were obtained fraudulently. OIG photo.

A Federal jury convicted the woman on all 290 counts of food stamp trafficking, theft of Government property, money laundering, and conspiracy to defraud the United States. After the woman failed to appear for sentencing, the judge imposed a sentence *in absentia* of 8 years in prison, a \$150,000 fine, and a \$14,500 special assessment fee. Vehicles, including a \$42,000 Mercedes-Benz, and \$19,000 from the sale of the defendant's home were seized during the 2-year investigation.

The investigation was assisted by the IRS' Criminal Investigation Division, the U.S. Marshals Service, and the International Criminal Police (INTERPOL) Organization.

## 35 Charged in Florida

As a result of an 18-month investigation conducted by OIG, IRS, and local Florida law enforcement officials, 35 individuals were arrested and charged with food stamp trafficking in Hillsborough and Pinellas Counties, Florida. Four of the thirty-five were also charged with money laundering. To date, 12 have pled guilty and are awaiting sentencing. Seven search warrants were executed on the date of arrest, which resulted in over \$50,000 worth of cash and food stamps being seized. Of the 35 charged, 34 were either owners, managers, or employees of 22 retail food stores.

This operation began as a result of FCS compliance reviews of stores in the two counties, as well as a number of complaints received by FCS, OIG, and local law enforcement agencies. A total of \$79,100 in food stamps was purchased by the 35 individuals for \$43,600 in cash during the undercover phase of the investigation. During calendar year 1995, the authorized stores involved redeemed more than \$3.5 million in food stamps.

## 30 Arrested in South Florida Undercover Investigation

As a result of a 6-month undercover investigation conducted by OIG and State and local law enforcement agencies in Miami and Fort Lauderdale, Florida, 30 people were arrested for food stamp trafficking. Of those charged, 11 have entered guilty pleas in U.S. district court; others are negotiating and entering pleas through the State judicial system. Twenty-nine of the individuals are retail grocery store owners or store

managers, while one owns a car upholstery business. In addition, charges of food stamp trafficking were filed against six corporations.

### **Five Check Cashing Companies Pay \$600,000 Civil Settlement**

Five Texas check cashing companies paid a civil settlement of \$600,000 following a joint investigation conducted by OIG with the Texas Department of Human Services (TDHS). The interrelated check cashing companies, which had been authorized by Texas to issue food stamps, were confiscating expired food stamp "authorization to participate" (ATP) cards from recipients without issuing the recipients food stamps. However, many of these expired ATP cards were then backdated by company employees, occasionally switched between companies, and ultimately presented by the companies to TDHS as if the food stamps had been issued. The companies received overpayment of approximately \$296,000 from TDHS as a result.

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

### **Outdated Regulations and Inadequate Monitoring Caused Irregularities in the Reporting and Use of State Administrative Expenses (SAE) Funds**

The Child Nutrition Act of 1966 authorized Federal assistance to reimburse State agencies for State Administrative Expenses (SAE) incurred in administering Child Nutrition Programs (CNP). States are required to submit an SAE plan, which outlines their projected expenditures for 1 fiscal year, as well as their required State funds contributed toward the expenditures. In FY 1993, States received \$75.1 million in SAE funds, and \$85.2 million in FY 1994.

We reviewed FCS' allocation of SAE funds to the States, FCS-approved State administrative expense plans, and the use of funds. Our audit included fieldwork at FCS headquarters, six regional offices, and six State agencies. We found that SAE funds were being used for authorized purposes. However, we did note some areas that needed corrective action.

FCS regulations prohibit States from transferring more than 10 percent of the initially allocated funds from one CNP to another, except for the Food Distribution Program. However, the formula used for allocating the

funds between programs did not always reflect the administrative needs of the individual programs; many States treat CNP administrative costs as a single cost center. In addition, FCS has not been enforcing the regulation. One State exceeded the transfer limitation by over \$333,000 in 1 year when transferring funds from the Child and Adult Care Food Program to the school food programs.

State agencies are required by law to contribute administrative funds based on their 1977 spending levels in order to qualify for SAE funds. This law is outdated and causes inequities between the States. In FY 1993, for instance, Louisiana received approximately \$2.1 million in SAE funds, while Pennsylvania received just under \$2.2 million. However, while Pennsylvania was required to contribute only approximately \$35,000, Louisiana's required contribution was almost \$760,000, over 21 times greater.

FCS reallocated SAE funds each year from States having excess funds to those that needed additional funding for special projects not covered in the SAE plans. However, in some cases, funds were reallocated to States based on projected obligations which varied from actual obligations. In FY 1993, for instance, SAE funds were reallocated to 15 State agencies; 7 of these projected carrying over to the subsequent year a total of \$57,500, but actually carried over more than \$354,000, representing almost 40 percent of all the reallocated funds.

Also, we found that the management evaluation reviews of State agencies, performed by FCS regional offices, provided little or no coverage of SAE funds. Therefore, FCS did not adequately test the SAE plans to determine if they were a reasonable estimate of actual expenditures, or discover errors in States' reported obligations and expenditures.

We recommended that the FCS national office seek legislation to rescind the 10-percent limit on fund transfers, and seek the necessary legislation to update the State funding requirement. We also recommended that guidance be provided to State agencies regarding the reporting of expenditures and obligations on the SF-269 reports provided to FCS, and that State agencies be required annually, at midyear, to evaluate the reasonableness of their SAE plans through comparisons to their actual expenditures. Finally, we recommended that the national office take steps to

ensure that only those State agencies requiring additional funds for unforeseen needs receive reallocations of SAE funds.

FCS officials agreed with OIG's findings and recommendations.

### **Sponsors Need To Improve Program Administration**

The Child and Adult Care Food Program is intended to ensure that persons being cared for in participating child and adult care facilities receive nutritious meals. State agencies or FCS administers the program through sponsors, which are generally public or private nonprofit organizations. Sponsors are ultimately responsible for program operations and receive funding to administer the program in accordance with program requirements.

During this reporting period, we continued monitoring sponsors' program administration. Problems noted were as follows.

- One California sponsor's onsite reviews of its day care providers were not thorough and were always announced in advance. The sponsor did not keep accurate and complete records or adequately review and verify the providers' claims for reimbursement prior to payment. As a result, the sponsor lacked the controls to ensure that meal claims were accurate, only eligible meals were served to eligible children, and providers were operating in compliance with program requirements.

This lack of control was evident in the results of the visits to providers which we conducted. We found that 47 (38 percent) of the 124 providers visited did not keep accurate or complete records. Some providers had no records at all. Also, many of the providers appeared to claim more meals than they actually served. During 43 of the 139 visits (some providers were visited more than once), we observed fewer children in attendance than the providers subsequently reported.

We also noted that the sponsor did not disburse program funds to providers in a timely manner.

We recommended that if the sponsor fails to correct these deficiencies within a reasonable period of time, the State agency terminate it from the program. The State agency and FCS officials fully agreed with our findings and recommendation.

- An adult care sponsor in Texas claimed 19,000 meals for participants in transit to or from its centers at the times meals were served, 400 meals for participants during documented absences, 1,200 meals that were eaten offsite, and inflated claims for over 6,300 meals. Further, there was no assurance that meals served at one center contained minimum food components, and the sponsor did not maintain complete applications for the center's participants to support the claiming of meals at the "free" reimbursement rate. As a result, the sponsor received excessive program payments totaling over \$46,000.

The results of our audit and the results of the State attorney general's investigation of the sponsor were presented to the assistant U.S. attorney for consideration for criminal prosecution of the sponsor. The decision whether to prosecute the sponsor is pending.

We recommended that FCS recover the \$46,000 in excessive payments and determine whether to terminate the program agreement with the sponsor. FCS officials agreed with the audit findings and recommendations and are working with the State agency to implement corrective action.

### **Monitoring Food Service Operations Did Not Disclose Meal Count Deficiencies**

A Florida school food authority's monitoring of cafeteria operations did not identify deficiencies with schools' meal count procedures. However, we visited 18 of 132 schools and found that meal count procedures at 12 did not comply with prescribed procedures. Of the 12 schools, 7 overclaimed Federal reimbursement of more than \$71,000 because (1) cafeteria staff did not perform meal counts in accordance with the prescribed policies and procedures and (2) the school food authority did not effectively monitor schools' meal counts. Our review of the area administrators'

evaluation and site visit reports at the seven schools showed that the inaccurate meal count procedures and excessive claims were not identified because the monitoring reviews did not provide adequate coverage. Also, 4 of the 18 schools we visited overtly identified students receiving free and reduced-price meals, which did not comply with prescribed policies. At three of the four schools, officials issued numbers that distinguished students receiving free and reduced-price meals from full-paying students, who were not issued numbers. At the remaining school, those receiving free and reduced-price meals were required to sign their names on a daily list.

We recommended that FCS recover \$71,500 from the school food authority, conduct a followup review to ensure that meal count deficiencies have been corrected, and require that the school food authority revise its review process to ensure that area administrators fully evaluate schools' meal count procedures and claims. We also recommended that FCS require the school food authority to evaluate each school's procedures for identifying students' meal eligibility status to ensure that students receiving free and reduced-price meals are not overtly identified.

#### **Foster Care Providers Convicted of Diverting USDA-Donated Commodities**

Two persons who operated a supposedly nonprofit foster care organization in Washington State pled guilty to fraudulently obtaining and selling USDA-donated commodities. Both were sentenced to 6 months' home detention with electronic monitoring and were ordered to pay \$11,400 in restitution to FCS. They wrongfully had obtained designation for the operation as a nonprofit, charitable organization. Concurrently, the Washington State attorney general successfully sued the organization to revoke its nonprofit status and confiscate property that had been purchased with charitable cash donations.

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

##### **Los Angeles Bank Pays Civil Penalty in WIC Case**

A Los Angeles, California, bank agreed to pay \$150,000 in civil penalties for allowing an unauthorized vendor to redeem Special Supplemental Food Program for Women, Infants, and Children (WIC) vouchers. The unauthorized vendor redeemed approximately \$100,000 in vouchers over 2 years. The vendor accepted vouchers as a noncontract vendor, exchanged vouchers for non-WIC items, negotiated vouchers made payable to other vendors, and inflated prices on the WIC vouchers.

As part of the settlement, the bank also agreed to institute a comprehensive, bankwide reform in the handling of WIC vouchers, provide inservice training for all employees, provide joint training with the State of California's WIC program at the California Bankers Association's annual meeting, and write an article outlining the proper handling of WIC vouchers and submit it to the appropriate monthly banking bulletins.

# Food Safety

## Food Safety and Inspection Service (FSIS)

Through its inspection activities, FSIS ensures that the Nation's supply of meat and poultry is safe, wholesome, and correctly labeled. FSIS' appropriations for FY 1996 totaled approximately \$545 million.

### Smuggled, Unapproved Chemicals End Up In Food Supply

A feed manufacturing company in Juneau, Wisconsin, and its president were found guilty on 12 counts of conspiracy, smuggling, and the production and sale of misbranded and adulterated drugs. Sentences are pending for the president and the corporation.

The office manager, who was also indicted and testified as a Government witness, pled guilty to conspiracy and was sentenced to 2 years' probation, restitution of \$29,500, and 150 hours of community service.

The investigation found that illegal and unapproved chemicals and drugs were smuggled into the United States by the Wisconsin company and its parent company located in the Netherlands. The unapproved drugs, primarily Clenbuterol and Avoparcine, were used in custom-blended veal calf and lamb feeds that the company manufactured and sold to animal producers in the United States. The tainted feed was fed to veal calves and lambs that were slaughtered and introduced for human consumption by slaughterhouses in Illinois, Kansas, New York, and Wisconsin.

Eleven search warrants in Illinois, Minnesota, Pennsylvania, and Wisconsin were executed during the course of the investigation. Sales and slaughterhouse records, as well as feed and medication, were seized and analyzed, and thousands of tons of adulterated feed confiscated. Samples of the adulterated feed were later analyzed by the U.S. Food and Drug Administration (FDA) laboratory and found to contain the illegal and unapproved drugs. Consumption of meat products from animals fed these drugs is potentially hazardous to humans.

The investigation continues and is being worked jointly with the U.S. attorney's office, USCS, and FDA's Office of Criminal Investigation.

### Specialty Meat Company and Officer Sentenced Following Conviction

As related in the last semiannual report, a South Dakota mail-order specialty meat company and three officers (a father, son, and daughter-in-law) were all found guilty of conspiracy, and were individually found guilty on various counts of mail fraud, wire fraud, and misbranding violations. The three defendants have now been sentenced to Federal prison terms ranging from 1 to 2 years, to be followed by probation. All three were ordered to pay fines totaling \$100,000. Over a 5-year period, the defendants sold over 1 million pounds of misbranded meat product and realized nearly \$2.1 million as a result.

### Meat Plant Manager Sentenced for Obstruction of the U.S. Mail

A Michigan meat plant manager was sentenced to 2 years' probation and fined \$1,000 for preventing an FSIS inspector from receiving negative laboratory findings sent via the U.S. mail.

The laboratory report indicated that a product made with mechanically deboned poultry exceeded FSIS tolerance levels for calcium content. These findings could have resulted in the plant's operations being restricted or halted until the situation was corrected.

### Adulterated Meat Used in Ground Beef Sold to the Public

A meat market in Folcroft, Pennsylvania, has pled guilty to selling adulterated meat, and was sentenced to 1 year of probation and fined \$10,000. Also, the presiding judge prepared a "public notice" stating how the market violated the Federal Meat Inspection Act (FMIA), which he ordered to be published three times over a 3-week period in a local newspaper.

During the investigation, which was conducted jointly with FSIS compliance officers, the driver of a rendering truck took spoiled meat, bones, grease, and floor sweepings from the truck into the meat market. The spoiled meat was washed, trimmed, ground, mixed with the other waste products, and made into ground beef or ground beef patties and sold to the public. The market purchased the waste products from the truck driver approximately eight times over 7 months. The market



owners were confronted regarding the violations, and under the supervision of FSIS compliance officers destroyed the product that had been made from the waste meat products.

During the course of the investigation, the driver encouraged a witness to lie to OIG special agents in order to thwart the investigation. Eventually, the driver pled guilty to the sale of adulterated meat and conspiracy, and following a trial was convicted of witness tampering. He was sentenced to 1 year and 1 day in prison followed by 2 years' probation, and fined \$3,130.

### **Company and Two Individuals Plead Guilty to Sale of Adulterated Meat**

A San Jose, California, meat-packing company, its owner, and its salesman all pled guilty in Federal court to charges that they violated the FMIA by selling and transporting several tons of adulterated meat. The company was fined \$75,000 and agreed to extra inspection by USDA. The owner received probation and agreed to divest himself of ownership of the company. The former company salesman received 4 months of home detention with electronic monitoring.

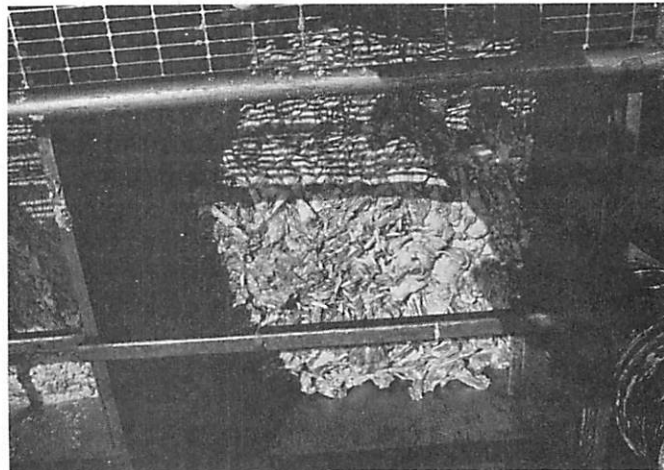
From November 1989 through May 1992, the salesman had resold putrid meat, which had been returned to the plant by wholesale customers, to a sausage-making firm at a significant price discount.

The investigation was worked jointly with FSIS compliance officers.

### **FSIS Inspector Sentenced to Prison for Selling Rotten Pork in Commerce**

We previously reported that the owner and the plant manager of a federally inspected pork processing plant in North Carolina had violated FMIA and a former FSIS meat inspector had been charged in the scheme.

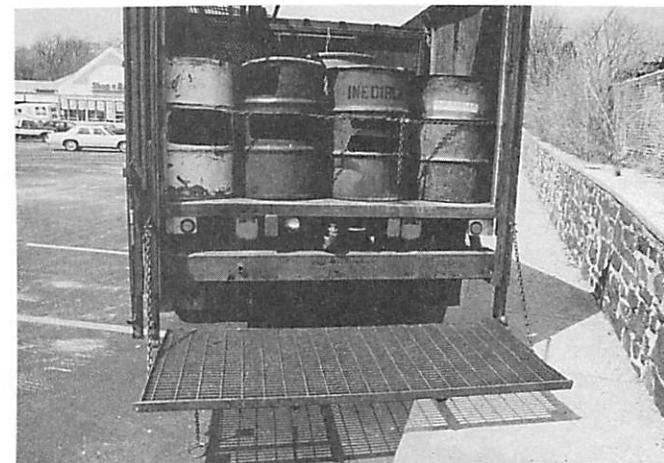
In Wilmington, North Carolina, the owner of this plant was sentenced to 2½ years in prison for selling adulterated pork product and fined \$6,200. The owner's son-in-law (also the plant manager) received 6 months in a community correction center, 5 years' probation, and 100 hours of community service.



Adulterated meat like that seen here was sold in a Folcroft, Pennsylvania, meat market. OIG photo.



The driver of this rendering truck in Folcroft, Pennsylvania, was convicted of witness tampering. OIG photo.



A view of the back of the rendering truck. OIG photo.

During this period, at the inspector's jury trial, plant management and other witnesses testified that the inspector accepted gratuities, participated in the washing of returned product with bleach to mask the rotten meat, conducted plant business, accepted cash from plant customers, made personal long-distance telephone calls that were billed to the plant, consumed alcoholic beverages on plant property, and purchased pork products at a discount from the plant, all in violation of FMIA. The inspector was found guilty of violating FMIA and was sentenced to 2 years in prison, followed by 1 year of probation, and fined \$3,500.

# Marketing and Regulatory Programs

## Agricultural Marketing Service (AMS)

AMS enhances the marketing and distribution of agricultural products by collecting and disseminating information about commodity markets, administering marketing orders, establishing grading standards, and providing inspection and grading services. AMS' funding level for FY 1996 was approximately \$237 million.

### Improved Disclosure and Controls Will Ensure Effective Use of Cotton Producer Funds

The Cotton Research and Promotion Act of 1966 (the 1966 Act) provides that the Cotton Board, with approval of the Secretary of Agriculture, will contract with an organization or association whose governing body consists of cotton producers selected by certified cotton producer organizations. Cotton Incorporated (CI) was organized to meet the criteria of the 1966 Act as the contracted organization. CI is responsible for (1) conducting cotton research and promotion activities to increase consumption of U.S. cotton at home and worldwide and (2) protecting and promoting the general welfare of U.S. upland cotton producers and importers. Because of the limitations in the 1966 Act, CI is the only organization contracted for these purposes.

AMS is responsible for general oversight of the program's domestic activities. The program is funded by mandatory assessments on domestic cotton production and cotton imports. CI's 1995 and 1996 contract budgets totaled \$55.1 million and \$61.1 million, respectively.

Overall, CI complied with the terms of its contract with the Cotton Board. Project costs incurred by CI were generally reasonable and contract related. However, improvements were needed in (1) the disclosure of research and promotion project costs and accomplishments and (2) management controls over CI's Own Fund, travel, entertainment, other costs, and procurement practices.

- CI improved disclosure of planned projects and estimated costs in its 1996 plan and budget. However, the annual plan, budget, and financial reports did not provide sufficient detail for USDA, the Cotton Board, and CI board members to effectively assess annual project accomplishments,

the propriety of expenditures, and contract compliance. CI did not budget and account for actual project costs and report accomplishments in accordance with its approved plan and budget.

- CI's Own Fund, which originated from voluntary producer contributions made prior to the 1966 Act and which totaled approximately \$3.3 million as of December 31, 1994, was not effectively used for cotton research and promotion. Assets in the Own Fund (1) increased significantly without annual plans and budgets for use of fund resources and (2) were used for activities and expenses that are unallowable or questionable under the cotton research and promotion program.
- CI paid unallowable or questionable travel, entertainment, meeting, and other expenses in 1994. OIG audit reports issued in 1983 and 1993 identified similar deficiencies. Although CI revised its staff travel policy for expenses of an accompanying spouse in April 1995, it did not revise its board travel policy or develop a written policy on alcohol expenses as requested by AMS and recommended in the prior audits.
- CI did not maintain adequate control over procurements. CI staff did not consistently follow contracting policies and procedures, routinely approved contracts that exceeded their monetary authority, did not competitively award contracts, and did not justify sole-source contracts. Contract documents were missing for 5 of 16 consultant procurements we reviewed, totaling approximately \$240,000.
- CI did not include assets it acquired with program funds in its accounting system and Producer Fund financial statements. CI's expensing of assets when acquired violated generally accepted accounting principles. As a result, the Producer Fund financial statements have omitted assets and overstated expenses, and presented a distorted view of the fund's financial status. Accountability for assets costing over \$7.9 million was also reduced. During our audit, CI revised its policies and procedures to improve documentation and controls over equipment disposal. These changes should ensure proper disposal of equipment purchased with program funds.

We recommended that AMS and the Cotton Board require that CI (1) submit plans, budgets, accountings, and reports on the objectives, costs, and accomplishments of each project or project area in accordance with the approved plan and budget; (2) submit an annual Own Fund plan and budget for Cotton Board and USDA approval, and submit annual cost and activity reports; (3) adhere to minimum contracting requirements for all CI procurements; and (4) include the value of all contract assets in Producer Fund financial statements. We also recommended that CI (1) revise its board travel policy to disallow expenses for an accompanying spouse, (2) develop and disseminate a written policy on alcohol expenses, and (3) justify or terminate payment of other unreasonable and potentially controversial expenses.

AMS agreed with the audit recommendations and has initiated acceptable corrective actions except with regard to the Own Fund. In that case, AMS requested a legal opinion about its authority to oversee the Own Fund although a previous legal opinion had confirmed AMS' authority. We continue to work with AMS to achieve management decisions regarding the Own Fund.

### **Prosecutions Continue in Milk Watering Scheme**

As the result of our ongoing investigation of milk adulteration in southern Oklahoma and northeast Texas, more milk truck drivers have been federally prosecuted. Two of the drivers were placed in the U.S. attorney's pretrial diversion program and agreed to make restitution of \$7,100. Two other drivers have pleaded guilty to informations charging mail fraud, but they have not yet been sentenced. Prosecution of additional drivers and dairymen is pending with the U.S. attorney's office. The scheme involved Associated Milk Producers Incorporated (AMPI) truck drivers conspiring with dairymen to add water and salt to raw milk, thereby defrauding AMPI and its co-op members as well as adulterating the milk.

### **False Egg Grading Certificates Result in Pretrial Diversions**

Two owners of a Texas egg company were placed in the U.S. attorney's pretrial diversion program for 6 months for forging USDA egg grading certificates for over \$107,000 worth of eggs sold to three Texas military installations. The owners also admitted creating fictitious Texas Department of Agriculture grading

certificates for the eggs sold. The eggs were never graded by USDA or State officials. The eggs sampled as part of the investigation were found to be *deficient in grade*, but not unwholesome. The military organizations terminated the company's contracts during the investigation.

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

Through its inspections, 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 FY 1996 activities are estimated to total over \$462 million.

### **USDA-Licensed Individuals Keep Exotic Pets That Could Endanger the Public**

Under the Animal Welfare Act of 1966, APHIS is responsible for regulating the use of warmblooded animals in research, exhibition, and commerce in order to ensure their humane treatment. APHIS issues licenses to animal dealers, breeders, and research facilities, and inspects them annually to ensure their compliance with applicable laws and regulations. Class "C" licenses are issued to individuals, carnivals, zoos, circuses, and educational exhibitors who wish to display animals to the public. In 1994, Congress appropriated \$9.3 million to APHIS for its enforcement activities. During this period, the agency made nearly 3,300 inspection visits to 2,300 licensed exhibitors nationwide. We reviewed APHIS' policies and procedures related to the licensing of animal exhibitors, particularly those who wish to exhibit dangerous and exotic animals such as lions or tigers. We visited the APHIS national office, 2 of 4 sector offices, and 33 licensed exhibitors in 3 States. We also performed file reviews of an additional 37 licensee files at the sector offices. In addition, we contacted officials in 17 States to obtain information on their laws regarding exotic animals, as well as licensing, inspection, and enforcement activities for comparison with those of APHIS.

Although APHIS' exhibitor licenses were intended solely for those wishing to exhibit animals to the public, we found that the broad wording of APHIS' regulations has allowed a wide variety of individuals to obtain licenses. We focused our review on licensees having 10 or fewer animals, because of the greater likelihood that these are

not true exhibitors and may not be properly qualified to safely handle dangerous animals. We found that 64 percent of the licensees visited did not exhibit their animals, but instead maintained them as personal pets. These individuals had obtained exhibitor licenses to circumvent State and local laws intended to protect the public by restricting ownership of such animals.

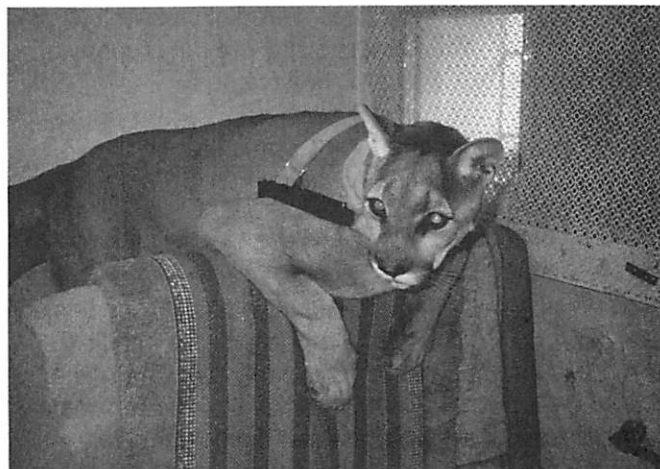
Many of the animals kept by these individuals are considered dangerous (lions, bears, wolves, etc.), and were often being kept in urban or other populated areas. However, APHIS issued licenses without requiring the owners to provide any evidence that they had the knowledge, experience, or qualifications to safely handle such animals. APHIS' prelicensing inspections are geared solely to determining if the owner's facilities are sufficient to house the animals present at the time of inspection; however, once licensed, an individual may acquire any additional number or type of animals without APHIS approval. In some instances, we found large and dangerous animals that were housed in enclosures that were inadequate to contain them. In one such case, a licensee's pet tiger had to be shot to prevent it from escaping into the surrounding neighborhood.

We recommended that APHIS amend its regulations to (1) restrict the definition of an "exhibitor" to exclude pet owners, (2) require that applicants meet standards of knowledge and experience before being licensed to exhibit, and (3) limit the ability of licensees to obtain additional large or dangerous animals without APHIS approval. We also recommended that APHIS deny licenses to those whose possession of exotic animals would violate their State or local laws, and that the agency explore the possibility of entering into cooperative agreements with selected States to more efficiently carry out its inspection and enforcement activities.

APHIS officials agreed with our findings and recommendations.

### **APHIS Needs To Implement OSHA Requirements for Its Hazardous Materials**

Hazardous materials, including explosives and pesticides, are used by APHIS' Animal Damage Control (ADC) Program to control damage to agriculture caused by pests and wildlife. APHIS manufactures many ADC pesticides at its supply depot in Pocatello, Idaho, and it



APHIS records show that the owner of this cougar had no prior knowledge or experience in maintaining this type of animal. Here the animal is being kept in the owner's basement, which is located in an urban area of Ohio. OIG photo.

stores blasting components, fireworks, and other chemicals at facilities close to field sites where they are needed. All hazardous material must be stored in proper containers with labels. Blasting components must be stored in containers that meet requirements set by the Occupational Safety and Health Administration (OSHA).

Our audit evaluated APHIS' control over the storage and handling of hazardous materials. We visited 16 ADC facilities in 6 States. These six States accounted for 91 percent of the explosives used during FY 1994.

We found no instances in which APHIS employees or the general public had been harmed by hazardous materials stored by APHIS. However, we believe APHIS needs to implement OSHA requirements to ensure better protection for its employees and the public.

- APHIS' policy manual and inspection procedures did not include OSHA requirements for handling and storing blasting components and for using personal protective equipment.
- Twelve of the sixteen facilities we visited did not comply with OSHA's requirements that specify the distance between explosive components and combustible materials.

- Five of the sixteen facilities stored explosive components in containers that were not properly constructed or adequately maintained.
- Facilities stored more ammonium nitrate with explosives or flammable liquids than OSHA allows.

We reviewed 22 safety inspection checklists for 1995, including those for the 16 storage facilities we visited. These checklists are used to identify unsafe conditions in the workplace. We found that checklists had not been completed for 9 of the 22 locations. Checklists that were completed did not identify the deficiencies we noted because the checklist itself did not include a review of procedures for handling explosives. Also, a program to train employees on the safe handling of workplace chemicals had not been designed because officials were unaware they were required to implement such a program.

We recommended that APHIS include OSHA requirements in its policy manuals and directives. We also recommended that APHIS direct the facilities we visited to correct the conditions we noted, and that appropriate training be provided. APHIS generally agreed and is taking corrective action.

# 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, and private forest landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and manage recreation areas. For FY 1996, the FS appropriation was \$3.2 billion, with timber sales and other receipts expected to be approximately \$1 billion.

### Financial Controls Over Grant Funds Not Maintained by University

FS provides grants to universities to promote development of educational resource management programs. At the request of FS, we audited grant funds provided to a university to ensure the goals established for these funds were being achieved, costs that were claimed were allowable, and matching funds were provided by the university.

We found that the goals of the grants were generally being achieved; however, FS controls over financial reporting were not adequate. As a result, claims by the university for matching costs of \$562,200 were not supported. We also found that a small amount of grant funds had been improperly used and some unused funds had not been properly deobligated.

We recommended that FS provide the university with assistance to develop an adequate financial management system. We also recommended that FS determine the allowability of matching costs being claimed by the university and directed FS to recover unallowable costs, including approximately \$2,800 we identified in our review. Further, we recommended that FS deobligate unused grant funds and develop procedures to ensure that financial status reports are received and reviewed by appropriate FS officials.

FS officials agreed with the findings and have agreed to implement the recommendations.

### Cost-Share Rates Exceed Statutory Authority

FS provides funds to private landowners through grants administered by its State and Private Forestry organization. One of the programs is the Stewardship Incentive Program, which is designed to stimulate multiple resource management of nonindustrial private forest lands through costsharing of approved management practices. We evaluated this program to determine whether procedures followed by FS ensured the propriety of cost-share payments and whether payments were made only to eligible landowners.

We determined that cost-share assistance was provided to eligible landowners; however, they were paid more than the 75 percent authorized by statute. We found costshares of up to 100 percent were paid in both States reviewed. Overpayments totaled \$11,750 in the four counties audited. The problem is nationwide in scope because the program handbook allows costshares up to 100 percent. We also found that producers were paid over \$20,000 in ineligible costshares because program practices were completed or begun prior to plan approval, costs were not incurred, and stewardship plans were inadequate. Further, in one State, forestry commission and forest stewardship committee members had a conflict-of-interest because they established and approved cost-share rates and also received fees for preparing forest stewardship plans.

We recommended that FS amend the program handbook to delete the use of share payments based on an average flat rate, which can extend reimbursement beyond 75 percent of the actual cost, and to set future costshares at not more than 75 percent of actual costs. We also recommended that members of the forestry commission and the forest stewardship committee not receive payments as vendors under the program and that the program handbook be amended to prohibit conflicts-of-interest by commission and committee members. In addition, we recommended recovery of \$20,900 in overpayments identified in our audit.

FS has requested guidance from the Department's Office of the General Counsel (OGC) regarding the propriety of cost-share payments that exceed 75 percent of actual costs and recovery of costs we questioned in our review. FS requested this opinion based on the FS program having been modeled after similar cost-share programs in USDA.

## **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' work focuses on erosion reduction, water quality improvement, wetlands restoration and protection, fish and wildlife habitat improvement, water management, and other natural resource problems. For FY 1996, NRCS' appropriation was approximately \$1.1 billion.

### **Review Discloses Questionable Payments of Approximately \$1.4 Million**

The Watershed Protection and Flood Prevention Act authorized USDA to cooperate with States and local agencies in planning and carrying out improvement measures for soil conservation and other purposes. The improvement measures are defined as any undertaking for flood prevention, development, utilization, conservation, or disposal of water in watershed or subwatershed areas.

We performed an audit in one State to determine whether funds spent on selected projects were correct, used for the intended purposes, and properly accounted for. We found that cost-share payments for the land treatment measures were based on an 80-percent cost-share rate when the rate should have been limited to the amount (75 percent) authorized for similar practices under other existing national programs. As a result, landowners were overpaid approximately \$19,600 for land treatment measures they completed under the watershed project. We also found that the watershed project plan was not revised to reflect disbursements for land treatment measures of approximately \$1.3 million which were not approved as part of the original project plan. The national watershed manual requires a revised plan when project costs are significantly increased; however, NRCS officials said that it was intended that only the cost of the structural measures be considered when determining the need for a revised plan.

We recommended that NRCS revise project plans to reduce the cost-share rate to the maximum allowed (75 percent) and that it clarify provisions of the national watershed manual regarding the need for a revised

watershed plan when costs increase significantly. NRCS officials agreed to implement our recommendations.

### **Joint Effort To Evaluate the Impact of a Pilot Status Review Project**

NRCS performs a status review on randomly selected highly erodible land (HEL) tracts entered in USDA programs. Status reviews determine whether persons are actively applying conservation plans or are using approved conservation systems. After contact with agricultural producers, commodity groups, and farm organizations, NRCS personnel determined they needed better communication with producers undergoing the status review process.

NRCS conducted a pilot status review project in six States, using alternative procedures. Normal procedures do not allow field office personnel to provide technical assistance before the review. In the pilot program, producers were notified earlier than in previous years, and each district conservationist contacted producers, made field visits, and offered technical assistance. In a prior audit report, we noted that this advance notification would affect the compliance rate detected in the status review process; therefore, we believed our participation in evaluating the pilot program could be mutually beneficial to NRCS and OIG.

In the joint effort, OIG and NRCS representatives interviewed producers and NRCS personnel, and reviewed a second tract of HEL operated by the same producer. The producers were unaware that the second tract would be reviewed. A comparison was made of the conservation practices applied to both tracts to determine if the advance notification and technical assistance affected the compliance determination for the original tract.

We found that advance producer notification of the tract selected for a status review could affect the application of conservation measures. Some producers attempted to apply conservation practices to the specific tract that was scheduled for review, yet made no attempt to apply those same required practices to tracts that were not scheduled for review. We are continuing to work with NRCS to revise and evaluate its status review process.



# Rural Development

Effective April 6, 1996, the Rural Economic and Community Development mission area was renamed Rural Development. It is composed of three agencies, which provide financing for projects in the following areas: The Rural Housing Service (RHS), for rural housing and community facilities; the Rural Business-Cooperative Service (RBS), for business, industry, and cooperative assistance; and the Rural Utilities Service (RUS), for electric distribution, telephone, and water and waste.

## Rural Utilities Service (RUS)

RUS makes direct water and waste loans for the distribution of water or the collection, treatment, or disposal of waste in rural areas. Communities must be unable to obtain commercial credit in order to be eligible for assistance. Grants also provide technical assistance and training, solid waste management, and emergency water assistance. The funding level for direct water and waste loans in FY 1996 was over \$546.5 million.

### RUS Is Competing With Private Sector Funds

The current approval process for water and waste disposal loans does not prevent RUS from competing with private credit sources. Private lenders are not given the opportunity to review each application to determine their interest in financing the project. This is due to an absence of requirements for potential borrowers to contact investment lenders and document such contacts in writing. Also, RUS did not require former borrowers to pursue additional financing from the lenders who had purchased their prior loans under the Discount Purchase Program (DPP). We statistically projected that RUS funded 813 water and waste loans, totaling approximately \$832.7 million, which commercial lenders could have financed if given the opportunity. We also statistically projected that 132 loans, totaling over \$184.7 million, could have been financed by the lenders who purchased previous loans under DPP.

We recommended that RUS revise current instructions to require future applicants to submit a proposal from at least one investment lender capable of financing water and waste loans and that State office and/or district office personnel discuss investment lenders nationwide with future applicants. We also recommended that RUS request certain borrowers to refinance with an investment lender.

## Rural Housing Service (RHS)

RHS makes loans for rural family housing, apartment complexes, and community facilities. As of the end of FY 1995, approximately 594,000 borrowers owed RHS \$18.3 billion in single-family housing loans; 17,000 borrowers owed \$11.6 billion in multifamily housing loans; and approximately 2,000 borrowers owed more than \$1 billion in community facility loans. An additional 35,000 borrowers had obtained single-family housing loan guarantees through RHS, totaling approximately \$2.1 billion.

### Rural Rental Housing (RRH) Projects Not Operated in Accordance With Rural Development Agreements, Policies, and Procedures

The Housing Act of 1949 established governmental authority to make RRH loans to approved applicants to build moderate, cost-affordable housing. Provisions were made for interest reductions to borrowers so that low-income tenants may be provided affordable rental rates. Federal regulations allow borrowers to use independent management companies to manage their properties or to form management companies (identity-of-interest companies) to manage their own and/or other RRH projects. However, identity-of-interest management companies must be disclosed to RHS.

Neither the general partner of the RRH projects nor his identity-of-interest management company honored agreements with USDA for the two housing projects we reviewed. They failed to deposit \$16,700 in the reserve account in accordance with workout plans, and they misappropriated \$44,500 from the operating funds. Further, both parties had generally refused to acknowledge to USDA their identities-of-interest with each other and other companies.

We recommended that the management company repay the projects \$44,500 improperly withdrawn and fund the reserve account \$16,700 as agreed to in the workout plan. We also recommended that the management company be debarred or required to comply with its responsibilities to USDA for a specified period. If the company fails to comply, USDA should require the general partner to replace the management company with an independent company.

Agency officials concurred with the findings and recommendations.

## **Congress Enacts Proposed Legislation**

In our last semiannual report, we described our review of the RRH program to identify areas that could be improved through legislation. We analyzed the various statutory requirements for both HUD and RHS to determine if differences existed and, if so, whether the RRH program could be strengthened if the HUD provisions were enacted. We found that a key HUD requirement titled "equity skimming," which specifically established misuse of project funds as a Federal offense, was not included in RHS statutes. Several times in the past, U.S. attorneys have concluded that prosecution was unlikely to yield a conviction on an RRH case despite strong evidence of irregularities. A primary encumbrance to prosecution had been U.S. attorneys' view that, without additional statutory support, misuse of project funds constituted a crime against the project and not the Government. Equity skimming was one of the legislative proposals we recommended the agency put forth to Congress. We are pleased to report that Congress has passed this requirement in the Department's 1997 Appropriations Act. The RHS law now requires the following.

Whoever, as an owner, agent, or manager, or who is otherwise in custody, control, or possession of property that is security for a loan made or insured under this section willfully uses, or authorizes the use, of any part of the rents, assets, proceeds, income, or other funds derived from such property, for any purpose other than to meet actual or necessary expenses of the property, or for any other purpose not authorized by this title or the regulations adopted pursuant to this title, shall be fined not more than \$250,000 or imprisoned not more than 5 years, or both.

We believe this newly enacted provision will significantly strengthen the RRH program. The equity skimming statute will foster successful prosecutions and serve as a strong deterrent to wrongdoing.

In addition, Congress passed a measure in the 1997 Appropriations Act which permits management to adjust the level of a developer's required equity contribution to ensure the total Federal assistance is not more than necessary to provide for program housing. This new legislation provides resolution to findings that, because of conflicting legislative requirements, critical program provisions could not be met. A 1989 law required that

Government assistance to RRH projects, including loans and tax credit benefits, be limited to the level necessary to provide affordable housing. However, a subsequent amendment limited a developer's required contribution to the project to 5 percent (RHS' loan covers the other 95 percent). Because State tax authorities, not RHS, control the awarding of tax credits, the only way RHS could limit assistance to a developer was to decrease the amount of the loan, thereby forcing the developer to increase his contribution beyond the 5-percent limit.

We found that if the legislative barrier had not existed during FY's 1990 through 1992, a total of approximately \$285 million in loan funds would have been subject to reduction. We also estimated 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 RHS 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.

We recommended that RHS immediately seek a change to the Housing Act of 1949, which restricted the equity contribution that could be required of the borrowers if tax credits were received. We further recommended that RHS define and implement the necessary level of assistance as soon as the legislative encumbrances were removed. The legislative change has now been achieved, and the regulations are to be issued not later than 60 days after the date of enactment.

## **Use of Housing Preservation Grants Questionable**

RRH provides grant funds to housing and community development organizations to make repairs and improve the general living conditions of very-low-income homeowners. We reviewed the use of these grant funds in Arkansas, California, Louisiana, and Texas to determine the reasonableness of charges made against these grants. We reviewed approximately \$5.3 million, or approximately 58 percent of the \$9.2 million in grant funds awarded to these States in FY's 1993, 1994, and 1995.

In Texas, we found that a grantee had not completed work under two prior grants (FY's 1993 and 1994) that

totalled \$300,000, even though the grantee applied for an FY 1995 grant of \$136,700. Regulations require that current or ongoing grant goals be achieved or nearly achieved before subsequent grants may be approved. The same grantee did not submit required quarterly progress or financial reports, and charges to the grant for administrative costs exceeded the 20-percent limit by \$12,600.

In Louisiana, a grantee had not started any work under an FY 1995 grant but made application for an FY 1996 grant of \$123,000. Another Louisiana grantee included \$18,000 of administrative costs in its program budget. Items budgeted included salaries, final inspections, and travel. Such charges, if incurred, would circumvent the 20 percent of grant limitation on administrative costs. We also found that a Louisiana grantee charged \$60,000 in costs after the grant period expired.

In California, a grantee claimed salaries, fringe benefits, and office supplies as direct program costs rather than administrative costs, resulting in an overclaim of \$18,000.

We recommended cancellation of unused grants in Texas, disapproval of grant applications in Texas and Louisiana where current grants were not used, and cancellation of grant funds not used within the grant period in Louisiana. We also recommended disallowance of administrative costs claimed as program costs to avoid the 20-percent limitation.

#### **Questionable Costs Continue To Be Found in the Multifamily Housing Program for the Poor and Elderly**

We reviewed the operations of a borrower during FY 1994 to determine whether the financial operations for RRH program projects were reported in accordance with applicable laws and regulations. The borrower owned 11 RRH projects in Michigan in 1994 and provided management services to the projects through his management company. The borrower reported income of \$1.6 million and expenses of \$1.5 million for his RRH projects in 1994.

We found that the management company charged RRH projects over \$235,000 in unsupported and unallowable operating costs. The unallowable costs were for such items as training for management company employees, travel, bookkeeping fees, and office equipment. For

example, the management company charged over \$44,000 for bookkeeping fees. However, these charges were already provided the management company as part of its management fee. We also questioned other expenses because the management company could not provide adequate documentation to support the allocation of costs to the projects. Our analysis disclosed that the improper charges contributed to rent increases for 3 consecutive years for the projects reviewed.

We recommended that the borrower reimburse the projects for the unallowable and unsupported charges made to the accounts of the RRH projects. Further, we recommended the borrower be debarred from managing any projects in the RRH program.

#### **Former Managing Agent Imprisoned for RRH Fraud**

In Maine, a former managing agent of an RRH project was sentenced to 5 months in prison and 2 years of supervised probation after pleading guilty to making false statements to RHS. This former manager made the false statements to conceal the embezzlement of \$30,800 from project funds. The manager made unauthorized withdrawals from project accounts, received excess management fees, and stole laundry income. The loss to the project has been repaid by the project's insurance company.

#### **General Partner in RRH Project Ordered To Pay \$119,200 in Restitution**

In New York, the general partner in an RRH project was fined \$2,000 and ordered to pay \$119,200 in restitution after pleading guilty to converting property mortgaged or pledged to RHS. This partner used project funds as collateral for personal loans. The partner defaulted on the personal loans, and the bank seized the project funds that were used as collateral.

The investigation resulted from a nationwide OIG audit of the RRH program.

#### **RRH Project Manager Imprisoned for Fraud**

We previously reported that a management agent in Maine removed \$700,000 from the accounts of eight RRH projects and used the funds for his personal benefit. During this period, the project manager was sentenced to 20 months in prison (less 6 months

credited for time already served) and 5 years' probation, and ordered to pay \$375,000 in restitution. In addition, the project manager agreed to exempt approximately \$500,000 in debts from discharge in his chapter 7 bankruptcy case and pay RHS what he owes it.

### **RRH Borrower Agrees to Civil Settlement**

An RRH borrower in Oregon agreed to a negotiated civil settlement of \$525,000 after an OIG investigation disclosed irregularities. The borrower used false invoices to inflate the cost of an RRH project he had built, improperly charged the project for construction work performed on his personal residence and private business, diverted money from the RRH project's reserve account, and falsely certified an annual report.

### **Rural Business-Cooperative Service (RBS)**

The purpose of the Business and Industry (B&I) Loan Program is to improve, develop, and finance business, industry, and employment, and to improve the economic and environmental climate in rural communities. RBS guarantees loans made by private lenders (banks, savings and loan associates, etc.) for up to 90 percent of the approved loan amount provided to eligible borrowers. The guarantee covers outstanding loan principal, approved protective advances, and accrued interest.

### **Better Bank Oversight of Guaranteed Business Loans Needed**

We performed a review in Michigan where there were 50 outstanding B&I loans totaling \$47.7 million; 22 of these loans have been outstanding over 10 years. There were nine delinquent B&I loans, valued at approximately \$9.9 million, as of our review.

We reviewed the procedures used by the State office to approve and service loans, and to evaluate the loan servicing provided by lenders to ensure that Government interests were protected.

We found that the State office needs to improve its monitoring of B&I loans to ensure that financial statements are obtained from borrowers and reviewed by lenders, and site visits are performed and documented as required by program regulations. In all three loans reviewed, we found that lenders did not properly review the borrowers' financial statements. As a result, we found that one borrower's long-term debt had increased by 34 percent, and that the equity account reflected a negative amount of approximately \$2 million for a \$2.35 million loan. This increase in debt and accumulated losses over profits, totaling approximately \$2.7 million for prior years, could affect the company's status as a going concern.

We recommended that the State office establish a system to monitor the performance of annual site visits and the receipt of financial statements. We also recommended the review and modification of the procedures for lender visits to include tests to ensure that lenders are fulfilling their servicing requirements. In addition, we recommended that the State office and the lender monitor the cited loan, which is in serious jeopardy of default, to ensure the borrower's operation remains a stable, going concern.

The State office is performing annual site visits with lenders to all businesses with RBS-guaranteed loans. Also, through meetings with the lender, the State office is monitoring the operations of the cited borrower.

We plan to continue our reviews in this area to ensure that delinquencies or foreclosures are averted and loan assets protected.

# 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 1995 financial statements were generated from seven accounting systems maintained by six separate agencies and USDA's National Finance Center.

### Financial Statement Audits

During this reporting period, we completed audits of the FY 1995 financial statements of the Food and Consumer Service (FCS), the Commodity Credit Corporation (CCC), the Forest Service (FS), and the Department as a whole. We gave FCS and CCC an unqualified opinion, we gave FS an adverse opinion, and we issued a disclaimer of opinion on the USDA consolidated financial statements.

#### *Food and Consumer Service: Unqualified Opinion*

We issued FCS an unqualified opinion because its financial statements fairly presented, in all material respects, its financial position and its results of operations. However, we expended significant resources to audit FCS' financial statements and the underlying accounting data. Even though FCS had made an effort to improve this data, many of the conditions and internal control weaknesses that were identified in prior year audits continued to exist. Due to the need for extensive adjustments to the agency's financial data, we devoted significant audit resources on the financial statements in order to give FCS good beginning balances for FY 1996 and to help the agency develop processes for preparing and supporting its statements. Throughout the audit, FCS had to rely heavily on its accounting system contractor to respond to audit inquiries, perform data analyses, and explain changes in account balances.

Our report recommended corrections in 13 areas involving material internal control weaknesses within FCS. Some significant areas follow.

- The cumulative results balance (the net difference between appropriations and revenues versus losses and expenses) in FCS' trial balance was inaccurate, partly because FCS used the wrong accounts to calculate the cumulative results.

- Reconciliations of the trial balance were not adequate to ensure the accuracy of line item balances.

We also reported that (1) the wrong general ledger accounts were used to report revenues, (2) notes to the financial statements were incomplete or inaccurate, and (3) controls over the preparation of external reports to the U.S. Treasury and to the Office of Management and Budget (OMB) were weak.

FCS officials indicated that they are committed to correcting these problems. Action plans have been developed, but because of the extent and nature of the problems, long-term solutions are necessary. Without a continuing commitment from FCS management, and without changes in FCS' systems, staffing, and procedures, the current situation may not improve. If it does not, and the financial statements reflect this, OIG may have to qualify or disclaim an opinion in the future because of both the cost of obtaining evidence and the reduced usefulness of this evidence as time passes. As the March 1 deadline for audited financial statements nears, and if the need for extensive adjustments to FCS' financial information continues, FCS may not be able to contribute useful information to the FY 1996 governmentwide financial statements.

#### *Commodity Credit Corporation: Unqualified Opinion*

Our audit of CCC confirmed that CCC continues to improve its financial management operations; however, we also identified several control deficiencies that could adversely affect the agency's ability to develop financial data.

- CCC must continue to strengthen its financial management system and procedures to ensure reliable financial reports. CCC needs to:
  - (1) Reconcile differences between subsidiary ledgers and applicable general ledger accounts, (2) complete a comprehensive methodology for determining allowances for losses on foreign direct credits and credit guarantee defaults, and (3) implement controls to ensure the accuracy of the subsidy reestimate processes.
- The Processed Commodity Inventory Management System used by CCC did not reconcile with CCC's general ledger account for inventory, nor did it internally balance or process correct accounting information to the financial management system.

CCC management generally agreed with our audit results and our recommended corrective actions. A new core accounting system is currently being developed by CCC to address these matters. Also, CCC has drafted a comprehensive methodology for determining allowances on its foreign debt portfolio.

#### *Forest Service: Adverse Opinion*

We rendered FS an adverse opinion because its financial statements did not present fairly, in accordance with applicable accounting principles, its financial position and its results of operations for FY 1995. Our audit identified pervasive errors, material misstatements, and departures from applicable accounting principles which affected various financial statement accounts, including (1) property, plant, and equipment; (2) accounts receivable; (3) revenues from sales of goods and services; (4) equity of the U.S. Government; and (5) program and operating expenses. We found material weaknesses in at least five important areas.

- FS had inadequate controls over the compilation of its financial statements. Management of the compilation process did not ensure that accurate account balances were being reported and that statements were timely completed. Many errors, inconsistencies, and inadequate disclosures occurred.
- Some accounting systems were not fully integrated into the general ledger accounts used as the primary source of the financial statements. Manual intervention was necessary to include numerous transactions in the financial statements, and reconciliations were not always completed to validate the adjustments.
- FS had not implemented plans to improve the quality of field-level data. Errors made by field units continued to adversely affect the agency's accounting. In addition, appropriate accounting records were not maintained to support recorded property values.
- FS management controls did not ensure that planned expenditures by field units were within their budget allocations and that costs incurred were charged to appropriate fund accounts. FS units had the ability to augment their budget allocations by using

unbudgeted emergency firefighting funds for purposes other than firefighting.

- Internal controls over recording and compiling performance measures data did not ensure that accurate and reliable measures were reported.

The above internal control weaknesses were discussed with FS management, but corrective actions have not been formalized. Corrective action plans are currently being developed through a coordinated effort by FS, OIG, and the Office of the Chief Financial Officer (OCFO). Initial plans by FS to improve the quality of field-level data include (1) implementing a comprehensive training plan for financial specialists, program managers, and line managers and (2) rating field units on their work in a number of financial areas. FS has also made progress toward long-range improvements in its accounting systems: it has tested a subsystem called "Infrastructure" which will provide real property information to the general ledger. In FY 1997, some FS units will begin using the Department's new foundation financial information system.

#### *USDA Consolidated: Disclaimer of Opinion*

We did not express an opinion on USDA's consolidated financial statements for FY 1995 because we were unable to satisfy ourselves as to the reasonableness of certain line items representing the value of assets, liabilities, equity, and related revenues and expenses. The scope of our work was limited on numerous line items on the statements because the Department could not provide adequate support for the recorded values. For example, there was insufficient support for credit program receivables and for the estimated losses on loan and foreign credit guarantees, totaling \$65 billion and \$574 million, respectively.

USDA's financial information system is not always able to record, process, summarize, and report financial data timely or accurately. The system is not fully integrated with its subsystems, and its controls do not ensure that all financial data is properly supported and reported. The system does not conform to the U.S. Government Standard General Ledger, and some of its audit trails are inadequate.

The Department has recognized the need to improve its financial systems to correct the problems disclosed by our financial statement audits. Action plans have been developed, but because of the extent and nature of the

problems, long-term efforts are necessary to accomplish these plans.

Our audits also reported three areas in which a USDA agency or the Department was in material noncompliance with laws and regulations.

- FCS had not taken sufficient action to ensure that only eligible stores were authorized to accept food stamps and that “rolling stores” (vans selling merchandise) were in compliance with the rules governing their participation in the Food Stamp Program.
- The Department did not comply with the Chief Financial Officers Act: (1) the Department’s financial information system is not fully integrated and relies on various other systems for financial data, (2) the Department does not submit its audited financial statements and annual report to OMB by the deadline, (3) a departmentwide financial management training program has not been implemented, and (4) required biennial reviews of fees and other charges imposed by USDA agencies have not been conducted.
- The Department needs to comply with the Federal Managers Financial Integrity Act (FMFIA): completion dates for corrective actions were frequently extended, and the status of corrective actions was not always accurately reported.

Management generally agreed with our findings on noncompliance and our recommendations. Issues of lesser importance addressing internal control weaknesses and noncompliance were reported, as needed, in separate management letters to the agencies.

### **Progress Being Made in Development of New Financial Information System**

Departmental management has recognized the need to improve USDA’s financial systems. It has developed action plans and long-term initiatives which will result in better accountability departmentwide. One major initiative is the Financial Information System Vision and Strategy (FISVIS). FISVIS will establish a foundation financial information system along with standards, guidance, and definitions that will apply to the systems of all USDA agencies. As part of this initiative, the National Finance Center and the Farm Service

Agency’s Kansas City Management Center have purchased commercial, off-the-shelf software to replace their existing financial management systems.

We continue to monitor the Department’s progress in reinventing its financial systems. We have participated in (1) testing software to ensure it meets accounting requirements and USDA needs, (2) identifying security requirements, (3) reviewing reporting requirements, and (4) testing FISVIS to ensure that it corrects weaknesses noted during prior audits.

### **FS Needs To Better Manage Its Working Capital Fund Used for Fleet Activities**

The Forest Service Working Capital Fund (WCF) is a self-sustaining revolving fund which provides services to national forests, experiment stations, and other Federal, State, and private agencies that cooperate with the Forest Service in fire control and other programs. At the end of FY 1994, assets in this WCF totaled \$475 million and generated revenues of \$146 million. The largest WCF activity in FY 1994 was the acquisition and maintenance of fleet vehicles, which accounted for assets of \$319 million and generated cash revenues of \$103 million (see figure 3).

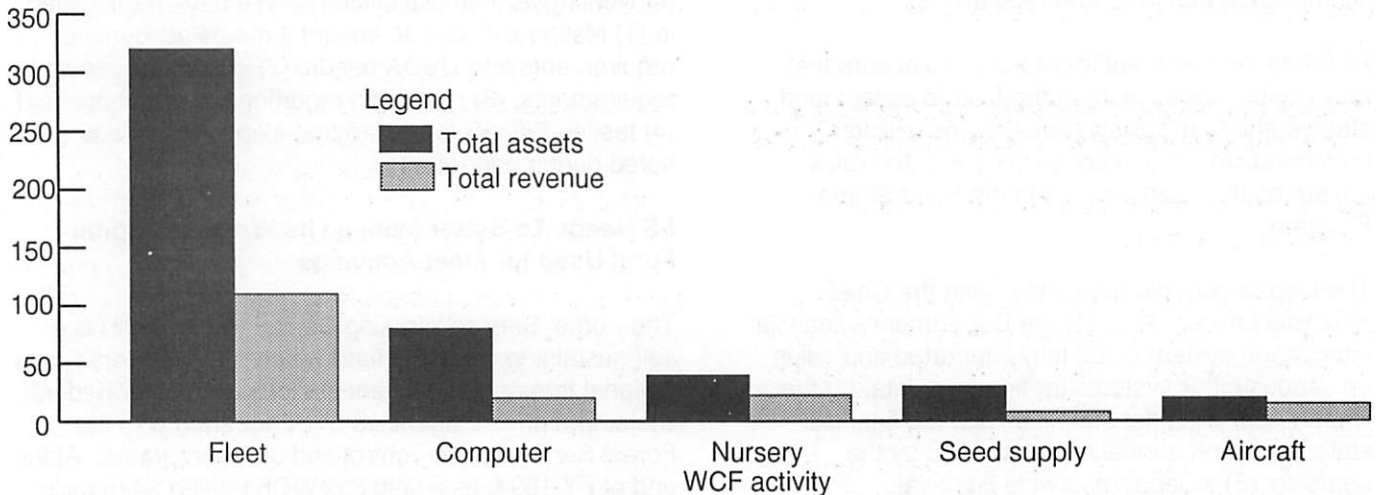
We evaluated the financial management of WCF as it related to fleet management. Our audit disclosed that although FS has taken important steps to monitor the cash needs of WCF and improve financial operations, some conditions still need corrective action.

- Regional managers continue to accumulate excess cash in WCF. Our audit found that fleet managers held over \$24 million in excess cash at the end of FY 1994. To curtail some of the excess, two regions refunded over \$16 million from WCF to supplement the budgets of their national forests. Although the refunds were legally allowable according to the Department’s OGC, they were not approved by the Washington office, and they were used for purposes other than fleet replacement and maintenance. We recommended that FS officials establish a cash balance standard which requires regions to maintain unobligated cash balances no greater than 50 percent of 1 year’s expenditures.
- The rates established to collect WCF revenues were not adequate to ensure that excess profits were reduced and cash needs were met. Our audit

Figure 3

**Total Assets and Revenue of Major WCF Activities for the Fiscal Year Ended September 30, 1994**

Total assets and revenue (in millions)



recommended that regions implement midyear rate adjustments and use the most current financial information when establishing fleet rates. We also recommended that regions anticipate future cash needs and prepare 5-year equipment replacement plans.

- Financial reports pertaining to the fleet management activity were not accurate. Our audit found that financial managers in all three regions we reviewed had not reconciled their cash shown in the WCF financial statements with the cash balances shown in the Central Accounting System. Total unreconciled cash amounted to \$1.5 million in FY 1994. In two regions, administrative units were not correcting all the accounting errors, which resulted in erroneous financial statements.

FS officials agreed to implement all our audit recommendations. Our work in the financial management of the working capital fund is continuing with an audit on the acquisition and accountability of the WCF service activity for providing computer systems. Total assets in the WCF computer service activity could exceed \$400 million in FY 1996, making it the largest component of WCF.

**Agencies Did Not Report All Qualifying Payments and Debt Writeoffs to the Internal Revenue Service (IRS)**

We reviewed the Department's policies and procedures for complying with IRS requirements to report specific payments, debt writeoffs, and secured property acquisitions. We found that agencies did not always identify payments that should have been reported on IRS form 1099. For the sample reviewed, one of every six payments subject to reporting was incorrectly coded and therefore not reported. We estimated that for the month of June 1995, payments totaling almost \$2 million in taxable income was not reported to IRS.

We also found that FS, FCS, Rural Development, and FSA were not reporting all qualifying debt writeoffs to IRS. FS staff did not adequately assess whether debt writeoffs qualified for reporting, and FCS had not implemented procedures to report the cancellation of debts owed by food store retailers who had violated Food Stamp Program rules because it had not yet published the appropriate notices and rules. For FY 1993 through FY 1995, debt writeoffs by the four agencies totaled over \$459 million.



We recommended that departmental guidance be issued to clarify and achieve compliance with IRS form 1099 reporting requirements, and that USDA agencies ensure that debt writeoffs are timely closed out and reported to IRS. OCFO generally agreed with the recommendations and has outlined proposed corrective actions.

## **Information Resources Management**

### **Better Controls Are Needed Over Information Systems Development**

Our audit evaluated the controls over the development of FS-adopted information systems in the FS' Rocky Mountain Region. Specifically, we evaluated whether life cycle management concepts were being followed and whether management had adequate oversight controls. We also evaluated whether projects were being properly approved prior to project initiation.

Our analysis disclosed that various key parts of the life cycle methodology were not adhered to and that management did not ensure that projects were on schedule and within budget. Technical approvals and cost-benefit analyses were not prepared for each of the projects, and project managers were not tracking the actual costs of the projects. Also, the region had no assurance the analyses and requests for approval were reviewed for accuracy and completeness.

We recommended that (1) the region ensure that all required documents are prepared and approvals obtained, (2) formal oversight be established and project managers be required to complete the steps of the methodology, (3) project managers be trained and provided guidance on how to use the methodology on their projects, and (4) all applicable costs of each project are considered.

## **Alternative Agricultural Research and Commercialization Corporation**

### **Misrepresentation and Mismanagement Lead to Loss of Funds**

The Alternative Agricultural Research and Commercialization (AARC) Corporation is a Government-owned corporation established to support industry research and commercialization of new and nontraditional (nonfood and nonfeed) products from agriculture and forestry commodities. AARC entered into a cooperative agreement with a private company to develop and promote the use of kenaf, a papyrus grass, in the manufacture of nonwoven mat products. Under the agreement, AARC gave the company \$800,000 to buy manufacturing equipment and operate its plant. Subsequently, AARC became concerned about the company's business practices and asked OIG to evaluate company activities. AARC also delayed finalization of a new partnership arrangement with the company.

Prior to approval of AARC funding, the company had presented a balance sheet which showed it had \$1.1 million of equity investment in the company. Our audit found that this equity and other material balance sheet accounts were not supported by the company's accounting records. Subsequent balance sheets showed a much weaker financial position and only \$100 of equity investment. The company had agreed to report significant debt incurred but failed to report an \$800,000 Tennessee Valley Authority guaranteed loan negotiated at the same time as the AARC agreement. These matters are under investigation.

The company also did not comply with terms of its cooperative agreement with AARC. Although it had agreed to invest an additional \$2.8 million in the project, its equity investment as of December 31, 1995, totaled only \$100. AARC funding for the purchase of equipment was used instead for general operations. The company did not submit required progress reports and audited financial statements, or report over \$1.7 million in debts to affiliate companies recorded from 1993 through 1995. In March 1996, the plant burned to the ground. As a result of the fire and the company's financial condition, AARC may not recover its investment.

OIG recommended that AARC make no further business arrangements with the company pending the outcome of the OIG investigation. We also recommended that AARC apply this experience to improve its management of future project agreements. AARC has made appropriate changes in its project management.

### **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 audit 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 and providing technical assistance, when needed. 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 five audit reports covering areas over which we have been assigned cognizance. Of these reports, three contained recommendations with questioned costs of \$348,000 in USDA assistance.

For example, the auditor general in Michigan found that the State Department of Agriculture did not determine the reasonableness of the operating costs submitted by the entities that participated in the Gypsy Moth program. The auditor general's review indicated that some costs were excessive in relation to the number of acres sprayed. The auditors determined that the State reimbursed the entities \$134,000 in 1994 and \$80,000 in 1993 in excess of the \$12.50 per-acre preliminary base amount. They recommended that the Michigan Department of Agriculture review the reasonableness of the operating costs submitted.

We also processed 34 single audit reports for States and Indian Tribal organizations we were not cognizant for during this 6-month period. For example, the State of Texas showed that its Department of Health was liable for an additional \$1.3 million in FY's 1994 and 1995, which included \$242,000 chargeable to the WIC Program, because of Federal interest liabilities. The State had reported less interest than it actually earned when it held Federal funds longer than allowed. The inaccurate reporting could also result in the denial of \$22,000 and \$83,000 for FY's 1994 and 1995, respectively, in administrative cost reimbursement under the Cash Management Improvement Act.

The audit report also showed that 157 of 209 for-profit subrecipients under the Child and Adult Care Food Program had not received an audit review in 4 years. The subrecipients received approximately \$3.2 million under the program during FY's 1992 and 1993.

In FY 1995, the Texas Department of Human Services improperly used \$166,000 in Federal funds, of which \$63,000 was USDA monies, to pay for settlement of lawsuits where the Department allegedly violated Federal and State laws and regulations.

In response to the audit, Texas State officials stated that they will return unallowable costs to the Federal grantor following their own analysis. State auditors recommended compliance with program requirements for the cited conditions but did not recommend repayment to the Federal Government for amounts quantified. We submitted the findings to the FCS regional office for its management decision and are awaiting its response.

We accepted general oversight 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 performed a desk review of two reports during the 6-month period. The reports contained recommendations with an associated monetary value totaling over \$3,500 in USDA assistance.

# 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 9 convictions of current or former USDA employees and 32 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations which yielded results during the past 6 months.

## **Former FSA Employee Sentenced to Prison for Embezzling \$157,000**

In Indiana, a former FSA employee was convicted of embezzling nearly \$157,000 from milk assignment checks, Rural Housing Program payments, and a net recovery buyout payment. To conceal the embezzlement, the employee created two separate sets of records, one which was sent to the National Finance Center and another which was kept in the county office. The embezzlement took place from January 1988 through December 1994 and was discovered when the employee was on leave. The employee promptly resigned after the embezzlement was discovered and the investigation was initiated.

The former employee was sentenced to 1½ years in prison and given 3 years' supervised release. She was also ordered to pay restitution of \$50,000.

## **Former Building Inspector Convicted of Falsifying Disability Claims**

A former USDA building inspector in Washington State pled guilty to defrauding USDA and the Department of Veterans Affairs after he faked injuries to gain disability payments totaling over \$46,000.

The building inspector claimed to have been injured in a motor vehicle accident that occurred, according to his claim, when a sniper fired on the Government car he was driving on official business. The inspector was on medical leave for 2 years, during which time he drew workers' compensation. Subsequently, a doctor

required the inspector to return to work, but because a concurrent investigation of the inspector's travel vouchers turned up irregularities, the agency fired him. A subsequent investigation revealed the workers' compensation fraud.

Sentencing is pending. This investigation was conducted jointly with the U.S. Department of Labor's OIG.

## **Forest Service Firefighter Pleads Guilty to Setting Fires**

In New Mexico, a former Forest Service firefighter pled guilty to intentionally setting a fire, which consumed less than an acre, in the Gila National Forest. The employee, who was terminated from the Forest Service during our investigation, told the court that he set the fire because he was upset with his supervisor. Sentencing of this individual is pending.

## **Employee Convicted of Stealing Half a Million Dollars in Government Property**

A soil conservation technician in Nevada is awaiting sentencing after he was convicted of making false statements to conceal the theft of over \$500,000 worth of excess property from several U.S. Army depots. All of the equipment, which the technician claimed to be for the use of NRCS, was diverted to the South Fork Indian Reservation, where the employee was a tribal member. Although the employee maintained that the equipment, including a road grader and a boat, was to be used for firefighting purposes, we found it in private use, scattered across the reservation. While the employee traveled throughout the Western United States acquiring the property, he falsified his travel and attendance records to make it appear that he was on official business.

This investigation was conducted jointly with the General Services Administration's OIG, the FBI, the Defense Criminal Investigative Service, and the Defense Logistics Agency.



This bulldozer and road grader were supposedly to be used to fight fires, but were found in private use in Nevada. OIG photo.



This boat, which was unlawfully taken from a U.S. Army depot, was also being used privately in Nevada. OIG photo.

# 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)
CSREES	02/16/96	1. Evaluation of the Oregon-Massachusetts Biotechnology Partnership (13801-1-Hy)	395,981	395,981
FCS	01/24/96	2. Data Base Analysis in Texas, Austin, Texas (27004-3-Te)	72,146	66,342
	03/25/96	3. WIC ADP Costs - Jefferson City, Missouri (27002-2-KC)	614,744	614,744
FS	02/14/96	4. Termination Settlement Proposal - ProWest Diversified Inc., Bend, Oregon (08017-2-SF)	317,015	317,015
	03/29/96	5. National Tree Trust Foundation (08099-4-Te)	33,396,778	33,378,385
FSA	09/30/93	6. Payment of Losses on Guaranteed Farmer Program Debt Writedowns (04600-14-Te)*	4,587,953	4,556,541
	07/12/94	7. Marketing Loan Program Objectives and Accomplishments (03600-16-At)*	1,227,700,000	1,227,700,000
	09/30/94	8. Servicing Delinquent Farmer Program Accounts (04600-25-Te)*	222,498,627	902,188
	08/11/95	9. Evaluation of Administrative Payment Issues (03801-1-FM)*	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/18/95	10. Management of Dade County, Florida, ASCS Office (03006-1-At)*	75,175,410	909,437
	09/29/95	11. Interest Assistance Program for Guaranteed Farmer Program Loans (03601-1-KC)*	61,934,621	61,934,621
	03/15/96	12. Wool and Mohair Payment Limitation- Concho County, Texas (03099-2-Te)	2,072,102	1,177,675
	03/26/96	13. Disaster Assistance Program-Grady County, Georgia (03006-14-At)	223,767	221,102
	03/29/96	14. 1994 Disaster Assistance Program - Fresno County, California (03006-2-SF)	670,749	620,392
	03/29/96	15. Cash/Share Lease Provisions for Farms (03801-2-Te)	1,057,646	18,911
	03/29/96	16. Texas Agricultural Mediation Program (03801-15-Te)	964,878	964,878
NRCS	09/29/95	17. Conservation Compliance Provisions (10601-1-KC)*	0	0
Rural Development	03/01/96	18. Audit of Rural Economic and Community Development Consolidated Financial Statements For Fiscal Year 1995 (50401-6-FM)	0	0
RHS	08/04/95	19. Rural Rental Housing Project Operations - Alliance Management Co., Michigan (04010-4-Ch)*	147,605	147,605

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	08/17/95	20. Rural Rental Housing Project Operations - Smith Management Co., Michigan (04010-1-Ch)*	259,899	259,899
	10/23/95	21. Rural Rental Housing Project Operations - Lansing Management Co., Michigan (04010-6-Ch)*	57,178	57,178

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

FS	10/27/92	22. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	0
FSA	09/30/93	23. Disaster Program Nonprogram Crops- Mitchell County, Georgia (03097-2-At)*	5,273,795	1,482,759
	04/07/94	24. Audit of Emergency Conservation Measures in Texas (03099-161-Te)*	152,941	124,022
	01/18/95	25. Disaster Assistance Program - Autauga County, Alabama (03099-153-At)*	628,570	628,570
	01/19/95	26. Disaster Assistance Program - Geneva County, Alabama (03099-157-At)*	1,667,814	229,828
	03/02/95	27. Disaster Assistance Program-Jackson County, Florida (03099-158-At)*	359,265	359,265
	03/31/95	28. Disaster Assistance Program - Yuba County, California (03600-26-SF)*	484,972	420,255

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	06/09/95	29. Large Operator Compliance With Payment Limitation - Georgia (03099-5-Te)*	491,680	491,680
	06/22/95	30. Disaster Assistance Program - 1993 Nonprogram Crops - Sutter County, California (03006-1-SF)*	1,217,475	231,315
	09/07/95	31. A&B Professional Consulting (03004-1-At)*	628,976	628,976
	09/07/95	32. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, Illinois, and Rock County, Wisconsin (03099-8-KC)*	165,069	165,069
	09/08/95	33. Management of the Sumter County, Georgia, Office (03006-5-At)*	4,479,035	2,513,132
	09/19/95	34. Payment Limitation in Oklahoma (03801-4-Te)*	601,216	13,773
	09/28/95	35. Disaster Assistance Program - Nonprogram Crops - Lauderdale County, Tennessee (03006-4-At)*	1,805,828	1,805,828
	01/02/96	36. 1993 Disaster Assistance Program, Brooks - Jim Hogg County, Texas (03006-1-Te)	2,469,829	2,469,829
RMA	01/31/94	37. Crop Insurance Sales and Indemnity Payment, Mitchell County, Georgia (05099-22-At)*	88,631	88,631

\* Reported in last semiannual report.



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

### **1. Evaluation of the Oregon-Massachusetts Biotechnology Partnership, Issued February 16, 1996**

The partnership did not accomplish all the specific tasks contained in the agreement that were required to provide the Federal benefit anticipated by the project. Recommendations were made to improve the performance accountability of any further agreements with the partnership and other similar special grants. A task force has been established for this purpose and its work is proceeding. In addition, one of the partners charged questionable expenditures to the grant related to salaries, rent, travel, and business expenses. The agency has not made a final determination on the allowability of these costs. OGC found that the major fundholder had violated Federal antilobbying requirements by exempting its subrecipient from filing. We are currently working with agency officials in an effort to reach management decision.

### **2. Data Base Analysis in Texas, Austin, Texas, Issued January 24, 1996**

The audit disclosed that the Texas automated system for FSP does not prevent duplicate SSN's, thus permitting duplicate participation. Of the 2,746,896 participants in September 1994, we identified 2,426 SSN's (matches) that appeared to be used by more than 1 person at the same time. Our review of 160 of these matches determined that benefits totaling \$66,342 were illegally paid. We also identified 17 individuals who were disqualified in other States but participated and received \$5,804 illegally in Texas. Texas agreed to establish a computerized control to prevent the same SSN from being input for more than one participant and is beginning to recover duplicate benefits illegally paid. However, all claims cannot be established until the review by Texas has been completed.

### **3. WIC ADP Costs - Jefferson City, Missouri, Issued March 25, 1996**

As a result of a WIC review, we found that the Missouri State agency was overreimbursed approximately \$200,000 in excess of its approved budget amount for the Health Agency Network Data System. We also determined that the State agency was overreimbursed \$106,000 for local agency personal service costs

because there was inadequate supporting documentation. Also, FCS approved, and the State claimed, more than \$310,000 as deferred costs. This amount had been previously disallowed and collected as a result of a prior OIG report. We are currently working with FCS to reach management decision on this audit.

### **4. Termination Settlement Proposal - ProWest Diversified, Inc., Bend, Oregon, Issued February 14, 1996**

This audit was requested by a U.S. attorney because the contractor has a pending claim in the U.S. Court of Claims. The audit report included material findings and questioned approximately 70 percent of the settlement proposal claim amount, concluding that the proposal is unacceptable as a basis for negotiation. The contractor has been required to supply additional information, and conferences and negotiations have been held between the contractor, contractor's attorney, U.S. attorney, U.S. Forest Service contracting officer, and Defense Contract Audit Agency auditor. The court has directed that the parties try to reach a settlement outside of the court system. If no settlement is reached, then a court hearing will be held in October.

### **5. National Tree Trust Foundation, Issued March 29, 1996**

Our review disclosed that FS had not followed standard grant procedures in allocating funds for a grant to the National Tree Trust Foundation. As a result, funds had not been spent for the intended purposes of the grant but had instead been invested by the foundation. We recommended that FS, in coordination with the Under Secretary for Natural Resources and Environment, determine whether \$19.6 million in unspent grants funds should be recovered from the grantee. If a decision is made not to recover the funds, FS needs to obtain the appropriate waiver from OMB. We also recommended that FS improve its controls over administration of the funding of the grant and that it recover investment fees that the foundation improperly paid to financial institutions holding grant funds. We also found that if the grant had been administered in accordance with standard procedures, the cost to the Government would have been reduced by over \$13 million. These reductions would have come through reduced interest

costs and fees. While we have not recommended recovery of these funds, we have made recommendations to improve management of future grants.

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

FSA staff erroneously paid loss payments to 80 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, and indicated additional overpayments totaling \$2.5 million. Subsequent reviews and discussions of the cases with OGC reduced the amounts requiring collection. Management decision will be reached when the agency provides documentation that demand notices have been issued by the applicable State offices and accounts receivable have been established. The agency reported that documentation for management decision will be provided soon.

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

We recommended that FSA 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 the agency 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. The Federal Agricultural Improvement and Reform Act of 1996 maintained the marketing loan program for both cotton and rice using the adjusted world price as the loan redemption rate. The Department has also continued to pay accrued storage on cotton with the exception of the 60 days prior to the

time cotton was placed under loan, which had been authorized prior to the issuance of the new regulation. We are currently reviewing the status of this audit to determine what further action might be appropriate.

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

We found that FSA 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 reached resolution on seven of eight accounts. Resolution of the remaining account is pending an OGC review and opinion.

**9. Evaluation of Administrative Payment Issues, Issued August 11, 1995**

We recommended that FSA, in consultation with the Chief Financial Officer, determine whether the payroll and other administrative expense functions for the non-Federal employees of the new FSA field offices should be transferred from the county office administrative expense to the National Finance Center's (NFC) administrative expense systems in New Orleans. OIG participated on a task force with FSA and the Office of the Chief Financial Officer (OCFO) to determine the feasibility of transferring the payroll and other administrative expense functions to NFC. Resolution of this issue is pending.

**10. Management of Dade County, Florida, ASCS Office, Issued September 18, 1995**

We found that eight producers, including a county committee member, received over \$850,000 in payments that were improper because the producers' 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. We recommended that FSA recover the excessive payments. We are working with FSA officials to reach agreement on the cases.

**11. Interest Assistance Program for Guaranteed Farmer Program Loans, Issued September 29, 1995**

The audit found the use of cash-flow analyses to make eligibility determinations for interest assistance did not provide assurance that only eligible borrowers were approved and that the proper rate was used. Interest assistance was computed at the beginning of the year by estimating cash-flows from projected crop yields and expenses. However, interest assistance is paid to lenders at yearend or at the end of the production cycle; therefore, we recommended that interest assistance should be based on actual performance. Interest assistance would be obligated at loan approval, and amounts would be deobligated and/or paid depending on need determined from actual performance. We are working with FSA officials to reach management decision.

**12. Wool and Mohair Payment Limitation - Concho County, Texas, Issued March 15, 1996**

We questioned over \$2 million in wool and mohair price support payments to a family group because the producers did not operate as reported to FSA. All of the producers were not actively engaged in farming, they were not separate and distinct, and their shares of a partnership were not properly reported to FSA. In addition, another producer's farming operation was not separate and distinct from the partnership. We recommended that the agency determine whether the members of the partnership and the other producer should be combined as one "person" for payment limitation purposes. We are working with FSA officials to reach management decision.

**13. Disaster Assistance Program - Grady County, Georgia, Issued March 26, 1996**

We reported that eight producers, including a county committee member, received improper disaster payments totaling \$103,651 for crop years 1993 and 1994 as a result of not reporting all their production. We identified \$58,539 in crop sales that had not been reported to FSA. Also, the county committee routinely accepted late-filed disaster applications and approved disaster payments without making field visits to substantiate losses. We recommended that FSA determine if producers should be required to repay the assistance they received and that required field

verifications be made. We are working with the agency to resolve these issues.

**14. 1994 Disaster Assistance Program - Fresno County, California, Issued March 29, 1996**

Fresno County office staff made errors in determining disaster benefits for producers with interests in 112 farming operations. These errors occurred, in part, because the county office misinterpreted yield, acreage, and production evidence; used an incorrect 1994 State-established payment rate; and incorrectly used the gross instead of the net insurance indemnity payment when calculating net disaster assistance payments. Some of the errors also occurred because of ineffective second-party reviews by county personnel. The errors resulted in underpayments totaling \$8,882 and overpayments totaling \$588,850. Because the 90-day limitation on establishing claims as a result of county errors may apply, only \$290,585 of the overpayments may be collectible. In addition, errors due to producers providing incomplete or inaccurate production information resulted in \$73,017 of overpayments. We are working with agency officials on the remaining items.

**15. Cash/Share Lease Provisions for Farms, Issued March 29, 1996**

We recommended that FSA officials clarify and consistently apply regulations prohibiting landlords from using combination leases requiring tenants to pay them any Government payments or price support benefits earned by the tenant under FSA programs. FSA needs to issue instructions that would prohibit landlords from receiving Government payment or price support benefits earned by their tenants. We are working with agency officials to reach management decision.

**16. Texas Agricultural Mediation Program, Issued March 29, 1996**

The Texas attorney general instructed Texas Tech University (TTU) officials to deny OIG access to mediation program records, asserting that such records were confidential under Texas law. We have issued Inspector General subpoenas to obtain the records, and litigation in this matter is pending.

We identified a potential conflict of interest for three of the four full-time mediation program employees. A Texas Agricultural Mediation (TAM) official, who is a

licensed attorney, had a private law practice specializing in farm matters such as delinquent loans, appeals, bankruptcy, and reorganization. This official confirmed that he sometimes represented USDA borrowers in his law practice. Another employee of TAM was also an attorney with a private law practice. In addition, an employee of the Texas Tech Agricultural Financial Analysis Project had outstanding USDA farmer program loans totaling approximately \$475,000 and had not taken any action in over 10 years to repay or otherwise resolve the delinquency.

To meet the 50-percent matching fund requirement during FY's 1989 through 1993, TTU claimed a portion (usually 25 percent) of the salaries paid to nine university professors and a department chairperson as part of the cost to operate the mediation program. Since these individuals did not work with the mediation program, TTU received excessive grant reimbursements totaling over \$485,000 during this period. TTU also claimed a TAM official as a full-time employee of the mediation program. However, this official routinely taught courses at the university, was allowed 10 to 12 hours per week by TTU for personal business purposes, and routinely served during normal work hours as an active member of various professional organizations. His salary, benefits, and related indirect costs totaled over \$479,000 during FY's 1989 through 1995.

TTU mediation program accounting records showed \$347,500 charged to the "Mediation Training" account during FY 1993 through the third quarter of FY 1995; however, we could not identify any formal training provided to TTU or other mediators.

We recommended that the FSA Administrator cancel the certification of the agricultural mediation program administered by TTU and instruct the FSA Texas State Executive Director to implement an alternative mediation program (regulations already provide for such a program) for Texas borrowers. We also recommended that FSA recover the excessive grant funds, clarify the extent and type of mediation training required to meet the mediation program certification requirement, and evaluate the effectiveness of the agricultural loan mediation program by determining whether grant funds are being used effectively. We continue to meet with the FSA Administrator and other Department officials to discuss resolution of these issues.

#### **17. Conservation Compliance Provision, Issued September 29, 1995**

We found that NRCS had not established performance measures to evaluate the reduction in soil loss, and the status review process did not gather information to evaluate conservation provisions in reducing soil loss. We also found that treatment of ephemeral gully erosion was not adequately or consistently applied to all highly erodible land fields, because NRCS did not establish specific conservation practices to treat this type of gully erosion. We recommended the agency establish performance measures addressing reductions in soil loss, revise the status review process, and specify the extent to which ephemeral gully erosion must be treated. We are working with NRCS officials to reach management decision.

#### **18. Audit of Rural Economic and Community Development Consolidated Financial Statements For Fiscal Year 1995, Issued March 1, 1996**

The report has three open recommendations. The primary issue is that Rural Development's internal control systems do not generally comply with FMFIA requirements. Also, it is still Rural Development's policy to report material weaknesses identified by OIG reports only when management decisions have been reached for all recommendations contained in a report. We are working with OCFO and the agency to resolve the outstanding issues.

#### **19. Rural Rental Housing Project Operations - Alliance Management Co., Michigan, Issued August 4, 1995**

A management company charged 34 RRH projects unearned management fees of \$113,546 in 1993 and 1994, representing 45 percent of the total management fees which the borrower-owned management company retained, despite the fact that it hired another company to manage the projects while it provided no services to the projects. The management company also improperly charged \$34,059 in unsupported and unallowable expenses to these projects. A second management company, with an identity of interest in a legal firm which had an agreement with the management company, was not disclosed to RHS. We have elevated this issue to the RHS national office to reach a management decision.

**20. Rural Rental Housing Project Operations - Smith Management Co., Michigan, Issued August 17, 1995**

A management company, which managed 34 RRH projects, improperly charged projects \$74,156 for expenses that should have been covered by management fees. In addition, the management company did not report to RHS an identity-of-interest relationship between one of the projects it managed and a supplier who supplied materials to the project. Also, the district office allowed \$26,457 of improper returns on investments for seven projects managed by this company. The State office did not agree with these findings. Therefore, the issues have been elevated to the RHS national office to reach management decision.

**21. Rural Rental Housing Project Operations - Lansing Management Co., Michigan, Issued October 23, 1995**

A management company duplicated charges of \$127,383 to RRH projects for accounting services, and \$57,178 for postage, training, and office equipment. All of these costs were charged to RRH projects, but the management company was also compensated through the management fee. We are working with the RHS national office to reach management decision.

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

We recommended that FS officials resolve ownership issues involving the C-130A and P-3A aircraft that were improperly exchanged for private aircraft. The U.S. Department of Justice is investigating these issues. No action can be taken until the investigation is completed.

**23. 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 crop production, acreages, planting dates, and 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 acreage. 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. FSA officials agreed with our recommendations. However, claims cannot be established until all investigation and/or court actions are completed.

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

We reported that four producers received ineligible costshares of approximately \$123,000 because they used a scheme 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. FSA plans additional administrative actions after completion of the civil action.

**25. 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. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

**26. 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. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

**27. 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. FSA officials agreed with our recommendations. However, claims cannot be established until investigative actions are completed.

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

Two recommendations are without management decision. In both cases, the county committee must determine 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, FSA has suspended corrective action on the referred producers pending completion of the investigations.

**29. Large Operator Compliance With Payment Limitation - Georgia, Issued June 9, 1995**

We reported that a producer and five related producers provided false information to FSA in 1993 regarding their share of a cotton operation to avoid payment limitation provisions. The individuals received \$491,680 in excessive program payments. FSA officials agreed with our recommendations, but claims cannot be established until investigative actions are completed.

**30. Disaster Assistance Program - 1993 Nonprogram Crops - Sutter County, California, Issued June 22, 1995**

We identified questioned program payments of \$1,217,475 resulting from county office procedural errors and suspected intentional program violations by producers. FSA officials agreed with our recommendations; however, claims cannot be established until investigative actions are completed.

**31. A&B Professional Consulting, Issued September 7, 1995**

We identified program payments of \$628,976 resulting from suspected intentional program violations by producers. FSA officials agreed with our recommendations; however, claims cannot be established until review is completed by the U.S. attorney.

**32. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, Illinois, and Rock County, Wisconsin, Issued September 7, 1995**

We found that a producer and an individual adopted a scheme to evade application of the maximum payment limitation provisions and received excessive payments of \$165,069. FSA agreed with our recommendations; however, claims cannot be established until investigative actions are completed.

**33. Management of the Sumter County, Georgia, Office, Issued September 8, 1995**

The audit identified 11 producers who provided inaccurate information and received excessive disaster assistance payments of \$648,683. Also, 17 producers received overpayments of \$437,157 even though they were out of compliance by planting more acreage of certain crops than the maximum allowed. In addition, 21 producers avoided the maximum payment limitation provisions and received excessive payments totaling \$2,164,258. We recommended that FSA recover the excessive payments. FSA is withholding action on these cases pending a review by the U.S. attorney.

**34. Payment Limitation in Oklahoma, Issued September 19, 1995**

The audit found that three producers, including a State committee person, misrepresented to FSA the extent of their involvement in the farming operation of one of the producers. Further, once FSA selected the producers' farming operation for review, the three producers conspired to submit false information to the county committees, the FSA end-of-year review team, and the State FSA office to support one producer's "actively engaged" and "person" determination. We recommended FSA determine whether the producers engaged in a scheme, and recover \$531,834 in unauthorized program payments as well as withhold payments totaling \$69,382. The FSA State committee ruled the producers engaged in a scheme; however, claims cannot be established until investigative actions are completed.

**35. Disaster Assistance Program - Nonprogram  
Crops - Lauderdale County, Tennessee, Issued  
September 28, 1995**

Our review disclosed questionable payments totaling \$1,890,622, including \$1,523,918 for disaster payments and \$366,704 for other program payments obtained by producers who participated in schemes to evade disaster payment limitation provisions. FSA officials agreed with our recommendations and assembled a team to review the payments; however, claims cannot be established until investigative actions are completed.

**36. Disaster Assistance Program, Brooks - Jim  
Hogg County, Texas, Issued January 2, 1996**

We reviewed 38 of the 117 producers who received a total of \$3,302,484 in 1993 disaster assistance for nonprogram crops such as watermelon and cantaloupe. We determined that 23 of the 38 producers received questionable payments of \$1,363,860 because they provided false information to support their loss claims or could not otherwise provide evidence to show they had a loss. Also, our third-party verification of evidence used to support the 1993 loss claims at seed and fertilizer suppliers disclosed evidence of problems with prior year disaster claims for 14 of the sampled producers and 4 others. Therefore, we questioned prior year disaster payments of \$839,401 to these 18 producers because of false information they provided to support their claims. All 27 cases have been referred for investigation for possible criminal prosecution. We also questioned payments of \$214,906 to one producer for payment limitation violations and \$51,662 to one producer for unreported production. We recommended that FSA take administrative action; however, claims cannot be established until investigative actions are completed.

**37. 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.

## Indictments and Convictions

Between April 1 and September 30, 1996, OIG completed 432 investigations. We referred 281 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 517 indictments and 383 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 383 convictions do not necessarily relate to the 517 indictments. Fines, recoveries/ collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled approximately \$36.1 million.

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

### Indictments and Convictions April 1 - September 30, 1996

<u>Agency</u>	<u>Indictments</u>	<u>Convictions*</u>
AMS	2	5
APHIS	2	1
FAS	71	22
FCS	409	322
FS	5	0
FSIS	2	6
OBPA	1	1
OO	3	4
NRCS	1	1
RBS	1	1
RHS	10	11
RMA	10	9
Totals	<u>517</u>	<u>383</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 2,478 calls, letters, and personal visits. These contacts included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 4 displays the volume and type of the complaints we received and figure 5 displays the disposition of those complaints.

Figure 4

### Hotline Complaints April 1 to September 30, 1996 (Total = 2,478)

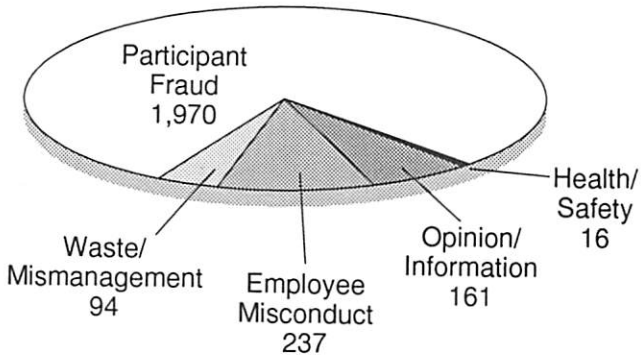
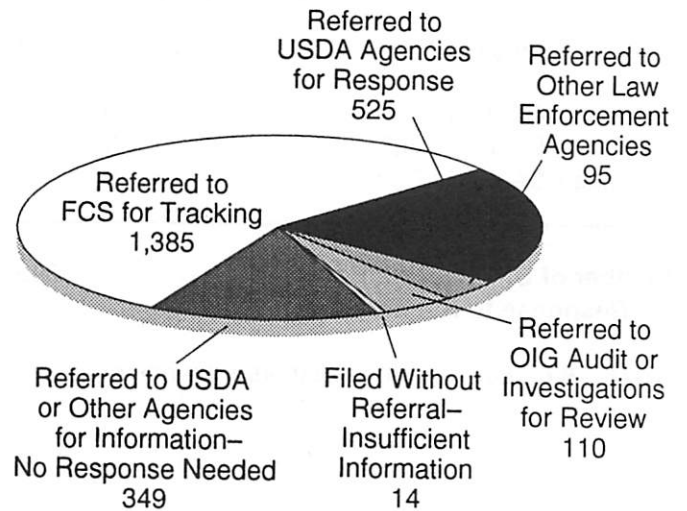


Figure 5

### Disposition of Complaints April 1 to September 30, 1996



**Freedom of Information Act (FOIA) and Privacy Act Requests (PA)  
for the Period April 1 to September 30, 1996**

**Number of FOIA/PA Requests Received** 252

**Number of FOIA/PA Requests Processed** 268

Number of Requests Granted in Full 112  
 Number of Requests Granted in Part 103  
 Number of Requests Not Granted 53

**Reasons for Denial:**

No Records Available 27  
 Requests Denied in Full 16  
 Referrals to Other Agencies 10

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

Received 50  
 Processed 52

**Appeals Processed** 13

Appeals Granted 0  
 Appeals Denied in Full 13  
 Appeals Denied in Part 0

**Number of OIG Reports Released  
in Response to Requests** 343

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 COSTS AND LOANS*</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1996	73	\$1,431,797,575	\$7,492,074
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	64	\$72,828,165	\$37,065,399
TOTALS	<u>137</u>	<u>\$1,504,625,740</u>	<u>\$44,557,473</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	59		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$5,373,346	\$368,078
NOT RECOMMENDED FOR RECOVERY		\$911,996,341	\$188,292
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$323,415,273	\$34,972,717
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	78	\$263,886,222	\$9,028,386
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	33	\$229,569,394	\$6,606,930

\*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, 1996	18	\$1,331,060,006
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	13	\$51,883,872
TOTALS	<u>31</u>	<u>\$1,382,943,978</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	10	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$29,014,323
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$1,146,775
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	21	\$1,352,782,780
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	11	\$1,325,586,526

# Appendix III

## SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1 AND SEPTEMBER 30, 1996

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 1996, THE OFFICE OF INSPECTOR GENERAL ISSUED 131 AUDIT REPORTS, INCLUDING 10 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS <sup>a</sup>	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	4			
FARM SERVICE AGENCY	36	\$27,478,075	\$140,550	\$160,148
RURAL HOUSING SERVICE	6	\$394,153		\$610,242
FOREIGN AGRICULTURAL SERVICE	2			
FOREST SERVICE	9	\$585,898	\$562,159	\$26,244,359
NATURAL RESOURCES CONSERVATION SERVICE	1	\$1,354,381		
OFFICE OF OPERATIONS	3	\$38,255	\$2,310	
FOOD SAFETY AND INSPECTION SERVICE	1			
FOOD AND CONSUMER SERVICE	18	\$545,935	\$1,818	\$24,869,123
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	3			
RURAL BUSINESS-COOPERATIVE SERVICE MULTI-AGENCY	1 46			
		\$42,431,468	\$36,358,562	
<b>TOTALS</b>	<b>131</b>	<b>\$72,828,165</b>	<b>\$37,065,399</b>	<b>\$51,883,872</b>
<b>TOTAL COMPLETED:</b>				
SINGLE AGENCY AUDIT	85			
MULTIAGENCY	46			
<b>TOTAL RELEASED NATIONWIDE</b>	<b>131</b>			
<b>TOTAL COMPLETED UNDER CONTRACT<sup>b</sup></b>	<b>10</b>			
<b>TOTAL SINGLE AUDIT ISSUED<sup>c</sup></b>	<b>41</b>			

<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, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>AGRICULTURAL MARKETING SERVICE</b>				
01-099-0002-AT 96/05/22	COTTON INC. - COTTON RESEARCH AND PROMOTION			
TOTAL: AGRICULTURAL MARKETING SERVICE		<u>1</u>		
<b>AGRICULTURAL RESEARCH SERVICE</b>				
02-017-0002-AT 96/04/29	J.A. JONES MANAGEMENT SERVICES, CY 1993 INCURRED COST			
02-017-0003-AT 96/06/24	J.A. JONES MANAGEMENT SERVICES, LABOR FLOOR- CHECKS, CY 1996 TIME-SENSITIVE MARRS			
02-017-0005-HY 96/06/12	PREAWARD AUDIT OF BIONETICS CORPORATION			
02-017-0007-HY 96/08/02	INCURRED COST OF R.E. WRIGHT ASSOCIATES			
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>4</u>		
<b>FARM SERVICE AGENCY</b>				
03-001-0002-TE 96/06/11	NONINSURED CROP DISASTER ASSISTANCE PROGRAM - 1995			
03-004-0001-TE 96/08/08	EMERGENCY CONSERVATION PROGRAM PAYMENTS	\$154,521		
03-004-0004-KC 96/04/26	1994 DISASTER ASSISTANCE PROGRAM IN NEBRASKA	\$74,065		
03-004-0005-KC 96/06/20	1994 DISASTER ASSISTANCE PROGRAM IN OTERO COUNTY, CO	\$75,091		
03-004-0006-KC 96/06/21	1994 DISASTER ASSISTANCE PROGRAM IN PUEBLO COUNTY, CO	\$424,099		
03-004-0007-KC 96/07/19	EMERGENCY LIVESTOCK FEED PROGRAM IN SOUTH DAKOTA	\$68,805		
03-006-0001-HY 96/09/30	1994 DISASTER ASSISTANCE PROGRAM - BURLINGTON COUNTY OFFICE, NJ	\$117,224		
03-006-0003-CH 96/04/19	1994 CROP DISASTER PAYMENTS IN MICHIGAN	\$19,299		
03-006-0003-KC 96/07/19	1994 PAYMENT ELIGIBILITY IN VALLEY COUNTY, NE	\$32,716		
03-006-0004-KC 96/05/10	PROGRAM OPERATIONS IN DAWSON COUNTY, MT	\$81,490	\$74,456	\$54,914
03-006-0005-CH 96/06/05	1994 CROP DISASTER PAYMENTS IN MINNESOTA	\$375,801		
03-006-0007-CH 96/09/27	COUNTY OFFICE OPERATIONS, MORRISON CITY, MN	\$598,535		
03-006-0008-TE 96/04/22	1994 DISASTER ASSISTANCE PROGRAM IN HASKELL COUNTY, TX	\$72,148		
03-006-0013-AT 96/05/02	DISASTER ASSISTANCE PROGRAM - 1994, THOMAS COUNTY, GA	\$2,177,640		
03-006-0015-AT 96/05/02	DISASTER ASSISTANCE PROGRAM - 1994, DECATUR COUNTY, GA	\$296,491	\$55,168	
03-006-0017-AT 96/07/24	DISASTER ASSISTANCE PROGRAM - 1994, DUPLIN COUNTY, NC	\$931,880		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
03-017-0002-AT 96/05/02	PHILIP MORRIS USA DOMESTIC TOBACCO CONTENT OF U.S. MANUFACTURED CIGARETTES			
03-017-0004-AT 96/09/30	BROWN & WILLIAMSON - TOBACCO CORP., DOMESTIC CONTENT OF U.S. MANUFACTURED CIGARETTES	\$176,497		
03-099-0003-SF 96/09/30	1994 REINSURED RAISIN LOSSES IN CALIFORNIA			
03-099-0005-KC 96/07/01	OPTIONS PILOT PROGRAM	\$3,450		\$11,575
03-099-0007-KC 96/05/20	APPLICATION OF QUALITY ADJUSTMENT PROVISIONS FOR INSURED CROP LOSSES	\$17,755,269		
03-099-0014-KC 96/08/12	GRAIN WAREHOUSE EXAMINATION PROCESS			
03-099-0019-KC 96/09/20	SECURITY FOR FARMER PROGRAM LOANS IN IOWA			
03-099-0022-KC 96/09/20	SECURITY FOR FARMER PROGRAM LOANS IN NEBRASKA			
03-601-0001-HY 96/09/30	1994 DISASTER ASSISTANCE PROGRAM IN MAINE	\$2,666,383		
03-601-0002-HY 96/04/23	DAIRY REFUND PAYMENT PROGRAM IN MARYLAND AND NEW YORK			
03-601-0002-SF 96/04/23	DAIRY REFUND PAYMENT PROGRAM - 1993 AND 1994 PROGRAM YEARS - STATE OF WASHINGTON	\$23,861		
03-601-0003-SF 96/09/25	EMERGENCY LIVESTOCK FEED PROGRAM - CALIFORNIA	\$459,333		
03-601-0004-TE 96/08/21	DAIRY REFUND PAYMENT PROGRAM			
03-601-0007-TE 96/09/18	EMERGENCY FEED PROGRAM IN TEXAS	\$626,182	\$10,926	
03-601-0009-TE 96/08/12	VERIFICATION OF FSA PROGRAM PAYMENTS IN 24 STATES			
03-801-0001-KC 96/04/22	CROP INSURANCE/RECURRING CLAIMS IN MISSOURI	\$6,217		
03-801-0017-TE 96/08/27	SPECIAL REQUEST - PAYMENT ELIGIBILITY, FANNIN COUNTY, TX	\$184,254		\$93,659
03-801-0018-TE 96/07/05	SPECIAL REQUEST - PAYMENT LIMITATION IN LOUISIANA	\$76,824		
03-801-0025-TE 96/09/26	EVALUATION OF THE 1994 DISASTER ASSISTANCE PROGRAM			
06-401-0003-FM 96/05/28	FISCAL YEAR 1995 CCC FINANCIAL STATEMENTS			
TOTAL: FARM SERVICE AGENCY		<u>36</u>	<u>\$27,478,075</u>	<u>\$140,550</u>
RURAL HOUSING SERVICE				<u>\$160,148</u>
04-010-0012-CH 96/05/02	RRH PROJECT OPERATIONS - CATO COMPANY, MI	\$235,498		
04-601-0001-TE 96/09/18	SECTION 583 HOUSING PRESERVATION GRANTS IN LOUISIANA	\$77,888		\$124,196
04-601-0002-SF 96/08/14	HOUSING PRESERVATION GRANTS - CALIFORNIA	\$18,058		
04-601-0002-TE 96/07/29	SECTION 583 HOUSING PRESERVATION GRANTS IN ARKANSAS			
04-801-0003-TE 96/05/22	EVALUATION OF SUMMIT HOMESTEAD MANAGEMENT CORP'S MANAGEMENT OF RRH OPERATIONS	\$62,709		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
04-801-0004-TE 96/06/05	SECTION 583 HOUSING PRESERVATION GRANT PROGRAM			\$486,046
TOTAL: RURAL HOUSING SERVICE		<u>6</u>	<u>\$394,153</u>	<u>\$610,242</u>
FOREIGN AGRICULTURAL SERVICE				
07-099-0001-KC 96/08/21	U.S. MEAT EXPORT FEDERATION PROGRAM FUND EXPENDITURES			
07-801-0001-TE 96/05/21	SPECIAL REQUESTS - EMERGING DEMOCRACIES			
TOTAL: FOREIGN AGRICULTURAL SERVICE		<u>2</u>	<u></u>	<u></u>
FOREST SERVICE				
08-002-0001-FM 96/07/24	FOREST SERVICE REGION 2 APPLICATIONS DEVELOPMENT PROJECT MANAGEMENT			
08-003-0001-HY 96/06/25	STATE AND PRIVATE FORESTRY GRANTS			\$1,692,185
08-017-0003-KC 96/04/24	K&S CONSTRUCTION CLAIM ON CONTRACT			\$223,518
08-099-0002-SF 96/08/28	FS DESCHUTES NF ROAD CLOSURES-CONGRESSIONAL			
08-099-0003-TE 96/08/07	STEWARDSHIP INCENTIVE PROGRAM	\$20,910		
08-099-0005-TE 96/08/01	URBAN FORESTRY TRAINING PROGRAM GRANTS TO SOUTHERN UNIVERSITY, BATON ROUGE, LA	\$564,988	\$562,159	\$4,212
08-401-0004-AT 96/07/18	FISCAL YEAR 1995 FS FINANCIAL STATEMENTS			
08-601-0013-SF 96/08/02	FINANCIAL MANAGEMENT OF THE WORKING CAPITAL FUND - FLEET MANAGEMENT			\$24,324,444
08-801-0003-AT 96/09/30	REAL AND PERSONAL PROPERTY ISSUES			
TOTAL: FOREST SERVICE		<u>9</u>	<u>\$585,898</u>	<u>\$562,159</u>
NATURAL RESOURCES CONSERVATION SERVICE				
10-801-0001-TE 96/09/23	WATERSHED PROTECTION AND FLOOD PREVENTION PROGRAM	\$1,354,381		
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		<u>1</u>	<u>\$1,354,381</u>	<u></u>
OFFICE OF OPERATIONS				
23-017-0001-HQ 96/08/14	REVIEW OF KPMG PEAT MARWICK'S SETTLEMENT PROPOSAL	\$38,255	\$2,310	
23-017-0007-HY 96/08/01	INCURRED COST OF FU ASSOCIATES			
23-099-0001-HQ 96/05/06	CANTEEN INCURRED COSTS FY 1995			
TOTAL: OFFICE OF OPERATIONS		<u>3</u>	<u>\$38,255</u>	<u>\$2,310</u>



**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>FOOD SAFETY AND INSPECTION SERVICE</b>				
24-801-0001-AT 96/04/25	MEAT AND POULTRY INSPECTION PROGRAM (TRACK 1 AND TRACK 2) - PHASE II			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		<u>1</u>		
<b>FOOD AND CONSUMER SERVICE</b>				
27-004-0001-AT 96/09/30	FOOD STAMP PROGRAM IN TENNESSEE - ADP CONVERSION			\$24,434,454
27-004-0002-HY 96/05/29	STRATEGIC MONITORING OF EBT SYSTEM DEVELOPMENTS - MARYLAND			
27-004-0002-TE 96/05/17	IMPLEMENTATION OF TEXAS EBT	\$80,618	\$2	
27-004-0003-HY 96/05/23	STRATEGIC MONITORING OF EBT SYSTEM DEVELOPMENTS - NEW JERSEY	\$6,269		
27-004-0004-HY 96/06/25	SURVEY WIC PROGRAM OPERATIONS IN PUERTO RICO			
27-010-0001-AT 96/09/10	SCHOOL LUNCH PROGRAM, ORANGE COUNTY, FL	\$71,495		\$71,495
27-010-0001-TE 96/05/15	CHILD AND ADULT CARE FOOD PROGRAM SPONSORS IN SOUTH TEXAS	\$49,386	\$1,816	
27-010-0002-SF 96/08/07	CACFP - ANGELA'S ANGELS PRESCHOOL, INC., VISALIA, CA			
27-010-0005-HY 96/09/27	CACFP - UNITED CHILD CARE INC. NEWPORT NEWS, VA	\$2,832		
27-010-0006-HY 96/07/08	CACFP/VA - KIMBIS PLAYWORLD VIRGINIA BEACH, VA	\$1,822		
27-017-0007-HY 96/06/03	INCURRED COST - SIGMA ONE CORPORATION			\$8,207
27-017-0008-HY 96/08/05	INCURRED COST OF SIGMA ONE CORP., FY 1992			
27-017-0009-HY 96/09/25	AUDIT OF CRP INC. INDIRECT COST RATES			
27-099-0005-CH 96/07/10	FOOD STAMP REDEMPTIONS BY FINANCIAL INSTITUTIONS			
27-401-0004-HY 96/07/19	FISCAL YEAR 1995 FCS FINANCIAL STATEMENTS			
27-601-0002-TE 96/09/16	USE OF THE SSN IN THE FSP TO PREVENT MULTIPLE OR FRAUDULENT PARTICIPATION			
27-601-0007-CH 96/04/30	CHILD NUTRITION PROGRAMS - STATE ADMINISTRA- TIVE EXPENSE FUNDS	\$333,513		\$354,967
27-801-0003-HY 96/09/30	STRATEGIC MONITORING OF EBT SYSTEM DEVELOPMENT			
TOTAL: FOOD AND CONSUMER SERVICE		<u>18</u>	<u>\$545,935</u>	<u>\$1,818</u>
				<u>\$24,869,123</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
<b>ANIMAL AND PLANT HEALTH INSPECTION SERVICE</b>				
33-002-0001-HY 96/06/06	APHIS/ADC CONTROLS OVER HAZARDOUS MATERIALS			
33-017-0002-HY 96/07/01	POST AWARD SKD SYSTEMS CORP.			
33-601-0001-CH 96/06/29	LICENSING OF ANIMAL EXHIBITORS			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>3</u>		
<b>RURAL BUSINESS-COOPERATIVE SERVICE</b>				
34-099-0001-CH 96/04/05	APPROVAL OF BUSINESS AND INDUSTRY LOANS - MICHIGAN			
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		<u>1</u>		
<b>MULTI-AGENCY</b>				
34-099-0001-AT 96/09/30	AARC - COOPERATIVE AGREEMENT WITH AGRO-FIBERS, INC.			
50-018-0002-CH 96/04/29	SINGLE AUDIT OF THE ILLINOIS DEPT OF AGRICULTURE	\$55,745		
50-018-0002-TE 96/08/29	OMB CIRCULAR A-128, AUDIT OF ARKANSAS FORESTRY COMMISSION, FYE 6/30/95			
50-018-0003-CH 96/05/17	SINGLE AUDIT OF THE MICHIGAN DEPT. OF AGRICULTURE	\$215,453		
50-018-0004-HY 96/09/30	QUALITY CONTROL REVIEW (QCR) OF COMMONWEALTH OF PENNSYLVANIA SINGLE AUDIT, 6/30/95, A-128	\$76,420	\$76,420	
50-018-0005-SF 96/07/15	A-128 AUDIT (DESK REVIEW) OF THE STATE OF HAWAII DEPT. OF AGRICULTURE FOR FYE 6/30/95			
50-020-0005-TE 96/04/08	OMB CIRCULAR A-128, AUDIT OF THE STATE OF LOUISIANA, FYE JUNE 30, 1995			
50-020-0006-TE 96/08/13	OMB CIRCULAR A-128, AUDIT OF THE STATE OF OKLAHOMA, FYE JUNE 30, 1995			
50-020-0007-TE 96/07/31	OMB CIRCULAR A-128, AUDIT OF THE STATE OF TEXAS, FYE AUGUST 31, 1995			
50-020-0008-CH 96/04/05	SINGLE AUDIT STATE OF OHIO, FY 1994	\$24,435,989	\$24,435,989	
50-020-0009-HY 96/04/11	PUERTO RICO DEPARTMENT OF HEALTH, A-128 FYE 6/30/87 THROUGH 6/30/92	\$10,467,028	\$10,132,684	
50-020-0011-KC 96/04/08	A-128 STATE OF NEBRASKA, LINCOLN, NE, FY 6/94			
50-020-0012-KC 96/04/18	A-128 CHEYENNE RIVER SIOUX TRIBE, EAGLE BUTTE, SD (9/94)			
50-020-0013-KC 96/05/02	A-128, STATE OF UTAH (FY 6/94), SALT LAKE CITY, UT	\$178,576		
50-020-0014-KC 96/05/30	A-128 STATE OF IOWA, DES MOINES, IA (FY94)	\$119,947	\$119,947	
50-020-0015-KC 96/07/02	KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT (FY 1995), TOPEKA, KS	\$3,042		
50-020-0016-HY 96/04/08	STATE OF WEST VIRGINIA, A-128, 6/30/93	\$1,073,924	\$19,872	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES  
BETWEEN APRIL 1 AND SEPTEMBER 30, 1996**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0016-KC 96/06/28	A-128, STATE OF KANSAS (FY 6/94), TOPEKA, KS	\$40,113	\$475	
50-020-0018-HY 96/04/29	STATE OF RHODE ISLAND & PROVIDENCE PLANTATIONS A-128,6/30/92			
50-020-0019-KC 96/07/12	A-128, STATE OF NEBRASKA (FY 6/95), LINCOLN, NE	\$230	\$230	
50-020-0020-HY 96/04/11	STATE OF WEST VIRGINIA, A-128, 6/30/94	\$1,188,951		
50-020-0020-KC 96/07/12	A-128, STATE OF KANSAS (FY 6/95), TOPEKA, KS			
50-020-0021-HY 96/05/15	STATE OF NEW JERSEY, 6/30/93, A-128			
50-020-0022-HY 96/04/12	STATE OF NEW YORK, 3/31/94, A-128			
50-020-0023-HY 96/09/23	STATE OF DELAWARE, 06/30/94, A-128	\$2,012,507	\$1,495,445	
50-020-0023-KC 96/09/04	A-128, STATE OF IOWA (FY 6/95), DES MOINES, IA	\$561		
50-020-0025-HY 96/06/28	STATE OF RHODE ISLAND & PROVIDENCE PLANTATIONS A-128, 6/30/93			
50-020-0026-HY 96/07/18	STATE OF NEW JERSEY, A-128, 6/30/94			
50-020-0027-HY 96/08/09	STATE OF MAINE, A-128, 6/30/94	\$44,603		
50-020-0028-HY 96/09/20	COMMONWEALTH OF MASSACHUSETTS, A-128, 6/30/94	\$560		
50-020-0029-HY 96/09/23	STATE OF MARYLAND, A-128, 6/30/95			
50-020-0030-HY 96/09/25	PLEASANT POINT PASSAMAQUODDY TRIBAL COUNCIL A-128, 9/30/94			
50-020-0030-SF 96/07/31	A-128 AUDIT FOR THE STATE OF WASHINGTON - FOR FISCAL YEAR ENDED JUNE 30, 1995	\$5,381		
50-020-0031-HY 96/09/24	STATE OF CONNECTICUT, A-128, SFYE 6/30/94	\$2,258,765		
50-020-0031-SF 96/08/16	A-128 AUDIT OF THE STATE OF CALIFORNIA - STATEWIDE - FOR FISCAL YEAR ENDED 6/30/95			
50-020-0032-SF 96/08/12	A-128 AUDIT FOR THE STATE OF ALASKA - FOR FYE 6/30/95	\$22,955		
50-020-0033-SF 96/08/15	A-128 AUDIT OF STATE OF NEVADA - FOR FYE 6/30/95	\$3,000	\$3,000	
50-020-0034-SF 96/08/20	A-128 AUDIT OF STATE OF OREGON - FOR FYE 6/30/95			
50-020-0035-SF 96/09/11	A-128 AUDIT OF STATE OF ARIZONA - FOR FYE 6/30/95	\$29,210	\$28,935	
50-020-0036-SF 96/08/29	A-128 AUDIT ON THE STATE OF HAWAII DEPARTMENT OF EDUCATION - FOR FISCAL YEAR ENDED 6/30/95	\$1,072		
50-023-0001-KC 96/05/23	A-133, NEBRASKA INDIAN INTER-TRIBAL DEVELOPMENT CORPORATION (FY9/93), WINNEBAGO, NE	\$3,463		
50-023-0005-SF 96/06/19	A-133 AUDIT OF THE COLLEGE OF MICRONESIA-LAND GRANT PROGRAMS FOR THE FYE 9/30/93 & 9/30/94			
50-099-0002-HQ 96/07/11	REVIEW OF USDA CONTRACTS WITH SYNEX, INC.	\$193,973	\$45,565	
50-401-0011-FM 96/09/30	FISCAL YEAR 1995 RECD FINANCIAL STATEMENT AUDIT			
50-401-0012-FM 96/09/30	FISCAL YEAR 1995 USDA FINANCIAL STATEMENTS			
50-601-0002-AT 96/08/27	DEPARTMENTAL COMPLIANCE WITH IRS REPORTING REQUIREMENTS			
TOTAL: MULTI-AGENCY		<u>46</u>	<u>\$42,431,468</u>	<u>\$36,358,562</u>
TOTAL: RELEASE - NATIONWIDE		<u>131</u>	<u>\$72,828,165</u>	<u>\$37,065,399</u> <u>\$51,883,872</u>