USDA

United States
Department of
Agriculture

Office of
Inspector
General

No. 37

May 1997

Office of Inspector General Semiannual Report to Congress

FY 1997—First Half

On the cover: The new OIG logo is superimposed on a USDA photograph of a farm outside Richmond, Virginia, to depict that USDA programs and OIG work touch the lives of people in both rural and urban America. The new OIG logo was created by Kenneth Stevenson, a senior auditor who works in OIG's Western Region/Audit Office in San Francisco, California.

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

April 24, 1997

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 March 31, 1997.

During this period, our audits and investigations yielded approximately $60 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional $249.2 million to better use. We also identified $23 million in questioned costs that cannot be recovered. Our investigations produced 329 indictments and 370 convictions.

The results for this reporting period were made possible by the efforts of the OIG team nationwide, along with management and staff throughout the Department's mission areas. In addition, we received significant support from the Congress, particularly the members of the Agriculture and Appropriations Committees of both the House of Representatives and the Senate.

I extend my continuing appreciation to you and the Deputy Secretary, in furthering our mutual efforts to improve the efficiency and effectiveness of the Department's programs and operations, and extending our reinvention initiatives.

Sincerely,

ROGER C. VIADERO
Inspector General

Enclosure

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Executive Summary

This is the 37th 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 October 1, 1996, through March 31, 1997.

Monetary Results

During this reporting period, we issued 127 audit reports and reached management decisions on 110 audits. Based on this work, management officials agreed to recover $7.1 million and to put an additional $249.2 million to better use.

We also issued 492 reports of investigation during this period. Our investigative efforts resulted in 329 indictments, 370 convictions, and approximately $52.9 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Legislative Initiatives

OIG frequently recommends legislative changes to correct program deficiencies that cannot be fixed through regulation or policy. In this report, we are highlighting legislative recommendations involving food inspection and farm payments. The Food Safety and Inspection Service (FSIS) should seek authorization to charge user fees for export-related inspections, and the Farm Service Agency (FSA) should request tighter laws governing payment limitations and payment recovery.

In a recent evaluation and a subsequent review, we recommended that FSIS continue to pursue authority to assess user fees for inspections of exportable products. Collection of these fees could reduce the need for appropriated funds and shift inspection costs to the users of services.

USDA has faced continuing problems administering the payment limitation provision. Our audits have shown that as each adjustment has been made to tighten controls over the payment limit, producers have found even more creative ways to get around that limit. We continue to believe that unless legislative changes are implemented to simplify and improve controls over the limit, the prudent course of action for USDA and Congress may be to eliminate the requirements for a payment limitation altogether. This could save the administrative costs now being spent in attempts to enforce a provision that is difficult to enforce in a fair and equitable manner.

Unless a producer misrepresents his case, any determination that FSA makes regarding that producer's participation in farm programs is final after 90 days, and no action can be taken to recover overpayments. We have found that cases that were valid under the 90-day rule generally involved small amounts of money, whose repayment would not place an unreasonable burden on producers, and FSA has separate authority to grant relief if warranted. We continue to question the reasonableness of a rule that allows producers to keep unearned benefits, and believe Congress should take action to eliminate it.

Investigative Efforts

During this period, a member of the "Montana Freemen" organization and a codefendant pled guilty to felony charges in North Carolina for their roles in a tobacco fraud scheme to illegally sell more than 20 million pounds of excess tobacco, valued at approximately $36 million. The indictment included forfeitures totaling $41 million and money laundering counts. Information developed by OIG laid the groundwork for a second successful prosecution involving worthless financial instruments and conspiracy to intimidate a Federal officer.

As the result of an OIG investigation, the Department of Justice concluded a global settlement with a prominent international grain company and its foreign affiliate. The grain company paid $25 million to the Government in settlement of any potential civil claims, and its affiliate paid a $10 million fine after pleading guilty to a criminal charge of conspiracy to defraud USDA. This settlement represented the culmination of a series of investigations conducted by OIG special agents since 1989 into fraud related to the export of commodities to the country of Iraq. The Atlanta branch of an Italian bank, a Turkish company, and Iraq were implicated in the 347-count indictment. The Turkish company's manager and four Iraqis remain fugitives.

Fifteen individuals were arrested in a food stamp sting operation in Connecticut. Owners, including a city councilman, and employees of eight authorized stores had purchased more than $250,000 in food stamps for cash, guns, and vehicles. During the course of the investigation, two State Representatives (both police

officers) assisted the OIG undercover agent in expediting a pistol permit in exchange for cash, for which they were arrested and pled guilty.

In the Brighton Beach section of Brooklyn, a joint operation with the New York Police Department Russian Organized Crime Task Force resulted in seven individuals pleading guilty to charges for misuse of food stamps.

A multinational food corporation agreed to plead guilty to charges of adulteration, misgrading, and misweighing of grain by its grain division and to pay $8.3 million in fines and penalties. The company added water to grain to increase its weight, which also caused spoilage and prompted international complaints. The company paid gratuities to USDA-licensed grain samplers, who allowed the company to exchange poor quality grain samples for those of a higher quality. As a result of investigative findings, lawmakers increased the level of violations of the USDA Grain Standards Act from misdemeanors to felonies, and subsequent rulemaking severely restricted the addition of water to grain.

In an employee integrity investigation in Kentucky, 12 people, including the FSA County Executive Director, a program assistant, and the FSA building landlord, pled guilty to defrauding three FSA programs over a 9-year period. All 12 defendants were sentenced to terms ranging from probation to 57 months in jail and were ordered to pay fines and restitution totaling more than $600,000.

In two other cases, three Department employees in Washington, D.C., were successfully prosecuted for having embezzled money from the USDA Imprest Fund.

Audit Efforts

During this period, based on limited records that were provided, we found that FSA oversight of certified State mediation programs needs strengthening. More significant, although grant agreements give USDA officials full access to mediation records, OIG was denied access by all four State agencies visited. It is important to note that mediation programs are available for a variety of USDA loan and payment programs, which total approximately $33 billion. Since any borrower or participant in these programs can request mediation services, $33 billion is the value of USDA funding impacted by the decision to deny OIG access to records. The Office of the General Counsel has upheld the right of OIG to have access to mediation records and concluded that failure to comply constitutes a material violation of the grant award.

USDA should more actively guide agencies in North American Free Trade Agreement (NAFTA) operations matters. Better departmental oversight is needed to ensure agencies meet their NAFTA commitments, import inspections need to be improved and penalties assessed for what have been some serious violations, and reporting on the balance of trade needs improvement. We have reached management decisions on a number of recommendations and are actively working with the agencies on the remainder.

Monitoring of Electronic Benefits Transfer (EBT) continues. The Welfare Reform Act mandates EBT for all States by 2002. Twenty States are now delivering food stamp benefits via EBT, with 26 more expected to begin by fiscal year (FY) 1998. This period, we conducted audits of offline systems in Ohio and Wyoming and online systems in New Mexico, North Dakota, and South Dakota.

Also related to food stamps, the Food and Consumer Service (FCS) needs a strategy for field offices to make better use of the Store Tracking and Redemption Subsystem. In addition, FCS' plans for combating retailer fraud have focused on compliance rather than prevention. Finally, the national and regional offices need to provide more direction and oversight. FCS officials generally agreed with our findings and recommendations. A meeting of FCS' officers-in-charge is scheduled for May 1997 to discuss strengthening retailer oversight and to identify successful initiatives.

Regarding food safety, our audit determined that FSIS user fees did not fully cover costs of export inspections. By charging for full costs of all inspections, reinspections, and export certificates, FSIS could offset the cost of providing export inspection services. Congressional authorization is needed to collect fees for reinspections and certain certificates. If authorization were to be obtained, some export functions could become self-sufficient, freeing $13.7 million of appropriated funds for other activities. FSIS officials agreed with the findings and are taking corrective actions.

More measures are needed to ensure dairy processing plants meet sanitation standards. The Agricultural Marketing Service (AMS) improved its operations; however, improvement is still needed to ensure that regulatory agencies are notified of sanitation deficiencies, and increasingly stiffer penalties are needed for plants with repeated deficiencies. AMS neither reported serious sanitation deficiencies to the Food and Drug Administration (FDA) if conditions could be corrected quickly, nor reported plants which were denied participation in the voluntary inspection program because the initial inspection disclosed serious unsanitary conditions. AMS should report all serious unsanitary conditions to FDA, regardless of a plant's status, because of health and safety risks. AMS officials supported our conclusions and agreed to act on them.

In the Grain Inspection, Packers, and Stockyard Administration (GIPSA), investigative techniques have been lacking against anticompetitive practices in the meat packing industry. Few such investigations have been litigated successfully in the last few years, partly because of the type of evidence available and partly because the Packers and Stockyards (P&S) division of GIPSA has not kept pace with the techniques needed to monitor an industry that has changed. P&S needs to use economics, legal, and investigative resources better and with improved coordination.

The Forest Service (FS) contracts with private operators who provide large multiengine airtankers that drop fire-retardant chemicals to suppress ground fires. A number of fatal crashes during such operations since 1990 prompted us to look into this area, and we found FS was not effectively managing its program of preseason inspections for the aircraft. For example, airtankers flew missions without noted deficiencies having been corrected, and FS officials did not appropriately perform certain investigations and other matters after fatal crashes. FS officials agreed with all recommendations and have begun corrective action.

On the basis of a congressional request, we evaluated the legality and propriety of the cooperative agreement between the Natural Resources Conservation Service (NRCS) and a for-profit organization. We found that NRCS officials had used Rural Development funding provided by the Rural Business-Cooperative Service (RBS) to enter into an inappropriate agreement. A senior official at RBS took direct personal action to facilitate the award of the $250,000 agreement, and the for-profit organization violated the terms and conditions of the agreement. NRCS and RBS officials agreed with us and plan corrective action.

At the direction of the Secretary, we performed a review and found that the Department has been falling short in resolving program participation and civil rights complaints made by disadvantaged and minority farmers. FSA had a large backlog of complaints, which it was managing poorly. In fact, no fewer than three staff groups in the Department are responsible for segments of the complaints process in FSA, but no group has exercised overall authority and no group is constrained by a deadline. We recommended that the Secretary convene an ad hoc team to resolve the immediate backlog and that consideration be given to having one staff oversee all phases of a complaint. In our continuing review, we will determine the degree of participation in USDA programs by minority and disadvantaged farmers, as well as the level of assistance the Department gives these farmers when they apply for benefits.

This reporting period, we issued a number of opinions on FY 1996 financial statements. We gave unqualified opinions to the Federal Crop Insurance Corporation and to the Rural Telephone Bank. We issued Rural Development a qualified opinion because we were unable to assess the reasonableness of its estimated loan subsidy costs for loans obligated after FY 1991. FS received a disclaimer of opinion for FY 1996 because it was not able to produce auditable financial statements on time. FS had received an adverse opinion for its FY 1995 financial statements due to pervasive errors, material misstatements, and departures from applicable accounting procedures. In August 1996, the Office of the Chief Financial Officer, OIG, and FS formed a team to pursue a coordinated effort toward ensuring that FS material weaknesses outlined in the audit report for FY 1997 are corrected. The corrective action plan covers the areas of property, plant, and equipment; revenues/accounts receivable; and cash and unexpended appropriations. In addition, the team will address other matters needing attention in order to improve the overall financial management health of FS.

Summary of Audit Activities

Audit Reports Issued		127
Audits Performed by OIG	85	
Audits Performed Under the Single Audit Act	30	
Audits Performed by Others	12	
Management Decisions Made		
Number of Reports		110
Number of Recommendations		720
Dollar Impact (Millions)		
Questioned/Unsupported Costs	$30.1[ab]	
Recommended for Recovery	$7.1	
Not Recommended for Recovery	$23.0	
Funds To Be Put to Better Use	$249.2	
Total		$279.3

[a]These were the amounts the auditees agreed to at the time of management decision.
[b]The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

Summary of Investigative Activities

Reports Issued		492
Cases Opened		473
Cases Closed		522
Cases Referred for Prosecution		354
Impact of Investigations		
Indictments		329
Convictions		370[a]
Searches		56
Arrests		217
Total Dollar Impact (Millions)		$52.9
Recoveries/Collections	27.0[b]	
Restitutions	11.9[c]	
Fines	12.3[d]	
Claims Established	0.5[e]	
Administrative Penalties	0.5[f]	
Cost Avoidance	0.7[g]	
Administrative Sanctions		
Employees		33
Businesses/Persons		1,107

[a]Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 370 convictions do not necessarily relate to the 329 indictments.
[b]Includes money received by USDA or other Government agencies as a result of OIG investigations.
[c]Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[d]Fines are court-ordered penalties.
[e]Claims established are agency demands for repayment of USDA benefits.
[f]This category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.
[g]This category consists of loans or benefits not granted as the result of an OIG investigation.

Legislative Initiatives

In fulfilling its mission, OIG often serves as the catalyst for legislative initiatives to amend laws governing program functions found vulnerable to fraud, waste, or mismanagement. For example, we have recommended changes in two areas: food inspection and farm payments. The Food Safety and Inspection Service should seek authorization to charge user fees for export-related inspections, and the Farm Service Agency should request tighter laws governing payment limitations and payment recovery.

Food Safety and Inspection Service (FSIS)

User Fees Would Make Inspections Self-Sufficient

In our 1996 evaluation of FSIS' Meat and Poultry Inspection Program and in a subsequent review of export inspection fees, we recommended that FSIS continue to pursue authority to assess user fees for inspections of exportable products. Collection of these fees could reduce the need for appropriated funds and shift inspection costs to the users of the services. The General Accounting Office (GAO) also recently concluded that opportunities exist to charge additional user fees for various Federal food-related activities, including the costs of inspections and other services performed by FSIS.

In its 1998 budget request for the entire inspection program, FSIS proposed legislation that would authorize it to recover $390 million in new user fees to pay for the costs of salaries and benefits for inspection personnel who perform mandatory onsite inspection of meat, poultry, and egg products. Under this system, industry would pay approximately 70 percent of the total costs of inspection services for meat, poultry, and egg products, while taxpayers would continue to pay approximately 30 percent of the costs. This cost-sharing proposal would allow FSIS to meet the demand for inspection service while providing laboratory support for inspection, animal production food safety investments, and investments in new inspection system improvements designed to enhance safety and program administration productivity. The overall impact of prices as a result of these fees has been estimated to be less than 1 cent per pound of meat and poultry production.

Additional information about user fees for export-related inspections is found on pages 29-30 of this report.

Farm Service Agency (FSA)

Payment Limitations May Need To Be Abandoned

Deficiency payments guarantee farm income by providing farmers with payments to make up for low market prices. Because the payments are based on production and increase as a farmer's production increases, Congress imposed payment limitations to avoid favoring large operations. Legislation set the limit at $50,000 per "person" for most crops and defined "person" as an individual or a legal entity, such as a corporation, that had a separate and distinct interest in the crop and contributed to the cost of farming it.

Over the years, USDA has faced continuing problems administering the payment limitation provisions. Indeed, our audits show that as each adjustment has been made to tighten controls over the payment limit, producers have found even more creative ways to get around that limit.

Early indications of the problem arose in May 1985, when we reported that incorrect "person" determinations were made. In response, USDA improved procedures and controls. However, a subsequent 1986 audit showed that as more producers reached the $50,000 payment limit, they reorganized their operations to create additional "persons" to qualify for additional payments. These reorganizations generally involved the same land but merely added "persons" to the farming operation. In some cases, the "persons" were family members; in other cases, they were employees who continued to work for wages, or tenants who were not farming at all.

During the period 1983 through 1987, the number of "persons" receiving deficiency payments increased from 590,000 to 1.27 million. Our audits of 1,031 "persons" questioned the eligibility of almost a fourth of the sample and identified questionable payments of $15.3 million made over the 5-year period. We estimated that, overall, approximately $60 million in improper payments had been made or approved during this period.

The Omnibus Budget Reconciliation Act of 1987 significantly altered the way "person" determinations were made and limited to three the number of entities that a "person" could be a member of. Thus a "person" could receive $50,000 from one entity and have up to one-half interest in two other entities for a maximum of

$100,000. Nevertheless, producers continued to structure their organizations to qualify as many "persons" as needed to keep their payments at the pre-1987 level. It was apparent that the changes imposed by the 1987 Omnibus Budget Reconciliation Act did not successfully eliminate abuses.

In a 1989 audit, we reported that the statutes created a conflict between the concepts of deficiency payments per acre of production and a payment limit per "person." This conflict motivated large farming operations to restructure themselves to circumvent payment limitations. We concluded that USDA's estimated program savings of $70 million would likely diminish because farmers would continue to circumvent the payment limit while the cost of administering the program would become burdensome. We recommended that USDA either seek legislative changes to eliminate loopholes or propose legislation to eliminate the payment limit altogether.

Some reforms came in 1996 with the Agricultural Market Transition Act (AMTA). AMTA continued to require that producers be "actively engaged in farming" to be eligible to receive production flexibility contract payments. However, since production flexibility contract payments are no longer tied to production on the farm, it has been virtually impossible to enforce or require producers to be actively engaged in farming to quality for those payments. To receive payments, farmers enrolled acreage in production flexibility contracts with each "person" eligible for no more than $40,000. Producers were not limited to the number of production flexibility contracts; however, they were still limited to receiving payments through no more than their three permitted entities. Thus, an individual's effective limit was $80,000 ($40,000 plus up to half of two additional $40,000 payments). The continuation of old rules and the use of land as a basis for payments made it easier for sophisticated operations to circumvent payment limitations by creating new "persons" and by using various land leasing arrangements.

The land leasing arrangements we found allowed landowners to receive unlimited contract payments. This generally occurred through combination leases. Combination leases give the landowner the larger of a guaranteed cash amount or a share of the crop proceeds. USDA considers those leases cash leases and gives the contract payments to the tenant. However, at harvest time, when the share portion is higher, the tenant pays the landowner a share of the total farm proceeds. This payment includes part of the contract payments. The amount of payment the landowner receives is not tracked by USDA and is not counted toward the landowner's payment limit.

In other cases, landowners have increased their cash leases as a means to get most, if not all, of the contract payments earned by the farm from the tenants. Since the current law does not require program crops to be grown on contract acres, landowners can cash-lease the acres to tenants who operate independently of contract payments. For example, one landowner in Texas cash-leased his rice acres to ranchers for cattle grazing. Therefore, the tenant would earn the rice contract payment. The cash lease was $85 per acre while the normal rate for grazing for the area was $2 to $10 per acre. In this way, the landowner received the "lion's share" of the contract payments through the higher than normal cash lease for the grazing land. However, it should be noted that cash rents for program acreage earning payments under previously authorized acreage reduction programs have always been higher than cash rents for other cropland.

Despite repeated attempts by Congress to limit program payments, farmers are generally able to organize their operations to circumvent payment limitations. We previously recommended that legislative changes be made to reduce the administrative burden and to improve controls over the limitation of payments. Instead of allowing three entities to receive payments, we suggested payments be attributed to individuals who are actively engaged in farming and that the limit be established either at $50,000 or at the effective limit of $100,000 and that all payments be attributed to individuals by Social Security number. However, AMTA essentially continued the old payment limitation provisions with the limit being reduced from $50,000 to $40,000 which, with the three-entity rule, effectively made the limit $80,000.

We plan additional work to further evaluate the implementation of AMTA. However, we continue to believe that unless legislative changes are implemented to simplify and improve controls over the limit, the prudent course of action for USDA and Congress may be to eliminate the requirements for a payment limitation altogether. This could save the administrative costs now being spent in attempts to enforce a provision that is difficult to enforce in a fair and equitable manner.

FSA's 90-Day Rule Should Be Eliminated

The Food, Agriculture, Conservation and Trade (FACT) Act of 1990 provides that, unless a producer misrepresents his case, any determination that FSA makes regarding that producer's participation in farm programs is final after 90 days. After that time, no action can be taken to recover overpayments.

The 90-day rule was enacted to alleviate the financial hardship a farm could suffer if FSA personnel made a mistake that affected the farm's payment limitation. Congress was concerned that if a mistake occurred several years before an audit found it, the total amount of overpayments could become very large, and demands for repayment could threaten the solvency of the farming operation.

We found that overpayments identified during audits of the payment limit and disaster programs were generally the result of producer schemes to evade the payment limit. In these cases, the 90-day rule did not apply. Cases that *were* valid under the 90-day rule generally involved only small amounts, whose repayment would not place an unreasonable burden on producers. Further, FSA has separate authority to grant relief to producers if conditions warrant application of a good faith determination.

By 1994, barely 3 years after the 90-day rule had gone into effect, producers had received approximately $2 million in unearned benefits due to application of the rule. At that time, we questioned the reasonableness of a rule that allowed producers to keep unearned benefits. In 1995, we recommended that FSA seek legislative change to rescind the 90-day rule. The FSA Administrator recommended to the Under Secretary for Farm and Foreign Agricultural Services that the Administration's proposals for the 1995 Farm Bill (which evolved into the 1996 Farm Bill) include a proposal to eliminate the 90-day rule. The Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill) did not eliminate the rule.

After OIG issued its report, GAO conducted a similar review in 1996 and arrived at the same conclusions reported by OIG. GAO also recommended that the 90-day rule be eliminated. FSA officials were in fundamental agreement with this conclusion. We continue to believe that Congress should take action to eliminate the 90-day rule.

Farm and Foreign Agricultural Services

Farm Service Agency (FSA)

Farm programs have undergone major changes with the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act). The 1996 Act replaces target prices, deficiency payments, and acreage reduction programs with fixed but declining payments to producers. The 1996 Act also diminishes the role of the Government in farm and conservation programs, as well as in 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 1997, FSA estimates expenditures of approximately $950 million for salaries and expenses, $163 million for the Agricultural Credit Insurance Fund Program Account, $25 million for conservation programs, and $2 million for State mediation grants. The Commodity Credit Corporation (CCC), a Government corporation, funds all other program operations, with estimated outlays of $7.5 billion. CCC also made $5.1 billion in commodity loans during FY 1996. As of September 30, 1996, approximately 182,000 borrowers owed FSA $10.6 billion for farm program loans, and the agency had guaranteed more than $6.3 billion in farm program loans made by private lenders to more than 48,000 borrowers.

High Marks Given AMTA Program Implementation

The Agricultural Market Transition Act (AMTA) authorizes the use of production flexibility contracts between USDA and producers for the 7-year period 1996 through 2002. Under the terms of such a contract, the producer agrees to comply with conservation requirements and other program requirements in exchange for a contract payment. The payment amount is based on 85 percent of the enrolled contract acreage multiplied by the payment yield multiplied by the payment rate. Payments are capped at $40,000 per person.

FSA national, State, and county office personnel did a commendable job of accomplishing AMTA enrollment. This is especially noteworthy because the agency had only 74 days to complete the enrollment and began barely 46 days after the farm bill was signed. We observed county office personnel coming in early, leaving late, and working weekends to meet the signup deadline. Considering the volume of workload, the short timeframe, and the changing instructions, the number of errors for the counties reviewed was small.

We initiated the audit during the signup period to inform FSA management about any problems we saw with enrollment. We visited 13 States and reviewed 655 contracts. We found that shares were improperly designated on 100 contracts, documents were incomplete for 55, approvals were improper for 19, crop histories were not reported for 10, farm operating plans were not analyzed and eligibility flags were not updated for 9, and acreages were overstated or understated for 6. In addition, fruit and vegetable double-cropping regions were designated inconsistently in five States. (Fruit and vegetables may not be grown on contract acres.)

FSA personnel took prompt corrective action on all findings brought to their attention. They eliminated 55 fruit and vegetable double-cropping regions from the 5 States, and they reviewed and adjusted questionable double-cropping regions in other States.

Producers Misrepresented Farming Operations To Avoid Payment Limitation

As a result of our audit in Madison Parish, Louisiana, FSA determined that two producers engaged in a scheme to circumvent the payment limit. The agency also determined that a third producer, who employed the first two, was ineligible for 1995 and 1996 deficiency payments.

The two employees certified that, as owners of a joint venture, they provided all the management of the farming operation and did not receive loans from any other entity with an interest in the operation. We determined that the two producers (1) were employees of a corporation that was wholly owned by the third producer, (2) were not separate "persons" because they did not maintain accounts separate from their employer, and (3) did not exercise separate responsibility for their interests in the farming operation. (The employer and other employees of the corporation carried out some of the responsibilities.)

Even though the two producers claimed to each provide 50 percent of the management to the farming operation, the joint venture paid another person over $31,000 in management fees, and the corporation they worked for paid one of them for the services she allegedly contributed to the farming operation.

We concluded that none of the three producers was eligible for 1995 program payments totaling approximately $40,000 and for 1996 payments totaling over $115,000 because they engaged in a scheme to circumvent program regulations.

We recommended that FSA staff determine whether the producers' claims represented a "scheme" and, if so, that they collect the $155,000 in payments.

The FSA State committee determined the producers had engaged in a scheme, and it made demand for the return of payments.

FSA Oversight of Certified State Mediation Programs Needs Strengthening

The Secretary of Agriculture has the authority to help States develop certified mediation programs. These programs make a trained, impartial person available as a mediator to reconcile farmers who lodge complaints involving USDA farm programs, with the other disputing party, whether it be FSA or a local lender. At the local level, mediation programs may be administered directly by the State. Since 1988, USDA has obligated $19.7 million for 20 State mediation programs.

Although grant agreements give USDA officials full access to mediation records, OIG was denied access by all four State agencies visited. State officials withheld all records that would identify mediation participants, as well as the final agreement resulting from the mediation. State officials considered such records confidential. As a result, we were unable to fully evaluate the use of Federal funds and the accomplishments of the States.

It is important to note that mediation programs are available for a variety of USDA loan and payment programs, which total approximately $33 billion. Since any borrower or participant in these programs can request mediation services, $33 billion is the value of USDA funding impacted by the decision to deny OIG access to records.

Through review of the limited records that were provided, we identified $2.1 million since 1988 in excessive or questionable reimbursements for activities that did not involve mediation. These activities included financial analysis, credit counseling, and other technical assistance for individuals not in mediation. In our opinion, mediation funds should be used to reimburse expenses associated with mediating disputes involving farmers directly affected by USDA actions.

We also reported that the average cost per mediation case for FSA-administered mediation programs was $537 while the average cost for State-administered programs was $3,719 per case.

In addition, FSA did not have an adequate system to monitor the effectiveness of State mediation programs. Agency officials generally did not know how many or which producers participated in mediation, the types of disputes being mediated, the results of mediation, or the effect of mediation on USDA programs.

States with certified mediation programs submitted annual reports to FSA, but the information was generally inconsistent and incomplete. Also, FSA did not use the reports to analyze and compare States' operating costs, use of grant funds, etc. In general, FSA could not ensure that States met mediation program objectives and that grant funds were properly used.

The total FY 1996 appropriation for the mediation program was $2 million; however, FSA obligated $3.1 million to the States and allowed them to carry forward unused amounts to the succeeding fiscal year.

We recommended that FSA (1) withhold grant funds from the four States we visited until records are made available, (2) amend regulations to specify what costs can be claimed for reimbursement, (3) recover $1.2 million in questionable and unsupported costs, (4) reduce the cost per case for the State mediation program, and (5) stop obligating more grant funds in a fiscal year than are appropriated by Congress. We are working with FSA officials to resolve the issues identified in the report.

Subsequent to the release of our audit report, the Office of the General Counsel issued an opinion regarding USDA access to records. The opinion states in part:

> Section 1946.4 of 7 CFR [*Code of Federal Regulations*] requires that any State requesting a mediation grant comply with 7 CFR parts 3015 and 3016. Section 3015.24 of 7 CFR in turn provides, in part, that USDA and any of its authorized representatives..."shall have the right of access to any...records of the recipient

which are pertinent in a specific USDA award in order to make audit, examination, excerpts, and transcripts."

The General Counsel concluded that FSA should notify the grantees of the regulatory requirements and that continued failure to grant access in accordance with the regulations will be considered a material violation of the grant award under 7 CFR part 3015, subpart n.

Disaster Overpayments Result From Improper Reporting and Weak Oversight

As part of our nationwide review of FSA's noninsured crop disaster assistance program (NAP), we reviewed producers' applications in Monterey County, California; San Joaquin County, California; and Autauga County, Alabama. NAP provides the equivalent of catastrophic risk protection for those crops not eligible under any Federal crop insurance program. Producers in a designated area are eligible for payments if a natural disaster reduces their crop yields below 50 percent of the expected yield. For an area to be designated, a natural disaster must have reduced overall production of a crop by at least 35 percent. The program operates at no cost to producers.

In California, we reviewed 136 producers in Monterey and San Joaquin Counties and found that 48 had overstated their losses by providing incomplete or inaccurate production evidence. We questioned payments in the two counties totaling approximately $1.6 million. We also found that the Agriculture Credit Office in Monterey County granted excessive emergency loans to two producers who had underreported production. The producers received excess loan amounts of $124,000, but because they may have knowingly made false certifications to obtain the loans, we questioned the entire loan amounts of $569,000. In some cases, losses were understated or miscalculated by FSA. These errors resulted in $88,000 in overpayments and $8,300 in underpayments.

In Autauga County, Alabama, we reviewed all 53 producers who applied for NAP benefits. We found that the county office improperly used State-assigned yields rather than the producers' actual production histories to calculate the benefits. Twenty-six of the fifty-three producers received disaster payments from FSA in 1 or more of the previous 4 years and had production histories on file in the county office. Based on these histories, we determined the 26 producers were eligible for only approximately $23,000 of the $126,000 computed by FSA.

Of the 26 producers, 10 received disaster payments in each of the previous 6 years. These 10 producers had not produced any marketable crops for these years and had no production histories to qualify them for payments. None of the 10 producers had farm plans for crop production, contracts for crop sales, or equipment for crop harvesting. Given the producers' operations, it is doubtful that it would have been worth their while to produce the crops, and it is questionable whether they intended to do so.

Assigning yields, rather than using actual yields, was a Statewide practice and occurred in other States. In a management alert to the FSA national office, we recommended that yields be based on actual production histories. As a result, the Alabama State office halted its payments to producers, pending instructions from the national office.

In the two California reviews, we recommended that FSA broaden the basis for "misrepresentation" to include any inaccurate reporting that benefits the producer. We also recommended that FSA (1) require spot checks to test production evidence, (2) require producers to authorize the release of production records, and (3) ensure that producers understand the penalties for inaccurate reporting. FSA should also recover the overpayments, as well as the loan amounts, and make up the underpayments.

We are working with FSA officials to implement our recommendations in California. FSA has initiated actions to determine if disaster overpayments or excess loan payments were made in the two California counties and is determining on a case-by-case basis if overpayments were issued. In cases where overpayments were issued, FSA has initiated corrective actions. FSA national officials agreed with the recommendations in Alabama and notified all State and county offices of proper procedures for using actual production histories. The Alabama staff recalculated producer payments using these histories.

CRP Bid Ranking Did Not Conserve the Most Environmentally Sensitive Land

The Food Security Act of 1985 authorized the Conservation Reserve Program (CRP), and legislation in 1990 extended it. The goal of CRP is to conserve farmland that could be subject to erosion or other losses in environmental quality. The producer offers land for CCC's consideration, and CCC accepts or rejects the offer based on its environmental value and the amount the producer asks CCC to pay in rent to idle them. This process is called the Environmental Benefits Index (EBI).

In a previous period, CCC released acres from CRP under an "early out" provision of the program. For the 13th signup period, CCC's goal was to accept acreage that met higher environmental and conservation criteria.

Our audit reviewed 165 CRP bids submitted during the 13th signup. We evaluated how effectively CCC ranked the bids to prioritize environmentally sensitive land, and how effectively CCC avoided accepting bids where the conservation practice was already established or did not address the conservation problem.

Under the EBI process for the 13th signup, CCC did not always get the most environmentally sensitive acres under CRP contracts. CCC reviewers did not identify inaccurate bid data, did not have adequate guidance, and did not rely on information in the bid data base to verify eligibility. In addition, planned conservation practices were not always consistent with the types of environmental concerns raised, and the bid-ranking process did not consider whether planned conservation practices were previously established.

We recommended that CCC consider in its future EBI process the effect of ongoing conservation practices on land offered for contract, and verify the accuracy of bid data prior to approving contracts. CCC should also coordinate with the Natural Resources Conservation Service (NRCS) to ensure that conservation practices approved by NRCS are consistent with CRP requirements.

FSA officials stated that a cost factor is included in bid ranking that will take into consideration whether a conservation practice has been established. They further agreed to strengthen procedures for performance of quality reviews of bid data and to coordinate with NRCS to ensure that it formulates its policies in conjunction with CRP objectives.

Allegation of Improper Program Payments Reviewed

We received two anonymous complaints that two separate landowners in the South and Southwest were violating AMTA eligibility requirements. One complaint alleged that an owner of land in New Mexico and Texas who received AMTA payments from four county offices had violated the highly-erodible-land provisions of AMTA. The other complaint alleged that a Louisiana landowner had used a bogus land sale to build additional cotton base acres and increase his payments.

Concerning the landowner in New Mexico and Texas, we found that FSA had already taken action to ensure that this producer forfeited his payments.

In the other case, the landowner in Louisiana divided and recombined his land to "create" an additional 235 acres. First, the landowner entered into lease agreements with two tenants that required plantings substantially in excess of the cotton base. Then he obtained FSA's approval to transfer the cotton base acres to one of two new farms created by a "sale" of his land. The two new farms were subsequently combined, concealing the inflated acreage and giving the newly constituted farm 235 more acres than the land had before it was divided. AMTA payments of approximately $14,000 were made for the additional cotton base buildup for 1996, and approximately $64,500 more were scheduled over the remaining years of the AMTA contract.

The tenant who entered into the bogus land sale admitted there never was a legitimate sale to justify county committee approval of the farm reconstitution that resulted in the base buildup.

We recommended that FSA reduce the cotton base to the level that existed before the farm reconstitution and make appropriate adjustments in the AMTA payments for 1996 and future years. Management will initiate action to correct the payment caused by the improper base buildup.

Implementation Problems Found With Farm Inventory Property Sales

FSA acquires properties through foreclosures and other actions. The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) requires FSA to sell these properties to beginning farmers and other interested parties rather than maintaining the properties until "suitable" purchasers can be located. The 1996 Act requires the agency to advertise the properties for sale within 15 days of acquiring them, and to sell them within 105 days.

As a part of our review of the Department's implementation of the 1996 Act, we evaluated the efforts made by FSA staff to sell their inventory properties. We visited the six States holding the largest inventories (approximately $97 million of $250 million nationwide).

Of the 601 inventory properties we reviewed, 191 were not advertised or not sold within the timeframes required by the act. Circumstances beyond program officials' control obstructed FSA's efforts in approximately one-third of the cases, while agency error caused delays in two-thirds of the cases. Because transition to the act was abrupt, FSA had little time to develop new procedures. We recommended that FSA revise its inventory property disposal policies and procedures to meet the 1996 Act requirements. We also recommended that FSA implement a usable management information system so program officials can monitor property management activities within their areas. The current system produced monthly status reports which were unreliable.

Among the uncontrollable circumstances that delayed sales were ongoing legal disputes, pending easement determinations, and pending property transfers. Most delays occurred because the inventory property was tied up in administrative appeals or litigation. We recommended that FSA seek adjustments to the 1996 Act to accommodate these uncontrollable factors.

FSA concurred with our findings and recommendations. Officials have developed new procedures and are awaiting final agency approval before implementing them. Concerning the uncontrollable factors in sales, the agency proposed adjustments to the 1996 Act, but the Department did not forward the proposal to Congress.

Some Emergency Disaster Loans Were Overdisbursed

FSA makes emergency disaster loans to cover farmers' losses so they can return to normal farming operations after a disaster. To be eligible, the applicant must have a 30 percent loss of normal production.

We reviewed 42 loans disbursed for approximately $6.3 million in 2 States. We found that 15 of these loans were overdisbursed by $485,000. In one case, we questioned the total loan of over $116,000 because the borrower provided false historical yield information. For another two borrowers, we questioned total loans of $212,000 because the borrowers had the financial resources to fund the items for which they had gotten the loans. For the remaining 12 borrowers, we determined the loans were overdisbursed by over $159,000 because FSA made errors in determining the qualifying disaster loss. Most of these errors were made in the one State which, to expedite release of the loan funds, did not perform second-party reviews.

We recommended that FSA collect the $485,000 in excessive loan funds and perform second-party reviews before future loans are disbursed. Agency officials agreed with our findings and plan to initiate action to recover any excess loan amounts.

Daughter Pleads Guilty, Sentenced in $4.6 Million Fraud

The daughter of a prominent southwest Kansas farmer/rancher pled guilty to one count of mail fraud and one count of making false statements to FSA. She was sentenced to 15 months in prison, followed by 3 years of supervised release, and fined $200,000.

The guilty plea came 5 weeks into the Federal jury trial against the father and daughter. The father was eventually acquitted.

The two had been indicted on four felony counts each of mail fraud and making false statements. It was alleged that, between 1986 and 1991, the father and daughter provided false information to FSA by creating four sham partnerships in order to conceal their own interest in the farming operations and thus attempt to circumvent the $50,000 payment limitation provision. The defendants allegedly used the names of family members, associates, and employees to create the sham

partnerships and, as a result, over the 5-year period received $4.6 million in deficiency payments to which they were not entitled.

$600,000 Settlement in Payment Limitation Overpayments

Members of two Colorado partnerships agreed to repay USDA $600,000 as a civil settlement of charges the defendants misrepresented their farming operation to FSA in order to circumvent payment limitation regulations. The defendants had submitted false and misleading information to FSA in order to fraudulently qualify for payments under the Wheat and Feed Grain Program.

Farmer Sentenced for Falsely Reporting Neighbor's Cattle as FSA Security

In South Dakota, a farmer pled guilty and was sentenced to prison for making false statements on FSA security agreements. The security agreements indicated he owned cattle that, in fact, belonged to other individuals.

The farmer was sentenced to 6 months in jail and ordered to pay restitution of $7,200. The farmer also repaid FSA the outstanding loan balance of nearly $5,000 and liquidated damages assessed at $1,240. In addition, he was denied farm-stored commodity loans for 3 years.

South Dakota Farmer Sentenced for Conversion of Collateral

Another South Dakota farmer was sentenced to prison after pleading guilty to felony charges he illegally sold cattle and grain pledged as security to FSA. The farmer was sentenced to 4 months in prison, to be followed by 4 months' home detention and 3 years of supervised release. He was also ordered to pay $182,500 in restitution.

Virginia Farmer Converts Tobacco Proceeds

A Virginia farmer pled guilty to conversion of property mortgaged to the Government in the unauthorized sale of more than 23,000 pounds of tobacco. The farmer was sentenced to 6 months' home detention, 3 years' probation, and restitution of approximately $34,500 for the tobacco, which was security for loans made by FSA. The conversion of the tobacco to the farmer's personal use began in September 1993 and continued through October 1995.

Four Plead Guilty to Million Dollar Mohair Fraud

Four Texans pled guilty in Federal court after our investigation showed they filed more than $2 million in false claims under the 1988-1990 Mohair Incentive Program. A total of $1.6 million was actually paid to three of the subjects. The Mohair Incentive Program, now eliminated, allowed mohair producers to receive Government subsidies approaching 400 percent of the amount of their mohair sales.

The one subject whose claims were caught before payment was sentenced to 22 months' imprisonment, to be followed by 2 years' supervised release, and fined $4,000. The other three subjects are awaiting sentencing.

Three Guilty of Defrauding Price Support Program

The former chief financial officer of an Arizona cotton finance company and two producers pled guilty to charges related to conspiring to evade payment limits by causing false statements to be made to CCC. The former financial officer was ordered to serve 6 months of supervised probation and pay restitution of $12,000. The two producers are awaiting sentencing.

The two producers had agreed to guarantee crop financing loans supposedly made to 18 tenant farmers by the financial officer, thus relieving the tenants of the financial risk, which was an element in establishing eligibility for CCC cotton subsidies. The two producers, who owned the large cotton farming operation, devised the scheme by which USDA was falsely notified that the 18 tenant farmers had leased parcels of land from them and had actively engaged in farming. Documents were submitted to USDA, on behalf of the tenant farmers, which falsely showed that the tenant farmers had individually assumed financial risk.

Many of the tenant farmers were paid to sign falsely prepared USDA documents and financial forms at the direction of the two producers. During crop years 1988 through 1990, the two producers, with the assistance of the financial officer, defrauded USDA of as much as $1.2 million.

Montana Freeman Convicted in North Carolina for Tobacco Fraud and Other Crimes

A "Montana Freeman" and a codefendant pled guilty to felony charges in North Carolina for their roles in a tobacco fraud scheme that resulted in the illegal sale of more than 20 million pounds of excess tobacco. The Freeman pled guilty to charges of conspiracy to commit mail fraud and to making false statements regarding tobacco marketed on his USDA tobacco dealer card. The second individual pled guilty to charges of mail fraud and money laundering and has agreed to forfeit $250,000 to the Government. Two other individuals are also facing charges for their participation in the criminal conspiracy.

The Freeman, who was a USDA-registered tobacco dealer, and three others were charged with using dozens of persons throughout the Southeastern United States to illegally sell excess tobacco valued at approximately $36 million. The organization laundered the funds through various entities, such as grocery stores, check cashing agencies, pawn shops, and banks, and subsequently diverted much of the money into properties purchased in other people's names. Many of those same people later were used by him to attempt to negotiate worthless financial instruments for the benefit of the Montana Freemen organization.

The indictment included forfeitures totaling $41 million and money laundering counts. In addition, according to court records, an Internal Revenue Service (IRS) jeopardy tax assessment of approximately $1.8 million has been assessed jointly against two of the alleged participants in the tobacco fraud scheme.

Information developed by OIG during the tobacco fraud investigation also laid the groundwork for another Federal prosecution of the Freeman and a second individual associated with the Freemen group. After a jury trial, the two individuals were convicted on various charges, including conspiracy to commit bank fraud and conspiracy to intimidate a Federal officer. The Freeman who was involved in the tobacco scheme was found to have sent threatening letters to IRS collection officers in order to intimidate them and impede their activities. He also sent a "Comptroller Warrant" (a worthless financial instrument that the Freemen presented as valid) in the amount of $3.7 million to the IRS processing center as full payment of his taxes, with a request for the overpayment to be refunded to him.

The tobacco investigation was conducted jointly by OIG and IRS. The second investigation was a joint investigation by OIG, the Federal Bureau of Investigation, IRS, the U.S. Secret Service, and the Postal Inspection Service.

Sentencing is pending for the individuals convicted in both cases.

National Appeals Division (NAD)

The Department of Agriculture Reorganization Act of 1994 required the Secretary of Agriculture to establish and maintain an independent National Appeals Division to handle administrative appeals, including administrative appeals of FSA adverse decisions. NAD hearing officers must consider any information presented regardless of whether it was known to the agency decision maker at the time of the agency's adverse decision.

NAD Hearings Need Better Focus

Our review concentrated on administrative appeals related to CCC programs administered by FSA. We found four deficiencies in the appeals process.

- FSA did not always clearly show which law or procedure its officials followed when making their adverse decisions. As a result, NAD hearings did not appropriately focus on whether adverse decisions were consistent with laws, regulations, and agency program policies and procedures.
- NAD hearing officers sometimes substituted their judgment for that of the agency.
- When presenting cases at NAD hearings, FSA personnel sometimes contradicted the decisions made by their own State and county committees.
- Significant resources were expended by NAD, FSA, and the appellants in debating matters which were not within NAD's authority to determine.

NAD also needs to update its guidelines and clarify procedures for evidentiary hearings and director's reviews, and improve its management information system to provide performance measures at various NAD levels. It should provide training to the hearing

officers which better explains the differences between the authority and responsibilities of NAD and those of the agencies.

We recommended that FSA's adverse decision letters clearly show the criteria and evidence used in making those decisions and that any modifications to the initial adverse decision, and the relationship between those modifications to any new evidence or criteria, be explained.

In order to ensure that NAD hearing officers do not substitute their judgment for that of the agency, we recommended that hearing officers limit the scope of NAD hearings to matters relevant to the agency's alleged errors.

NAD and FSA officials agreed with the report findings and recommendations.

Risk Management Agency (RMA) and Federal Crop Insurance Corporation (FCIC)

RMA was authorized as an independent agency within USDA by the passage of the Federal Agriculture Improvement and Reform Act of 1996. RMA manages the FCIC program and is authorized to offer/manage other farm-level agricultural risk management programs such as revenue insurance, the Options Pilot Program, the use of the futures market to manage risk, and risk management education. For FY 1997, insurance premiums are estimated at $1.9 billion (of which $981 million is estimated to be premium subsidy), while indemnities are estimated at $2.1 billion and program delivery expenses at $490 million.

New Initiatives Under the 1996 Act

The 1996 Act authorizes new revenue insurance programs. In 1995, FCIC had already approved, for two crops in two States, the Crop Revenue Coverage (CRC) Program, a privately developed insurance program that offered alternative coverage to FCIC's multiperil crop insurance. CRC has been expanded to cover five crops in numerous States. The 1996 Act also provided for the phasing in of a single delivery system for catastrophic risk (CAT) coverage. In 1997, this involved transferring over 108,000 CAT policies written by FSA local offices to 15 private insurance companies in 14 States. For both the CRC program and the CAT transfer, FCIC reinsured the companies that would service the policies.

We provided RMA officials, through various interim reports, with recommendations for strengthening controls over the transfer of CAT policies and the implementation of the CRC program.

- **Privately Developed Policies Increased FCIC's Risk**

  Our review found that RMA had not developed and published regulations as requested by legislation. Therefore, RMA officials had little control over the development and administration of these alternative policies. Because effective controls were not in place, the contractual agreements between FCIC and the reinsured companies did not (1) ensure that risks were fairly distributed between FCIC and the companies, (2) establish appropriate reimbursement levels for the companies' administrative expenses, (3) specify conditions to be met prior to program expansion, and (4) establish timeframes for policy changes.

- **CAT Policy Transfer Process Needs Improvement**

  We found that the CAT transfer process was not effective because (1) FSA failed to notify RMA of policy cancellations, which caused reinsured companies to incur the cost of processing transferred policies that had already been canceled, (2) RMA assigned policies to companies in cases where the availability of local agents was limited, (3) some policy cancellation instructions were conflicting, and (4) reinsured companies sometimes provided incorrect information to producers. These conditions may have caused USDA and reinsured companies to incur additional costs processing already-canceled policies and may have reduced the retention rate on transferred policies.

Regarding privately developed policies, we recommended that RMA staff develop and publish regulations for administering privately developed programs like the CRC program. We also recommended that FCIC amend or establish new reinsurance agreements with the companies to shift additional risk to the private sector and to reduce administrative expense reimbursements for the CRC program in line with other FCIC policies.

For the CAT program, we recommended for future transfers that RMA determine whether the availability of agents in "local" areas is adequate and that RMA measure the effectiveness of the transfer process in the 14 States designated for the 1997 crop year.

We are working closely with RMA officials to develop new agreements and regulations for the CRC programs and continue to monitor the CAT policy transfer process as additional States are designated for single delivery.

Michigan Farmer Sentenced for Defrauding Crop Insurance Program

A Michigan farmer was sentenced to 1 year in prison and ordered to repay FCIC more than $145,000 for defrauding the Federal Crop Insurance Program.

An investigation conducted jointly with RMA disclosed that the producer grossly underreported corn and soybean yields in a scheme to unlawfully collect insurance indemnity payments. An accomplice has pled guilty and is awaiting sentencing.

Two Arkansas Farmers Convicted of Disaster Program Fraud

Two northeast Arkansas farmers were convicted of conspiracy after a 2-week jury trial in Federal court. Sentencing is pending.

The two farmers were convicted of conspiring to defraud the former Agricultural Stabilization and Conservation Service by falsely representing the operators of their farm as their son and son-in-law in order to receive 1992 rice disaster and deficiency payments. However, neither the son nor the son-in-law was the true operator of the farm. Additionally, the defendants improperly planted the rice crop, causing it to fail.

This case was worked jointly by OIG, FBI, and the RMA Compliance Division.

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.

USDA Should More Actively Guide Agencies in NAFTA Operations Matters

The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico became effective in January 1994. The NAFTA tariff free zone encompasses more than 370 million consumers and over $6.5 trillion worth of production.

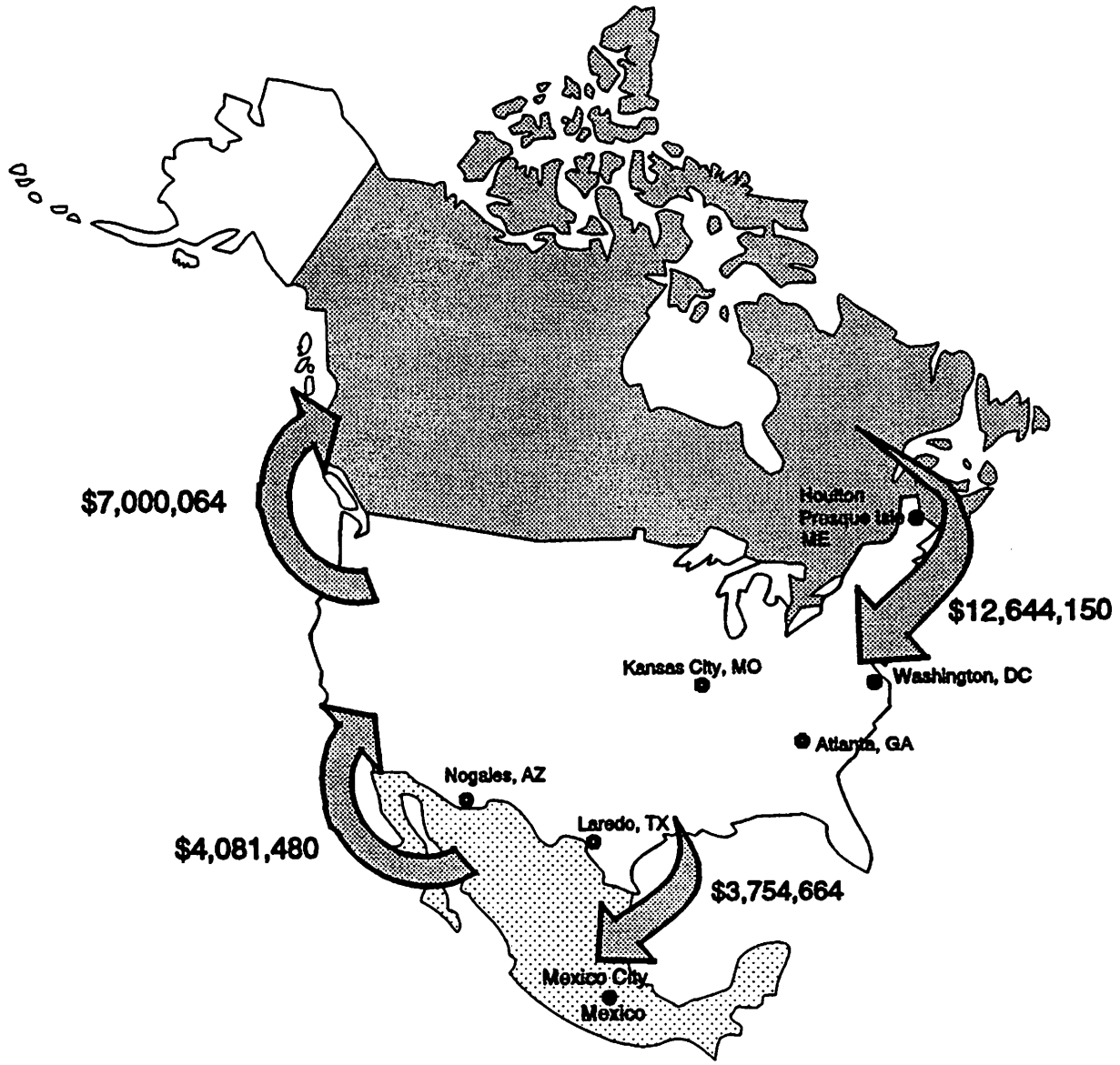
Canada and Mexico are the second and third largest markets for U.S. agricultural exports, representing approximately 20 percent of total U.S. agricultural exports worldwide. USDA expects that over the next 15 years annual U.S. agricultural exports to Mexico will increase $2.6 billion more under NAFTA than they would without NAFTA. Agricultural and forestry trade for 1995 is presented in figure 1, along with the locations we visited during our evaluation of the Department's implementation of NAFTA.

- **Coordinating Agency Activities**

  Better departmental oversight is needed to ensure the agencies meet their NAFTA commitments. The agencies did not complete 6 of 11 regulatory amendments within the required 1-year time limit.

  The Department also needs to ensure that agencies use the NAFTA Committee on Sanitary and Phytosanitary (SPS) Measures and the Committee on Agricultural Trade. Officials of FAS, the Food Safety and Inspection Service, the Animal and Plant Health Inspection Service, and the Agricultural Marketing Service (AMS) preferred to negotiate some trade issues in bilateral meetings outside the NAFTA committees because not all trade issues should be handled in a NAFTA meeting. They did not effectively use the NAFTA committees to address the problems of U.S. agricultural producers. Effective use of NAFTA SPS is impacted by current overarching political issues (i.e., avocados, tomatoes, Karnal bunt, and pork). Therefore, the agencies

Figure 1
Agricultural and Forestry Trade for 1995 and Locations for Evaluations
(U.S. dollars in thousands)



must better coordinate trade negotiations on these issues through the Committee on Agricultural Trade. Also, differing agency perspectives and a lack of interagency coordination on negotiating strategies hampered progress in trade negotiations with Mexico on seed potatoes, citrus products, and apples.

- **Inspecting Imports**

  AMS has been unable to perform all inspections of imported fruits and vegetables required by Section 8e of the Agricultural Marketing Agreement Act of 1937. We found that (1) over 3.7 million pounds of raisins, olives, and dates had not been inspected in 1994 and (2) an AMS procedure, designed to assist AMS with monitoring and tracking Section 8e commodities, was used improperly in November 1995, by importers who we believe were trying to avoid required inspections. AMS also did not ensure that all inferior-grade imports were controlled to ensure proper use. For example, we found evidence that over 695,000 pounds of processing-grade potatoes went to a terminal market (for fresh distribution) rather than a potato processing facility. AMS is currently conducting an investigation to determine if any violations were committed and to compile the necessary evidence to support any administrative action.

  Although serious violations of import regulations have occurred, AMS staff have not assessed penalties outlined in agency regulations. AMS has recently completed a memorandum of understanding with the U.S. Customs Service (Customs) to receive import data to help identify violations. In response to this audit, AMS officials advised us that the agency's data bases have been arranged for Customs data. They also advised us that their compliance plan now provides a range of enforcement options for noncompliance with Section 8e regulations.

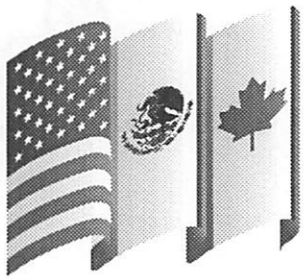
- **Reporting Balance of Trade**

  Improvements are needed in AMS and Economic Research Service (ERS) reports on imports from the NAFTA countries. We found that AMS' Daily Market News reports do not inform report users about the effects of transshipments on import volumes of Mexican tomatoes. From 7 to 19 percent of the volume of Mexican tomatoes entering the United States during the winter months are transshipped. These tomatoes merely pass through the country and do not enter U.S. commerce. Also, AMS Market News statistics on imports of Canadian potatoes showed 27 percent less volume than Customs records showed for October 1995, and 53 percent less for January 1996.

  NAFTA reports prepared by ERS staff did not include trade statistics on forestry products even though Canada is a major competitor with the U.S. forest products industry. If trade in forest products had been included, the United States would have shown a trade deficit with Canada of $5.6 billion rather than a trade surplus.

We recommended that the Department (1) strengthen its monitoring controls over the completion of regulations necessary to comply with agreement commitments, (2) use NAFTA committees more effectively, (3) coordinate interagency trade negotiations, and (4) enforce import regulations. We also recommended that the Department officials inform data users about the impact of transshipments on U.S. commerce, use Customs entry statistics to report potato imports from Canada, and include trade statistics on forestry products traded between the United States, Canada, and Mexico.

Management decisions were reached on 23 of 31 recommendations upon issuance of the report. OIG is actively working with the USDA agencies on the remaining recommendations.



Commodities Donated to Russia Mismanaged

A U.S private voluntary organization that was sponsoring the distribution of donated USDA commodities in Russia under the Section 416(b) Program was negligent in its sponsorship. It provided little or no management oversight of overseas operations, essentially abdicating its responsibilities to its Russian agent and to the Salvation Army. The sponsor contracted with its Russian agent to assume

complete control of the sale of $13.8 million in commodities in Russia, and it left the Salvation Army with total responsibility to distribute another $5.8 million in commodities in Moscow and St. Petersburg. The Salvation Army's pleas to the sponsor for advice and assistance went unheeded. We found the sponsor's Russian agent misappropriated commodities valued at $1.5 million. The sponsor is currently seeking damages in the Russian court system. Another $653,000 in commodities could not be accounted for, and $2 million in commodities would have ended up "in the streets" of Moscow if the Salvation Army had not paid $55,000 of its own money to secure storage space.

FAS officials were unaware of the problems because the sponsor did not provide adequate logistical reports. Nor did the sponsor fully comply with its plan of operation and its project proposal. The sponsor did not follow the structure and activities of the program agreement, and deposited the proceeds from commodity sales into interest-bearing accounts rather than lending them to small businesses. Also, contrary to its agreement, the sponsor did not use half of the approximately $3.6 million in proceeds from commodity sales to support humanitarian projects in Russia.

We concluded that the sponsor was negligent in its management of the sale and distribution of $19.6 million in USDA commodities and that it should be debarred from further participation in the program. We recommended that the sponsor refund the value of the misappropriated ($1.5 million) and unaccounted-for ($653,000) commodities as well as approximately $2,000 in unused administrative funds. Further, FAS needs to determine the proper disposition of the $3.6 million in net commodity sales proceeds.

FAS officials agreed to require the sponsor to make a full accounting of all commodities and repay USDA for any misappropriated and unaccounted-for commodities. Although they would not debar the sponsor, they agreed to keep the sponsor out of any new programs until all issues raised in the audit are fully resolved.

FAS Needs To Enforce the Documentation Requirements for Sugar Reexports

To support the domestic sugar industry, the Government placed an import quota on lower priced foreign raw cane sugar. Foreign raw sugar can enter the United States outside of this quota only if it is refined for reexport within an established timeframe.

Refineries participating in the Sugar Reexport Program are required to maintain records to support all sugar reexports. FAS can waive or modify these requirements for unusual, unforeseen, or extraordinary circumstances.

OIG found that regulatory controls over the program were operating as intended and that FAS had taken corrective action on prior recommendations made during 1991. However, we found that FAS granted credit to a participant in the Refined Sugar Reexport Program without obtaining the required supporting documentation. FAS waived the documentation requirement under circumstances that were not in accordance with the criteria for granting a waiver. The participant could not provide evidence during the audit that he had, in fact, reexported the 149 metric tons of sugar included under the waivers.

We recommended that FAS more closely monitor the participant, grant only those waivers allowed by regulation, and follow up to determine if supporting documentation was obtained for the 149 metric tons of sugar. Agency officials agreed with our recommendations to more closely monitor this participant and have already tightened the waiver policy.

FAS Needs To Strengthen Controls Over Operations at Overseas Posts

Our review of FAS operations in Washington, D.C., the U.S. embassies in Mexico and Canada, and the Agricultural Trade Office in Mexico City determined that FAS had effective controls in place to prevent fraud, waste, and abuse by FAS officers posted abroad. We found, however, that controls could be strengthened over petty cash funds, the use of purchase orders for recurring purchases, the preparation of vehicle logs, and the use of trip reports. FAS should also improve the way its compliance staff and its area officers document their reviews. Improved documentation would make the reviews more useful to third parties.

We recommended that FAS either issue instructions requiring all overseas posts to adhere to State Department policies concerning petty cash funds, or issue FAS policies. We also recommended that purchase orders be used for all recurring purchases, that vehicle logs be maintained for the use of Government vehicles, and that trip reports be prepared to document the results of official travel.

Agency officials agreed with our recommendations and are in the process of taking corrective actions. In January 1997, FAS issued a new overseas administrative handbook that provides instruction to FAS staff, general services officers, and personnel officers stationed at U.S. embassies around the world.

Administrative Support Functions Hamper ICD Mission

The mission of FAS' International Cooperation and Development (ICD) branch is to pursue sustainable economic development and natural resource management worldwide by mobilizing the resources of the Department and its affiliates. ICD coordinates and manages over 850 projects in areas such as collaborative research and trade enhancement. It also manages the Department's role in approximately 30 international organizations and committees concerned with global food and natural resource management.

We concluded that, although ICD's programs support its mission of pursuing worldwide economic development, its ability to fulfill this mission is being hampered by FSA's administrative support function.

- Financial information generated by FSA's financial accounting system was inaccurate. Of a sample of 200 weekly project reports generated by the system, 79 contained errors totaling over $736,000.

- FSA was not sending ICD's bills promptly to the U.S. Agency for International Development, nor was it liquidating ICD's advances from that agency. Over $11.5 million has not been timely billed or liquidated; some amounts still had not been billed for obligations made 5 years ago.

- FSA has not processed ICD's payments to vendors on time. Of 97 invoices totaling $1.3 million, 39 had not been paid, even though in some cases almost 600 days had elapsed since ICD had approved them. (The Prompt Payment Act requires payments to be made within 30 days.) We found that some vendors had canceled their services and demanded interest on the debt, while others had turned ICD over to a collection agency.

During our review, FSA acted to improve its support services to ICD. It hired accountants to review its accounting system, and it reconciled its obligations with payment information from the National Finance Center. It also improved its billing and liquidation process. At the end of our review, unbilled and unliquidated ICD customer balances had been reduced from $11.5 million to $2.5 million.

We recommended that FSA assign adequate staff to manage its accounting system and continue reconciling obligations with payments. We also recommended that FSA ensure that bills are sent on time and that invoices are paid within 30 days (or that interest penalties are acknowledged).

Both FSA and ICD management agreed with the report's recommendations and outlined the corrective actions taken.

$35 Million Settlement for Export Program Violations

As the result of an OIG investigation, the Department of Justice (DOJ) concluded a global settlement with a prominent international grain company in New York and its foreign affiliate. The grain company paid $25 million to the U.S. Government in settlement of any potential civil claims, and its affiliate paid a $10 million fine after pleading guilty to a criminal charge of conspiracy to defraud USDA. Three associated entities agreed to permanent debarment from Federal programs.

This settlement represented the culmination of a series of investigations conducted by OIG special agents since 1989 into fraud related to the export of commodities to the country of Iraq through USDA's General Sales Manager (GSM) 102 and 103 Export Credit Guarantee Programs, which were administered by FAS on behalf of CCC. The Government of Iraq, with the help of guaranteed loans obtained through these programs, was able to import various commodities from the United States; however, after invading Kuwait, Iraq began to default on the loans.

In 1989, two employees of the Atlanta, Georgia, branch of the Italian Banca Nazionale del Lavoro (BNL) disclosed to the U.S. attorney's office that BNL branch management had issued unauthorized loans to foreign governments and exporters. Repayment of some of those loans was guaranteed by CCC under the Export Credit Guarantee Programs. The guarantees enabled foreign entities that otherwise could not obtain credit to purchase U.S. farm commodities and products. If the foreign entity defaulted on its loan, CCC paid the holder of the guarantee up to 98 percent of the unpaid principal and interest.

OIG investigated after an inquiry to FAS revealed that BNL held CCC loan repayment guarantees exceeding $1.6 billion. The OIG investigators were joined by agents from Customs, FBI, and IRS, as well as examiners from the Federal Reserve. The task force worked with the U.S. attorney's office in Atlanta, Georgia, and personnel from various divisions of DOJ in Washington, D.C.

In 1991, a Federal grand jury in Atlanta handed down a 347-count indictment. Named in the indictment were a Turkish-owned corporation, its manager, a bank owned by the Iraqi Government, four Iraqi Government officials, and two former officers and an employee of the BNL Atlanta branch. The indictment alleged that officials of the BNL Atlanta branch, without authority and in disregard of BNL internal policies and procedures, had issued more than $4 billion in loans and credit extensions to the Government of Iraq. The 10 defendants were charged with conspiracy, mail and wire fraud, money laundering, false statements to USDA, falsification of documents presented to USDA, and other counts.

The Turkish company named in the indictment pled guilty to 20 counts of the indictment, paid $5 million in restitution to BNL and a $1 million fine to the U.S. Treasury, and agreed to permanent debarment from all U.S. Government-funded programs. The three BNL employees named in the indictment pled guilty to various charges. Three additional BNL employees, not named in the indictment, also pled guilty to various charges.

The Turkish company's manager and the four Iraqi Government officials remain fugitives, with an unconfirmed report that one of the Iraqi officials has died.

The BNL investigation resulted in numerous spinoff investigations. One of those spinoff cases investigated by OIG agents resulted in a U.S.-based trading company pleading guilty to charges that it conspired to make false statements to CCC. The trading company paid more than $8 million in restitution to CCC and a maximum fine of $10,000. The responsible division of the company and three employees agreed to debarment from U.S. programs for up to 3 years.

Food, Nutrition, and Consumer Services

Food and Consumer Service (FCS)

FCS administers the Department's food assistance programs, which include the Food Stamp Program; the Child Nutrition Programs; the Special Supplemental Nutrition 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 1997 is $41 billion. Three FCS programs receive the bulk of this funding: The Food Stamp Program ($27.5 billion), the Child Nutrition Programs ($9 billion), and WIC ($4 billion).

Food Stamp Program (FSP)

Monitoring of Electronic Benefits Transfer (EBT) Continues

The EBT system is a computerized version of the food benefits delivery process established by FSP. Using a plastic card, much like a debit card, a recipient gains access to benefits by swiping his or her EBT card and entering a personal identification number in a point-of-sale (POS) terminal located at approved food retailers. The terminal communicates with the EBT processor's data base to obtain approval for each transaction. Retailers are subsequently reimbursed for all approved transactions by FCS.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform Act) mandates EBT for all States by 2002. Currently, there are 20 States with EBT systems delivering FSP benefits, including one that is delivering WIC benefits. An additional 26 States are expected to begin delivering food stamp benefits through EBT by FY 1998.

Last reporting period, we described FCS progress in implementing EBT systems. This period, we conducted audits of offline systems in Ohio and Wyoming and online systems in New Mexico, North Dakota, and South Dakota.

Wyoming

The Wyoming offline system delivers food stamp and WIC benefits in Natrona County and WIC-only benefits in six surrounding counties. Offline technology uses "smart cards" which contain microcomputer chips to store the information needed for food transactions. Our audit disclosed the offline system had been successfully implemented and was technologically feasible. However, in several cases the system did not allow clients to purchase the full amount of their WIC food prescription because it rounded the weights of food purchased. Also, variations in product coding sometimes prevented clients from purchasing sale items and unnecessarily increased program costs.

Other controls are needed. Access to the WIC certification system was not monitored by the State agency, and controls over unissued benefit cards were weak at the local WIC agency. A required system feature to expunge unused benefits over a year old and return them to the State was not in use even though it had been designed and tested for FSP.

We recommended that the EBT contractor modify the system to meet all WIC program objectives and activate the feature expunging unused year-old benefits. We also recommended that FCS strengthen controls over WIC system access and card inventory at the local level. FCS officials generally agreed with the audit recommendations.

New Mexico

Implementation of the EBT system in New Mexico was experiencing difficulty in four areas.

- The State does not have a contingency plan to continue FSP benefits if it must operate without an EBT contractor. The current contractor does not plan to operate the system after the contract expires in 1998, and current bidders on a new contract may challenge the award. If they do, the State may experience a disruption of benefits delivery.

- For 3 years, FCS reimbursed New Mexico over $92,000 for a State-mandated gross receipts tax which we concluded was ineligible for reimbursement. The tax was paid by the State Social Services

Department to the EBT contractor, who in turn paid it to the State Revenue Department. Because no cost was incurred, the tax was not eligible for reimbursement.

- FCS still had not implemented controls to ensure that unauthorized retailers did not participate in FSP. (We reported this problem in the previous semiannual report.) We identified 31 unauthorized retailers in the EBT contractor's data base. Two of these retailers already had unauthorized redemptions.

- Dormant accounts remain accessible to recipients longer than the 1-year authorized period. The EBT contractor's computer program was flawed, enhancing the risk of improper access by State and contractor employees and program recipients.

We recommended that New Mexico State officials amend the current EBT contract to provide for services if the new EBT contract is delayed, stop claiming reimbursement for gross receipts taxes and refund the reimbursements already paid, and ensure the EBT computer program expunges accounts after 1 year of inactivity. The FCS regional office officials disagreed that the claims for gross receipts taxes were ineligible. We are working with the agency to resolve this issue.

North Dakota and South Dakota

North Dakota and South Dakota both used the same EBT contractor, who agreed to provide interoperability between the two States. We found that the system in the Dakotas did not document the full cycle of FSP activities: it did not report approved FSP transactions pending retailer payment. As a result, the States cannot adequately monitor the contractor's use of Federal funds or reconcile transactions to reimbursement drawdowns, which may increase the States' potential liability. FCS management agreed with our recommendation and is working with the States to address this issue.

We also performed audit work at FCS' national office, where we reviewed and commented on State proposals to implement EBT, and on technical documents and studies for the EBT Risk Management Advisory Forum. This period, we began an audit of the Illinois EBT system and are completing a review of the account management agent. The account management agent, the Federal Reserve Bank of Richmond, oversees the EBT benefits account to control the level of its funding and monitor the movement of electronic transfers. We will report on the results of these reviews in upcoming semiannual reports.

Implementation of the Welfare Reform Act

The Welfare Reform Act resulted in a historic overhaul of the welfare system. The bill allows FSP to be simplified, encourages the expansion of EBT, and provides for a restructuring of the payments made in the Child and Adult Care Food Program.

We are evaluating the implementation of the Welfare Reform Act on FCS' programs, particularly FSP. We are reviewing all draft documents related to the act that FCS will issue to its regional offices or State agencies. We have provided FCS officials with suggestions for strengthening controls in a number of areas, the most important being quality control reviews of FSP cases.

We expressed concern about FCS actions to extend the "hold harmless" period for the Welfare Reform Act. A "hold harmless" period is that time during the implementation of a new act when errors related to a program are not counted in the States' quality control error rates. The normal "hold harmless" period is 120 days, but FCS has notified States that errors will not count in their error rates for the entire length of the certification period (up to a year). We concluded that, even though legislation does not prohibit excluding errors beyond the 120 days, State error rates still needed to be measured. Consequently, we recommended that FCS keep track of the errors for management purposes.

FCS officials agreed to encourage States to track how well the implementation of welfare reform is proceeding.

We also noted that quality control reviewers would not be counting errors related to changes in the Welfare Reform Act unless the State was aware of them. This was inconsistent with how quality control reviewers handle other errors. The quality control system is designed to measure each State's performance against the national average and reward States with good

performance while holding States accountable for higher than average error rates. To date, FCS has not addressed our concern about State error counts.

FCS Needs Strategy To Use Retailer Tracking System

FCS field offices are responsible for authorizing retail food stores to participate in FSP and for monitoring retailer activities. As of April 1996, approximately 197,000 retailers were authorized to participate in FSP. Our audit reviewed 214 retailer applications at 6 field offices. Of the 214 applications reviewed, 37 did not have support for the authorizations they received. We found weaknesses in three operational areas.

- Field offices did not make the best use of the Store Tracking and Redemption Subsystem (STARS). They did not use the address search to ensure eligibility, and they did not remove prior store owners from the data base. We found 49 instances in which multiple authorizations were assigned to the same address. Field offices also accepted reauthorization applications without verifying significant changes in sales. Of the 6,500 stores monitored by the 6 field offices reviewed, approximately 15 percent reported significant changes in food sales but were not asked to verify the sales.

- FCS' plans for combating retailer trafficking have focused on compliance activities instead of prevention strategies. FCS needs to emphasize the role of field offices, with their onsite preauthorization visits, as a first line of defense in preventing problem retailers from entering FSP. FCS also needs to incorporate successful regional and field office initiatives in its authorization process.

- The national and regional offices need to provide more direction and oversight. Under current oversight of field offices, only 69 percent of the 1995 reauthorization goals were met. Although FCS had new oversight procedures, established as a result of our 1992 retailer audit, it did not enforce them. Half of all field offices should be reviewed each year: only 3 of 27 were reviewed in 1995 for the regions we audited.

We recommended that retailer eligibility decisions be based on more reliable information, that FCS conduct intensive retailer sweeps to detect ineligible retailers, and that it require preauthorization visits. The FCS national office also needs to give greater oversight to regional and field offices to ensure the completion of reauthorization goals.

To enhance the use of STARS, we recommended that field offices allow STARS to automatically perform data base searches during authorizations and to identify retailers under investigation. FCS officials generally agreed with the findings and recommendations. FCS has received $4.2 million in its FY 1997 budget for contracting out store visits. The contracts should be awarded by the fourth quarter of FY 1997. FCS anticipates that 35,000 store visits will be made in the first 12 months. A meeting of all FCS' officers-in-charge is scheduled for May 1997 to discuss strengthening retailer oversight and to identify successful initiatives.

Connecticut Sting Nets Two State Reps and City Councilman

In Connecticut, 15 individuals were arrested in a food stamp sting operation. Owners and employees of eight authorized stores had purchased approximately $256,000 in food stamps for $118,450 in cash, two handguns, and two vehicles. The owner of one store was a city councilman, who pled guilty to State food stamp charges. The 13 store owners and employees involved with food stamp trafficking were charged with Federal and/or State violations.

During the course of the investigation, the owner of an authorized store introduced an OIG undercover agent to a Connecticut State Representative, who was also a police officer, for assistance in expediting a pistol permit. The OIG agent paid the Representative $400 for his assistance. Even before the OIG investigation, the chief State's attorney's office had been investigating the Representative for election law violations. The OIG agent, while conducting this business, was approached by a second State Representative (a police officer, as well), who made a similar arrangement to assist in expediting the pistol permit. The OIG undercover agent paid this State Representative $200 for his assistance.

Both Representatives were arrested and charged with various State violations by the chief State's attorney's office. Subsequently, both pled guilty.

The investigation into this matter continues.

The case was worked jointly with Connecticut's chief State's attorney's office, IRS, and the U.S. attorney's office.

Maine Employee Pleads Guilty to Theft of Returned Food Stamps

A State employee and three others pled guilty to theft of food stamps from the mailroom of a Maine State office. The employee stole food stamps that had been returned to the mailroom as undeliverable. Pursuant to a search warrant, evidence was seized at the employee's residence. The information recovered documented the theft of approximately $56,000 in returned food stamps. It is estimated that the employee stole approximately $228,000 in food stamps that were returned to the mailroom.

Three other individuals pled guilty to purchasing food stamps from the employee who stole the food stamps. Sentencing is pending.

As the result of a previous OIG investigation, another State employee had pled guilty in 1992 to theft of food stamps from the same State office facility.

This investigation was worked jointly with the Maine State police.

Joint Operation With New York Police Department (NYPD) Results in Seven Convictions

A joint operation in the Brighton Beach section of Brooklyn with the NYPD Russian Organized Crime Task Force resulted in seven individuals pleading guilty to New York State charges for misuse of food stamps. The individuals owned and/or operated four authorized and one unauthorized store.

During the 8-month operation and sting called "Operation Fence," the seven individuals purchased approximately $50,000 in food stamps. They paid approximately half price to undercover investigators for food stamps and redeemed them for full value.

These cases were prosecuted by the Kings County district attorney's office. The seven defendants face maximum penalties ranging from 28 months to 7 years in prison. Sentencing is pending.

Conviction in EBT Fraud and Bribery Case

The owner of a small liquor store in Baltimore, Maryland, pled guilty to trafficking approximately $250,000 in EBT benefits from September 1994 through February 1996. During the investigation, an OIG special agent interviewed the store owner and obtained a signed confession about the food stamp trafficking at the store. After signing the confession, the owner offered a bribe to the agent "to make the investigation go away." The owner subsequently gave the agent $2,000 in cash for this purpose, while other agents monitored the contact. The owner was eventually indicted for bribery, as well as the food stamp trafficking. His wife was also charged with food stamp trafficking.

In the resultant plea bargaining, the owner agreed to a two-level enhancement to the sentencing guidelines for obstruction of justice for attempting to bribe the OIG agent. The wife of the owner signed a pretrial diversion agreement for her part in the trafficking scheme. Sentencing is pending.

$1.3 Million Judgment Ordered

A Baltimore, Maryland, owner of an authorized grocery store was ordered to pay $1,350,000 in treble damages and penalties under the False Claims Act in connection with food stamp fraud he committed via the EBT system. From May 1993 through August 1994, the store trafficked in more than $400,000 worth of EBT benefits. The store owner could show only $21,000 in wholesale receipts for food purchases. In addition, 10 EBT recipients confessed to selling their EBT benefits for cash in 203 EBT transactions, totaling approximately $14,000 at the store.

Texas Operation Results in the Indictment of 35 Traffickers

Thirty-five people have been indicted as the result of a joint investigation by OIG and the Texas Department of Human Services into food stamp trafficking via the EBT system in the Dallas/Fort Worth area. These 35 individuals were owners or employees of 18 different retail stores authorized to accept the Texas Lone Star Card.

The investigation continues.

Convictions, Sentencing for 6 of 10 Indicted in $5.4 Million Food Stamp Fraud

As a result of investigations conducted jointly by OIG and the Criminal Investigation Division of the IRS, 10 owners and employees of 2 authorized retailers in Alexandria, Louisiana, were indicted for food stamp trafficking, conspiracy, and money laundering in connection with $5.4 million in food stamps illegally redeemed. In addition, based on the criminal forfeiture counts of the indictments, real property and vehicles were seized and have been forfeited to the Government.

To date, six subjects have pled guilty and have been sentenced to prison terms ranging from 4 to 44 months, fines totaling $154,000, and restitution of $2.8 million.

Prosecution is pending on the four remaining subjects.

Prison Sentences Imposed for Food Stamp and Narcotics Trafficking in Two Topeka, Kansas, Cases

- In Topeka, Kansas, seven members of a food stamp and narcotics trafficking ring were convicted for their illegal actions. Sentences for six of the individuals ranged from 5 to 10 years' imprisonment after they pled guilty. The ring leader stood trial and received a sentence of 30 years' imprisonment. In addition, $40,000 worth of jewelry, a personal residence, and $4,000 in cash were forfeited.

- In another Topeka, Kansas, case, three other individuals pled guilty to food stamp trafficking and narcotics charges. Two of the individuals received sentences of 10 and 48 months' imprisonment, respectively. The store owner is awaiting sentencing.

Both of these investigations were worked in conjunction with the Topeka Police Department, State of Kansas Alcohol Beverage Control, and Kansas Bureau of Investigation.

Store Owner and Manager Found Guilty in $428,000 Food Stamp Fraud

The owner and the manager of two small confectionary stores in the East St. Louis, Illinois, area were convicted in a jury trial of conspiring to illegally purchase and redeem approximately $428,000 worth of food stamps, steal Government funds, and defraud financial institutions. Their sentencings are pending.

OIG special agents conducted undercover controlled transactions with these individuals. OIG auditors and special agents, along with special agents from the Illinois Department of Revenue (IDOR) Bureau of Criminal Investigations (BCI) analyzed store records and tax returns to identify illegal monies.

The successful prosecution of these individuals represents the final chapter in a series of joint investigations with IDOR BCI. In these investigations, the illegal activities of six East St. Louis-area food stamp retailers were uncovered. Food stamp and narcotics traffickers, along with retailers who filed fraudulent sales tax returns, were prosecuted. Approximately $1.5 million in food stamp and Illinois State sales tax fraud was identified. None of the six retail stores investigated remains in business.

This small East St. Louis, Illinois, confectionary store was one of two such stores through which approximately $428,000 in food stamps was trafficked. OIG photo.

Food Stamp Traffickers Convicted for Second Time

The owners of a market in Stockton, California, whose authorization to accept food stamps had been withdrawn by FCS, were sentenced to prison after pleading guilty to conspiracy to traffic in food stamps. One was sentenced to a total of 12 months in prison, and the other a total of 8 months.

One of the owners was on a prison work-release program and the other on probation for previous convictions based on trafficking violations committed from 1993 through 1995. Less than 3 months after being sentenced for those violations, the owners were found to be continuing to purchase food stamps at their

market. As a result of the second convictions, the judge revoked their probations for the first offense, and sentenced the defendants to serve consecutive prison sentences for both convictions. The owner on prison work release received 8 months for the second violation and 4 months for violation of probation. The other received 2 months for the second violation and 6 months for violation of probation.

This investigation was conducted jointly with the Stockton Police Department.

Child Nutrition Programs

Audits of Child and Adult Care Food Program (CACFP) Sponsors of Family Day Care Homes Continue To Find Problems

CACFP is intended to ensure that children and adults who attend day care facilities receive nutritious meals. Under CACFP, FCS reimburses day care providers for meals the providers serve to children in their care. The program requires that meals claimed for reimbursement meet certain nutritional requirements. The program is administered through sponsors who train day care providers and monitor their activities. Sponsors are eligible to receive reimbursement for administrative expenses.

Working with FCS and the States, we initiated audits of selected sponsors. State and Federal officials recommended sponsors for review based on concerns they had about the sponsors' compliance with program requirements. We planned to audit at least one sponsor in each of the six OIG regions.

In the last semiannual report, we reported on the first of these audits. During this reporting period, we continued our efforts in California, Oregon, Ohio, Maine, Alabama, Utah, and Virginia.

Preliminary results in six States indicate that several sponsors (1) did not adequately train and monitor providers, (2) claimed questionable and unallowable administrative costs, (3) kept inadequate records, and (4) claimed nonexistent providers or providers who had left the program. Providers kept inadequate records (sometimes no records at all) and claimed children who were not in attendance during the child care day. We noticed serious sanitation problems at some providers, and we questioned the eligibility of meals served to the providers' own children who qualified for the program as a result of CACFP's income test. (Some providers were apparently underreporting their income to qualify for food stamps and welfare.)

Our audit work is continuing. Due to the serious nature of the conditions found during the initial phase of the audit, we decided to conduct audits of additional sponsors. All potential fraudulent activities have been referred for criminal investigation. We will also be making recommendations to FCS to establish or tighten program controls to prevent these types of abuses.

In Virginia, we performed a closeout audit of 1 sponsor that managed over 300 day care homes. Our audit disclosed that the sponsor failed to maintain required documentation to support $122,000 in salary and administrative expenses, did not timely disburse over $216,000 to providers, and did not reimburse over 80 providers for $10,000 in costs.

We recommended that FCS recover the cited overpayments and require the child care sponsors to establish second-party reviews to ensure the claims for reimbursement are accurate. No other corrective actions were recommended for the sponsor organization because FCS had terminated the sponsor's participation in CACFP just prior to requesting the closeout audit.

FCS management has agreed with the findings and will be initiating recovery actions.

Serious Sponsor Deficiencies Identified in California's Summer Food Service Program

The Summer Food Service Program (SFSP) was established to ensure that eligible children in needy areas would continue to receive the same nutritious meals during school vacations that they could receive under the National School Lunch and Breakfast Programs during the school year. SFSP is administered through sponsors who train personnel at feeding sites and monitor their activities.

The California Department of Education assumed responsibility for administering SFSP on October 1, 1995, after 15 years of FCS administration. During FY 1996, there were 255 sponsors in California, with a total program budget of approximately $33 million ($20.5 million from Federal sources).

We reviewed California's administration of SFSP, and sponsor compliance with SFSP regulations. Overall, we concluded that the administration was effective and that compliance was good.

However, we found that problems developed in the transition of the program from FCS to the State agency. The State did not allocate enough resources to monitor SFSP and inherited sponsors whose deficiencies had not been corrected in prior years. Also, the State did not have a system in place to verify that the deficiencies identified during its sponsor reviews were corrected in a timely manner.

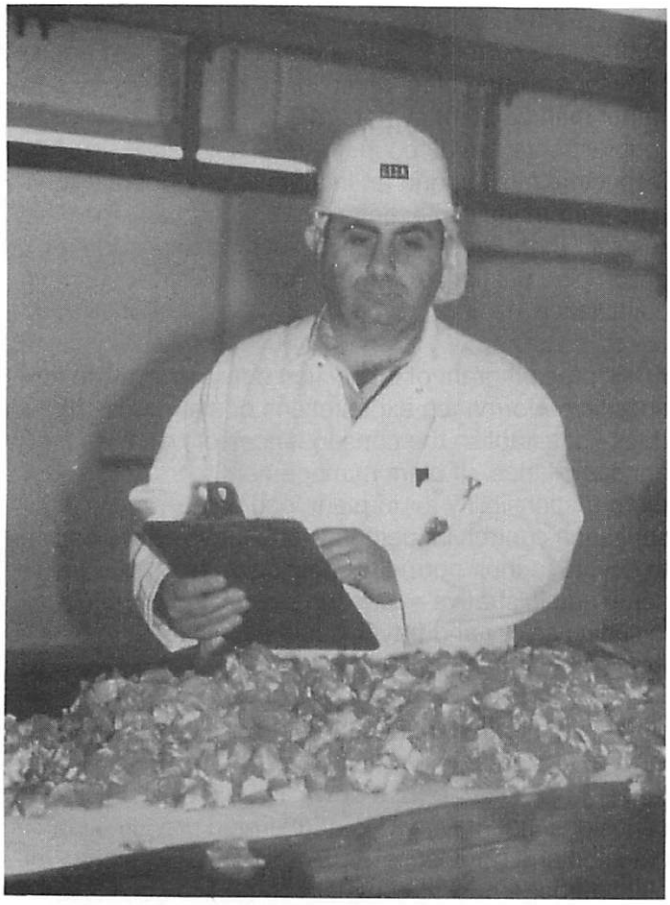
Of the 17 sponsors we reviewed, 10 showed serious deficiencies. These sponsors (1) served meals to ineligible children, (2) prepared monthly claims for reimbursement that were not supported, and/or (3) provided inadequate monitoring of feeding sites. The feeding sites claimed meals that exceeded the number of meals served, and they served meals that did not include the required nutritional components.

We recommended that the State agency recover overpayments totaling over $296,000 and conduct onsite reviews of these sponsors to ensure the deficiencies are corrected. We also recommended that FCS continue to work with the State agency to improve administration of the program during FY 1997. FCS officials agreed with our findings and are taking actions to implement the recommendations.

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 1997 totaled $574 million.



An FSIS inspector performs a visual examination of a product for foreign material. FSIS photo.

FSIS User Fees Did Not Fully Cover Costs of Export Inspections

Meat and poultry products have long been a significant part of the agricultural exports of the United States. FSIS' role in facilitating exports has become increasingly important in recent years. In addition to the basic inspections performed by FSIS, products for export are reinspected to ensure they comply with the meat and poultry regulations and specific requirements of the importing countries. An estimated 100,000 inspections

An FSIS inspector checks the temperature on veal carcasses at one of various control points to compare them with those measured and recorded by the plant, to prevent the multiplication of pathogenic bacteria. FSIS photo.

are performed annually of certain products scheduled for export which are not part of the normal FSIS inspection process. These inspections are performed at the request of the exporter, and FSIS is authorized to collect user fees for these inspections. In addition, FSIS performs an estimated 400,000 reinspections of products to be exported which were previously inspected under the normal inspection process. FSIS does not collect user fees for these reinspections.

For each of the inspections/reinspections performed for export purposes, FSIS prepares an export certificate. User fees are charged for the cost of preparing the export certificate only if the importing country requests that a veterinary medical officer sign the certificate, which happens approximately 25 percent of the time. At the request of the importing country, FSIS also performs facility inspections of certain plants that produce products for export, to certify that the plants meet the special requirements of the importing country. FSIS is authorized to collect user fees for this service.

FSIS could offset the Government's costs of providing export inspection services by collecting additional user fees. For certain services, such as export reinspections and preparation of certain export certificates, FSIS would need congressional authorization to collect user fees. If FSIS were to obtain this authority, some export inspection functions could become self-sufficient, thereby making an estimated $13.7 million of

appropriated funds available for other activities annually. In other areas where user fees are currently authorized and charged, FSIS did not charge for the full cost of the services provided. We estimated that FSIS could collect an additional $921,000 annually if such fees were adjusted to reflect all associated FSIS costs.

We recommended that FSIS (1) seek statutory authority to assess, collect, and retain user fees for all export inspections/reinspections and for the preparation of the export certificates where such authority does not currently exist and (2) increase the user fees currently authorized and charged for products to be exported to cover the full costs of the services provided.

FSIS management agreed with the reported findings and is taking corrective actions.

FSIS Needs To Strengthen Policies and Procedures Over PEA

FSIS officials requested that we review the Progressive Enforcement Action (PEA) system because of their concerns regarding issues identified in prior OIG and internal FSIS reviews. We found a number of areas needing improvement.

FSIS developed the PEA system as a tool to monitor meat and poultry plants with continuing food safety problems and bring them back into compliance when plant management was not taking sufficient corrective action. PEA is meant to establish an environment in which management achieves and maintains consistently acceptable operating practices within its plant. However, the current PEA system does not permit FSIS to suspend or withdraw inspection when contaminated products or conditions that may compromise food safety are first detected, even though such authority is provided for in the law and FSIS regulations. PEA requires inspectors to develop supporting documentation proving noncompliance before they can suspend or move to withdraw inspection. The four plants we reviewed produced 212 million pounds of products under conditions that could have caused contamination. Products included full carcasses of beef, poultry, and poultry for slaughter. Foreign matter of various kinds, abscesses in the carcasses, and the animals' innards contributed to the potential contamination. However, in accordance with its current operating procedures, FSIS took no action to suspend inspections in the plants we reviewed.

In addition, FSIS should establish specific timeframes in its PEA policies during which plants must complete corrective actions. Such timeframes are provided for in FSIS' Rules of Practice but have not been incorporated into PEA. Currently, plants are allowed to remain under PEA for extended time periods while continuing to produce products under conditions which do not meet food safety standards.

Further, the current PEA system places the responsibility for ensuring plant compliance on FSIS inspectors rather than on plant owners/managers. To comply with requirements contained in the PEA guidelines, inspectors must spend an inordinate amount of their time performing inspections and documenting the results. Plant management is required to provide an action plan but is not primarily responsible for ensuring compliance.

FSIS' present grant of inspection does not provide for specific performance expectations or standards, and does not establish the consequences or penalties for noncompliance. If plant management were to assume more responsibility for in-plant food safety quality and sanitation control, inspectors would have additional time to devote to their normal inspection duties. As a result, some administrative expenses associated with PEA, including salary and travel, could be allocated to other food safety areas.

We recommended that FSIS improve PEA by developing and implementing effective procedures to ensure that (1) inspectors refuse or withdraw inspection when conditions that may lead to adulterated products are first detected and (2) specific timeframes are developed for plant management to complete corrective actions in noncomplying plants. We further recommended that FSIS revise (1) its PEA policies to require plant owners/managers to assume primary responsibility for establishing permanent corrective actions and (2) the grant of inspection to make plant owners/managers responsible for the quality of plant operations and compliance with regulations by specifying expected plant performance levels and repercussions for noncompliance.

FSIS management generally agreed with the reported findings and pointed out that publication of the Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) final rule has changed FSIS enforcement strategies. This new system focuses on prevention, rather than detection, of problems. FSIS now has

specific regulatory requirements for plant-developed and -operated systems for process control and sanitation to prevent direct contamination or adulteration, and these preventive measures are a condition of receiving inspection. Compliance with procedures contained in the Pathogen Reduction and HACCP final rule should prevent recurrence of the type of problems identified in our review.

FSIS Maintained the Integrity of the Imported Meat Inspection Process

FSIS is responsible for carrying out the requirements of the Federal meat and poultry inspection laws to ensure the wholesomeness of imported products. To be eligible to import goods into the United States, foreign establishments must produce products under inspection systems equivalent to the U.S. inspection system.

We examined FSIS' controls over the imported meat inspection process and actions taken by FSIS to correct conditions previously identified in our reviews. Our prior audits identified weaknesses in FSIS' primary controls: reviewing the equivalency of foreign inspection systems and reinspecting imported products that enter U.S. commerce. Our current work evaluated these control systems by concentrating on FSIS' operations in 1996 and statistical information from calendar years 1993 through 1995. From 1993 through 1995, the United States imported approximately 2.6 billion pounds of meat and poultry annually, less than 10 percent of the domestic supply.

We concluded that FSIS maintained adequate controls over the imported meat inspection process, and had taken actions to correct conditions previously identified. We did not identify any instances in which FSIS allowed harmful products to enter U.S. commerce. FSIS had taken steps to ensure that meat and poultry imports were produced under inspection systems equivalent to those of the United States. In addition, imported meat and poultry products were properly certified and met U.S. standards when presented at the port of entry for reinspection. However, FSIS management needed to address two issues to maintain the integrity of the imported meat inspection process.

- Meat and poultry products already in transit from foreign establishments that were no longer eligible could be imported into the United States without adequate reinspection. FSIS relied on a centralized information system to assign random reinspections based on the compliance history of products from specific countries and plants; however, the specific reason for the establishment's ineligibility (e.g., contamination, residue) was not considered in determining the products' reinspection assignment. Consequently, such products could enter U.S. commerce.

- FSIS is reorganizing its meat and poultry inspection operations to implement new food safety standards. Under the reorganization plan, import inspection responsibilities and support functions will be merged with new organizational offices. FSIS' controls over the imported meat and poultry inspection process had evolved through implementation of internal studies and audit recommendations made by GAO and OIG. However, we noted that FSIS' new organizational structure negates some of the control systems over the inspection process.

We recommended that FSIS develop and implement procedures to specify the reason for a foreign establishment's ineligibility, along with any other inspections assigned through the centralized information system. In addition, we recommended that FSIS ensure adequate control is maintained over the imported meat and poultry process throughout the agency's reorganization.

FSIS revised its procedures for the automated system: foreign establishments that are not currently eligible are now placed under normal inspection for all future shipments. As a result, all shipments certified before the date of ineligibility will be subject to reinspection by FSIS. In addition, FSIS has put in place a plan to maintain control over the imported meat and poultry inspection process during the agency's transition and will develop a comprehensive and detailed plan of action when the transition is completed.

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 1997 was approximately $240 million.

Surplus of $17.5 Million Accrues in Cotton Classification Operating Reserve Balance

AMS provides inspection and grading/classing services upon request for numerous agricultural commodities; these programs are 100 percent financed by user fees. During FY 1996, AMS classed approximately 17.2 million bales of cotton, for which it received $36 million, and spent approximately $33.2 million to provide the services.

In August 1987, the Uniform Cotton Classing Fees Act was enacted to provide continuing authority for the Secretary to recover classing service costs from producers and maintain a reasonable reserve fund. The law prescribes the formula that AMS will use in setting fees for these services, with High Volume Instrument (HVI) classing being used since crop year 1991. The HVI classing fee for crop year 1996 (July 1996 to June 1997) is $1.50 per bale. AMS receives nearly 95 percent of its annual cotton classing revenue from this program fee.

We reviewed AMS' cotton classing activities to evaluate AMS' procedures and controls and to follow up on prior OIG recommendations. We found that AMS' controls over all key aspects of program operations were reasonable and effective; however, AMS needs to strengthen its analysis and controls over its cotton classification fee determination process and procedures.

AMS has accumulated surplus operating reserve from fees charged for cotton classification services even though the fees have been reduced every year since 1992. As of September 30, 1996, the reserve totaled approximately $25.5 million, or 80 percent of the actual cost of providing classification services during FY 1996. The reserve should not exceed 25 percent of estimated annual costs of the year for which the fee is determined, as specified by the enabling statute. The reserve balance substantially exceeded 25 percent of actual costs for the last 3 fiscal years (see figure 2). We concluded that approximately $17.5 million of AMS' reserve at the end of FY 1996 was excessive and should be eliminated through better fee determination analyses. Excess reserves occurred primarily because (1) actual costs of providing classification services were significantly less than estimated costs used in annual fee determination analyses, and (2) material differences were not reconciled in parallel fee analyses conducted by two AMS units.

Figure 2
Operating Reserve From Fees Charged for Cotton Classification Services

Crop Year	Fee	Cumulative % Reduced
1992	$1.92	
1993	$1.87	3
1994	$1.80	6
1995	$1.60	17
1996	$1.50	22

FY[1]	Reserve (000)	Cumulative % Increase	Costs (000)[2]	% Reserve/ Costs
1993	$ 9,125		$32,026	28
1994	$14,903	63	$30,956	48
1995	$22,160	143	$34,566	64
1996	$25,466	179	$31,873	80

[1]As of September 30.
[2]Includes extraordinary and prior period cost adjustments.

The projections used in determining fees were justified at the time based on planned workload, but circumstances changed. Some classing offices greatly improved efficiencies and other offices were closed, resulting in staff and other cost reductions. Large planned equipment purchases were delayed or not made.

Similar issues were raised in a 1992 audit. The Cotton Division had not reconciled its fee determination analysis with that of an independent analysis conducted by a separate AMS group. AMS agreed to resolve any differences in analyses before recommended fees were submitted to the Administrator for approval. Our followup disclosed this reconciliation did not occur.

We recommended that the AMS Administrator (1) ensure that cost and revenue estimates used in cotton classification fee analyses are timely, reasonable, fully supported, and comply with the intent of the law and (2) require that the Cotton Division Director's annual recommendation on cotton classing fees include a certification that all parallel analyses were reviewed and reconciled, and material differences resolved and documented.

AMS officials agreed with our findings and recommendations.

AMS classed approximately 17.2 million bales of cotton during FY 1996. AMS photo.

More Measures Needed To Ensure Dairy Processing Plants Meet Sanitation Standards

AMS has improved its operations by implementing additional monitoring, training, supervision, and reporting measures related to sanitation in dairy processing plants. However, improvement is still needed to ensure that regulatory agencies are notified of sanitation deficiencies, and increasingly stiffer penalties are needed for dairy processing plants with repeated sanitation deficiencies.

AMS neither reported serious sanitary deficiencies to the Food and Drug Administration (FDA) if the conditions could be corrected quickly, nor reported plants which were denied participation in the inspection program because the initial inspection disclosed serious unsanitary conditions. AMS' policy was to notify FDA only when it had withdrawn inspection services from a plant because of serious unsanitary conditions.

Sanitation problems persisted at some plants, yet AMS did not take action to fully protect consumers. AMS does not have provisions to assess sanctions (such as withdrawal of service), to increase the frequency of inspections, or to notify FDA when plants have repeated unsanitary conditions. As a result, there is a risk that USDA-inspected plants could produce unwholesome product that is distributed to consumers.

We identified three instances where plants were repeatedly ineligible because of unsanitary conditions and appeared to implement only temporary fixes in order to obtain an approved status. One plant with repeated violations received seven inspections during a 6-month period; five of those inspections resulted in the assignment of ineligible status ratings because of insect and rodent infestations. Two other plants were each made ineligible four times over a 2-year period for deficiencies including rodent infestations, evidence of insects, and mold. After each inspection, AMS made recommendations to the plants to correct deficiencies. Although the deficiencies were corrected sufficiently during inspections, the corrections were apparently only temporary. Though relatively few plants have this problem, for those that do AMS needs to implement a system whereby plants are sanctioned for repeatedly failing to maintain acceptable standards, or develop procedures to notify regulatory agencies of plants with repeated violations. These actions should reduce AMS' risk that unwholesome products are produced in USDA-inspected plants.

AMS should report all serious unsanitary conditions to FDA, because of health and safety risks. Although the AMS inspection program is voluntary, the Department could still be criticized if unwholesome products are produced in an AMS-inspected plant, especially if AMS had observed unsanitary conditions but had not notified FDA. AMS should also develop a procedure to notify regulatory agencies of plants with repeated violations. This would reduce AMS' risk that unwholesome products would be produced in USDA-approved plants.

We recommended that AMS report all significant sanitary deficiencies identified during plant inspections, regardless of a plant's status, to FDA. We further recommended that AMS develop procedures to notify regulatory agencies when plants have repeated sanitary deficiencies.

AMS officials supported our conclusions and agreed to report all significant unsanitary conditions to FDA, State regulatory agencies, and industry trade associations. They also agreed to develop procedures to notify regulatory agencies when plants have repeated sanitary deficiencies.

Inspection Trust Fund Improperly Used for Unrelated Expenses

The Agricultural Marketing Act of 1946 authorizes the Secretary of Agriculture to inspect, certify, and identify the class, quality, quantity, and condition of agricultural products shipped or received in interstate commerce. The act also authorized the Secretary to enter into cooperative agreements with State agencies or other groups to perform this work and to charge and collect fees that are reasonable and adequate to cover the cost of the inspection services. Inspection fees collected and interest earned are required to be credited to the applicable Federal-State Inspection Service Program fund account for the grading services provided.

In Florida, the State Department of Agriculture and Consumer Services (FDACS) is responsible for the Federal-State Inspection Service Program, per a cooperative agreement with AMS. AMS requested that we review this program to ensure that inspection fee revenues were properly used. We found that inspection trust funds were charged for activities that were unrelated to the inspection process. More specifically, FDACS used citrus inspection fee revenues to pay expenses for the (1) Citrus Canker Eradication Program, (2) Citrus Tree Survey Program, (3) operation of an auditorium, and (4) costs of employee salaries and travel which were unrelated to the inspection process. In addition, costs associated with the peanut inspection program were inappropriately paid for with funds from other inspection programs. As a result, inspection trust funds were charged approximately $1.5 million in questionable expenditures during FY's 1994, 1995, and 1996.

We recommended that (1) the Citrus Inspection Trust Fund be reimbursed approximately $1.44 million for expenditures claimed that were not directly related to the inspection process and that employee salary costs of over $15,000 be reallocated to the appropriate commodity code and (2) controls be implemented to ensure that all future expenditures made from the inspection trust funds are only for specified inspection services and that the expenditures are charged to the appropriate account.

AMS officials generally agreed with the reported findings and are working with State officials to initiate corrective action.

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 1997 activities are estimated at more than $525 million.

APHIS Did Not Provide Adequate Oversight Over Cooperative Agreements

APHIS enters into cooperative agreements with individuals, colleges and universities, State departments of agriculture, and foreign governments for various program activities. In 1995, APHIS entered into more than 230 domestic cooperative agreements for approximately $41 million, and 10 foreign cooperative agreements for approximately $22 million.

We reviewed APHIS' policies and procedures for monitoring cooperative agreements, approving cooperator expenditures under the agreements, and ensuring performance of agreement requirements. Although we found that APHIS funds were generally

used for authorized purposes, we did note some areas that need to be improved.

APHIS' designated contract representatives neither reviewed supporting documentation before approving payment of costs claimed under the agreements, nor ensured that cooperators maintained accounting systems to properly report and allocate agreement expenditures. We identified three cooperators who claimed expenses to which they were not entitled because they could not provide the necessary supporting documentation. APHIS performed reviews at selected cooperators to evaluate their compliance, but did not perform enough reviews of outstanding agreements or do sufficient followup to provide effective oversight and control over this activity. During FY 1995, less than 3 percent of APHIS' active agreements received comprehensive reviews.

In addition, APHIS' tracking systems did not accurately account for all cooperative agreements or funding adjustments. Also, APHIS did not timely close out cooperative agreements after they had expired. Over 150 agreements, totaling more than $1.2 million, had not been closed on time.

We recommended that APHIS officials establish procedures that require reviews of supporting documentation before approval of cooperators' claims, and recover unsupported costs from the cooperators. We further recommended that they increase the number of reviews to provide additional assurance that weaknesses are timely detected and corrected, and that they establish procedures to require time-specific requirements for entering agreement data into the agreements tracking system and for closing APHIS agreements.

APHIS officials generally agreed with the findings and recommendations and are implementing corrective action.

APHIS Payment Procedures Led to Overcompensation for Karnal Bunt

Karnal bunt, an exotic fungal disease that lessens the yield and quality of grain, was first detected in wheat grown during 1996 in Arizona and California. Contaminated seed was also shipped to New Mexico and Texas. In March 1996, the Secretary declared an "extraordinary emergency" that authorized compensation for destroyed crops, for the loss in value of wheat grown in quarantined areas, for decontamination of grain storage facilities, and for treating millfeed.

We reviewed payments to growers in New Mexico and Texas who destroyed wheat as ordered by emergency action notifications. We also reviewed payments to growers and handlers in Arizona and California for the loss in value of their wheat because of Karnal bunt quarantine and payments to grain handlers for decontaminating grain storage facilities.

We found that payment procedures had resulted in a major grain handler in Arizona receiving over $900,000 more than the economic loss in the value of the affected wheat. This handler received approximately 96 percent of the Karnal bunt compensation payments in Arizona for handlers. APHIS officials said that the additional compensation was justified because of added costs the handler incurred such as demurrage, switching charges, higher freight charges for smaller unit-size trains, and sanitation costs. However, APHIS neither required nor obtained cost data to support the additional costs.

Our review, based on cost data we obtained, showed that the compensation paid the handler resulted in payments greater than the handler's added costs. For example, the handler did not incur any costs for 263,836 bushels that growers transported directly to feedlots or other locations designated by the handler, yet the handler was compensated nearly $171,500 for additional handling costs. For the remaining 1,146,380 bushels, the handler received $745,147 ($0.65 per bushel) over the market price set by APHIS. We estimated that added costs for demurrage and switching would be $137,566 ($0.12 per bushel), leaving $607,581 ($0.53 per bushel) for added freight charges and sanitation costs. We questioned whether the handler incurred costs to this extent. We also questioned whether the handler should be compensated for sanitation costs, since growers were not compensated for decontaminating and sanitizing their equipment even though APHIS required that they do so.

Another grain handler and 17 growers were overpaid approximately $84,000 because of errors made in calculation of payments, misinterpretation of procedures, and inaccurate reporting by growers. Two grain handlers were overpaid approximately $8,000 because compensation they received for decontamination expenses included ineligible cost items.

We recommended that APHIS staff include in the Karnal bunt compensation regulations being drafted a requirement to obtain and maintain adequate documentation to support the computation of each figure or element in future compensation formulas. We also recommended that they review the information concerning the compensation paid and determine whether action is needed to recover any portion of the $779,000 in questioned costs. We further recommended that $92,000 in other questioned payments to handlers and growers be recovered.

APHIS officials concluded that the handler was paid consistent with formulas outlined in the regulations and that because of risks borne by the handler in working with the program, no further action to collect the overpayment appeared warranted. The APHIS officials' conclusion was based on advice they received from the Office of the General Counsel (OGC). APHIS advised us it will consult with OGC on the practical and legal considerations of seeking recovery of the other overpayments cited.

Cattleman Falsifies Brucellosis Testing Information

An Idaho cattle broker was fined $10,000, ordered to pay $1,500 in restitution, and placed on probation for 4 years, to include 9 months of home detention, after pleading guilty to misrepresenting the status of brucellosis testing of cattle that he sold at auction. The broker applied official brucellosis eartags and ear tattoos on nonvaccinated cows in order to sell them as vaccinated cows at a USDA-approved livestock market.

This investigation was conducted with the assistance of an APHIS Regulatory Enforcement and Animal Care officer.

Grain Inspection, Packers, and Stockyards Administration (GIPSA)

GIPSA administers and carries out varied service and regulatory responsibilities to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and U.S. agriculture. Approximately 62 percent of the funds for GIPSA activities are derived from user fees. The remaining activities are funded through appropriations. GIPSA appropriations for FY 1997 totaled approximately $23 million.

Multinational Food Corporation Swindles Farmers and Adulterates Grain

A multinational food company headquartered in Omaha, Nebraska, agreed to plead guilty to charges of adulteration, misgrading, and misweighing of grain by the company's grain division and to pay $8.3 million in fines and penalties. A portion of the monies are targeted to reimburse farmers who were bilked out of payments for grain sold to the company.

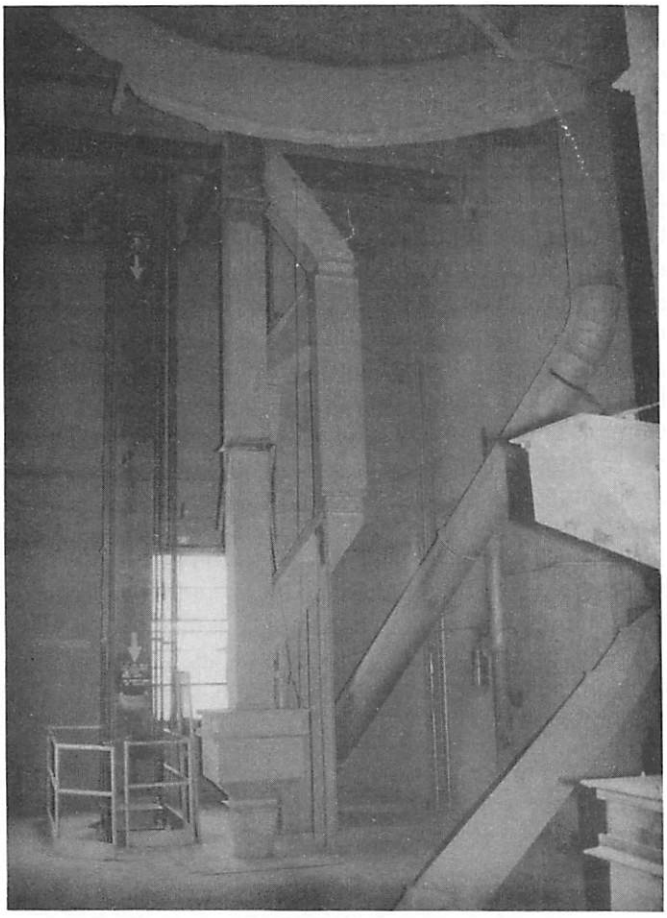
In addition to the charges against the corporation, four of its former managers also agreed to plead guilty. Sentences are pending for the corporation and the four former managers. One lower level employee pled guilty and was sentenced to 6 months' home detention, 3 years' probation, and $50,000 restitution. Two others, under contract and licensed by USDA to sample grain, have also pled guilty to charges of misgrading and were fined.

The investigation found that the company used several schemes to defraud farmers and grain buyers and increase its grain inventories and profits. Soybeans were purposefully misgraded, allowing the company to pay less to the farmer yet sell at higher rates. The company also significantly misweighed grain it sold, thereby allowing it to ship less grain than it was paid for. In addition, water was added to grain inventories, which increased the grain's weight and the company's profits when the grain was sold. The excess moisture also caused spoilage of grain in transit, prompting international complaints.

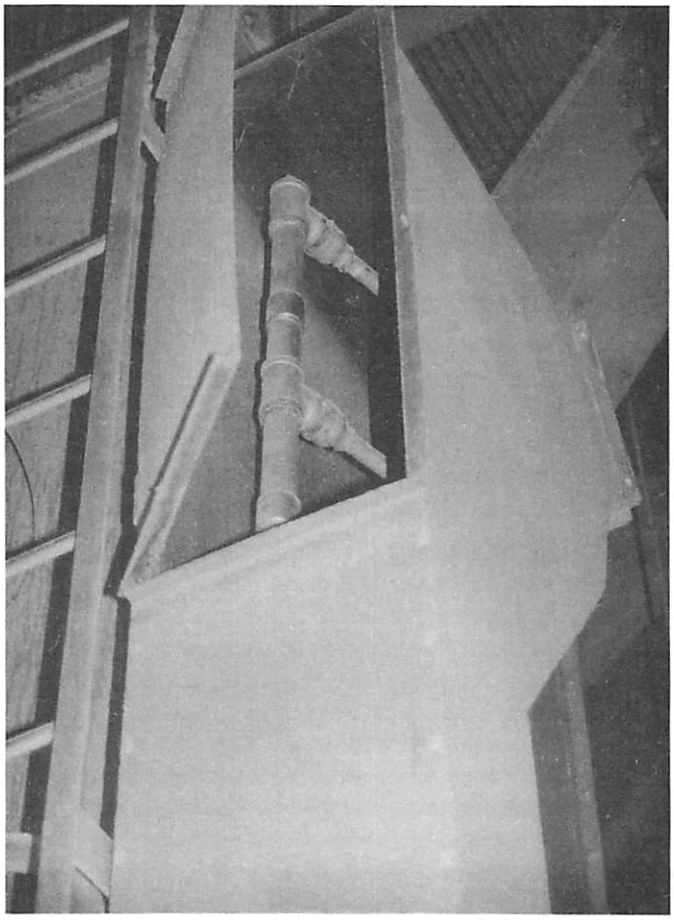
Further, the company paid gratuities to federally licensed grain samplers who worked for a Government contractor. These licensed personnel then allowed the grain company to exchange poor-quality grain samples for samples of a higher quality. The samples were used to prepare "Official Certificates," which are used throughout the grain trade to market grain. End users received poor-quality grain but paid a higher price.

Investigative findings of the questionable grain handling practices prompted lawmakers to increase the level of violations of the USDA Grain Standards Act from misdemeanors to felonies. Subsequent rulemaking severely restricted the addition of water to grain.

The 4-year investigation was a joint effort with FSA and GIPSA.



The grain division of a multinational food corporation used this system, with a false grain chute in the rear, to divert grain through a water system and back into the grain system. OIG photo.



Fake ductwork in the back side of the system conceals a water pipe in the false grain chute. OIG photo.

Investigative Techniques Lacking Against Anticompetitive Practices in Meat Packing Industry

The Packers and Stockyards (P&S) division of GIPSA is responsible for enforcing Federal laws against anticompetitive practices in the meat packing industry. Recent changes in the meat packing industry have resulted in fewer companies controlling an ever-increasing share of the market. This has raised concern among livestock owners and others who depend on the sale of cattle to meat packers at open-market prices. In 1995, the price livestock owners received for cattle decreased sharply while the major meat packers earned record profits. The perception among livestock owners was that the meat packers were manipulating the price of cattle. The Secretary of Agriculture requested that we assess GIPSA's efforts to monitor and investigate anticompetitive practices.

P&S has performed few investigations of anticompetitive practices in the last few years which have been litigated successfully by OGC. This occurred partly because of the type of evidence available and partly because P&S has not kept pace with the techniques needed to monitor an industry that has changed. The evidence collected through traditional investigative methods is no longer sufficient, by itself, in litigating anticompetitive cases. Additional evidence from economic analysis is now needed, but P&S does not deploy sufficient economic resources in anticompetitive practice investigations to provide this evidence.

P&S needs to deploy its economists better, and obtain additional economic and statistical resources, to prepare complex economic models that can demonstrate the adverse effects, if any, of industry activities on open and free competition in the marketplace. P&S

also needs to integrate legal expertise into its investigations and consult with departmental attorneys at the beginning of an investigation to ensure that the evidence necessary to litigate a case is collected. Other Federal agencies use teams of attorneys and economists to investigate antitrust violations.

We concluded that P&S needs to restructure its organization, both to place more of its resources in the regions and to redirect staff efforts toward monitoring the meat packing industry. P&S has several economists on staff but has placed only one econometrician at the full disposal of its investigative staff. P&S' economists should be located at the regional offices, where investigations of anticompetitive practices are performed and where market data is more readily available.

We also found a climate of noncooperation between the economics and investigative staffs. Economists believed the investigative staff could not perform the market analyses required of anticompetitive monitoring, and the investigative staff believed economists did not understand livestock and meat packing industry issues.

We presented a number of options to P&S to strengthen its operations: (1) Reorganize its national and regional offices; (2) integrate its economics staff into the investigations of anticompetitive practices; (3) assess staff qualifications and obtain additional staff with economic, statistical, and legal backgrounds; (4) transfer its economic research activities to another USDA agency; (5) develop procedures to consult with OGC before initiating and during anticompetitive practice investigations; and (6) retain the services of a manager with expertise in all areas of directing anticompetitive investigations or request the Department of Justice and/or the Federal Trade Commission to provide a manager, on detail, to assist in the reorganization of P&S' functions related to anticompetitive practice investigations.

Since it will take several, if not all, of the above options for P&S to develop an effective investigative staff, the Department may want to consider requesting legislative action to transfer USDA's responsibilities for performing anticompetitive practice investigations to another Federal agency.

Natural Resources and Environment

Forest Service (FS)

FS manages natural resources on more than 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 1997, the FS appropriation was $3.5 billion, with timber sales and other receipts expected to be approximately $1 billion.

Contracted Airtankers Lack Inspection Controls

FS contracts with private operators who provide large multiengine aircraft that drop fire-retardant chemicals to suppress ground wildfires. These aircraft, known as airtankers, operate under reduced visibility, in close proximity to rugged terrain, and frequently in turbulent air. All FS contract airtankers are required to receive an initial approval for both equipment and personnel, and an annual approval as part of the contract renewal. This annual approval is referred to as the preseason inspection, and is designed to certify compliance with specialized contract requirements beyond those established by the Federal Aviation Administration for basic airworthiness. The intent is to ensure the safe conduct of hazardous operations and adequate mission preparedness.

From September 1990 through June 1995, 14 fatalities occurred during airtanker operations. Safety concerns prompted us to look into this area. For FY 1996, FS contracted for the service of 39 airtankers. One of our primary assessments dealt with the preseason inspection process. We found that FS was not effectively managing its program of preseason inspections for airtankers. As a result, established controls were bypassed or ignored during these inspections.

We found instances where, because of ineffective management controls, (1) airtanker approval cards were issued to airtankers with uncorrected deficiencies; (2) airtankers operated without deficiencies noted in preseason inspections being corrected; (3) airtankers flew missions prior to reinspection to determine that all deficiencies had been corrected; and (4) in two instances, the same inspector who signed an inspection report approving an airtanker and its pilots for service was assigned responsibility for determining airworthiness issues in the subsequent investigation of fatal crashes.

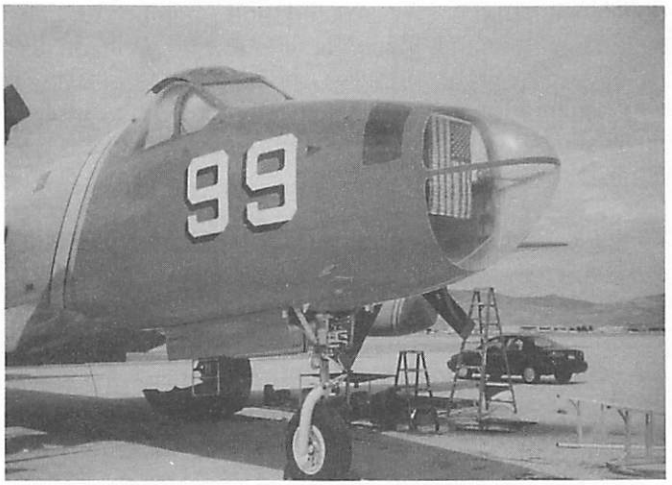
Also, FS officials did not comply with risk management guidance for airtanker operations set forth in the agency's aviation safety plan. We observed that important decisions were made without all the facts or the concurrence of management. As a result, FS has not ensured appropriate maintenance for ex-military aircraft previously transferred to contractors.

Further, FS officials did not follow up or perform a risk analysis to determine the impact of information reported by the National Transportation Safety Board (NTSB) concerning the cause of a fatal FS airtanker accident in August 1994. According to the NTSB brief of accident, the most probable cause of the accident was fuel leakage due to O-ring failure. Upon receiving the NTSB conclusions, the aviation safety manager determined that no action was needed and simply filed the report away.

We recommended that FS officials immediately implement the necessary measures to obtain compliance with the management controls already contained in policy and procedure. In addition, management should establish requirements for supervisory review of inspection operations, for periodic program assessments, and for appropriate separation of duties.

We also recommended that FS officials exert some type of meaningful supervision to ensure appropriate assessment of risk before any future transfer of ex-military aircraft to airtanker contractors. Prudent risk management includes obtaining and reviewing various information and all NTSB reports of aviation incidents involving FS-owned or -contracted aircraft to identify potential safety concerns.

FS officials agreed with all recommendations and have begun corrective action.



P2V-7 airtanker during OIG verification of corrective action in August 1996. Airtankers are often older, converted military aircraft. OIG photo.

P-3 airtanker releasing retardant. FS photo.

Crash site of a P2V-7 airtanker in Lolo National Forest, Montana, in July 1994. FS photo.

FS Cooperative and Reimbursable Agreements Neither Safeguard Funds Nor Identify Conflicts of Interest

FS' forestry research program is designed to develop the technology needed to manage the Nation's 1.6 billion acres of forests and rangelands, both privately and publicly owned. In fulfilling this mission, FS is authorized to cooperate and share scientific information and technology with other Government agencies, colleges and universities, businesses, and private landowners. During FY's 1994 and 1995, FS awarded $70.3 million in research grants and agreements to colleges and individuals.

We reviewed 33 statistically selected grants and agreements awarded by 7 FS research stations in FY 1994. These awards were made to 23 recipients; however, we also reviewed other recipients and other years when it became necessary to determine the extent of any conditions we noted in the sample. More than one-third of the recipients in our sample did not always comply with Federal assistance regulations, Federal cost principles, or the terms of specific grants and agreements. We questioned costs of more than $1.7 million that included cooperator noncompliance with the terms of the agreement. Noncompliance included not providing sufficient resources to meet the agreement, failing to satisfy cost-share requirements, not obtaining FS prior approval for large purchases of equipment, and not maintaining adequate records to support claims. We also reported prohibited practices, including claims as a direct cost for indirect administrative salaries, payments of tuition for student researchers, overcharged indirect costs for a subawardee, and contracts issued noncompetitively. Also, three research stations unnecessarily advanced grant funds of approximately $446,000 because they had not ascertained that the funds were not needed, and they did not deobligate the unneeded funds at the expiration of the agreements.

Finally, FS research personnel policies did not require FS research scientists to file financial disclosure reports or to request prior approval for outside employment or professional activities. One FS employee functioned as both the FS' lead research scientist and the university's principal investigator for the same cooperative agreement. The FS scientist in question was neither required to file financial disclosure reports nor to obtain approval for outside employment activities. The dual role, which

compromised the university's claim for reimbursements and allowed the scientist to authorize and approve her own project expenditures, was determined by the Department's alternate ethics official to be a conflict-of-interest violation.

We recommended that FS (1) perform periodic national reviews of research grants and agreements and (2) require research stations to periodically review a sample of reimbursement claims from cooperators. We also issued a management alert to FS on the need to obtain financial disclosure forms and to require prior approval for all outside employment and activities from all FS research scientists. FS officials have generally agreed with our findings and recommendations and are developing an acceptable corrective action plan.

AmeriCorps Cooperative Agreement Not Fulfilled

The National and Community Service Trust Act of 1993 established the Corporation for National Service and provided legislative authority for the AmeriCorps National Service Program. The law authorized Federal departments to apply for and receive financial assistance to be used in the form of grants to implement national service programs through contracts or cooperative agreements.

The USDA National Service program sponsored two projects with a nonprofit corporation in Mississippi and awarded more than $500,000 in AmeriCorps funds to the corporation to fund the two projects. For one of the projects, the director of USDA National Service authorized FS to fund a "public land and the environment" project. For the second project, the director of USDA National Service entered into a cooperative agreement directly with the nonprofit corporation to carry out an anti-hunger project. Based on concerns of FS and USDA National Service officials, we audited the nonprofit corporation's administration of the projects.

We found that the nonprofit corporation did not fulfill its obligations as provided for in the cooperative agreements. Specifically, it did not (1) maintain an adequate accounting system or submit required financial reports to the funding agencies, (2) allow any of the 41 participants the opportunity to earn full educational benefits which they expected and were entitled to receive, (3) provide required health insurance to participants, (4) provide its required matching funds, and (5) close out its accounts and return unused funds to the funding agencies after the contracts were terminated. As a result, the nonprofit corporation's eligibility for the more than $520,000 it received was questionable.

We recommended that the questioned $520,000 be recovered from the nonprofit corporation and that $19,000 in unused funds remaining with the U.S. Treasury be deobligated. Management agreed with the findings, but suggested that the nonprofit corporation be allowed to retain approximately $290,000 for expenses that were used to meet program objectives. Efforts are under way to recover the remaining funds.

Natural Resources Conservation Service (NRCS)

NRCS provides technical assistance through local conservation districts to individuals, communities, watershed groups, tribal governments; Federal, State and local agencies; and others. The agency's work focuses on erosion reduction, water quality improvement, wetlands restoration and protection, fish and wildlife habitat improvement, range management, stream restoration, water management, and other natural resource problems. NRCS' appropriation for FY 1997 is approximately $1.2 billion.

Water Quality Incentive Projects (WQIP) Need Clearer Focus

The WQIP program was authorized by the Food Agriculture, Conservation, and Trade Act of 1990. The goal of the program is to provide incentive payments to reduce agricultural pollutants through environmentally and economically sound management practices. Producers could earn incentive payments of up to $3,500 per year over 3 to 5 years for implementation of various land management practices. WQIP was a voluntary program with a goal to enroll 10 million acres of farmland through 1995.

In 1996, the Federal Agriculture Improvement and Reform Act consolidated WQIP with three other USDA conservation programs into the Environmental Quality Incentives Program (EQIP). EQIP was established to maximize the environmental benefits per dollar expended. EQIP became effective on October 1, 1996.

We found that funding of State and locally identified priority areas did not always increase conservation benefits on the most vulnerable lands. In addition, inconsistencies existed in the methodologies followed by States and local areas to identify and rank prospective projects and to prioritize requests to enroll land. Practice components were not always adequately planned or the most effective for improving water quality. The Water Quality Research Management Plans (WQRMP) did not always address all water quality problems identified in the project proposals, and incentive payments were approved for practices that were previously implemented or required to comply with the highly-erodible-land provisions. Also, WQRMP's were not always technically adequate, and USDA has not developed or implemented an adequate system to measure and monitor the impact of the WQIP program.

We recommended that NRCS coordinate with other conservation partners in developing the focus for EQIP, and establish whether EQIP should address all existing resource concerns. We also recommended that NRCS develop policy and guidance for EQIP to promote total resource management planning and to prohibit payment for practices that were previously implemented or required to comply with the highly-erodible-land provisions. NRCS officials agreed to implement our recommendations.

Cooperative Agreement Deemed Inappropriate

On the basis of a congressional request, we evaluated the legality and propriety of the cooperative agreement between NRCS and a for-profit organization, the Minority Enterprise Financial Acquisition Corporation (MEFAC). We found that NRCS officials used Rural Development funding provided by the Rural Business-Cooperative Service (RBS) to enter into an inappropriate cooperative agreement with MEFAC. A senior official at RBS took direct personal action to facilitate the award of the $250,000 agreement. As a result, Rural Development funds were channeled through the NRCS State office, paid to a Kansas City organization, and ultimately used, in part, to benefit pastors and active lay persons of specific religious denominations.

We found that established control procedures were bypassed in the execution of the cooperative agreement. For example, the $250,000 was obligated in FY 1995 for the MEFAC cooperative agreement although it was not executed until January 1996. A senior official at RBS cited this practice as accepted throughout Rural Development for several years. We concluded that the FY 1995 obligation was improper because the cooperative agreement was not in writing and was not executed before the end of the fiscal year. We also found that this senior official at RBS personally signed the official form requesting reimbursement in lieu of requiring signatures from MEFAC officials. This practice was unusual, as the certification was designed to be signed by an official of the entity receiving payment.

Also, MEFAC violated the terms and conditions of the cooperative agreement with NRCS. Although MEFAC drew down and spent $150,000 of the cooperative agreement funds, the corporation did not conduct any regional workshops as required by the statement of work. Further, the corporation was not a recognized tax-exempt organization under Internal Revenue Code 501(c)(3) as stated in its proposal and other documentation.

MEFAC did not maintain accounting records to show the disposition of funds received under the cooperative agreement. The scattered records provided in response to our request confirmed material noncompliance with regulations for the use of cooperative agreement funds, to include excessive spending and other unallowable costs. As a result, neither the Government nor the rural communities received value for the $150,000 in Federal funds expended.

We recommended that NRCS terminate the cooperative agreement and recover the funds expended, and that RBS assess the decisions made and actions taken by this senior official and take appropriate disciplinary action. Officials of both agencies agreed with our recommendations and plan corrective action.

Rural Development

Rural Development programs are administered through three rural development services: The Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), and the Rural Utilities Service (RUS). Rural Development programs and services are provided through State, district, and county offices.

Rural Housing Service

RHS has the responsibility for making available decent, safe, sanitary, and affordable housing and community facilities by making loans and grants for rural family housing and apartment complexes; and for financing the construction, enlargement, or improvement of essential community facilities such as fire stations, libraries, hospitals, and clinics. For FY 1997, program funding for RHS loans and grants totaled $4.4 billion. As of September 30, 1996, RHS had an outstanding loan portfolio totaling over $30.9 billion. An additional 56,600 borrowers had obtained guaranteed single-family housing and community facilities loans totaling $3.7 billion.

Additional Controls Over HUD Section 8/515 Projects Not Fully Implemented

Under the Section 515 Rural Rental Housing (RRH) Program, RHS approves loans to provide housing for persons with low or moderate income and for persons aged 62 or over. Rent paid by tenants of these projects can be supplemented through RHS rental assistance or Section 8 rent subsidies provided by the U.S. Department of Housing and Urban Development (HUD). In September 1993, we reported several situations where improvements in servicing for projects receiving Section 8 rent subsidy were needed. RHS officials agreed to implement regulations requiring RHS countersignature for reserve withdrawals. RHS also issued instructions requiring servicing officials to identify and monitor projects with excess funds and cancel unneeded interest credit or recover the unneeded interest credit by collecting overages. In addition, RHS agreed to monitor lump sum retroactive rent subsidy payments from HUD.

We statistically selected 33 projects to determine if new procedures improved the cash management practices used by Section 8/515 borrowers and achieved savings. We found the following.

- Because generation of interest income could result in a tax liability for the partners, some borrowers are not investing project funds to achieve high returns. We estimated that interest income could have been increased by approximately $918,000 by investing reserve funds in accounts yielding higher interest rates.

- Countersignature reserve accounts were either not established or not operating effectively for approximately 48 percent of the projects reviewed. Also, $45.2 million of reserve funds was not adequately secured for 422 projects in our universe of 895 projects. In addition, we estimated that 46 percent of the projects did not transfer approximately $16.5 million from nonsupervised operating accounts to reserve accounts requiring the countersignature of an RHS official.

- An estimated 258 borrowers, with interest credit agreements dated before RHS obtained regulatory authority to reduce unneeded interest credit, received $2 million of unneeded interest credit annually. In addition, we estimated 326 borrowers, with agreements dated after RHS obtained reduction authority, received unneeded interest credit totaling $3.4 million annually.

- An estimated 55 percent of projects accumulated excess funds totaling $31.3 million. In addition, we estimated that had approximately 28 percent of projects applied excess funds to loan obligations, annual savings to the Government and borrowers totaling $1.7 million would have resulted. We identified $169,000 of project funds used for questionable purposes, and we projected that $3 million had been used for questionable purposes.

We recommended RHS seek legislation to eliminate dual subsidies arising from unneeded interest credit and require project managers to deposit reserve funds in an escrow account directly under RHS control. In addition, we recommended RHS strengthen servicing and establish procedures for situations where project managers did not timely establish or maintain countersignature reserve accounts. We recommended recovery of the questioned costs.

Management Company Owner Sentenced for Defrauding RRH Program

In Michigan, the owner of a company that managed two RRH apartment complexes for 8 years was sentenced to 8 months' confinement, was ordered to pay a fine of $10,000, and agreed to pay a civil judgment of $5,000 for converting project operating account funds to his personal use. The individual was convicted of using RRH project funds to pay for the installation of a furnace in his cottage in northern Michigan. The individual also funded rental incentives at his conventionally owned projects with approximately $5,000 in project operating funds from the RRH accounts.

Rural Business-Cooperative Service

RBS administers a number of programs designed to help foster a strong business environment in the rural United States. RBS works in partnership with the private sector and community-based organizations to provide financial assistance and business planning. The emphasis is on funding projects that create or preserve quality jobs and/or promote a clean rural environment. The financial resources of RBS are often leveraged with those of cooperative and private sector lenders to meet business and credit needs in underserved areas. Eligibility for these programs usually includes population density guidelines. As of September 30, 1996, RBS outstanding loans consisted of 1,061 Business and Industrial loans totaling $1.2 billion, 227 Intermediary Relending loans totaling $195 million, and 440 Rural Economic Development loans totaling $62 million. The total RBS portfolio was $1.4 billion.

Intermediary Relending Program (IRP) Borrowers Used Loans for Ineligible Purposes

IRP facilitates the development and improvement of business enterprises, industry, and employment in rural areas. RBS provides IRP loans at 1 percent interest for up to 30 years to intermediary relenders, who reloan the funds at low interest rates to ultimate recipients in rural areas (i.e., population less than 25,000). Relenders must identify enough potential recipients to justify RBS funding. Relenders use the income from the recipient loan repayments to cover operating expenses, make loan payments to RBS, and make additional loans. Loan repayments from the recipients are known as second generation funds.

We questioned loans to 21 recipients, totaling almost $2 million, because (1) relenders made ineligible loans and loans in cities with populations of 25,000 or more, (2) relenders used second generation funds for purposes not in the loan agreement or workplan and for relending in urban areas, and (3) conflicts of interest existed between relenders and ultimate recipients. In addition to the loans we questioned, we reviewed the relenders' annual reports and identified other possibly ineligible or inappropriate loans, totaling $1.6 million.

IRP regulations for advancing funds to relenders were not adhered to. Relenders requested and received IRP advance funds from RBS far exceeding the amount necessary to cover a 30-day period. As a result, advance funds were held for periods ranging from 4 months to almost 2 years before being used. For example, a relender made two drawdowns totaling $2 million; however, the funds were not totally disbursed until a year from the last drawdown. Also, relender IRP loan accounts often exceeded the federally insured amount of $100,000.

In addition, relenders held excessive amounts of IRP funds and were not loaning them timely. Fifteen relenders had RBS loans totaling $17.7 million which closed in 1993 and 1994, but had requested advances of only $1 million (6 percent). Seven of the fifteen relenders, with loans totaling $7.7 million, had made no drawdowns of loan funds to reloan to ultimate recipients. As a result, IRP funds were idle and did not result in economic development and job creation within the relender's operating area or in other areas of the country.

RBS reporting and monitoring procedures were also inadequate. Required reports from relenders were not submitted to RBS timely, were not accurate, and were not monitored by RBS staff. Moreover, there were no written instructions for preparation or review of quarterly reports. As a result, RBS personnel did not effectively use the reports to monitor relender operations, and loans proposed for ineligible purposes were not questioned.

We recommended that RBS (1) recover the funds used for ineligible purposes, (2) revise IRP regulations to state clearly that second generation funds are for rural development and for purposes that meet the eligibility requirements for initial loans, (3) clarify regulations to provide detailed guidelines for making conflict-of-interest determinations, (4) improve procedures for more efficient use of program funds, and (5) improve reporting and monitoring procedures.

IRP funds were used for this tavern and brewery, when such funds were not to be used for such purposes. OIG photo.

IRP funds were earmarked to renovate this abandoned train depot for use as a performing arts theater. IRP funds are intended to be used for manufacturing facilities that would generate a significant number of jobs paying good wages. OIG photo.

Premature Drawdown of Empowerment Zone Funds Increases U.S. Borrowing Costs

As authorized by the Omnibus Budget Reconciliation Act of 1993, the Secretary of Agriculture designated 3 rural Empowerment Zones (EZ) and 30 rural Enterprise Communities (EC) that are to receive over $208 million in Social Services Block Grant (SSBG) funds. These funds are provided through U.S. Department of Health and Human Services (HHS) appropriations. Also, the Appropriations Act for FY 1995 earmarked $71 million in USDA funds for EZ/EC projects through July 30, 1995, and as of June 30, 1996, approximately $67 million was earmarked for FY 1996. The EZ/EC program's objective is to revitalize and rebuild communities in the United States' poverty-stricken inner cities and rural communities. The program is designed to empower people and communities to work together to create jobs and opportunities.

Based on audit work at two EZ's, we have concluded that worthwhile projects are being funded; however, controls are needed to ensure Federal monies are efficiently managed. For example, both empowerment zones prematurely drew down funds totaling approximately $4 million. Portions of these funds remained idle for up to a year, costing the Federal Government approximately $190,000 in unnecessary borrowing costs. Further, one zone used over $400,000 in SSBG funds to supplant other funds, contrary to law.

We recommended that the prematurely advanced funds and supplanted funds be returned, with interest as appropriate.

Research, Education, and Economics

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

CSREES administers USDA's partnership with the Nation's Land-Grant Institutions in support of agricultural research and technology transfer. Annually, CSREES distributes over $840 million to these schools through statutory formulas, slightly less than half (47 percent in FY 1996) for use in agricultural extension programs carried out by the State-administered Cooperative Extension Program.

The long-term relationship between the agency and each State program is established by a Memorandum of Understanding, while annual program plans approved by CSREES provide the direction and basis for evaluating the ongoing expenditure of Federal dollars. The Smith-Lever Act of 1914 ensures funding for CSREES extension programs, including 4-H activities at the State level. To support the Department's interest in the Cooperative Extension System (CES), the Secretary has given CES the authority to provide Federal appointments to selected CES employees. By the terms of title 5 of the *United States Code*, chapters 43 and 75, Federal appointees have the protections afforded those in the competitive service.

In creating the 4-H Club, Congress gave the Secretary of Agriculture custodial responsibility for the club name, its familiar "clover" emblem, and their use in the solicitation and acceptance of funds for club activity. The Secretary delegates his guardianship to CSREES, which in turn authorizes name and emblem use by State schools that administer extension programs. The county extension agent represents the Secretary's interest at the local level. The State CES's are administered by Land-Grant Institution employees, but some 8,000 of them nationwide also hold Federal appointments from CSREES. According to the Office of Personnel Management and USDA's Office of the General Counsel (OGC), Federal appointees are protected from being removed from their CES positions without cause. However, as in the case of two Illinois CES employees, Federal appointees nationwide continue to be vulnerable to improper actions by university officials.

Federal Appointee's Removal Does Not Comply With Statutory Protections

After a whistleblower complaint, we reviewed allegations that the senior extension agent (unit leader) for a multicounty unit in southern Illinois had been subjected to reprisals, including notification that her employment would be terminated, for her part in disclosing misuse of 4-H funds by local club volunteers. A University of Illinois team had investigated reports of missing funds from local 4-H accounts, which they concluded were diverted to a privately controlled youth organization through the deception of volunteer members of the local 4-H committee. The team reported that $6,000 from one account and $5,960 of United Way funds were redirected to the private organization for purposes that sometimes were not in conformity with the local program, including academic scholarships awarded to relatives of the volunteers. Our auditors confirmed that the volunteers had likely violated the Federal statutes governing the use of the 4-H name and emblem to obtain funds for their private organization.

The University of Illinois CES had previously determined that it would be appropriate to dismiss the volunteers and recover the remaining funds. No restitution was required for the funds already spent, and no Federal law enforcement authorities had been notified. The unit leader signed the letters notifying the volunteers of their dismissal. Following the volunteers' complaints to elected State and Federal officials, the university reconsidered the team's decision and, after 3 months, the university reinstated the volunteers and initiated action to dismiss the unit leader. The unit leader's immediate supervisor, himself a Federal appointee, was directed to remove the unit leader from her position pending final termination. When he protested that the university's actions violated the procedure for Federal appointees, both he and the unit leader were reassigned to other positions by the CES director.

From our review of Cooperative Extension System documentation and discussions with the Illinois staff, we found that although the CES interim State director cited inadequate performance on the part of the unit leader, the assertion was neither supported by the employee's immediate supervisor nor the documentary evidence available. The employee had not been informed of the

cited performance problems nor given an opportunity to address them prior to being notified of her termination. Consequently, the personnel action was not handled in accordance with the Federal regulations covering appointees.

Although 8,000 Land-Grant Institution employees who work for State CES's hold Federal appointments from CSREES, agency officials did not know what rights and protections were afforded to such employees in cases of adverse personnel actions by the universities. In addition, although the Memorandums of Understanding between CSREES and the schools specified that Federal appointees working in Cooperative Extension System positions were considered to represent both agencies, CSREES had no policy to intervene when such employees alleged that their rights were being violated by their university superiors. Agency guidelines were not explicit concerning referrals of violations of the misuse of the 4-H name and emblem to Federal law enforcement agencies and did not ensure that such incidents were brought to the attention of CSREES officials.

We recommended that CSREES require the Illinois CES to collect the $5,630 which was improperly spent by the private youth organization, review the Illinois CES decisions on continuation of the volunteers' service, and notify all CES State directors of their responsibility to notify CSREES when possible abuses involving the 4-H clover emblem are discovered. We also recommended that the Illinois CES be required to suspend its personnel actions against the former unit leader and regional director, and that CSREES monitor the situation to ensure that the rights of these two Federal appointees are protected. Finally, we recommended that CSREES clarify and disseminate its position regarding the legal rights and protections of Federal appointees to all CES directors.

The agency sought the opinion of OGC and was advised that in situations where another Federal appointee authorized the adverse action, the appointee was covered by the Federal adverse action protections. CSREES stated it will implement all recommendations except those relating to the dissemination of its position and guidelines on Federal appointee employment rights. CSREES argued that, since the rights of appointees are already covered by local procedure, the agency would seek a statutory amendment to relieve the States from subjecting their adverse personnel actions to this dual protection procedure. CSREES stated it would not provide policy guidance to the States or appointees pending an attempt to enact legislation that would exclude the appointees from civil service protections.

OIG has not accepted a management decision on this issue, stating that the present status of the 8,000 appointees must be protected.

Financial, Administrative, and Information Resources Management

Equal Employment Opportunity (EEO)

Department Falls Short in Resolving Complaints Made by Disadvantaged and Minority Farmers

At the direction of the Secretary, OIG reviewed the process within USDA for resolving complaints made by disadvantaged and minority farmers who feel they were denied program benefits because of their race, color, or national origin. The Secretary's direction came about because of recent allegations that the Department discriminated against these farmers. The Secretary asked OIG to review a broad range of issues concerning program participation and civil rights complaints; our initial evaluation focused on how effectively FSA and the Department responded to these complaints.

We determined that FSA had a backlog of over 240 civil rights complaints and did not know the status of the complaints in every case. Many of the complaints were over 1 year old, and not all were listed in the agency's files. (We had to create our own data base to compile reliable figures.)

FSA's civil rights staff, which reviewed and investigated the complaints, operated within a climate of disorder. Staffing problems, obsolete procedures, and little direction from management had rendered the staff's operations ineffective. Staff assistants were analyzing material they were not trained to analyze, and several staff members had filed EEO complaints of their own, alleging discrimination, sexual harassment, or retaliation by management. Little was being accomplished at FSA to process complaints, and little was being done to track their status.

FSA's backlog has grown in recent months largely because there is no accountability within the Department. No fewer than three staff groups in the Department are responsible for segments of the complaints process in FSA, but no group has exercised overall authority and no group is constrained by a deadline. The FSA staff assigned to review complaints operates from an obsolete handbook, the Department staff (in the Office of Operations) that determines the validity of complaints does not follow up with FSA to ensure action has been taken, and the Department agency that oversees civil rights compliance is not monitoring FSA's case load adequately to report the backlog.

We recommended that the Secretary resolve the immediate backlog by convening an ad hoc team and assigning it control over the complaint system within the Department. The team should be headed by an official appointed by the Secretary, and it should consist of program specialists dedicated to processing the complaints until the backlog reaches a manageable level.

We also recommended that the Secretary consider centralizing control over the complaints process by giving one staff authority to oversee all phases of a complaint.

Our review is continuing. The Secretary has also asked us to determine the degree of participation in USDA programs by minority and disadvantaged farmers, as well as the level of assistance the Department gives these farmers when they apply for benefits.

Hazardous Waste Management

The Office of the Assistant Secretary for Administration is responsible for the Department's occupational safety and health program, and management and disposal of hazardous materials and waste at USDA facilities. The Department's Hazardous Waste Management Program, established as a separate appropriation in FY 1988, coordinates the activities of all USDA facilities for compliance with Federal, State, and local environmental requirements. The program provides overall guidance on facilities compliance and interprets departmental hazardous materials policy for the agencies. Agencies are individually responsible for the compliance of their facilities. The budget for these activities exceeds $16 million annually.

Inadequate Controls Over Biological Agents Cause Undue Health and Safety Risks

Our audit found that risks to employee and public health and the environment were increased because the Department, Agricultural Research Service (ARS), APHIS, and FSIS did not have adequate management control systems to ensure that (1) USDA facilities managed biological agents and waste in accordance with Department policy and Federal and State requirements and (2) safety, health, and environmental deficiencies would be prevented or promptly detected. The Department and its agencies had not addressed

biological agents and waste in any existing programs. Biological safety practices were primarily a facility responsibility, and the Department conducted no routine oversight reviews. Required safety and health inspections were not conducted timely, and standard inspection instruments for facilities did not include steps to assess biological safety and waste management practices.

Of the three agencies, all of which routinely handle biological materials, only ARS had a biological safety officer. However, he had no staff, issued no policies, and conducted no oversight reviews. Inadequate management controls resulted in significant compliance deficiencies at the seven USDA facilities we reviewed. Six facilities did not maintain written standard operating procedures that incorporated biological safety and health requirements and standards, five facilities did not maintain adequate inventories of their biological agents, four did not comply with Occupational Safety and Health Administration safety requirements for employees working with bloodborne pathogens, and none had developed safety data sheets for biological agents or trained their staffs adequately to reduce potential exposure to agents handled and stored at the facilities. All seven USDA facilities had compliance deficiencies under State biological waste disposal requirements.

Because of the serious nature of some deficiencies, we issued four management alerts during our review, and the Department and all three agencies took prompt action. We have also recommended that the Assistant Secretary for Administration (1) include biosafety in the Department's safety and health program and require that agencies establish biosafety programs and (2) incorporate provisions for biological waste into the Department's hazardous waste management policy. The Assistant Secretary should also direct agencies to (1) incorporate USDA policy and Federal and State regulatory requirements for biological materials and waste into their written policies, (2) revise inspection instruments to include steps to assess compliance with those requirements, and (3) inspect their facilities more often than annually to ensure compliance.

Department and agency officials have agreed in general with the findings and recommendations and are currently developing remedial action plans.

Financial Management

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

Financial Statement Audits

We completed audits of the FY 1996 financial statements of FCIC, the Rural Telephone Bank (RTB), and Rural Development. FCIC and RTB received an unqualified opinion, and Rural Development received a qualified opinion. We also disclaimed an opinion on FS' financial statements.

Federal Crop Insurance Corporation: Unqualified Opinion

FCIC received an unqualified opinion in that its financial statements fairly presented, in all material respects, its financial position and the results of operations. We reported one instance of noncompliance: FCIC had not published regulations on submission guidelines and criteria for private sector products under the Crop Revenue Coverage Program.

In response, FCIC officials drafted such regulations, to be issued as a proposed rule within 90 days. They also responded that FCIC's "Submissions Standards Handbook," outlining the review and approval process for private sector products, would be updated to reflect the new regulations.

Rural Telephone Bank: Unqualified Opinion

We issued RTB an unqualified opinion, because the financial statements presented fairly its financial position and results of operations. We did identify several control deficiencies and compliance issues that could adversely affect the agency's ability to develop financial data.

- RTB needs to improve its procedures for providing sufficient, relevant, and reliable data to support loan subsidy costs. This did not have a material impact on RTB's financial statements for FY 1996 but could in the future.

- Reviews of RTB's internal control structure, scheduled as part of an approved 5-year plan for the Rural Utilities Service, were not performed.

- RTB had not documented its high and intermediate control objectives and techniques in an integrated framework to ensure that management's overall goals are achieved consistently and uniformly.

- For budgetary accounts, the U.S. Standard General Ledger, required by Office of Management and Budget (OMB) Circular A-127, had not been fully implemented by RTB.

Rural Development: Qualified Opinion

We issued Rural Development a qualified opinion because we were unable to assess the reasonableness of its estimated loan subsidy costs for loans obligated after FY 1991. As previously reported, the agency needed to improve its procedure for accumulating and documenting sufficient, relevant, and reliable data used to establish and reestimate loan subsidy costs. We also identified recurring control deficiencies and compliance issues similar to those reported for RTB. Specifically, Rural Development had not (1) reviewed its internal control structure as required by its 5-year plan, (2) documented its high and intermediate control objectives and techniques in an integrated framework, or (3) fully implemented the U.S. Standard General Ledger for budgetary accounts.

Rural Development officials are formulating a methodology to document and support the assumptions and cash-flows used to estimate and reestimate rural housing and rural development loan subsidy costs. We are working with them to ensure the effectiveness of the methodology.

Forest Service: Disclaimer of Opinion

FS received a disclaimer for FY 1996 because it was not able to produce auditable financial statements in a timely manner for the year. An adverse opinion had been received by FS for FY 1995 due to pervasive errors, material misstatements, and departures from applicable accounting standards. These conditions had a material effect on accounts such as program operating expenses, accounts receivable, reimbursements; and property, plant, and equipment. Significant internal control weaknesses included (1) inadequate controls over the compilation process used to prepare financial statements, (2) lack of full integration of all accounting systems and functions with the general ledger, (3) inadequate quality of field-level accounting data, and (4) inadequate controls over performance measure data.

As a corrective effort, the Office of the Chief Financial Officer (OCFO), OIG, and FS formed a team in August 1996 to pursue a coordinated effort toward ensuring that FS material weaknesses outlined in the audit report for FY 1997 are corrected. The corrective action plan for improving financial health which the team developed covers the areas of property, plant, and equipment; revenues/accounts receivable; and cash and unexpended appropriations. In addition, the team will address other matters needing attention in order to improve the overall financial management health of FS. The task force will also conduct extensive field visits at FS locales to assist in the implementation of the plan to ensure uniformity of approach.

OCFO/NFC Needs To Further Improve Management Controls

Our reviews of management controls at OCFO/NFC for FY's 1992 through 1994 resulted in disclaimers of opinion because OCFO/NFC had not documented its control objectives and techniques. We issued a qualified opinion for FY 1995 because deficiencies remained, even though OCFO/NFC had improved its control objectives and techniques. Our FY 1996 audit also resulted in a qualified opinion. We found the following.

- Various reconciliation procedures were ineffective to follow up on and/or resolve reconciliations. Also, design and/or systemic weaknesses sometimes thwarted the reconciliation processes.

- Control policies and procedures did not provide reasonable assurance that adjustments to user agency accounts, financial statements, and reports were authorized and processed accurately.

- The general ledger at OCFO/NFC did not conform to the U.S. Standard General Ledger, accounts were not always appropriately crosswalked to financial statements, at times an audit trail did not exist, and subsidiary ledger detail did not exist for certain general ledger accounts.

- Certification and recertification reviews required by OMB Circular A-130 and accompanying access control reviews were not always appropriately and timely performed.

- Many of OCFO/NFC's older applications did not adhere to current development and documentation processes.

We made no further recommendations regarding conditions for which OCFO/NFC had corrective action under way. We did recommend that management take action on conditions not previously noted, including the following:

- Develop and review a report of unauthorized access attempts to programs, schemas, subschemas, file control tables, and Customer Information Control System (CICS) transactions;

- review, periodically, accounts receivable for claim status eligibility; and

- identify and limit access to network software, configuration files, and programs that need protection.

Unnecessary Costs and Problems Could Be Avoided by Eliminating Imprest Fund Operations

Imprest funds are generally used to pay reimbursement vouchers and process advance and replenishment transactions. Our audit of imprest fund operations of OCFO/NFC and selected agencies disclosed that Government imprest funds are not cost-effective for local purchases. In addition, we continue to find significant control problems. Also, there are more efficient payment methods with stronger controls, such as third-party drafts and Government credit cards.

As of January 1996, 1,213 funds with fund balances of $4.2 million were identified by OCFO/NFC. We estimated annual operating expenses at $4.4 million. Further, eliminating the interest expense associated with this cash on hand, which could also be saved if imprest funds were eliminated, and using credit cards for transactions normally paid through imprest funds would have improved cash management and saved $430,000 in FY 1995.

Our audits and investigations consistently have shown that the operation of imprest funds constitutes an activity that is highly vulnerable to fraud and abuse. During this audit, we identified 10 imprest funds on NFC records, with balances totaling $27,500, that did not actually exist in the field, 428 funds with excessive balances totaling $600,000, and a $15,000 fund that had $6,500 missing.

We also found material control weaknesses in fund operations: Excessive fund balances were not detected by agency officials, requirements for cash verification of fund balances and annual agency "audits" were frequently not done, authorization of imprest fund transactions was lax, and supervisory review of reimbursement vouchers was frequently not performed. At OCFO/NFC, former employees were still maintained in Imprest Fund System (IMPF) master files as active cashiers, and coordination within OCFO/NFC to liquidate and revoke funds was ineffective. Control problems at OCFO/NFC included ineffective reconciliation of IMPF records; poor recordkeeping, including the duplicate recording of imprest fund balances in the financial statements; ineffective actions to liquidate funds with years of inactivity; and failure to perform required quarterly reviews.

We recommended that imprest funds within the Department be promptly discontinued. OCFO concurs with our recommendation but believes further study and analysis is needed before the funds can be eliminated. We are working with OCFO to achieve management decision.

Administrative Management

Internal Controls Over American Express Card Should Be Improved

We undertook a review of USDA employees' use of the American Express travel charge card in response to a congressional request. According to American Express officials and Governmentwide statistics, USDA's administration of the American Express Government travel charge card program is better than that of most

Federal organizations. However, our review disclosed that improvements could be made to the internal controls to provide increased assurance that the card program is functioning as intended.

We examined American Express card use by 73 cardholders who we had determined had used the card for *retail* purposes, which indicated misuse. We found transactions involving 64 of the cardholders, totaling $52,000, were not in accordance with USDA policy and the cardholder agreement with American Express. These cardholders used their cards to acquire products, services, and cash for unauthorized, questionable, and/or personal use. Twenty of the sixty-four cardholders exacerbated misuse of the card by failing to pay their American Express bills timely, resulting in cancellation of the accounts. These accounts totaled nearly $28,000 and were more than 120 days in arrears. Among the 64 cardholders were 3 former employees who had improperly retained their cards or acquired a new card after they left Government employment.

We also determined that disciplinary action for personal use and delinquency was not equitable nor systematic. We found personnel actions, if any, varied from agency to agency and sometimes varied within an agency. We attributed these conditions, to some extent, to the inadequacy of internal controls at the departmental and agency levels to detect, prevent, and punish misuse and delinquency. As a result, the effectiveness of the American Express Government travel charge card program was diminished.

We recommended the Department (1) develop and implement enhanced internal control requirements, with the assistance of agency travel coordinators and American Express, which provide reasonable assurance that the card program is monitored effectively to detect and prevent unauthorized use; (2) establish a "retail block" (automated control instituted by American Express to prevent retail transactions over a certain amount at the point of sale); (3) require all agencies to regularly analyze cardholder activity to ensure only bona fide employees are using the card; and (4) provide guidance to the agencies on disciplinary action to be taken in the event cardholders have misused their cards or have not paid American Express on time.

The Department concurred with our recommendations to strengthen controls over the use of the American Express card; however, it did not agree that additional guidance regarding disciplinary action was warranted. We are working with the Department to resolve this matter.

USDA OIG Leads President's Council on Integrity and Efficiency (PCIE) Review of Governmentwide Commercial Credit Card Program

As part of its strategy to enhance services to Federal agencies, the General Services Administration (GSA) is moving forward to award new contracts for its fleet, travel, and purchase card programs. GSA plans to solicit proposals from vendors for the three card programs, as well as an integrated solution, which may provide the benefits and convenience of a multipurpose card. GSA's ultimate goal is the capability of operating multiple applications, both financial and administrative, through a single card service platform.

PCIE designated USDA OIG as the lead agency to obtain, consolidate, and report on the issues and concerns of cardholders and agencies regarding the three Governmentwide card programs. To achieve this, we focused on the relevant audit work completed by various OIG offices and the issues raised in their reports and reviews, and also obtained comments from agency personnel representing program management, procurement, and card services. In addition, we coordinated our review effort with the Chief Financial Officers (CFO) Council.

Our review disclosed that GSA's approach has effectively established the basis for identifying the needs of Government for the next generation of card-based payment systems. In our discussions with members of the CFO community, as well as agency procurement personnel and program officials, we learned that GSA has considered the diverse needs and interests of its customers, and has established a sound economic case for industry participation and competition.

We did note, however, several areas of concern which GSA should consider as it moves toward issuing contracts in the coming months. We learned that inequities in the tax-exempt treatment among the card programs resulted in additional costs in the travel program ranging from $80 million to $100 million annually. Also, the lack of a uniform Governmentwide policy for the treatment of rebates has caused confusion among agencies. Further, we found that agencies are

duplicating their efforts by independently developing a variety of systems (both manual and automated) for managing card transactions. Finally, our discussions with banking industry officials revealed that many automated controls exist in the private sector to monitor transactions for potential abuses.

We recommended that GSA take the lead to bring about consistency in the treatment of tax exemptions and rebates, encourage agencies to consider using automated systems that are available at selected agencies before independently developing new and costly systems, and evaluate the technological control features available in the private sector to determine their appropriateness for Government systems.

Information Resources Management

Better Controls Are Needed Over USDA Access to the Internet

We examined how 20 USDA agencies were using the Internet and whether proper security had been established. Our audit disclosed that approved agency requests for Internet Protocol (IP) addresses were inefficiently allocated and contrary to the implementation of an effective departmentwide IP addressing plan. Also, oversight did not ensure that required risk assessments and security plans were completed by user agencies.

We found that several agencies had established separate Internet access without obtaining approval from the Department to do so and that some of these agencies were also connected to the USDA Internet Network, which created additional security vulnerabilities. We also found that the Washington Service Center did not adequately advise agencies that all appropriate security measures had not been established on the Headquarters Network and that, therefore, their systems were vulnerable to unauthorized penetrations from any outside Internet user.

We recommended that the Office of Chief Information Officer (OCIO) develop and implement an efficient departmental IP addressing plan, and actively oversee USDA's use of the Internet. We also recommended that OCIO establish procedures to obtain verification from each agency using a private Internet provider that security controls are adequate, that access through the private service does not create technical problems for the USDA Internet Network, and require that agencies provide verification that the private provider is cost or mission justified. Finally, during the audit the Washington Service Center addressed our concerns by implementing security measures to protect agency data from unauthorized Internet access.

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 eight 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 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.

We also processed 26 single audit reports for States for which we were not cognizant during this 6-month period. For example, in Connecticut, 22 of 25 facilities of the Department of Corrections were incorrectly approved as eligible to claim program reimbursements for the National School Lunch Program, which resulted in questioned costs of more than $131,000. This occurred because the State's Department of Education assumed that the correction facilities met the criteria of a residential child care institution.

In another example, the Montana State auditors questioned nearly $31,200 charged to FS for fire fighting costs. The State and FS split the cost of fires based on the percentage of State-protected land burned versus FS-protected land. Because of a shortage in operating funds, the State charged FS an hourly rate for the cost of three of the five largest fires, for which FS had already paid a portion. In addition, the State auditors questioned $22,150 received from FS under an Urban Forestry grant for unauthorized purposes. We requested that FS collect the questioned costs and work

with the State agency involved to achieve corrective actions and management decisions.

For audit reports prepared by non-Federal auditors under the requirements of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," we accepted general oversight and performed a desk review of four reports during the 6-month period.

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 7 convictions of current or former USDA employees and 33 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations that yielded results during the past 6 months.

Guilty Plea, Sentencing in Imprest Fund Embezzlements

- A former office automation clerk for RBS was sentenced in District Court in Washington, D.C., to serve 21 months in Federal prison for embezzling $32,500 from the USDA Imprest Fund. The clerk was also required to serve 2 years' probation and pay restitution of $3,000 to the Government. Over 2 years, the clerk submitted 21 fraudulent travel advance requests either in her own name or that of coworkers.

- Two former employees of FS pled guilty in District Court in Washington, D.C., to theft in a scheme to embezzle $3,700 from the USDA Imprest Fund. One employee prepared, forged signatures on, and submitted a false travel advance request using another employee's name and employment data to obtain $1,700. The two employees together prepared, forged signatures on, and submitted a second false request for $2,000, splitting the money between them.

FSA Employees and Co-Conspirators Sentenced

In Kentucky, 12 people, including the FSA County Executive Director (CED), a program assistant, and the FSA building landlord, pled guilty to defrauding three FSA programs of approximately $850,000 over a 9-year period. All 12 defendants were sentenced to terms ranging from probation to 57 months in jail and were ordered to pay fines and restitution totaling approximately $607,000. Forfeiture of $246,350 was ordered against the CED and the building landlord, and both of the FSA employees have been dismissed. The investigation also prevented an additional $15,500 in funds being issued by FSA.

The multifaceted scheme involved the Feed Grain, Disaster, and Tobacco Programs. The two FSA employees falsified documents, enabling the co-conspirators to receive payments they were not entitled to, and in return, approximately half the proceeds were given to the CED. The numerous checks were made payable in the names of the various co-conspirators and to fictitious names. Of the 12 who pled guilty, only 1 was a farmer. In addition, the CED and the building landlord conspired to steal Burley Tobacco Marketing Cards and tobacco poundage quotas from various farms. The proceeds were laundered through a business account belonging to the building landlord.

This investigation was conducted jointly with the FBI.

Former APHIS Employee Sentenced

A former APHIS employee in Texas was convicted in Federal court of making false certifications regarding the sale and disposition of surplus Government vehicles. The employee, who was responsible for the sale of surplus vehicles, purchased three surplus APHIS trucks through another buyer. In addition, he furnished false information to the State of Texas in connection with the title applications for the three vehicles. The employee resigned soon after the investigation began.

The former employee was sentenced to probation for 1 year and fined $1,200. He also had to return the three vehicles to APHIS and forfeit the $2,000 he had paid for them.

This investigation was conducted jointly by OIG and the Criminal Intelligence Service of the Texas Department of Public Safety.

Statistical Data

Audits Without Management Decision

The following 41 audits did not have management decisions made within the 6-month limit imposed by Congress. While 14 of these were pending judicial, legal, or investigative proceeding, 27, the majority, were pending agency action. Narratives follow this table.

Since the second half of FY 1992, when there were 16 audits with no management decisions, with the exception of one 6-month reporting period, there has been a steady increase in the number of these audits. In each reporting period, the majority of audits without management decisions were those where the audits were pending agency action.

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	09/16/96	2.	Use of SSN in FSP To Prevent Multiple and/or Fraudulent Participation (27601-2-Te)	0	0
FS	07/18/96	3.	FY 1995 FS Financial Statements (08401-4-At)	1,150,183,750	1,150,183,750
	09/30/96	3.	Real and Personal Property Issues (08801-3-At)	0	0
	08/07/96	4.	Audit of the Stewardship Incentive Program (08099-3-Te)	20,907	5,299
FSA	07/12/94	5.	Marketing Loan Program Objectives and Accomplishments (03600-16-At)*	1,227,700,000	1,227,700,000
	08/11/95	6.	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)
	09/08/95	7.	Management of the Sumter County, GA, Consolidated Farm Service Agency (CFSA) Office (03006-5-At)*	4,479,035	2,513,132
	09/18/95	8.	Management of the Dade County, FL, CFSA Office (03006-1-At)*	75,175,410	909,437
	03/15/96	9.	Wool and Mohair Payment Limitation, Concho County, TX (03099-2-Te)*	2,072,102	1,177,675
	03/29/96	10.	Texas Agricultural Mediation Program (03801-15-Te)*	964,878	964,878
	03/29/96	11.	Cash/Share Lease Provisions (03801-2-Te)*	1,076,557	1,076,557
	05/02/96	12.	Disaster Assistance Program - 1994, Thomas County, GA (03006-13-At)	2,177,640	2,145,533
	05/10/96	13.	Program Operations in Dawson County, MT (03006-4-KC)	175,807	175,138
	06/05/96	14.	1994 Crop Disaster Payments, Minnesota (03006-5-Ch)	375,801	375,801
	07/24/96	15.	Disaster Assistance Program (1994) Duplin County, NC (03006-17-At)	931,880	42,811
	08/08/96	16.	Emergency Conservation Program Payments (03004-1-Te)	154,521	154,521

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	08/12/96	17. Grain Warehouse Examination Process (03099-14-KC)	0	0
	09/18/96	18. Emergency Feed Program in Texas (03601-7-Te)	626,182	185,783
	09/30/96	19. 1994 Disaster Assistance Program - Burlington County, NJ (03006-1-Hy)	132,815	38,402
	09/30/96	20. 1994 Disaster Assistance Program - Maine (03601-1-Hy)	2,666,383	2,666,383
FSIS	04/25/96	21. Meat and Poultry Inspection Program - Phase II (24801-1-At)	0	0
NRCS	09/29/95	22. Conservation Compliance Provisions (10601-1-KC)*	0	0
RHS	08/04/95	23. Rural Rental Housing Project Operations - Alliance Management Co., Michigan (04010-4-Ch)*	147,605	147,605
	08/17/95	24. Rural Rental Housing Project Operations - Smith Management Co., Michigan (04010-1-Ch)*	259,899	100,613
	10/23/95	25. Rural Rental Housing Project Operations - Lansing Management Co., Michigan (04010-6-Ch)*	57,178	57,178
	05/02/96	26. Rural Rental Housing Program, CATO Companies, Michigan (04010-12-Ch)	235,498	215,631

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
RMA	07/01/96	27. Options Pilot Program (03099-5-KC)	16,550	16,550
Audits Pending Judicial, Legal, or Investigative Proceeding				
AARC	09/30/96	28. AARC - Cooperative Agreement with Agro-Fibers, Inc. (34099-1-At)	0	0
FS	10/27/92	29. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	0
	04/24/96	30. K&S Construction Claim on Contract (08017-3-KC)	223,518	35,000
FSA	09/30/93	31. Disaster Program Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	01/18/95	32. Disaster Assistance Program, Autauga County, AL (03099-153-At)*	628,570	628,570
	01/19/95	33. Disaster Assistance Program, Geneva County, AL (03099-157-At)*	1,667,814	229,828
	03/02/95	34. Disaster Assistance Program, Jackson County, FL (03099-158-At)*	359,265	359,265
	03/31/95	35. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (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	36. Large Operator Compliance With Payment Limitations - Georgia (03099-5-Te)*	491,680	491,680
	06/22/95	37. Disaster Assistance Program - 1993 Nonprogram Crops, Sutter County, CA (03006-1-SF)*	1,217,475	231,315
	09/07/95	38. Large Operators' Compliance With Payment Limitation Provisions in Stephenson County, IL, and Rock County, WI (03099-8-KC)*	165,069	165,069
	09/07/95	39. A&B Professional Consulting, Inc. (03004-1-At)*	628,976	628,976
	09/28/95	40. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	41. Crop Disaster - Brooks/Jim Hogg, Texas (03006-1-Te)*	2,469,829	2,469,829

*Reported in the 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 which 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. Because we had reported deficiencies in post-awards management in all major CSREES delivery systems we have reviewed, the agency formed a task force to address accountability in that area. Also, one of the partners charged questionable expenditures to the grant related to salaries, rent, travel, and business expenses. In addition, the Office of the General Counsel found that the major fundholder had violated Federal antilobbying requirements by exempting its subrecipient from filing.

To date, CSREES has been unable to propose satisfactory corrective actions to reach management decision. The task force has recommended that CSREES not adopt a monitoring system as recommended by OIG. The monitoring system would have required managers to compare project expenditures to budgeted amounts and the accomplishments of critical tasks and expectations. Instead, they propose to identify categories of recipients which they considered "high risk" and subject to increased scrutiny under the present administrative review procedures. OIG disagrees with the risk classification approach since we do not believe it adequately addresses GAO's assessment of accounting deficiencies in agency programs nor concerns we have about the adequacy of the current review process. In addition, CSREES and OIG are continuing to work out the procedure to be used in collecting the penalties associated with lobbying violations.

2. **Use of Social Security Number in FSP To Prevent Multiple and/or Fraudulent Participation, Issued September 16, 1996**

We recommended that FCS modify its regulations to require that Social Security numbers (SSN) on a data base be unique or to place cases with invalid SSN's on a 1-month certification. We determined that three of the four States reviewed did not effectively use SSN's to prevent fraudulent participation. Also, applicants providing incorrect or false SSN's were, in effect, given preferential treatment over those who properly disclosed that they had no SSN. Participants whose SSN's were later verified to be false or incorrect were allowed to participate until the end of the certification period, while those without an SSN were allowed to participate for the month of application and the following month. We continue to work with FCS to achieve acceptable management decisions on these two areas.

3. **FY 1995 Forest Service Financial Statements, Issued July 18, 1996, and Real and Personal Property Issues, Issued September 30, 1996**

FS and OIG personnel have been working closely in a task force to improve FS accounting systems and processes, and to adopt new accounting standards issued by OMB. One primary objective of the task force is to enable FS to prepare timely and accurate financial statements and ultimately receive unqualified audit opinions on those statements. FS has begun to implement a new real property accounting system and will begin converting field offices to the new departmental general ledger system in October 1997. Implementation timeframes for (1) the new general ledger, (2) improvements in FS accounting subsystems, and (3) new accounting standards will extend into FY 1999. We continue to work closely with FS to ensure that longstanding deficiencies in its accounting systems and controls are eliminated.

4. **Audit of the Stewardship Incentive Program, Issued August 7, 1996**

The audit disclosed that cost-share assistance was provided to eligible landowners in a way that violated the authorizing statute because it exceeded 75 percent of the landowners' costs. We found cost-shares of up to 100 percent paid in the States reviewed. Since the official guidance allows cost-shares up to 100 percent, the problem appears to be nationwide in scope. We recommended recovery of overpayments totaling $20,907 for the ineligible cost-share payments, and changes to the program handbook which delete use of cost-share methods that can exceed 75 percent of the actual cost. We are working with agency officials to reach management decision.

5. **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 Agriculture 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 before cotton was placed under loan, which had been authorized before issuance of the new megaregulation. We are reviewing the status of this audit to determine what further action might be appropriate.

6. **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 of the non-Federal employees of the new FSA field offices should be transferred from the county office administrative expense system to NFC's administrative expense systems in New Orleans. OIG participated on a task force with FSA and OCFO to determine the feasibility of transferring the payroll and other administrative expense function to NFC. Resolution of this issue is pending.

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

The audit identified 11 producers who provided inaccurate information and received excessive disaster 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 has been withholding action pending the completion of a review by the U.S. attorney. We recently notified the State agency that the U.S. attorney would not seek civil action, and FSA is proceeding to act on the cases.

8. **Management of the Dade County, Florida, CFSA 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 income 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.

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

We questioned over $1.2 million in wool and mohair price support payments to a family group because the producer 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.

10. **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. 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.

11. Cash/Share Lease Provisions, 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. We also recommended that FSA issue specific 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.

12. Disaster Assistance Program - 1994, Thomas County, Georgia, Issued May 2, 1996

We found that 17 producers, involving 2 separate family farming operations and 1992 and 1993 payments totaling $2,145,533, appeared to have participated in schemes or devices to avoid maximum payment limitations. One family farming operation is under investigation, and FSA has been precluded from taking action on these producers until investigative actions are completed. The FSA Georgia State office advised us that it was acting on the other family farming operation.

13. Program Operations in Dawson County, Montana, Issued May 10, 1996

The audit disclosed that management and administration of programs and activities in Dawson County were not adequate to ensure that program instructions were followed. Actions on the part of the county executive director and, in some cases, the county committee caused producer anxiety and distrust. This led to numerous complaints, impaired the staff's ability to carry out their assigned duties and responsibilities, and prevented producers from obtaining program benefits to which they were otherwise entitled. The agency generally concurred with the recommended actions presented in the report; however, the proposed timeframes for implementation were not always shown. We are working with FSA to reach management decision.

14. 1994 Crop Disaster Payments, Minnesota, Issued June 5, 1996

The FSA State office established a payment level reduction factor in excess of the established range, and the FSA county offices made incorrect payments due to production and acreage errors which resulted in overpayments of $108,988 and underpayments of $1,879. We recommended that the State office provide appropriate guidance to the county offices and require the county offices to recover all overpayments. We are working with FSA to reach management decision.

15. Disaster Assistance Program (1994) Duplin County, North Carolina, Issued July 24, 1996

We found that seven producers provided inaccurate information and received excessive disaster payments of $42,811. We recommended that FSA recover the excessive payments. We are working with FSA to reach management decision.

16. Emergency Conservation Program Payments, Issued August 8, 1996

We found that nine producers received excessive Emergency Conservation Program payments because they provided inflated costs to the county office for computing payments for restoring terraces damaged by floods. The nine cases were referred to OIG/Investigations, precluding FSA from taking administrative action. The investigations are now complete, and the U.S. attorney has declined prosecution. We are working with FSA to reach management decision.

17. Grain Warehouse Examination Process, Issued August 12, 1996

Our evaluation disclosed significant flaws in the warehouse examination process: The methods used by examiners were not adequate to ensure uniform and reliable results for examinations at warehouses holding large grain inventories. We determined that the policies and procedures developed for warehouse examinations could not be practically applied by the examiners. We also determined that the examiners conducted their examinations independent of procedural requirements without the benefit of onsite supervisory visits or quality control reviews. National program officials generally concurred with the findings and recommendations presented in our evaluation report. We are working with FSA to reach management decision.

18. Emergency Feed Program in Texas, Issued September 18, 1996

We recommended recovery of program overpayments totaling $214,267 from producers in two counties. The State office has begun corrective action to collect the overpayments in one of the counties. Due to ongoing investigations, the State executive director was notified not to take administrative action against the producers in the other county because it might interfere with legal actions.

19. 1994 Disaster Assistance Program - Burlington County, New Jersey, Issued September 30, 1996

We found that 10 producers provided inaccurate information and received excessive disaster payments of $22,811. We found that the county office did not effectively manage Disaster Assistance Program operations. FSA did not effectively service producers and did not ensure that payments were accurate and timely. We recommended that FSA provide additional training to county office staff and that the State office monitor county office operations. We also recommended that FSA issue additional payments of $15,591 to 10 producers. We are working with FSA to reach management decision.

20. 1994 Disaster Assistance Program - Maine, Issued September 30, 1996

The report identified 21 producers who provided inaccurate information and received excessive disaster payments of $1.6 million. We also reported that the State committee, acting without approval, improperly established the payment rate and yield used in the computation of 1994 potato disaster payments, resulting in Maine producers being overcompensated by approximately $887,443. We recommended that the agency take action to recover overpayments in those cases for which they were not prohibited from taking action pending the conclusion of the investigative actions. The agency response indicated concurrence with the recommendation, but the agency has determined that no action should be taken until the investigations are complete.

21. Meat and Poultry Inspection Program - Phase II, Issued April 25, 1996

Management decisions have not been reached for 2 of the report's 11 recommendations for FSIS' Meat and

Poultry Inspection Program, during Phase II of our evaluation. One recommendation dealt with the need to expand the Performance-Based Inspection System (PBIS) data base so that it (1) includes all deficiencies written for each task, (2) flags tasks with repetitive deficiencies to accurately show a trend analysis, and (3) includes capability to assign a plant rating based on the number of deficiencies recorded. FSIS agrees that PBIS plays a key role in identifying and tracking plant performance, but has not provided sufficient information regarding its intent to make the necessary changes to reach management decision. The other recommendation addressed the need to retain the independence of FSIS' internal control system/function by keeping it a distinct entity, separate from field operations, and with direct or indirect reporting responsibility to the FSIS Administrator. FSIS has not agreed that there is a need to keep the in-plant internal control/quality control review function separate. If agreement cannot be reached, the outstanding recommendations will be elevated to the Under Secretary.

22. 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.

23. 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 that 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.

24. 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.

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

A management company duplicated charges of $57,178 to RRH projects for postage, training, and office equipment. All 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.

26. Rural Rental Housing Program, CATO Companies, Michigan, Issued May 2, 1996

We found that a management company charged RRH projects $215,631 in unsupported and unallowable operating costs. The unallowable costs included expenditures for training, travel, bookkeeping fees, and office equipment purchases. In some cases, the questioned costs were unallowable because the company could not provide adequate documentation to support the allocation of costs to the projects. We recommended that the borrower reimburse the projects for all of the $215,631 unallowable and unsupported charges made to RRH projects. We are working with RHS officials to reach management decision.

27. Options Pilot Program, Issued July 1, 1996

We found that the decision to allow participants to exceed the enrollment limit for wheat in 1994 resulted in increased Government expenditures without increased program benefits. We also identified inconsistent interpretations and applications of procedures for determining eligibility requirements and incorrect and unsupported premium and incentive payment amounts. The report was issued to FSA officials on July 1, 1996, and they did not provide a response to either the draft or final report.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) transferred responsibility for the program from FSA to RMA. On March 19, 1997, RMA responded by stating that the Options Pilot Program (OPP) has been inoperative since the 1995 crop year. Before RMA reimplements OPP, it will incorporate the various requirements of the 1996 Act including an emphasis on producer education, budget neutrality, and, possibly, a private sector role in the delivery of the program. RMA anticipates a substantial restructuring of OPP relative to the versions of OPP administered by FSA in the 1993, 1994, and 1995 crop years. RMA expects the OIG audit report regarding the program's past structure to provide valuable input during the restructuring process. However, at this time, RMA is not in a position to provide an indepth response to the OIG audit.

28. AARC Cooperative Agreement with Agro-Fibers, Inc., Issued September 30, 1996

The Alternative Agricultural Research and Commercialization (AARC) Corporation awarded $800,000 to a company to develop, manufacture, and market kenaf (papyrus grass) nonwoven mat products. The company had provided AARC a financial statement that showed equity in excess of $1.1 million, and the agreement called for the company to invest an additional $2.8 million over the subsequent 5 years. Our audit disclosed that, after 5 years, the company had only $100 equity in the business and had similarly misrepresented its financial position to the Tennessee Valley Authority (TVA) to obtain a guaranteed loan for an additional $800,000. The company's records did not support the financial statement submitted to AARC and TVA, and the company had not reported over $1.7 million in debt owed affiliate entities. The company had provided AARC no program reports or audited financial statements. Soon after our visit to the site, the plant burned to the ground.

Our review found that, since most of the AARC funds had been used for operating expenses, nothing would be recovered from the insurance and, because the company had not begun to produce the anticipated return, it was questionable that anything could be salvaged from AARC's investment. AARC has taken action to improve its project management and agreed to apply due diligence in future arrangements with the company. However, until the U.S. attorney has released the case from possible criminal prosecution and OIG/Investigations is satisfied that there is no need to take administrative action, AARC is prohibited from negotiating any further arrangements with the company.

29. 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.

30. K&S Construction Claim on Contract, Issued April 24, 1996

The audit was performed by auditors of the Defense Contact Audit Agency (DCAA). DCAA questioned costs included in the claim totaling $223,518. DCAA reported that the claimant was not entitled to payment of any additional days of fixed overhead costs or lost revenue. In addition, DCAA questioned the claim for lost production labor. DCAA also reported that the company is no longer in business. The FS contracting officer advised us that court action is in process. According to the U.S. attorney, favorable court decisions have reduced the Government's exposure to approximately $35,000. We will achieve management decision when the court makes a final determination on the claim.

31. 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 interests 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 that the total acreage was planted. County staff accepted inaccurate information even though, in many cases, other readily available data would have shown inaccurate information was provided. FSA officials agreed with our recommendations. However, claims cannot be established until all investigative actions are complete.

32. 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.

33. 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.

34. 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.

35. Disaster Assistance Program, 1993 Nonprogram Crops, 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.

36. 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.

37. 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.

38. 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.

39. A&B Professional Consulting, Inc., 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.

40. Disaster Assistance Payments - Lauderdale, 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 limitations 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.

41. Crop Disaster - Brooks/Jim Hogg, 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 programs 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 statements 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 the investigative actions are completed.

Indictments and Convictions

Between October 1, 1996, and March 31, 1997, OIG completed 492 investigations. We referred 354 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 329 indictments and 370 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 370 convictions do not necessarily relate to the 329 indictments. Fines, recoveries/ collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled about $52.9 million.

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

Indictments and Convictions
October 1, 1996 - March 31, 1997

Agency	Indictments	Convictions*
AMS	4	0
APHIS	1	2
FAS	3	2
FSA	42	44
FCS	251	303
FS	2	3
FSIS	14	4
NRCS	1	1
RHS	7	5
RMA	4	6
Totals	329	370

*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 2,178 calls and letters. In addition, two complainants met with the Hotline staff. These contacts included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 3 displays the volume and type of the complaints we received, and figure 4 displays the disposition of those complaints.

Figure 3

Hotline Complaints
October 1, 1996, to March 31, 1997
(Total = 2,180)

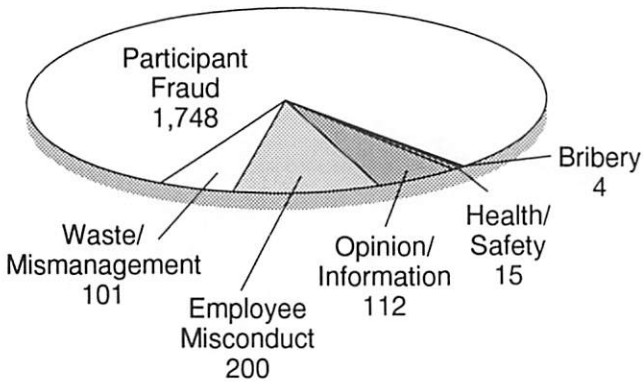
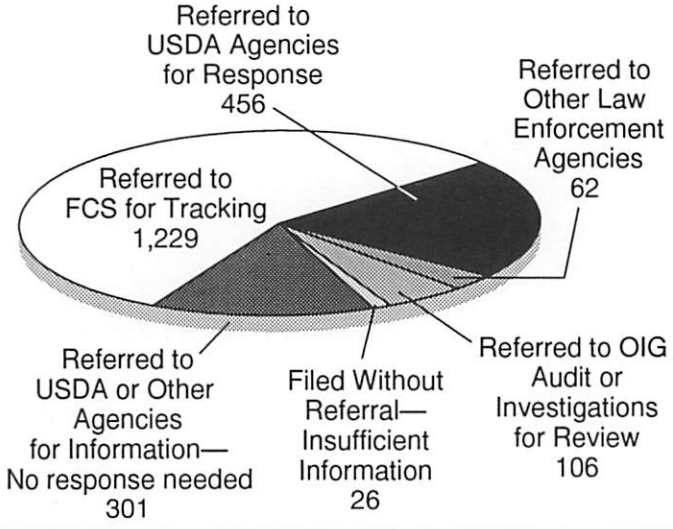


Figure 4

Disposition of Complaints
October 1, 1996, to March 31, 1997



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period October 1, 1996, to March 31, 1997

Number of FOIA/PA Requests Received		238
Number of FOIA/PA Requests Processed		213
Number of Requests Granted in Full	107	
Number of Requests Granted in Part	58	
Number of Requests Not Granted	48	
Reasons for Denial:		
No Records Available	14	
Requests Denied in Full	26	
Referrals to Other Agencies	8	
Requests for OIG Reports from Congress and Other Government Agencies		
Received	52	
Processed	50	
Appeals Processed		9
Appeals Granted	0	
Appeals Denied in Full	9	
Appeals Denied in Part	0	
Number of OIG Reports Released in Response to Requests		208

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

	NUMBER	DOLLAR VALUES: QUESTIONED COSTS AND LOANS	DOLLAR VALUES: UNSUPPORTED COSTS AND LOANS*
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1996	79	$264,049,335	$9,028,386
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	50	$886,249,718	$4,287,580
TOTALS	129	$1,150,299,053	$13,315,966
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	52		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$7,116,143	$1,697,223
NOT RECOMMENDED FOR RECOVERY		$23,003,091	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$100,814,125	$2,228,724
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	77	$1,021,593,213	$10,809,387
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	33	$136,695,142	$6,534,675

*Unsupported values are included in questioned values.

Appendix II

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

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1996	21	$1,352,782,780
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	15	$64,614,636
TOTALS	36	$1,417,397,416
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	15	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$249,239,303
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$2,408,785
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	20	$1,165,847,394
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	10	$1,101,497,697

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997, OIG ISSUED 127 AUDIT REPORTS, INCLUDING 12 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	5	$1,443,495	0	0
AGRICULTURAL RESEARCH SERVICE	2	0	0	0
FARM SERVICE AGENCY	27	$4,320,679	$370,008	$234,772
RURAL HOUSING SERVICE	5	$31,602,555	$91,400	$34,199,825
RISK MANAGEMENT AGENCY	2	0	0	0
FOREIGN AGRICULTURAL SERVICE	4	$2,165,425	$653,518	$3,690,198
FOREST SERVICE	3	$1,731,656	0	$40,328
RURAL UTILITIES SERVICE	2	$832,681,441	$1	0
NATURAL RESOURCES CONSERVATION SERVICE	1	0	0	0
OFFICE OF THE CHIEF FINANCIAL OFFICER	2	$34,441	$27,500	$4,829,000
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE	1	$5,633	0	0
OFFICE OF OPERATIONS	1	0	0	0
FOOD SAFETY AND INSPECTION SERVICE	3	0	0	$14,702,250
FOOD AND CONSUMER SERVICE	22	$5,596,537	$2,776,926	$133,583
GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION	1	0	0	0
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2	$975,370	$84,009	$3,062,743
RURAL BUSINESS-COOPERATIVE SERVICE	3	$294,073	0	$3,702,795
MULTI-AGENCY	41	$5,398,413	$284,218	$19,142
TOTALS	127	$886,249,718	$4,287,580	$64,614,636

TOTAL COMPLETED:	
SINGLE AGENCY AUDIT	86
MULTIAGENCY	41
TOTAL RELEASED NATIONWIDE	127
TOTAL COMPLETED UNDER CONTRACT[b]	12
TOTAL SINGLE AUDIT ISSUED[c]	30

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

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE					
01-016-0001-HY 97/02/18	CONTROLS OVER AMS INVESTMENT PROGRAM				
01-016-0002-CH 96/11/01	DAIRY PLANT INSPECTION ACTIVITIES				
01-099-0003-AT 97/03/04	FRUIT AND VEGETABLE SHIPPING POINT INSPECTION IN FLORIDA		$1,443,495		
01-099-0004-AT 97/03/24	COTTON CLASSING				
01-801-0001-CH 96/12/04	EVALUATION OF DAIRY MANAGEMENT, INC.				
TOTAL: AGRICULTURAL MARKETING SERVICE		5	$1,443,495		
AGRICULTURAL RESEARCH SERVICE					
02-017-0004-HY 96/10/15	INCURRED COST OF BURNS AND ROE CORPORATION				
02-017-0008-HY 96/11/22	INCURRED COST OF BURNS AND ROE CORPORATION CY 1994				
TOTAL: AGRICULTURAL RESEARCH SERVICE		2			
FARM SERVICE AGENCY					
03-006-0004-SF 97/03/31	NONINSURED CROP DISASTER ASSISTANCE PROGRAM - 1995 CROP YEAR - SAN JOAQUIN COUNTY, CA		$729,869		
03-006-0005-SF 97/03/31	NONINSURED CROP DISASTER ASSISTANCE PROGRAM - 1995 PROGRAM YEAR - MONTEREY COUNTY, CA		$1,385,906		
03-006-0006-CH 96/10/11	COUNTY OFFICE OPERATIONS-CRAWFORD COUNTY, WI		$12,868	$12,868	
03-006-0013-TE 96/11/15	WOOL AND MOHAIR PRODUCERS/BUYERS				
03-099-0002-CH 97/01/31	CROP YEAR 1995 NAP PAYMENTS - MINNESOTA		$59,366		
03-099-0005-AT 96/11/13	CROP YEAR 1995 NAP PAYMENTS - ALABAMA				$16,808
03-099-0006-AT 96/12/27	CROP-YEAR 1995 NAP PAYMENTS, PECANS - FLORIDA		$3,639		
03-099-0007-AT 96/11/14	CROP-YEAR 1995 NAP PAYMENTS, AUTAUGA COUNTY, AL				$139,366
03-099-0008-AT 97/01/23	ASSIGNMENT OF TOBACCO QUOTA - LOUDON COUNTY, TN				
03-099-0013-TE 97/03/27	EMERGENCY DISASTER LOAN ELIGIBILITY - ARKANSAS		$614,490		
03-099-0014-TE 97/01/15	REVIEW OF REPORTED AMTA PAYMENT LIMIT VIOLATIONS				
03-099-0015-TE 97/03/31	REVIEW OF REPORTED AMTA PAYMENT LIMIT VIOLATIONS - LOUISIANA				$78,598
03-099-0021-KC 96/12/31	LAND ACCEPTED UNDER CRP THIRTEENTH SIGNUP				
03-099-0023-KC 97/03/31	MANAGEMENT OF ACQUIRED FARM PROPERTY				
03-099-0024-KC 97/01/15	CONTROLS OVER MANUAL CONSERVATION RESERVE PROGRAM PAYMENTS				
03-601-0004-AT 96/12/27	PRODUCTION FLEXIBILITY CONTRACTS COMPLIANCE - MISSISSIPPI		$235		
03-601-0005-AT 96/12/27	PRODUCTION FLEXIBILITY CONTRACTS COMPLIANCE - GEORGIA				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
03-601-0006-SF 97/03/13	AMTA PHASE III - COMPLIANCE - WASHINGTON				
03-601-0007-SF 97/02/06	AMTA PHASE III - COMPLIANCE - CALIFORNIA				
03-601-0010-KC 97/03/21	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE AND PAYMENTS - COLORADO		$140,508		
03-601-0011-TE 97/03/18	AMTA PROGRAM ENROLLMENT				
03-601-0012-KC 97/03/27	PRODUCTION FLEXIBILITY CONTRACTS COMPLIANCE AND PAYMENTS - MISSOURI		$6,395		
03-601-0016-TE 97/03/06	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE - TEXAS				
03-601-0017-TE 97/03/18	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE - ARKANSAS		$2,442		
03-801-0023-TE 97/03/04	STATE-ADMINISTERED MEDIATION PROGRAMS		$1,174,624	$357,140	
03-801-0024-TE 97/02/19	SURVEY OF EMERGENCY DISASTER LOAN ELIGIBILITY		$34,880		
03-801-0026-TE 97/01/08	PAYMENT LIMITATION CASE, MADISON PARISH, LA - CROP YEAR 1995		$155,457		
	TOTAL: FARM SERVICE AGENCY	27	$4,320,679	$370,008	$234,772
RURAL HOUSING SERVICE					
04-005-0003-SF 97/03/25	CITRUS MANOR DEVELOPMENT, FINANCIAL STATEMENT FYE 12/31/96				
04-005-0004-SF 97/03/25	PARKVIEW PROPERTIES, FINANCIAL STATEMENTS, FYE 12/31/96				
04-601-0001-KC 96/12/16	ADDITIONAL SERVICING OF 8/515 RRH PROJECTS		$31,511,155		$34,199,825
04-601-0002-KC 97/03/06	RESTORED RRH INTEREST CREDIT BENEFITS		$91,400	$91,400	
04-601-0003-TE 97/03/21	SECTION 583 HOUSING PRESERVATION GRANT PROGRAM				
	TOTAL: RURAL HOUSING SERVICE	5	$31,602,555	$91,400	$34,199,825
RISK MANAGEMENT AGENCY					
05-401-0001-FM 97/02/19	FY 1996 FCIC FINANCIAL STATEMENT AUDIT				
05-401-0002-FM 97/02/19	FCIC REPORT ON MANAGEMENT ISSUES AS OF 9/30/96				
	TOTAL: RISK MANAGEMENT AGENCY	2			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FOREIGN AGRICULTURAL SERVICE					
07-001-0001-HY 97/03/21	FOLLOWUP SUGAR REEXPORT PROGRAM				
07-013-0001-HY 97/03/17	INTERNAL CONTROLS OVER FOREIGN AGRICULTURAL OFFICES				
07-099-0001-AT 97/01/23	OICD AND ITS MISSION WITHIN USDA				
07-801-0004-TE 96/12/02	EVALUATION OF THE FUND FOR DEMOCRACY AND DEVELOPMENT		$2,165,425	$653,518	$3,690,198
TOTAL: FOREIGN AGRICULTURAL SERVICE		4	$2,165,425	$653,518	$3,690,198
FOREST SERVICE					
08-017-0002-KC 96/10/02	AIR RESOURCE SPECIALISTS, INC. - CONTRACT				
08-601-0018-SF 97/03/31	RESEARCH COOPERATIVE AND COST REIMBURSABLE AGREEMENTS		$1,731,656		$40,328
08-801-0001-HQ 96/12/02	FOREST SERVICE EVALUATION OF AIRTANKER PRESEASON INSPECTIONS				
TOTAL: FOREST SERVICE		3	$1,731,656		$40,328
RURAL UTILITIES SERVICE					
09-401-0001-FM 97/03/31	FY 96 RUS/RTB FINANCIAL STATEMENT AUDIT				
09-601-0001-KC 96/12/18	ELIGIBILITY OF WATER & WASTE LOANS		$832,681,441	$1	
TOTAL: RURAL UTILITIES SERVICE		2	$832,681,441	$1	
NATURAL RESOURCES CONSERVATION SERVICE					
10-099-0003-KC 96/12/03	PLANT MATERIALS CENTERS				
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		1			
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-099-0004-FM 97/02/28	NFC IMPREST FUND AND FIELD PARTY ADVANCE SYSTEM		$34,441	$27,500	$4,829,000
11-401-0002-FM 97/03/05	FY 1996 NFC GENERAL CONTROLS REVIEW				
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		2	$34,441	$27,500	$4,829,000
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE					
13-011-0001-CH 97/03/27	USE OF 4-H PROGRAM FUNDS - UNIV. OF ILLINOIS, CHAMPAIGN, IL		$5,633		
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE		1	$5,633		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
OFFICE OF OPERATIONS					
23-017-0006-HY 96/10/17	TERMINATION OF CCL				
TOTAL: OFFICE OF OPERATIONS		1			
FOOD SAFETY AND INSPECTION SERVICE					
24-099-0001-HY 96/12/11	IMPORTED MEAT INSPECTION				
24-801-0002-AT 97/03/05	EXPORT INSPECTION COSTS				$14,702,250
24-801-0003-AT 97/02/07	PROGRESSIVE ENFORCEMENT ACTION PROCESS				
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		3			$14,702,250
FOOD AND CONSUMER SERVICE					
27-002-0002-TE 97/03/21	ESTABLISHMENT AND COLLECTION OF FOOD STAMP CLAIMS		$1,908,988	$1,908,988	
27-002-0004-KC 97/01/24	MONITORING WYOMING STATE EBT SYSTEM				
27-002-0007-CH 97/01/14	ESTABLISHMENT AND COLLECTION OF FOOD STAMP CLAIMS - MICHIGAN				
27-004-0004-SF 97/03/07	SUMMER FOOD SERVICE PROGRAM - CALIFORNIA		$296,052		
27-010-0003-CH 96/11/07	NSLP/SBP JOLIET DISTRICT 68, JOLIET, IL				
27-010-0004-CH 96/11/07	NSLP/SBP DECATUR DISTRICT 61, DECATUR, IL				
27-010-0005-CH 96/11/07	NSLP/SBP ROCKFORD DISTRICT 205, ROCKFORD, IL				$30,167
27-010-0006-CH 96/11/07	NSLP/SBP PEORIA DISTRICT 150, PEORIA, IL				
27-010-0007-HY 96/12/12	CACFP - CHILD AND FAMILY SERVICES, INC.		$133,404		
27-010-0008-HY 97/03/06	HONEYTREE EARLY LEARNING CENTER - CACFP		$101		
27-010-0009-HY 97/03/31	WOODLAWN GARDENS PRIVATE SCHOOL - CACFP		$83		
27-010-0010-HY 97/03/06	COLONIAL DAY SCHOOL - CACFP		$223		
27-010-0011-HY 97/03/31	JACK N THE BOX - CACFP		$299		
27-017-0006-HY 96/10/23	FY 1993 INCURRED COST OF ABT				
27-017-0010-HY 97/01/02	POST AWARD AUDIT OF ALTA SYSTEMS				
27-099-0006-CH 96/12/26	STRATEGIC MONITORING OF EBT SYSTEMS - OHIO				
27-099-0006-TE 97/03/12	SURVEY OF NEW MEXICO EBT BENEFIT SYSTEM		$95,913		$103,416
27-401-0006-HY 96/10/28	FY 1995 FOOD AND CONSUMER SERVICE MANAGEMENT LETTER				
27-601-0001-SF 97/02/25	FOOD STAMP PROGRAM - ESTABLISHMENT AND COLLECTION OF FOOD STAMP CLAIMS (FCS-209)				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-601-0008-CH 97/01/21	FOOD STAMP PROGRAM - RETAILER MONITORING WITH STORE TRACKING AND REDEMPTION SUBSYSTEMS		$2,293,536		
27-601-0010-CH 96/12/10	ESTABLISHMENT AND COLLECTION OF FOOD STAMP CLAIMS - ILLINOIS				
27-801-0004-AT 97/03/13	FLORIDA FOOD STAMP ADMINISTRATIVE COST		$867,938	$867,938	
	TOTAL: FOOD AND CONSUMER SERVICE	22	$5,596,537	$2,776,926	$133,583
GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION					
30-801-0001-CH 97/02/26	MONITORING AND ENFORCEMENT OF ANTICOMPETITIVE PRACTICES				
	TOTAL: GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
33-099-0001-CH 96/11/15	CONTROLS OVER COOPERATIVE AGREEMENTS		$84,009	$84,009	$3,062,743
33-601-0001-TE 97/03/31	SURVEY OF KARNAL BUNT WHEAT EMERGENCY		$891,361		
	TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2	$975,370	$84,009	$3,062,743
RURAL BUSINESS-COOPERATIVE SERVICE					
34-001-0001-HQ 96/12/17	MINORITY ENTERPRISE ACQUISITION CORPORATION		$150,000		$100,000
34-601-0001-TE 97/03/31	INTERMEDIARY RELENDING PROGRAM				$3,602,795
34-801-0001-TE 96/12/05	EMPOWERMENT ZONES - ENTERPRISE COMMUNITIES		$144,073		
	TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE	3	$294,073		$3,702,795
MULTI-AGENCY					
50-020-0010-CH 96/11/26	SINGLE AUDIT OF THE SCHOOL DISTRICT OF THE CITY OF PONTIAC, MI		$385,000		
50-020-0017-AT 97/02/26	A-128 AUDIT OF THE STATE OF SOUTH CAROLINA FOR FYE 6/30/95				
50-020-0017-KC 96/10/07	A-128, STATE OF UTAH (FY 6/95), SALT LAKE CITY, UT				
50-020-0018-AT 97/02/26	A-128 AUDIT OF THE STATE OF FLORIDA FYE 6/30/95				
50-020-0018-KC 96/12/30	A-128, STATE OF MONTANA (2 FY'S ENDED 6/95) HELENA, MT		$54,411	$54,351	
50-020-0020-AT 97/03/03	A-128 AUDIT OF THE STATE OF TENNESSEE				
50-020-0021-AT 97/03/04	A-128 AUDIT OF THE STATE OF GEORGIA				
50-020-0021-KC 96/11/19	A-128, STATE OF MISSOURI, (FY 6/95) JEFFERSON CITY, MO		$26,248		
50-020-0022-AT 97/03/05	A-128 AUDIT OF THE STATE OF NORTH CAROLINA				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0023-AT 97/03/06	A-128 AUDIT OF THE STATE OF MISSISSIPPI			
50-020-0024-AT 97/03/07	A-128 AUDIT OF THE STATE OF ALABAMA			
50-020-0024-KC 96/10/22	A-128 AUDIT OF THE STATE OF WYOMING (FY 6/95) CHEYENNE, WY			
50-020-0025-KC 97/02/13	A-128 WYOMING DEPARTMENT OF FAMILY SERVICES (FY 6/93), CHEYENNE, WY			
50-020-0026-KC 97/02/13	A-128 - WYOMING DEPARTMENT OF FAMILY SERVICES (FY 6/94), CHEYENNE, WY			
50-020-0032-HY 96/11/25	COMMONWEALTH OF MASSACHUSETTS, A-128, 6/30/95	$446,823		
50-020-0034-HY 96/11/21	PUERTO RICO DEPARTMENT OF EDUCATION, A-128, 6/30/92			
50-020-0035-HY 96/11/19	STATE OF CONNECTICUT, A-128, 6/30/95	$165,648		
50-020-0036-HY 96/11/19	STATE OF NEW YORK, A-128, 3/31/95			
50-020-0037-HY 96/11/25	PR DEPARTMENT OF FAMILY (FORMERLY PR-DEPT. OF SOCIAL SERVICES) A-128, 6/30/88, 89 & 90	$127,535		
50-020-0037-SF 97/02/04	A-128 AUDIT FOR THE GOVERNMENT OF GUAM FYE 9/30/93	$107	$107	
50-020-0038-HY 97/01/29	STATE OF RHODE ISLAND AND PROVIDENCE PLANTATION, SINGLE AUDIT, A-128, SFYE 6/30/94	$22,748		
50-020-0038-SF 97/02/07	A-128 AUDIT FOR THE GOVERNMENT OF GUAM FYE 9/30/94	$2,306	$1,459	
50-020-0039-HY 97/01/29	COMMONWEALTH OF VIRGINIA, SINGLE AUDIT SFYE 6/30/95	$230,533		
50-020-0039-SF 97/02/13	A-128 AUDIT FOR THE GOVERNMENT OF GUAM FYE 9/30/95	$222,066	$213,452	
50-020-0040-SF 97/03/14	A-128 AUDIT FOR THE FEDERATED STATES OF MICRONESIA, FYE 9/30/95			
50-020-0041-HY 97/02/07	STATE OF DELAWARE, A-128, 6/30/95			
50-022-0001-TE 97/02/25	A-128 AUDIT OF THE MOREHOUSE PARISH SHERIFF FOR TWO YEARS ENDED 6/30/96	$3,180,000		
50-022-0002-HY 96/12/16	NATIONAL FIRE PROTECTION ASSOCIATION SINGLE AUDIT, A-133, FYE 12/31/94	$2,700	$2,700	
50-023-0003-HY 96/11/15	UNIVERSITY OF WEST VIRGINIA, A-133, 6/30/94			
50-023-0005-HY 96/11/21	UNIVERSITY OF PUERTO RICO, A-133, 6/30/95 & 6/30/94			
50-099-0005-AT 97/03/18	BIOLOGICAL MATERIAL AND WASTE MANAGEMENT			
50-099-0007-FM 97/03/31	USDA ACCESS TO THE INTERNET			
50-099-0012-FM 97/03/11	PCIE REVIEW OF GOVERNMENTWIDE COMMERCIAL CREDIT CARD PROGRAM			
50-099-0013-FM 96/12/16	COMPLIANCE WITH ADMINISTRATIVELY UNCONTROLLABLE OVERTIME POLICIES	$12,149	$12,149	
50-401-0015-FM 97/03/31	FISCAL YEAR 1996 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT			
50-601-0001-HQ 97/02/26	MISUSE OF THE AMERICAN EXPRESS GOVERNMENT CHARGE CARD			
50-801-0001-KC 97/03/31	EFFECTIVENESS OF WATER QUALITY INCENTIVES PROJECTS			
50-801-0002-AT 97/03/31	NAD DECISIONS			
50-801-0002-HQ 97/02/27	FARM LOAN PROGRAMS - CIVIL RIGHTS COMPLAINT SYSTEM			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES BETWEEN OCTOBER 1, 1996, AND MARCH 31, 1997

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-801-0003-AT 96/12/17	AMERICORPS PROGRAM - JACKSON YOUTH SERVICE		$520,139		$19,142
50-801-0004-AT 97/03/28	IMPLEMENTATION OF NAFTA PROVISIONS				
TOTAL: MULTI-AGENCY		41	$5,398,413	$284,218	$19,142
TOTAL: RELEASE - NATIONWIDE		127	$886,249,718	$4,287,580	$64,614,636