



United States
Department of
Agriculture

Office of
Inspector
General

No. 38

November 1997

Office of Inspector General Semiannual Report to Congress

FY 1997—Second 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 efforts 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.

The U.S. Department of Agriculture (USDA) prohibits discrimination in its programs on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, and marital or familial status (not all prohibited bases apply to all programs). Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202-720-2600 (voice and TDD).

To file a complaint, write to the Secretary of Agriculture, U.S. Department of Agriculture, Washington D.C. 20250, or call 1-800-245-6340 (voice) or (202) 720-1127 (TDD). USDA is an equal employment opportunity employer.



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



October 17, 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 September 30, 1997.

During this period, our audits and investigations yielded approximately \$41.9 million in recoveries, collections, restitutions, fines, claims established, administrative penalties, and costs avoided. Management agreed to put an additional \$18.2 million to better use. We also identified \$876.7 million in questioned costs that cannot be recovered. Our investigations produced 335 indictments and 333 convictions.

We continue to find significant opportunities to enhance the efficiency and effectiveness of the Department's programs and to improve the lives of those eligible for benefits. We are launching a national initiative to expand our efforts to identify abusive sponsors in the Child and Adult Care Food Program. Those sponsors found to be abusing the program will be removed from sponsorship; if warranted, prosecuted; and ineligible payments recovered. We are also particularly proud of our ongoing management advisory work in the financial area.

I extend my appreciation to you and the Deputy Secretary. In addition, I wish to thank the members of the Agriculture and Appropriations Committees of both the Senate and the House of Representatives from whom we have received significant support.

Sincerely,

ROGER C. VIADERO
Inspector General

Enclosure

Contents

	Page
Executive Summary	1
Summaries of Audit and Investigative Activities	4
Farm and Foreign Agricultural Services	
Farm Service Agency	5
Risk Management Agency and Federal Crop Insurance Corporation	12
Foreign Agricultural Service	15
Food, Nutrition, and Consumer Services	
Food and Consumer Service	17
Food Stamp Program	17
Child Nutrition Programs	22
Food Distribution Program	25
Special Supplemental Nutrition Program for Women, Infants, and Children	25
Food Safety	
Food Safety and Inspection Service	27
Marketing and Regulatory Programs	
Agricultural Marketing Service	29
Animal and Plant Health Inspection Service	31
Grain Inspection, Packers, and Stockyards Administration	31
Natural Resources and Environment	
Forest Service	32
Rural Development	
Rural Housing Service	35
Research, Education, and Economics	
Agricultural Research Service	36
Financial, Administrative, and Information Resources Management	
Equal Employment Opportunity	37
Financial Management	38
Information Resources Management	42
Oversight of Non-Federal Auditors	43
Employee Integrity Investigations	45
Statistical Data	
Audits Without Management Decision	47
Indictments and Convictions	61
The OIG Hotline	62
Freedom of Information Act Activities	63
Appendix I: Inventory of Audit Reports Issued With Questioned Costs and Loans	64
Appendix II: Inventory of Audit Reports Issued With Recommendations That Funds Be Put to Better Use	65
Appendix III: Listing of Audit Reports Released Between April 1 and September 30, 1997	66

Executive Summary

This is the 38th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended. This report covers the period April 1 through September 30, 1997.

Monetary Results

During this reporting period, we issued 128 audit reports and reached management decisions on 97 audits. Based on this work, management officials agreed to recover \$12.1 million and to put an additional \$18.2 million to better use.

We also issued 466 reports of investigation during this period. Our investigative efforts resulted in 335 indictments, 333 convictions, and approximately \$29.8 million in recoveries, fines, restitutions, administrative penalties, claims established, and cost avoidance.

Investigative Efforts

During this period, 16 individuals were charged for Electronic Benefits Transfer (EBT) fraud in New Jersey. Our investigation focused on authorized retailers operating in Essex and Hudson counties as part of the pilot project for EBT implementation in New Jersey. The 10 authorized stores identified as having engaged in food stamp fraud redeemed an estimated \$9.5 million in food stamp benefits during the investigation, of which \$6 million is alleged to have been involved in fraudulent transactions. In addition, approximately 1,000 individual food stamp benefit recipients were identified as having engaged in suspect transactions larger than \$1,000. Seizure warrants netted \$75,000 in cash, and asset seizures of real property are pending.

The owner of a poultry operation in northern California pled guilty to transporting and selling adulterated poultry, and his wife and brother pled guilty to related charges. For at least 6 months, the three individuals slaughtered chickens in a slaughtering facility with unsanitary conditions and without the benefit of inspection. They then transported the uninspected, adulterated poultry to San Francisco where it was being sold to grocery stores. After performing a surveillance of the subjects, OIG investigators stopped a truck that was on the way to retail outlets with adulterated poultry products, which were then destroyed under OIG

supervision. A search of the slaughtering facility disclosed that the chickens were slaughtered under a number of unsanitary conditions.

A former sales representative of a San Diego-based food broker and processing company pled guilty to charges related to the substitution of Mexican strawberries for U.S. domestically grown strawberries in the USDA School Lunch Program. The company and its president have also been indicted. Our investigation began after a March 1997 outbreak of the hepatitis A virus in Michigan which eventually sickened approximately 190 school children. It was determined that the hepatitis A outbreak was associated with frozen strawberries served to school children as part of the USDA School Lunch Program. Those strawberries were traced back to the San Diego-based food broker/processing company. The company, through three other brokers, supplied 1.7 million pounds of frozen strawberries to the School Lunch Program, for which the brokers received more than \$900,000 from USDA.

We previously reported that a multinational food company agreed to plead guilty to charges that it had intentionally misgraded soybeans, misweighed and added water to grain to increase its volume, and paid gratuities to federally licensed grain samplers, who allowed substitution of grain samples. During this period, the corporation pled guilty to the charges and paid \$8.3 million in fines and disgorgement of criminal profits, much of which is being disbursed to more than 4,000 farmers who were cheated by the company's schemes to defraud. In addition, four former managers of the grain company pled guilty to misgrading grain. Two of the managers also pled guilty to wire fraud; one of them was sentenced to a prison term of 15 months.

Joint Effort

In our ongoing reviews of sponsors administering the Child and Adult Care Food Program (CACFP), we continued to find widespread problems: some sponsors have been seriously deficient in their administration of the program; others have been found to have committed program fraud. In four cases, we are investigating sponsors, and in one of these cases criminal charges have been filed by the U.S. attorney.

Criminal charges were filed against a husband and wife who owned and operated a southern California sponsor. The couple was charged with defrauding the program of

approximately \$2.3 million by submitting inflated budgets and by diverting CACFP funds to themselves. Criminal charges were also filed against another couple who ran the day-to-day operations for the sponsor. Both couples face possible prison terms of up to 5 years and fines of up to \$250,000. Also, the Government has seized five residential and commercial properties fraudulently acquired and valued in excess of \$2 million. In addition, investigations of three other sponsors are ongoing in Ohio, Utah, and California.

Due to the significant problems found, the Inspector General is launching a national initiative to expand our efforts to identify abusive sponsors. These efforts will include "sweeps" of sponsors and providers, conducted jointly by OIG auditors and investigators with the assistance of Food and Consumer Service (FCS) and State agency personnel. Those sponsors found to be abusing the program will be removed from sponsorship; if warranted, prosecuted; and ineligible payments recovered.

Audit Efforts

During this period, we reported that farm loan borrowers whose accounts were delinquent have continued to get full Government payments from other Farm Service Agency (FSA) programs regardless of their delinquent debt to FSA. FSA did not offset the program payments to reduce the delinquent amounts because it did not have an automated system that could identify delinquent borrowers enrolled in other programs. Also, FSA could apply the offset only after "accelerating" the delinquent account. In response to our management alerts, FSA issued interim regulations authorizing the agency to offset program payments to delinquent borrowers without accelerating the loan accounts and by extending the collection period from 6 to 10 years. We estimate that \$34 million in program payments can be offset from borrowers whose accounts are more than 180 days delinquent.

Another audit disclosed significant inconsistencies in the methodologies used by States when they assigned scores for various conservation factors under the Conservation Reserve Program (CRP). Such inconsistencies in scoring can result in greater CRP consideration for cropland in one State, even though its environmental benefits are no greater than those of its neighbors. Based on our management alert, FSA officials issued clarifying information and instituted a

second-party review of CRP worksheets for the six counties with the largest number of land offers in each State that had CRP activity. NRCS management also issued a guidance document that addressed some scoring problems noted in our review.

We audited the 1996 Dollar Plan Fresh Market Tomato Crop Insurance Program in Florida and concluded that the Risk Management Agency (RMA) should take sanctions against reinsured companies in Florida because their servicing of claims filed under the program was poorly managed. All seven indemnity payments we reviewed were improperly made, resulting in questionable indemnity payments of almost \$1.5 million. Also, two reinsured companies' sales agents were employed by the policyholders to whom they sold policies that resulted in claims. The agents involved in this conflict of interest received almost \$400,000 in commissions on the policies, and one of the policyholders received over \$2.4 million in indemnities on his claims. We recommended that RMA officials develop a plan of action to ensure that reinsured companies comply with program regulations. RMA management generally agrees with the reported findings and is addressing the recommendations.

The Foreign Agricultural Service (FAS) and Commodity Credit Corporation (CCC) provided \$81 million to the Russian Federation and the Kyrgyz Republic to establish joint commissions. We found that the joint commissions did not operate efficiently and impacted embassy workloads adversely, and funds were misspent. As recommended, the Department of State issued a protest to the Government of the Russian Federation resulting in the return of over \$6 million to the joint commission from the Russian tax authorities, and the Government of the Kyrgyz Republic agreed to use the funds owed to support the activities outlined in the original agreement. The joint commissions are being terminated.

As an incentive to control food stamp certification error rates, States are awarded additional administrative funding for low error rates and sanctioned for excessive errors. Over a 14-year period ending in 1995, 48 States were sanctioned for overissuing \$8.5 billion in food stamps and making \$1 billion in excessive errors. We found that the settlements made by FCS absolved States of their liabilities regardless of their error rates, did not always provide incentives for States to reduce error rates, and included payment of Federal matching

funds for activities that should have been fully funded by the States. We questioned \$50.2 million of the budgeted and actual costs for 45 reinvestment projects we reviewed in 17 States. FCS officials generally disagreed with our conclusions regarding the amount of questioned costs. We are working with them on resolution of the recommendations.

During this period, we reported on our monitoring of food stamp program disaster operations in North Carolina, Ohio, Indiana, and Kentucky. We found that an "Emergency Response Team" composed of FCS, the States, and local governments worked well together to achieve the objectives of the Disaster Food Stamp Program (DFSP). Our early coordination with FCS and the States had a beneficial effect on activities in North Carolina. Prior to the start of operations, we reviewed all four States' preliminary disaster assistance plans and provided a memorandum to FCS detailing several issues of concern about the planned activities in North Carolina. As a result of this communication, FCS avoided issuing excessive benefits in that State.

The Employment and Training (E&T) Program provides funds to train food stamp recipients to find work. At the request of FCS, we evaluated Wisconsin's methodology for identifying those costs to be submitted for Federal E&T matching funds, and we reviewed the State's procedures for determining the number of eligible program participants. We found that the State may have overclaimed as much as \$25 million in E&T funds. In its response to the official draft report, FCS officials agreed that the State's grant and matching funds may have been overstated. They also agreed to obtain a legal opinion regarding a possible appropriations violation.

Our review of Food Safety and Inspection Service (FSIS) export policies and procedures determined that controls over the export of meat and poultry products need strengthening. Also, the Federal Meat Inspection Act (FMIA) requirement that inspectors conduct a

"careful examination" is countermanded by an FSIS directive that instructs inspectors not to open shipping containers unless they are damaged or there is an indication the contents are off-condition. FSIS officials have agreed to the corrective action we recommended or provided acceptable alternatives, except for the need to rescind their directive which precluded the requirement for careful inspections of products presented for export. We are working with agency personnel to reach management decision.

We continued to review the backlog of complaints made by socially disadvantaged and minority farmers. During this second phase, we found that the backlog had increased from 530 to 984, as of August 1997; in FSA, the backlog nearly doubled from 241 to 474. An ad hoc team formed to eliminate the backlog was disbanded after it was found that the complaints had never been properly investigated, but we still believe additional efforts are needed by ad hoc teams. Also, in a review of 11 States and 33 counties, we found that FSA needs to provide better technical assistance during the loan-making and loan-servicing processes, should better target its outreach efforts, and needs a record keeping system to document and justify funding of loan applications from the national reserve.

We issued a disclaimer of opinion on CCC's comparative financial statements for fiscal year (FY) 1996 because of a scope limitation resulting from restrictions imposed on our access to necessary records, arising from a separate audit of FSA, which has a significant role in CCC's internal control structure. Our audits of the Department's financial statements continued for FY 1996 pursuant to the Chief Financial Officers Act.

Summary of Audit Activities

Audit Reports Issued		128
Audits Performed by OIG	68	
Audits Performed Under the Single Audit Act.....	50	
Audits Performed by Others	10	
Management Decisions Made		
Number of Reports		97
Number of Recommendations		672
Dollar Impact (Millions)		
Questioned/Unsupported Costs	\$888.8 ^{ab}	
Recommended for Recovery	\$12.1	
Not Recommended for Recovery	\$876.7	
Funds To Be Put to Better Use	\$18.2	
Total		\$907.0

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

^bThe recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

Summary of Investigative Activities

Reports Issued		466
Cases Opened		419
Cases Closed		444
Cases Referred for Prosecution		318
Impact of Investigations		
Indictments		335
Convictions		333 ^a
Searches		141
Arrests		216
Total Dollar Impact (Millions)		\$29.8
Recoveries/Collections	11.8 ^b	
Restitutions	9.2 ^c	
Fines	6.2 ^d	
Claims Established	0.7 ^e	
Administrative Penalties	0.2 ^f	
Cost Avoidance	1.7 ^g	
Administrative Sanctions		
Employees		34
Businesses/Persons		1,678

^aIncludes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 333 convictions do not necessarily relate to the 335 indictments.

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

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

^dFines are court-ordered penalties.

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

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

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

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 Farm Bill). The 1996 Farm Bill replaces target prices, deficiency payments, and acreage reduction programs with fixed but declining payments to producers. The 1996 Farm Bill 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 in 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.

Borrowers With Delinquent Farm Loans Received Full Benefits From Other FSA Programs in the Past, but Offsets Are Scheduled for 1997

Farm loan borrowers whose accounts were delinquent have continued to get full Government payments from other FSA programs (e.g., Acreage Reduction Program, Conservation Reserve Program) regardless of their delinquent debt to FSA. FSA did not offset the program payments to reduce the delinquent amounts because it did not have an automated system at the national, State, or county office level that could identify delinquent borrowers enrolled in other programs. The offsetting was further complicated by procedures, inherited from the former Farmers Home Administration, that allow FSA to apply the offset only after it has "accelerated" the delinquent account (i.e., started formal foreclosure proceedings against the borrower).

During 1995 and 1996, FSA made a total of \$75.2 million in program payments to over 4,000 borrowers whose total indebtedness was over \$885 million, and who were at least 180 days delinquent on these debts. It had accelerated the delinquent accounts of those who received \$9.7 million (less than a sixth) of this amount, and it offset only \$3.1 million in payments to those borrowers with the accelerated accounts.

FSA's procedures regarding offsets were incompatible with Departmental procedures. The Department does not require agencies to accelerate delinquent accounts before applying any offsets, and it gives agencies 10 years from the date the debt arose to collect the debt through the offset. FSA procedures required the acceleration and limited FSA to 6 years to collect the debt through the offset.

In response to our management alerts, FSA issued interim regulations on August 1, 1997, authorizing the agency to offset program payments to delinquent borrowers without accelerating the loan accounts and by extending the collection period to 10 years. With final 1997 farm program payments to be made by September 30, 1997, we estimate that, with timely implementation of the new rules, \$34 million in program payments can be offset from borrowers whose accounts are more than 180 days delinquent.

We recommended that FSA expedite the release of all procedures to implement the new regulation and that necessary actions be taken, manually if necessary, to offset 1997 payments due delinquent borrowers.

We also recommended that FSA ensure that its automated administrative offset system will (1) identify delinquent borrowers who are also receiving program payments, (2) provide for an offset of those program payments, and (3) apply the offset to the delinquent account.

The agency generally agreed with the findings and recommendations.

Improper Conservation Reserve Program (CRP) Scoring Reduces Environmental Benefits of Land Accepted

Under CRP, producers receive annual payments from FSA to take highly erodible cropland out of production and establish and maintain a vegetative cover on it. Last year, FSA opened the program to the 15th signup. During signup, producers designated tracts of land that were determined environmentally sensitive, and personnel from the Natural Resources Conservation Service (NRCS) reviewed the tracts and scored them according to values on the Environmental Benefits Index (EBI). One subpart of the index identifies the environmental benefits of the land (e.g., providing cover beneficial to wildlife) and specifies what numerical scores may be given for the different kinds of conservation practices (e.g., planting mixed grasses, legumes, etc.) the producer established to enhance each benefit. Tracts that have been awarded higher scores are regarded as more worthy of conserving and qualify for CRP consideration ahead of tracts with lower scores. Tracts that fall below a minimum score are excluded from the program.

Our audit disclosed significant inconsistencies in the methodologies used by States when they assigned scores for various conservation factors. Specifically, producers in some States received high scores for preserving cover beneficial to wildlife or for protecting threatened and endangered species even though the required cover or the endangered species were not present on the tracts of land. Such inconsistencies in scoring can result in greater CRP consideration for cropland in one State, even though its environmental benefits are no greater than those of its neighbors.

Our review focused on two environmental benefits of land tracts offered to CRP—providing cover beneficial to wildlife, and providing habitat for threatened and endangered species. Additional work was conducted in Kansas because of an anonymous complaint about that State's EBI scoring methods. Kansas, like most other States, provided little monitoring of county signups by State NRCS representatives to prevent counties from misapplying EBI criteria.

- *Providing cover beneficial to wildlife.* The scores that Kansas awarded for this environmental benefit were improper because the State permitted producers to

get 50 points (the maximum score) for planting forbs (weeds) instead of legumes as part of the cover. EBI allows 50 points only for a grass stand best suited to wildlife and does not support the substitution of forbs for legumes. We determined that by allowing 50 points for the substitution instead of 40, Kansas may have accepted 397 more tracts of land into CRP than would qualify under the EBI scoring.

We identified counties in other States where all applicants received the maximum score for providing cover beneficial to wildlife. For the land tracts involved, we recalculated scores by reducing the award from 50 points to 40. We projected that over 10,000 acres in these counties were "at risk" of being accepted into CRP without meeting EBI scoring guidelines.

- *Providing habitat for threatened and endangered species.* Kansas permitted producers to receive 15 points (the maximum score) for this environmental benefit without delineating the areas applicable to each threatened or endangered species. EBI allows 15 points only if the land tracts are within the known present range of the species. We identified all 1,573 tracts offered in the 18 Kansas counties that had awarded the maximum score for this benefit (the State delegates scoring to the counties), and found no evidence to support the contention that the threatened species lived on any of the offered acres. In another 18 Kansas counties, only 37 percent of the tracts were awarded the maximum score.

We identified counties in other States where all producers received the maximum score for this environmental benefit. We projected that over 306,000 acres nationwide were "at risk" of being accepted into CRP without meeting EBI scoring guidelines.

Nationwide, we reviewed CRP land offers in 55 counties in 17 States. Scoring errors and inconsistencies occurred on 47 percent of the CRP worksheets we verified. Inconsistencies occurred because States unilaterally modified EBI values, awarding 10 points, for example, for a category that allows either 15 points or no points. Errors occurred because some States developed EBI scoring software that was not always accurate, and because some States entered improper values on CRP worksheets.

We recommended that FSA and NRCS (1) provide additional guidance on criteria for assigning points for the environmental benefits we found improperly scored and (2) require field offices to review and correct EBI scoring, based on the additional guidance, before the CRP contracts are signed. We also recommended that software developed for future signups be field-tested for accuracy prior to use. Specifically, in Kansas, we recommended that CRP contracts not be finalized until the offers were reviewed and corrected.

Based on a management alert we issued during our audit, FSA officials issued clarifying information and instituted a second-party review of CRP worksheets for the six counties with the largest number of land offers in each State that had CRP activity. NRCS management also issued a guidance document that addressed some scoring problems noted in our review. USDA also allowed 1 year of payment to producers whose offers were incorrectly accepted due to errors made determining EBI scoring.

FSA Reacts Quickly to Needs of Endangered Livestock in Upper Great Plains

In response to severe winter storms in early January 1997, FSA implemented the Emergency Feed Grain Donation Program (EFGDP) to provide immediate assistance to livestock producers in North Dakota, South Dakota, and Minnesota. Under EFGDP, producers were eligible for snow removal and feed assistance if their livestock was in immediate danger and did not have access to normal feed supplies. FSA also implemented the Foundation Livestock Relief Program for producers in the three States and other bordering States who needed feed to enhance the diet of foundation livestock weakened by the winter weather. FSA provided approximately \$25 million in assistance through both programs.

We worked closely with FSA officials during the implementation of these programs and provided suggestions on how to address control weaknesses and abuses associated with emergency programs of this type. We also performed field reviews in South Dakota, North Dakota, Minnesota, and Nebraska, and found that some FSA county offices were misinterpreting the limitation on snow removal assistance. (Some producers received extended assistance even though regulations limited them to a specific timeframe.) FSA issued notices to its field offices to clarify certain

provisions relative to the eligibility of producers and the duration of available assistance.

In June 1997, Congress created the Livestock Indemnity Program (LIP) to provide approximately \$50 million in assistance to eligible producers for their losses. The program was available to producers who lost livestock and poultry in regions declared disaster areas from October 1, 1996, through June 12, 1997. Producers were required to provide documentation to support their losses. Payments were intended to cover 30 percent of the market value of the animals lost. We initiated an early review of LIP during its signup period. We found that third-party verification statements were being accepted instead of documented evidence of livestock losses. We also noted that one State's interpretation of eligible loss conditions differed from that of the National Office's, that administration of LIP was sometimes inconsistent between States, and that county office verifications needed improvement. Our audit work is continuing. We will perform additional fieldwork of eligibility determinations, payment calculations, and spot checks of livestock and poultry operations, after FSA has made its final allocation of program funds to its county offices.

We recommended that FSA advise its field offices that the third-party verifications are acceptable only if the producers have no other records to support their losses. We also recommended that FSA follow up on the inconsistency in program administration between States, and that it remind county offices to verify the accuracy of information provided by applicants.

FSA national officials concurred with our findings and recommendations. FSA issued notices to its field offices to clarify eligibility determinations and to specify the information needed to support claims for payment.

Tobacco Marketing Penalties Not Assessed

The Omnibus Budget Reconciliation Act of 1993 requires that marketing assessments be collected on imported tobacco. Importers who do not remit the assessments promptly are subject to marketing penalties and late payment interest charges. We found that, over the period 1994 to 1996, FSA had not identified and assessed approximately \$123 million in marketing penalties and interest charges in a timely manner for late assessment payments on imported tobacco. FSA's failure to identify the penalties and

interest could result in a material understatement of accounts receivable for CCC.

The legislation requires two types of marketing assessments on imported tobacco—a budget deficit marketing assessment, and an importer no-net-cost assessment. Importers must remit the assessments within 10 workdays from the date unmanufactured tobacco is released from the authority of the U.S. Customs Service. Late assessments are subject to penalties equal to 75 percent of the average market price of the same kind of domestic tobacco sold the previous year.

From 1994 through 1996, tobacco importers incurred the following potential penalties and late interest charges, as shown in figure 1.

FSA officials said the delays in identifying and collecting the penalties and interest charges occurred because the agency's automated system was not fully operational. However, we concluded that the delays were excessive and unwarranted because (1) 3 years of the 5-year program have passed without identification of the penalties and interest and (2) FSA had the information it needed to determine the penalties and interest manually, using only minimal resources, but did not make the determinations.

The 1993 legislation also allows the Secretary to reduce the marketing penalty if the failure to pay the assessment on time was unintentional or without knowledge on the part of the importer. The penalty may even be forgiven if it is remitted no later than 15 days after the due date. Additionally the Secretary must provide notice and opportunity for a hearing prior to any marketing penalty being assessed.

On March 27, 1997, the executive vice president of CCC signed a decision memorandum reducing the penalties to zero for 1994, 1995, and 1996, if the importer paid the deficient assessment plus late payment interest within 30 days from the date he was notified of the deficient assessment. An FSA official advised us that CCC had not consulted the Office of the General Counsel or the Under Secretary prior to making the decision.

On April 25, 1997, the Inspector General met with the Secretary and recommended that CCC's decision memorandum be rescinded and that FSA officials be held accountable for complying with the legislation. FSA rescinded the decision memorandum and issued a memorandum that comports with the legislation.

**Figure 1
Potential Marketing Penalties and Late Payment Interest Accrued by Tobacco Importers
for the Period 1994-1996**

YEAR	MARKETING PENTALTIES		LATE PAYMENT INTEREST CHARGES	TOTAL PENALTIES AND INTEREST CHARGES
	BUDGET DEFICIT MARKETING	IMPORTER NO-NET-COST		
1994	\$ 7,878,330	\$ 1,558,638	\$ 1,065	\$ 9,438,033
1995	25,106,357	19,225,394	4,768	44,336,519
1996	34,883,684	34,815,578	8,011	69,707,273
TOTAL	\$67,868,371	\$55,599,610	\$13,844	\$123,481,825

We recommended that FSA (1) notify the respective importers of their liabilities and give them an opportunity for a hearing, (2) recover the net amount of the marketing penalties determined to be due, (3) ensure that any reductions to marketing penalties are in accordance with legislated mandates, and (4) record accounts receivable in CCC's financial statements for the amount of penalties assessed.

FSA officials objected to our insistence on applying \$123 million in penalties to CCC's financial statements. The officials said it was unrealistic to assume that the \$123 million would be collected. They maintained that because only a small fraction of the amount would be assessed, their financial statements were not materially understated.

Peanut Marketing Penalties Not Assessed

The 1996 Farm Bill introduced several significant changes to the peanut program. It decreased quota levels and price support rates for peanuts, and increased assessment fees for producers and handlers. These changes are expected to result in a no-net-cost loan program (i.e., a program that does not cost the Government anything).

FSA implemented the 1996 Farm Bill and notified producers and handlers of the actions it would take to recover any losses to the Government for any year the price support program operated at a loss. Among the contemplated actions was an increase in marketing assessments each year by an amount necessary to cover any remaining losses from the prior year. A marketing assessment fee of 1.15 percent per ton of the applicable price support rate was charged for crop-year 1996. The fee is shared between the producers and handlers.

Our review of controls over assessing and collecting marketing fees identified the following areas where actions are needed.

- Overall, handlers remitted the marketing assessment fees in a timely manner. However, FSA did not assess penalties against handlers who remitted the fees or a portion of the fees late, even though legislation requires such penalties. Of the almost 12 million tons of peanuts marketed between 1991 and 1996, assessments applicable to approximately

700,000 tons (5.8 percent) were remitted late. The unassessed late payment penalties for those years would have totaled \$46.4 million.

- Procedures for collecting and accounting for marketing assessment fees need improvement. Current procedures are cumbersome and prone to error. They also hamper timely reconciliation of fee collections with actual peanut sales data.
- Marketing assessment fees would move the program closer to no-net cost if they were increased on nonquota peanuts purchased through the "buyback" process. The buyback process allows handlers to buy additional peanuts (nonquota) and sell them for use as quota peanuts at quota prices (rather than the lower price of nonquota peanuts). Even though the handlers are paying the quota support rate (\$610 per ton) for the nonquota peanuts and making as much or more marketing the commodity, they are assessed fees at the nonquota support rate (\$132 per ton). Had past assessment fees been based on the higher quota rate, FSA would have collected an additional \$296,000 from handlers during 1996 and \$612,000 over the last 6 years.

We recommended that FSA assess penalties against handlers for late payment of marketing fees, implement more efficient procedures for reconciling sales data with assessment fee collections, and assess fees for nonquota peanuts purchased through buyback at the higher quota loan rate.

FSA personnel are in the process of implementing the recommendations.

Controls Over Production Flexibility Contract Compliance and Payments Are Adequate

The 1996 Farm Bill provides payments to farmers with 1996 wheat, corn, barley, grain sorghum, oats, upland cotton, and rice crop acreages if they enter into production flexibility contracts with CCC. The contract covers years 1996 through 2002, and the amount paid each year is based on 85 percent of the contract acreage, an established yield, and a payment rate. Producers have complete planting flexibility, except they may not introduce fruits and vegetables, which are limited to the average of acreages planted in the past. The producers are required to provide adequate cover on contract acreages and to report their crop acreages,

including the acreages planted with fruits and vegetables.

We initiated a review of program payments in 12 States to determine if FSA controls over compliance were adequate and if farms were enrolled by the individuals or entities that actually controlled the operations. The overall controls over compliance activities were adequate to preclude overpayments, and producers complied with planting flexibility and agricultural land use requirements applicable to contract acres. We did find that, for approximately 20 percent of the farms reviewed, producers inaccurately reported crop acreages or FSA personnel improperly recorded them. While the noted discrepancies generally did not affect production flexibility payments, such inaccurate reports of acreage could affect producer eligibility in other farm programs, as well as future farm program decisions.

Existing controls over payment shares appeared reasonable. We questioned payment shares on only 7 of 398 farms included in our sample. The seven in question included farms on State-owned land whose tenants received all of the payments even though the lease required that a share of the crop (and therefore a share of the payment) be used for wildlife feed or rent payments.

We recommended that FSA annually notify producers of acreage reporting requirements and that district directors conduct followup reviews to ensure that the acreage reported is properly recorded. We also recommended that FSA determine whether farm operations should receive all of the contract payment on State-owned land when the lease requires that a share of the crop be used for bird seed.

FSA officials agreed with our findings and recommendations.

Farmer, Wife Pay \$890,000 To Settle Civil Suit and Repay FSA

A prominent central Pennsylvania husband and wife were each indicted on 26 counts of making false statements to FSA from January 1986 through March 1993 in order to receive more than \$1 million in limited-resource loans from FSA. In addition, a civil suit was filed against both individuals under the False Claims Act.

The couple provided false information to FSA during their loan applications by failing to disclose the existence of large outstanding debts. As a result of our investigation, they repaid FSA \$406,000 before being indicted by a Federal grand jury. Soon after the criminal indictment, he died in a suspicious fire at his hunting cabin on the farm. The wife entered into a civil settlement by reimbursing FSA \$306,000 for outstanding loans and paying a \$181,000 treble damage civil penalty. Criminal charges against the wife were dismissed.

North Carolina Tobacco Dealer Convicted

As reported last period, a tobacco dealer was charged with violations for his role in a scheme that resulted in the illegal sale of more than 20 million pounds of excess tobacco. This period, as the investigation continues, the dealer was tried and convicted of money laundering, false statements, mail fraud, and conspiracy. Overall, schemes under investigation for marketing years 1990 through 1992 involve the illegal sale of more than 32 million pounds of excess tobacco.

As a result of the conviction, the jury awarded the Government the defendant's residence, known as the "Beauclaire Plantation," in Spotsylvania County, Virginia, valued at \$1.95 million, and \$3 million in cash or substitute assets. The Government has seized the plantation and a rental house in Fredericksburg, Virginia, with a value of about \$150,000. The Government is also seizing "Coussac Lad," a quarter horse purchased for \$500,000 by the defendant. In addition, the Government is identifying other assets for possible seizure.

The tobacco dealer and the other persons previously reported on (including a Montana Freeman who was a codefendant) have not yet been sentenced on the criminal charges relating to the tobacco investigation. As a result of the Freeman investigation, the tobacco dealer was sentenced to 12 years in prison; his associate received 30 years.

Because of our investigations, FSA State officials in Georgia, South Carolina, North Carolina, and Virginia have assessed tobacco marketing-quota penalties totaling in excess of \$50 million against more than 100 flue-cured tobacco warehouses. Additionally, the U.S. Attorney's Office in Raleigh has filed approximately 50 false claims suits against the North Carolina

warehouses, totaling over \$60 million, for unpaid penalties. Further, the U.S. attorneys in Georgia and Virginia are considering similar actions with respect to the warehouses in those States. Administrative actions by FSA in Georgia, Virginia, and North Carolina are being held in abeyance pending resolution of the civil actions.

Former Bank Vice President Pleads Guilty

A former vice president of a Louisiana bank pled guilty to making a false statement to FSA in conjunction with the submission of at least 28 fraudulent applications for FSA-guaranteed loans totaling over \$7.8 million. The subject admitted his involvement in a scheme to obtain Government-guaranteed farm-operating loans for borrowers who were not eligible to receive the loans, by falsifying their loan applications. Most of the borrowers were unaware that their applications had been falsified. At least 23 of the 28 loans are in default.

Sentencing is pending.

More Texas Farmers Plead Guilty in Disaster Fraud Cases

We previously reported that several Texans pled guilty in Federal court to defrauding FSA under the disaster assistance program. They submitted bogus seed receipts and land leases in support of their watermelon and other crop loss claims for years 1989 through 1993.

During this current period, nine more persons have pled guilty. One farmer, who coordinated the scheme with other farmers and collected kickbacks, was sentenced to 13 months' imprisonment and ordered to pay over \$50,000 restitution. The eight other farmers were sentenced to prison terms ranging from 5 to 16 months, fined up to \$4,000 each, and ordered to pay a total of \$469,500 restitution to USDA. To date, a total of 16 people have been indicted in this investigation, of which 13 have pled guilty and 1 was placed on pretrial diversion. The fraudulent crop disaster claims for those farmers pleading guilty total nearly \$890,700. One farmer and the retired County Executive Director were acquitted in separate trials.

These cases were investigated as a result of an OIG audit of the disaster assistance program.

Oklahoma Farmer Convicted for Illegal Sales of Mortgaged Property

An Oklahoma farmer was sentenced to prison after pleading guilty to felony charges that he illegally sold almost \$118,300 in cattle and grain pledged as security to FSA. The farmer was sentenced to 5 months in prison, to be followed by 2 years of supervised release and 5 months' home confinement. In lieu of a fine or restitution, he was also ordered to perform 208 hours of community service.

Producers Found Guilty, Sentenced for False Statements and Mail Fraud

Two Montana producers (husband and wife) were found guilty in U.S. district court on two counts of false statements and one count of mail fraud. One was sentenced to 24 months in prison, the other to 10 months' home confinement, with the partnership and the individuals fined \$92,800 and ordered to make restitution of nearly \$502,400.

Our investigation found that, between 1991 and 1993, the husband and wife provided false information to FSA in order to circumvent the \$50,000 payment limitation provision. The defendants used the names of employees and family members to create a sham partnership and, as a result, received almost \$500,400 in unauthorized benefits. A False Claims Act civil case is pending against the couple.

Conviction for Diverting FSA Disaster Checks in American Samoa

An employee with the American Samoa Department of Agriculture is awaiting sentencing after she was convicted of diverting FSA disaster checks. The employee was responsible for filing claims with FSA for farmers whose crops had been damaged during Hurricane Val in 1993. She and two others were charged with various counts of theft, embezzlement, and forgery after our investigation disclosed that they had diverted 19 FSA checks, valued at approximately \$11,570. The other two defendants had previously pled guilty to theft.

RISK MANAGEMENT AGENCY (RMA) AND FEDERAL CROP INSURANCE CORPORATION (FCIC)

RMA was authorized as an independent agency within USDA by the passage of the 1996 Farm Bill. RMA manages the FCIC program and is authorized to offer catastrophic crop insurance, additional multiple peril coverage, revenue insurance, and risk management education. All insurance is provided through private reinsured companies. The reinsured companies sell and service insurance policies for the Government and are, in turn, reinsured by the Government for indemnity payments and reimbursed for their administrative costs. 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 out of \$26.7 billion of insurance in force, and program delivery expenses to reinsured companies are estimated at \$490 million.

Crop Insurance for Florida Fresh Market Tomatoes Was Not Properly Managed

We audited the 1996 Dollar Plan Fresh Market Tomato Crop Insurance Program in Florida and concluded that RMA should take sanctions against reinsured companies in Florida because their servicing of claims filed under the program was poorly managed. All seven indemnity payments we reviewed were improperly made, resulting in questionable indemnity payments of almost \$1.5 million. The companies paid indemnities even though the insureds had (1) abandoned their crops because of low market prices, (2) claimed against losses that occurred after the reinsurance coverage period had ended, (3) planted crops on converted wetlands they had promised to restore to their natural state, and (4) failed to report all production.

Also, two reinsured companies' sales agents were employed by the policyholders to whom they sold policies that resulted in claims. The agents involved in this conflict of interest received almost \$400,000 in commissions on the policies, and one of the policyholders received over \$2.4 million in indemnities on his claims.

The deficiencies we found in claims servicing indicate that RMA needs to reintroduce strong oversight controls over reinsured companies. Although RMA does perform

some oversight, there had been no RMA reviews of fresh market tomato losses in Florida since the late 1980's. Under the agreement between RMA and the reinsured companies, the companies review their own activities. We found that company reviews of loss determinations were superficial and were not performed by independent reviewers.

We also found that the practices and procedures used in administering the insurance program for fresh market tomatoes (Dollar Plan) allow indemnities to be paid to producers who did not experience a loss of commodity, but instead, suffered financial losses due to low market prices. This appears to be contrary to the enacting legislation. In addition, by not requiring the producer to provide the actual production history (APH) for prior years' tomato production, the regulations for fresh market tomatoes are not in compliance with the general crop insurance regulations.

After receipt of RMA's response to the draft report, we met with Office of the General Counsel (OGC) officials and discussed the legality of paying indemnities based on low market prices and no loss of commodity. OGC officials verbally advised us that, to qualify for an indemnity, the insured must suffer a quantity or quality loss of commodity caused by an insurable peril. During that discussion, it was agreed that OIG would request a formal legal opinion from OGC concerning this issue and also whether establishment of an APH is required for the Dollar Plan for fresh market tomatoes.

We recommended that RMA officials develop a plan of action to ensure that reinsured companies comply with program regulations in their management of the Fresh Market Tomato Crop Insurance Program. The plan of action should include specific steps to be taken to correct the deficiencies identified. In addition, we recommended that RMA staff (1) obtain data on all cases where indemnities were paid on fresh market tomato claims where there was no commodity loss, and based on the results of OGC's opinion, recover from the insured companies that portion of \$15 million that was improper, (2) revise the current system of monitoring crop insurance activities to ensure more direct involvement by RMA in reviewing individual claims, (3) determine what sanctions should be taken against the reinsured companies and the sales agents involved in the conflicts of interest, (4) review the rate structure used to reimburse reinsured companies for administrative expenses to determine if amounts used

for computing sales agent commissions are excessive, (5) provide additional oversight to ensure that reinsured companies comply with crop insurance regulations and that indemnities are properly computed, and (6) review the deficient cases, and as appropriate, recover indemnities of about \$1.3 million.

RMA management generally agrees with the reported findings and is addressing the recommendations.

Reinsured Companies' APH Self-Reviews Ineffective

RMA uses the APH Program to set the yields used to compute premiums, liabilities (guarantees), and indemnities on crop insurance policies. We reviewed the reinsured companies' 1994 and 1995 self-reviews of APH certifications because past OIG and General Accounting Office (GAO) audits have noted problems in the accuracy of or the lack of documented support for APH yields, and because RMS' Compliance Division has also found similar problems in its reviews.

We determined that the APH self-reviews by reinsured companies have not been effective in preventing, detecting, or correcting systemwide APH errors. Further, RMA's statistical sample noted almost half of the crop-year (CY) 1995 APH's for eight major crops were erroneous. RMA projected that premiums for CY 1995 were overpaid about \$15 million and administrative expenses overpaid by at least \$4.6 million.

Our review of the APH self-reviews of CY's 1994 and 1995 confirmed, at the three companies we visited, that the companies generally performed the different types of APH self-reviews required of them. However, we noted that (1) proper verifications of data on APH's were not always made by the reviewers; (2) exceptions noted by their reviewers were not always corrected systemwide by the companies for future use; (3) self-reviews covered only a small percentage of all certified APH's; (4) RMA had not attempted to analyze company self-review summary reports for trends, abuse, corrective action, etc., until 1995 (even then, RMA discovered that it could not perform any analysis because of nonreporting and/or a lack of reporting consistency by the companies); and (5) material penalties were virtually nonexistent for erroneously certified and/or verified APH's.

We recommended that RMA take the following action: (1) Ensure that the APH's with exceptions noted in the current audit are corrected in all data bases, (2) establish a tracking system to ensure receipt of reports on results of self-reviews on a timely basis, (3) perform an annual APH trend analysis based on companies' self-reviews and incorporate into those reviews tests which will determine the accuracy of the past results reported by the companies, (5) establish a system of rewards and penalties to be applied to companies for APH accuracy, and (6) require each company to perform a detailed verification of APH on every claim or significantly increase the self-review sample size.

RMA's Administrator advised us in his written response that RMA would (1) review the exceptions we noted in our report and make corrections of errors verified, (2) continue onsite compliance reviews of companies' self-reviews and incorporate tests to determine accuracy of results reported by the companies, and (3) establish a system of penalties to be applied to the companies for noncompliance with self-review guidelines. Also, the Administrator advised us that RMA would decide on the establishment of a tracking system for reports from companies and an annual trend analysis of those reports after they know the outcome of an internal study of APH and the final issuance of Manual 14, which is RMA's compliance manual pertaining to the reinsured companies.

The Administrator advised us that RMA does not agree to requiring a review of APH on every claim, as the cost of such a review is prohibitive. However, he pointed out that the latest draft of Manual 14 has increased the self-reviews by the companies from 1 to 5 percent.

Potential Problems Identified in Shift to Single Delivery System for Catastrophic Risk (CAT) Policies

The 1996 Farm Bill provided for the phasing in of a single delivery system for CAT coverage. The shift to a single delivery system involves transferring the policies written by FSA local offices to private insurance companies. By spring of this year, over 108,000 CAT policies had been reassigned on a random basis to 15 private reinsured companies in 14 States. In May, the Secretary approved the transfer of all remaining CAT policies serviced by FSA local offices in 36 States to reinsured companies. This action completed the transition to a single delivery system for CAT policies and will be effective for the 1998 crop-year.

This period, we continued our review of the CAT policy transfer process. We reported two significant problems during the transfer of policies in the first 14 States: lack of interest on the part of local agents in servicing policies, and unawareness of special provisions for producers with limited resources. We identified various instances where reinsured companies had transferred policies to local agents who were not willing to service the policies, partly because there was little financial incentive. We also found that reinsured companies were not administering the fee waiver provision, which allows limited-resource producers to forgo the \$50 per crop fee for a CAT policy and obtain coverage at no cost. These problems need to be addressed as the transfer process moves into the remaining States where there are fewer local agents and larger concentrations of limited-resource producers. The weaknesses identified in the transfer process bring into question the effectiveness of insurance programs to serve as the Department's "safety net" for farmers.

We recommended that RMA require the reinsured companies to help ensure that limited-resource producers are given an opportunity to receive fee waivers through the private delivery system. We also recommended that RMA staff identify CAT policies they had granted fee waivers on in the first 14 States and ensure that these producers were given an opportunity by the reinsured companies to obtain CAT coverage at no cost for 1997.

RMA officials concurred with our recommendations and worked with the reinsured companies in developing a plan to address the needs of limited-resource producers. RMA also established committees in each State, composed of representatives from FSA, RMA, and reinsured companies, to monitor the final stage of the transition to a single delivery system.

Errors In Establishing Yields and Adjusting Claims Resulted In Incorrect Indemnity Payments

We have issued two reports covering our audit of 1995 claims paid by FCIC (California and Mississippi). This audit will result in six individual reports and an overall management report. The remaining reports will be included in the next semiannual period.

Our review of 12 California crop insurance claims for 1995 and 1996 identified errors in the calculation of indemnity payments for 8 of the 12 claims. Sales

agents, loss adjusters, insured producers, and FSA personnel misstated historical yields, miscalculated appraised production, and inconsistently established insurable acreage and production-to-count. (It is to the producer's advantage to overstate historical yields and understate production during a loss year; an overstated historical yield will increase the amount of actual production that can still qualify for indemnities.) Of the eight claims we found in error, indemnities for seven were overpaid by approximately \$125,000 and the indemnity for one was underpaid by approximately \$9,500.

For example, the total production listed on the historical yield report of an insured apricot producer in Stanislaus County, California, did not always agree with the producer's production records. When the insurance agent calculated the historical yields, he determined the weights of the apricots inconsistently and included "cull" apricots that were not marketable and did not meet the minimum standards. The agent also improperly estimated production for 2 prior years (1991 and 1994) instead of using actual figures for those years. These and other errors overstated the historical yields and resulted in an overpaid indemnity of almost \$50,000.

We transmitted our findings by issuing statements of conditions to the reinsured companies and to FSA. The reinsured companies and FSA concurred with the findings.

We also reviewed the 1995 claims of one cotton producer in Mississippi. The audit identified errors made by the reinsured company in calculating indemnity payments and premiums. In adjusting the loss claim, insurance company officials (1) overstated the number of acres affected by the disaster by 60 acres and (2) understated the producer's prior yield by 157 pounds per acre. The errors resulted in overpaid indemnities of approximately \$32,000, underpaid indemnities of \$4,400, and overpaid premiums of just over \$1,000.

In these two audits, we recommended that RMA recover overpaid indemnities totaling approximately \$152,000, pay \$14,000 to the underpaid producer, and require the reinsured company to credit the insured's account for the \$1,000 premium overpayment. RMA should also ensure that proper adjustments are made to historical yields for policies where errors were identified by our review.

RMA management agreed with the reported findings and is implementing corrective actions.

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.

Changes Are Needed To Improve Delivery and Effectiveness of Humanitarian Aid

The Freedom Support Act of 1992 encourages economic and political reforms in Russia and the other independent States of the former Soviet Union by building on current technical, medical, and food assistance programs. To introduce food assistance programs to the newly independent States of the former Soviet Union, FAS and CCC provided over \$81 million in assistance to the Russian Federation and the Kyrgyz Republic to establish joint commissions. Those commissions, comprising both United States and host country officials, help channel the local currencies generated by the sale of donated commodities (a process called "monetization") to free market activities.

Although the work of the U.S. joint commissions in the Kyrgyz Republic and Russian Federation provided benefits to the recipients of its loans, the joint commissions themselves created unreasonable demands on the time of embassy personnel. Funding needs were not prioritized, and legal matters were not thoroughly researched before the commissions were established. As a result, the joint commissions did not operate efficiently and impacted embassy workloads adversely. Also, monetized funds and interest totaling approximately \$11.8 million were not available for use in agricultural and humanitarian projects, because of misspending.

FAS' controls need improvement to ensure that the terms of agreements are fulfilled. The Governments of both the Kyrgyz Republic and the Russian Federation violated the terms of their agreements: the Kyrgyz Republic bartered over half of its donated commodities to Uzbekistan, while the Russian Federation sold \$54.5 million of CCC-donated butter for \$16.7 million. Also, both governments did not provide the required reporting on joint commission activities and the financial status of the commissions' accounts. Neither of the joint commissions provided the necessary oversight of funded projects to ensure their success or to determine if corrective actions were needed.

We recommended that FAS, in conjunction with U.S. Embassy and Department of State personnel, issue protests to the Governments of the Russian Federation and the Kyrgyz Republic to recover over \$7 million owed the joint commissions to carry out agricultural and humanitarian programs in those countries. Also, FAS needs to assess the ways it delivers humanitarian aid and operates its monetization programs to ensure that demands on the time of embassy personnel are reduced and that reasonable value is received for donated commodities. Further, we recommended that FAS officials terminate the joint commissions if they do not improve their efficiency and gain the foreign governments' cooperation.

In accordance with our recommendations, (1) the Department of State issued a protest to the Government of the Russian Federation resulting in the return of over \$6 million to the joint commission from the Russian tax authorities and (2) the Government of the Kyrgyz Republic agreed to use the funds owed to support the activities outlined in the original agreement. The U.S. Embassy also delivered a diplomatic note to the Ministry of Foreign Affairs for the Russian Federation advising it that, in accordance with the agreement, the United States is giving 6-months' advance notice of termination of the joint commission agreement. FAS has also worked out a plan to terminate the joint commission in the Kyrgyz Republic and does not plan to enter into, or support, any future joint commissions without legislative mandate and specific guidelines.

FAS Should Consolidate Marketing Programs

FAS administers two marketing assistance programs to develop, maintain, or expand the export of U.S. agricultural commodities—the Market Access Program

(MAP) and the Cooperator Foreign Market Development Program (CFMD). The programs operate on a reimbursable basis: marketing expenses of a variety of commercial firms, nonprofit trade groups, and agricultural cooperatives are funded by FAS. The audit evaluated controls over claims reimbursement and industry contributions, and the use of quantified goals and performance measures, as required by the Government Performance and Results Act of 1993 (GPRA).

FAS exercised effective controls over claims reimbursement and industry contributions, but we found that the agency could be more efficient if it used one accounting system for both programs, and if it required participating firms to submit only one marketing plan for both programs. We also noted that regulations had been issued for MAP but not for CFMD. In the absence of FAS regulations governing CFMD, cooperating organizations had not devised or documented quantified goals, performance measures, and program evaluations consistent with GPRA.

For brand product promotions under MAP, FAS needed to improve the way it validated the size of the participating companies. Congress has expressed concern that more small companies should receive program funding. We tested the FAS data base that recorded company size. We selected 167 of the 353 companies identified as "small" and noted 9 which appeared to be improperly classified, and 15 which were input incorrectly into the FAS data base.

We recommended that FAS (1) streamline functions of the MAP and CFMD programs by requiring firms to submit a single strategic plan and by consolidating their program and financial data into a single accounting system, (2) issue regulations for CFMD, and (3) establish a process to validate the size of companies participating in the MAP brand promotion program.

FAS officials generally agreed with our recommendations and are in the process of taking corrective actions.

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 (CNP); 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)

FCS' Sanction Settlements Do Not Always Enhance Error Control

As an incentive to control food stamp certification error rates, States are awarded additional administrative funding for low error rates and sanctioned for excessive errors. Over a 14-year period ending in 1995, 48 States were sanctioned for excessive error rates. The States overissued approximately \$8.5 billion in food stamps and were liable for approximately \$1 billion for excessive errors.

Between FY 1981, when the sanctioning process became effective, and FY 1995, FCS had collected only \$6.2 million of the \$1 billion in liabilities. When sanctions became large, States negotiated settlements with FCS to eliminate or substantially reduce their potential liabilities. FCS may waive collection of a State's liability incurred after FY 1985, on the condition that the State invest its own funds in error control activities. Through settlement with FCS, States were required to reinvest \$65.1 million in FSP, with contingency provisions for reinvestment of another \$36.7 million. Almost \$765.4 million in potential sanctions was waived—\$178.9 million waived based on the statutorily defined criteria for good cause; \$285.8 million waived by Congressional action; and \$300.7 million waived by FCS as part of the settlement agreements negotiated with the States.

We reviewed the settlements that FCS had negotiated with the States as well as the reinvestment activities the States engaged in. We found that the settlements (1) absolved States of their liabilities regardless of their error rates, (2) did not always provide incentives for States to reduce error rates, and (3) included payment of Federal matching funds for activities that should have been fully funded by the States. We also found ineligible projects and costs included in the 45 reinvestment projects we reviewed in 17 States. The States had budgeted \$70.8 million for the projects. We questioned an unduplicated \$50.2 million of the budgeted and actual costs.

- We questioned the eligibility of 11 projects budgeted for \$42.3 million because most of the work performed under the projects constituted the basic activities required for program administration. Also, the States funded some of the projects by reallocating existing resources rather than budgeting new expenditures. These 11 projects did not enhance error control.
- The States charged ineligible costs to their reinvestment activities. We evaluated the propriety of costs charged to the 30 projects conducted by 11 of the 17 States. Of the \$40.5 million the States had charged to the projects, we questioned \$10.5 million in costs. States made cost-accounting procedural errors, claimed Federal matching funds, and did not allocate project costs to all the programs that benefited from the expenditures.

FCS could not fully evaluate the eligibility and effectiveness of the activities purported to control food stamp certification errors because the periodic progress reports that States submitted did not contain the full details of the accomplishments of the activities.

We recommended that FCS (1) collect sanctions from States with historically excessive error rates, (2) make any settlement agreement contingent on a State's ability to reduce its error rate below the national average, (3) ensure that reinvestment activities enhance the controls over errors, not merely meet the minimum requirements for program administration, (4) ensure that reinvestment projects are not funded by reallocation of resources, (5) review each State's reinvestment activities to evaluate its eligibility, and (6) recover the questioned costs or require the States to reinvest in error rate control activities that qualify.

FCS officials generally disagreed with our conclusions regarding the amount of questioned costs. We are working with them on resolution of the recommendations.

Food Stamp Disaster Programs Were Well Managed

During this semiannual reporting period we reported on our monitoring of food stamp program disaster operations in North Carolina, Ohio, Indiana, and Kentucky. As a result of damage caused by Hurricane Fran in North Carolina in September 1996, and by floods in Ohio, Indiana, and Kentucky in March 1997, the President declared disasters in the affected States. In total, disaster food stamp benefits of \$49.6 million were issued to over 191,000 households residing in 128 affected counties in the 4 States. Our objectives were to determine the adequacy of FCS' and the States' response to the needs of households adversely affected by the disasters, the effectiveness of controls to prevent program abuse, and the adequacy of disaster certification and issuance procedures, facilities, and security.

An "Emergency Response Team" composed of FCS, the States, and local governments worked together to achieve the objectives of the Disaster Food Stamp Program (DFSP). All parties involved did a good job serving the needs of households affected by the disasters while ensuring program integrity.

The staffs responded quickly with workable solutions when problems were encountered. The counties provided adequate facilities, staff, and security for food stamp operations. Procedures and controls were in place to verify the identity of applicants, determine their eligibility, and prevent duplicate participation.

Our early coordination with FCS and the States had a beneficial effect on activities in North Carolina. Prior to the start of operations, we reviewed all four States' preliminary disaster assistance plans and provided a memorandum to FCS detailing several issues of concern about the planned activities in North Carolina. As a result of this communication, FCS avoided issuing excessive benefits in that State.

We recommended that FCS revise the Disaster Food Stamp Handbook to furnish guidance for determining the amount of replacement allotments in various situations, such as when the disaster occurs shortly

after regular benefits were last issued, and when perishable food is affected by power outages rather than the disaster itself. FCS officials disagreed with the recommendation; we are working to reach resolution.

One State Overclaimed As Much As \$25 Million in Employment and Training Funds

The Employment and Training (E&T) Program provides funds to train food stamp recipients to find work. FCS approves each State's E&T plan and reimburses the State for the costs of administering the program. Reimbursements are based on the size of each State's food stamp work registrant population, as a percentage of food stamp work registrants nationwide, and on actual costs that exceed those calculated by the population formula. Reimbursed costs may not include overhead costs of normal educational operations. Nationwide, FCS approved E&T program funds totaling \$75 million in FY 1996 and estimated \$138.6 million for FY 1997.

At the request of FCS, we evaluated Wisconsin's methodology for identifying those costs to be submitted for Federal E&T matching funds, and we reviewed the State's procedures for determining the number of eligible program participants. We also evaluated the procedures followed by the FCS regional office for monitoring the State's activities.

Our audit disclosed that FCS approved E&T matching funds totaling \$10.2 million in FY's 1995 and 1996 to which Wisconsin was not entitled. The State's calculation of work registrants included food stamp recipients who were ineligible for the E&T Program because they were already participating in a job program sponsored by the U.S. Department of Health and Human Services (HHS). Wisconsin also charged the E&T program for costs of operating the Wisconsin Technical College System, even though neither the colleges nor the attending food stamp recipients were given any E&T funds by the State. The Office of the General Counsel (OGC) issued a legal opinion stating that reimbursing these costs constituted supplanting the State's ordinary educational expenses with Federal funds, a practice prohibited by law. FCS was unaware of these conditions because the regional office did not recognize the large increases in the State's claim for matching funds as an indicator of possible problems.

An additional \$15.3 million in Federal matching funds was approved for the costs of continuing an HHS jobs program whose normal allocations had run out. Reimbursement of these transferred costs could constitute a violation of appropriation laws, and thus may need to be refunded to FCS.

We recommended that FCS collect \$10.2 million from Wisconsin for the ineligible costs of the technical college system and for the overstated number of E&T participants. We also recommended that the regional office obtain a legal opinion from OGC on whether the payment of costs allocated to an HHS program constitutes a violation of law and whether the associated funds should be collected. Finally, we recommended that FCS strengthen its monitoring procedures to prevent future recurrences of these problems in other States.

In its response to the official draft report, FCS officials agreed that the State's grant and matching funds may have been overstated. They also agreed to obtain a legal opinion regarding the possible appropriations violation.

Monitoring of Electronic Benefits Transfer (EBT) System Focuses on Accounts Management

In previous reporting periods, we described FCS' progress in implementing EBT systems. Currently, there are 27 States that use EBT cards to deliver FSP benefits (1 of these States also delivers WIC benefits via EBT).

This period, we initiated a President's Council on Integrity and Efficiency (PCIE) working group composed of Federal, State, and public accounting representatives to develop standard procedures for audits of EBT processor operations. We also conducted audits of the Account Management Agent (AMA) system and the Illinois EBT system detailed below.

Account Management Agent (AMA) System

The AMA system is designed to manage and account for FSP funds delivered by EBT systems. Our audit disclosed that AMA significantly improves FCS' control of Federal funds by providing daily reports of States' activities to FCS. This enables FCS to limit the obligation of funds to the amount of benefits actually authorized for issuance by States. However, we found

the AMA system design allows prior fiscal year funds to be used for current year expenses. This is a violation of Federal appropriation law and resulted in the use of \$3.7 million of FY 1996 food stamp appropriations to pay FY 1997 benefits. In addition, FY 1997 obligations will be understated in FCS' accounting system because FY 1997 obligations were reduced by the amount of "expunged" accounts that were obligated in FY 1996. Accounts are expunged when benefits have not been accessed by a recipient for more than 1 year. In FY 1996, expungement of FSP benefits, delivered electronically, totaled approximately \$4.5 million.

In an unrelated development, FCS understated the food stamp activity handled by AMA in FY 1996 by \$23.2 million because of inadequate procedures on how to process FY 1996 information received in FY 1997.

We recommended that FCS modify AMA programming to record FSP activity based on the fiscal year of authorization, and that States approve processor adjustments to AMA and perform daily reconciliations. FCS management is proposing legislation in FY 1999 to permit FCS to account for EBT payments similar to food coupons, by not having to track payment by fiscal year of issuance. Additionally, they corrected accounting system errors for FY 1996.

Illinois

Overall, security policies and control processes in Illinois were adequate to ensure timely and accurate availability of FSP benefits to recipients and payments to retailers. However, Illinois officials need to correct deficiencies in four areas: they need to strengthen controls over State employee access to the EBT system, document reconciliation of data transfers between the State and the EBT processor, improve the timeliness of contractor installation of equipment at retailers, and modify aging of FSP accounts to comply with FSP regulations.

Sixteen Charged in New Jersey for EBT Fraud

In October 1995, OIG began investigating suspicious transactions involving EBT food stamp benefits in New Jersey. The investigation focused on authorized retailers operating in Essex and Hudson Counties as part of the pilot project for EBT implementation in New Jersey.

During the course of the investigation, 10 authorized stores were identified as having engaged in food stamp fraud. Those stores redeemed an estimated \$9.5 million in food stamp benefits during the period of investigation, of which \$6 million is alleged to have been involved in fraudulent transactions. In addition, approximately 1,000 individual food stamp benefit recipients were identified as having engaged in suspect transactions larger than \$1,000.

Thirteen men and three women who owned and/or operated the 10 stores were indicted for conspiracy, food stamp fraud, and fraud in connection with electronic access devices. Seizure warrants netted \$75,000 in cash, and asset seizures of real property are pending.

We worked on this investigation with the U.S. Secret Service; Internal Revenue Service, Criminal Investigation Division; and the East Orange, New Jersey, Police Department. The investigation was initiated after a review by FCS' Compliance Branch.

Eight Plead Guilty in \$2.4 Million EBT Fraud in Baltimore

Eight individuals have pled guilty in Federal court in Baltimore, Maryland, to a variety of money laundering, conspiracy, and food stamp trafficking charges in a scheme involving \$2.4 million in fraudulent benefits.

The principal subject in the case, a store owner in Baltimore, was administratively disqualified from the food stamp program in 1993. Following disqualification from the program, he set up a number of authorized stores in 1993, 1994, and 1995 under proxy ownership, while he continued to traffic food stamp benefits at his unauthorized store and other street locations. He and his associates used telephones and mobile telephones to call in their trafficking transactions to the proxy stores, where employees entered the transactions manually into the EBT system. Profits from the illegal food stamp transactions were split among the various parties involved in the scheme. Ultimately, five retail grocery stores in Baltimore became involved in the fraudulent EBT transactions. The principal subject was sentenced to serve 48 months in Federal prison after pleading guilty to money laundering charges. Four others have received various prison terms ranging from 4 to 27 months. Additional subjects are pending prosecution or sentencing.

Moreover, 7,766 food stamp recipients have been identified as having trafficked all or part of their food stamps at the implicated retail stores and have been referred to the Maryland Department of Human Resources and Baltimore Department of Social Services for administrative action. To date, 1,401 of the recipients have been administratively disqualified from FSP with cost savings to the Government of nearly \$917,668.

Four Sentenced to Prison in \$2 Million Fraud

Four Louisiana men were sentenced in Federal court after pleading guilty to conspiracy, food stamp trafficking, and money laundering in a \$2.1 million food stamp fraud scheme. One of the men, previously caught trafficking in food stamps, opened a bogus grocery store, obtained the required FCS authorization to redeem food stamps under a straw owner's name, and continued to traffic in food stamps. Two other individuals eventually became involved, and all four were arrested and subsequently pled guilty. The investigation was initiated after a review by FCS' Compliance Branch.

The four men received sentences ranging from 14 to 55 months' imprisonment, were fined a total of \$60,000, and were ordered to jointly pay nearly \$2 million in restitution. In addition, real estate and bank accounts were forfeited to the Government.

Food Stamp Robbery Ring Caught

Three individuals have pled guilty to various Federal charges associated with their participation in an organized food stamp robbery conspiracy. They exploited the fact that selected States throughout the South contract with check cashing companies to distribute food stamps to recipients. Because of the high volume of food stamps in stock, the three gunmen targeted those check cashing businesses for robbery. A total of nearly \$482,200 in food stamps and \$47,300 in cash was stolen in three robberies in Dekalb County, Georgia; Oklahoma City, Oklahoma; and Bessemer, Alabama.

Entry was gained into the businesses by cutting a hole in the roof. When employees arrived at work in the early morning, two of the gunmen—dressed in black ski masks, gloves, and coveralls—crashed through the ceiling and climbed down ropes. The employees were

restrained with handcuffs or tape at gunpoint. The third individual acted as the getaway driver. Police scanners were used to monitor law enforcement and avoid detection.

The individuals were identified after one gunman's girlfriend began to sell the stolen food stamps. The girlfriend was arrested and pled guilty to selling the stolen food stamps and perjury before a Federal grand jury. Two of the gunmen have pled guilty to multiple Federal Hobbs Act (affecting commerce by robbery) charges, conspiracy to violate the Hobbs Act, and unlawful possession of food stamps.

The ringleader, who was wanted for numerous armed robberies in multiple States, was tried in Dallas, Texas, for a similar robbery, which was investigated by the Federal Bureau of Investigation and the Dallas Police Department. Based on the OIG investigation, information was developed which led to the ringleader's capture. He received two consecutive life sentences under the new Federal "Three Strikes You're Out" law.

The three gunmen have been convicted in an additional nine armed robberies. Sentencing for all three is pending in those cases.

Texas Businessman, Corporation Plead Guilty

A Beaumont, Texas, man and his corporation each pled guilty in Federal court to conspiracy to defraud FSP. While he operated as a meat wholesaler, he also ran a bogus retail meat business. Financial analysis showed he didn't have enough meat left over from the wholesale business to actually support a retail operation.

Our investigation showed that from 1990 to 1995 the defendant and his corporation engaged in a scheme to illegally redeem over \$370,000 in food stamp coupons through the bogus retail establishment. The corporation was ordered to pay a \$12,000 fine, and the owner was sentenced to 18 months' imprisonment and ordered to pay \$333,250 in restitution. The business, including its bank accounts and property, was forfeited to the Government.

Prison Term Imposed for Fictitious Identity Scheme

A Tennessee woman pled guilty to using eight fictitious identities to receive food stamps and Aid to Families With Dependent Children (AFDC) in Georgia and

Tennessee. From approximately May 1992 through August 1995, the woman used the identities of several friends and family members to receive almost \$63,100 in food stamps and more than \$60,600 in AFDC. In addition, the woman received public housing benefits in Atlanta, Georgia, and Knoxville, Tennessee, using two of the identities. The woman failed to appear for sentencing and was later located at a battered women's shelter in Richmond, Virginia, where she was living under yet another identity. The woman was sentenced to 27 months' imprisonment, followed by 3 years' supervised release, and ordered to pay restitution of \$15,000.

This case was worked in conjunction with the U.S. Department of Housing and Urban Development, the Social Security Administration, and the U.S. Postal Inspection Service.

Store Owner Pleads Guilty, Forfeits Property and Cash

In North Carolina, the owner of a retail seafood market and his wife pled guilty to numerous felonies involving food stamp trafficking and dealing in firearms without a license. The store owner is to forfeit cash and the vast majority of the 170 items that were seized during the search of their premises. Nine weapons were bought during the undercover investigation, and additional weapons were seized at the residence during the search, along with other evidence of criminal activity such as a shredding machine used to destroy the front and back covers of food stamp books. The owner admitted that 90 percent of the food stamps redeemed during 1996 (nearly \$206,400) were derived from fraudulent redemptions related to food stamp trafficking.

The investigation was initiated after a review by FCS' Compliance Branch. Sentencing is pending.

Bank Reaches Settlement Agreement

As reported previously, a bank in Indianapolis, Indiana, was found to have altered at least 625 food stamp redemption certificates by changing totals and micro-encoding redemption certificates for amounts more than a particular authorized retailer deposited in food stamps. The investigation disclosed that employees of the bank routinely accepted food stamp coupon deposits from authorized retail stores without the required food stamp redemption certificates. In order to receive credit from

the Federal Reserve Bank, employees of the bank micro-encoded a single redemption certificate with the aggregate deposit amount. In addition, bank employees discarded some of the redemption certificates they did receive from retail stores and combined those food stamps onto a single redemption certificate.

As a result of the investigation, the bank has developed new policies and procedures for food stamp deposits and has also included food stamp procedures in its internal audit schedule. The bank subsequently reached a settlement agreement with the U.S. Attorney's Office and has paid \$540,000.

CHILD NUTRITION PROGRAMS (CNP)

Reviews of Child and Adult Care Food Program (CACFP) Sponsors Continue To Find Abuse and Deficient Management

Last period, we reported on our continued efforts to review CACFP in seven States. This reporting period, in our ongoing reviews of sponsors administering CACFP, we continued to find widespread problems: some sponsors have been seriously deficient in their administration of the program; others have been found to have committed program fraud. The purpose of our nationwide audit and investigative efforts is to identify such sponsors and take action against them. We are targeting abusive sponsors for removal from the program and, in some cases, for prosecution.

The objective of CACFP is to ensure that children and adults being cared for in participating day care homes and centers receive nutritious meals. To accomplish this, FCS reimburses day care providers for the meals they serve and sets nutritional requirements for the meals. The program is administered by State agencies through sponsors, who are generally public or private nonprofit organizations. Sponsors act as the link between the State agency and individual day care providers. More than 14,000 sponsors administer the program in over 200,000 day care homes and centers nationwide. Program funding for FY 1996 was \$1.5 billion.

To ensure the integrity of the program, sponsors are required to train providers in program requirements and perform onsite visits to providers' homes to make sure providers are fulfilling these requirements. Sponsors

are also responsible for reviewing provider claims to ensure that the meals are nutritionally balanced and that the children are eligible. Sponsors are ultimately responsible for program operations in the day care homes they oversee. In return for carrying out their responsibilities, sponsors are reimbursed for their costs of administering the program.

Our reviews revealed a breakdown in controls at the sponsor level. We reviewed 12 sponsors in 10 States, and found 11 of them to be seriously deficient in their administration of the program.

Ongoing Investigations

In four cases, we are pursuing investigations of sponsors, and in one of these cases criminal charges have been filed by the U.S. attorney.

- On July 31, 1997, criminal charges were filed against a husband and wife, who owned and operated a southern California sponsor. The couple was charged with defrauding the program of approximately \$2.3 million by submitting inflated budgets and by diverting CACFP funds to themselves through "payments" to nonexistent employees and bogus entities. The charges also stated that the couple used these diverted funds to pay for personal expenses, such as their children's college expenses and purchase of, or improvements to, five residential and commercial properties including a \$1.5 million mansion in Palos Verdes Estates, an exclusive southern California community.

The couple was also charged with using numerous aliases to conceal their interests in the sponsor. This was done in part because the wife was also a manager for the State agency and was responsible for overseeing this and other sponsors in southern California. Her responsibilities included ensuring that the sponsor complied with all applicable State and Federal laws and regulations.

Criminal charges were also filed against another couple who were closely related to the aforementioned couple and who ran the day-to-day operations for the sponsor. The couple was charged with defrauding the program of \$60,000 by submitting false claims for providers who had previously withdrawn from the program, and subsequently converting the funds to their personal use.

Both couples face possible prison terms of up to 5 years and fines of up to \$250,000. Also, the Government has seized the five residential and commercial properties fraudulently acquired and valued in excess of \$2 million. The sponsor has been terminated from the program. The State manager was fired from her job as a result of her conflict of interest with the sponsor.

- An investigation is ongoing of an Ohio sponsor because many of the providers the sponsor claimed appeared not to exist. On our provider visits, we found that some provider addresses did not exist or were abandoned properties, that no one was at the address during operating hours, or that no one with the provider's name was at the address. In other cases, the person claimed by the sponsor was at the address but denied participating in the program. Furthermore, the sponsor appeared to be ineligible to participate in the program due to its loss of nonprofit status from the Internal Revenue Service. Based on the conditions disclosed by our audit, this sponsor has been terminated from the program by the State agency.
- A sponsor in Utah is being investigated based on information gathered through our home visits. Numerous providers alleged that the sponsor required them to cash their meal checks and return all or part of the payment to the sponsor. We found that the sponsor wrote checks to providers who were no longer in the program and required other providers to forge signatures and cash the checks. Providers also told us they were required by the sponsor to claim meals for children not enrolled in care in order to increase their claims, and return the excess payment received to the sponsor. This sponsor has also been terminated from the program.
- An investigation of another California sponsor is ongoing as a result of our previous audit. This sponsor had numerous administrative deficiencies, including inadequate monitoring of providers and insufficient oversight of their claims, that we reported in a previous semiannual report. The sponsor has been removed from the program by the State agency.

Deficient Administration

As part of our sponsor reviews, we conducted unannounced visits to a substantial number of day care homes, and found widespread deficiencies in their operations. Many providers did not have records adequate to support the meals they claimed, or had no records at all. Claiming of unallowable meals by providers appeared to be common. Many of the children for whom the providers claimed meals were not present when we visited, and we questioned whether they were actually in care. We also questioned whether some providers were eligible to claim the meals they served to their own children. At some homes, we found unsafe or unsanitary conditions and licensing violations, and we reported these conditions to the local health or licensing authorities.

Based on the large numbers of problems we found at the homes, we concluded that the sponsors' training and monitoring efforts were generally ineffective. Sponsors did not provide all required training and did not conduct all required reviews. Reviews that were performed were often ineffective. Sponsor visits were usually scheduled in advance, were brief (in many cases, only 5 or 10 minutes in length), and very seldom disclosed any problems. As noted above, our unannounced home visits found extensive problems.

During this semiannual period, we issued audit reports on 8 of the 12 sponsors reviewed. Three of these eight are undergoing investigation. We reported the following conditions relating to the other five sponsors.

- Conditions were unsafe or unsanitary at 10 providers of an Illinois sponsor. At one home, the only source of heat (in the month of February) was the gas burners and oven on the kitchen stove. Several homes were seriously over capacity, with only 1 adult caring for up to 25 children (State licensing provisions allow 1 adult to care for not more than 8 children).
- One Oregon sponsor did not adequately monitor or train its providers, claimed unallowable administrative expenses, and failed to accurately report administrative costs on its monthly claims for reimbursement. The sponsor also may have been conducting unrelated outside business activities and charging their costs to the program. Based in part on our audit report, the State agency terminated this sponsor from the program.

- Nearly one-third of a New Mexico sponsor's providers we attempted to visit were not home, yet they later claimed meals which were purportedly served at these times. In total, we recommended recovery of \$9,400.
- One-sixth of the reimbursements claimed by one Alabama sponsor's providers were improper. Numerous providers claimed reimbursement for meals not served or for ineligible meals. We recommended recovery of the \$3,000 paid for ineligible meals and meals not served.
- Thirteen percent of a Louisiana sponsor's providers did not keep adequate records, resulting in reimbursements for which they were ineligible. We also found that some providers claimed meals at times they were not home, or for children who were not present. We recommended the recovery of \$1,400 in meal and administrative payments.

Due to the significant problems found, the Inspector General is launching a national initiative to expand our efforts to identify abusive sponsors. These efforts will include "sweeps" of sponsors and providers (i.e., unannounced, targeted visits), conducted jointly by OIG auditors and investigators with the assistance of FCS and State agency personnel. Because the "sweeps" place a large cadre of reviewers at selected onsite locations simultaneously and without warning, they will provide an authentic snapshot of CACFP operations in the targeted areas. Those sponsors found to be abusing the program will be removed from sponsorship; if warranted, prosecuted; and ineligible payments recovered.



During our "sweep" in Utah, we found that this trailer was being used to provide day care. OIG photo.



We visited this apartment complex that was being used for child care in Utah. OIG photo.

Guilty Plea to \$25,000 Fraud in CACFP

The former director of a child care sponsoring organization in Washington, D.C., pled guilty in Federal court to embezzling \$25,000 in CACFP funds intended for day care providers. She was sentenced to 10 months in jail, fined \$3,000, and ordered to pay \$25,000 in restitution to the 17 family day care providers she had defrauded.

The individual converted those funds to her own use instead of reimbursing the providers for legitimate program costs they had incurred in 1992 and 1993. She used the funds to pay for personal credit card, hotel, car, beauty, and household costs wholly unrelated to the operation of the feeding program.

Oklahoma Minister Convicted

A minister who was the director of a summer feeding program in Muskogee, Oklahoma, pled guilty to submitting false claims. He confessed to inflating the numbers of meals served to children, and our investigation disclosed unsupported and inflated 1995 program claims totaling nearly \$12,400. He also diverted almost \$7,000 in program funds to his personal use.

Sentencing is pending.

FOOD DISTRIBUTION PROGRAM (FDP)

Controls Over FDP on Indian Reservations Need Strengthening

FDP on Indian reservations was established to improve the diets of needy households on Indian reservations and needy Native American households in designated areas near reservations, and to increase the market for domestically produced foods acquired under surplus-removal or price-support operations. In FY 1995, 104 Indian Tribal Organizations operated FDP on Indian reservations. The FY 1995 funding level was \$60.6 million.

We performed a nationwide audit of FDP on Indian reservations to determine if program controls were in place and functioning as prescribed. We found that controls used to verify and detect unreported income were not always applied or were not in place. Specifically, we found that (1) households did not always report all earned income for all household members at the time of certification, (2) households did not keep the FDP office informed as to changes in their income, (3) FDP personnel did not properly verify income, and (4) the FDP offices did not have controls in place to detect instances of households having income but reporting none. Our projections showed that an estimated 7,500 households received FDP commodities valued at approximately \$4 million for which they were not eligible.

In addition, controls used by FDP and FSP offices did not always detect or prevent households from simultaneously receiving food stamps and commodities. Current controls to prevent and detect dual participation include telephone calls by both FDP and FSP offices, and review of voluminous FSP participation listings. We determined that either telephone calls were not made or communication problems existed between FDP and FSP personnel. Also, food stamp participation listings did not always include statewide participation. Our statistical projections showed that an estimated 2,100 households obtained FDP commodities valued at approximately \$332,000, and an estimated 1,900 households obtained FSP benefits valued at approximately \$1.4 million during the same period.

USDA commodities were not always issued or stored within FCS' recommended shelf-life period. This

occurred primarily because controls were not always implemented to ensure that commodities were issued on a first-in, first-out basis. We also noted that FDP offices maintained commodities in storage which participants did not want. Our projections showed an estimated 564,000 units of various commodities totaling approximately \$486,500 were stored beyond the FCS' recommended shelf life. Commodities may continue to be safe and fit for human consumption after their shelf life provided they are tested and found to remain safe for consumption.

We recommended that FCS management (1) require FDP personnel to conduct monthly spot checks of household income by using the local food stamp office income eligibility verification system or contracting out to State agencies to verify monthly income of new participants, (2) establish an agreement with local food stamp offices to review a monthly diskette listing all FDP participants in order to preclude dual participation, (3) require FDP personnel at the Indian reservations to obtain the Social Security numbers of all household members listed on the FDP application, and (4) implement indepth controls to ensure that commodities are issued on a first-in, first-out basis.

FCS officials are waiting for a decision from OGC concerning FCS' authority to require FDP participants to provide their Social Security numbers for income and dual participation verification. They stated that matching all FDP participants to FSP data to determine dual participation would be too costly.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

California Continues To Claim Unsupported and Ineligible WIC Costs

At the request of FCS' Western Regional Office, we reviewed WIC administrative costs claimed by the State of California for FY's 1994 and 1995. The regional office administers the program through an agreement with the State agency which, in turn, oversees the program in coordination with 82 local agencies. In FY 1994, California was reimbursed for administrative costs totaling almost \$107 million; in FY 1995, it was reimbursed almost \$125 million.

We found that, since 1991, the State agency has demonstrated a chronic pattern of noncompliance with program requirements. Although officials consistently stated that they would resolve the deficiencies reported by previous audits and management evaluations, the deficiencies continued to exist. As a result, the State agency continued to claim unsupported and ineligible costs of approximately \$790,000. Over the past 6 years, the State has reported inaccurate annual program expenditures, maintained excessive voucher inventory levels, and provided insufficient monitoring of local agencies.

In addition, FCS accepted the State agency's corrective action without a specific timetable for implementing the corrective action, and did not conduct timely followup reviews to verify that the deficiencies were corrected. The following issues were previously reported, in some cases more than once, to FCS in the past 6 years.

- In FY's 1994 through 1996, the State agency charged WIC for 100 percent of the personal service costs of eight employees who worked on multiple grant programs. Five of the employees estimated that they worked on WIC only 10 to 50 percent of their time. State agency officials ignored previous FCS guidance and did not conduct time studies or require the employees to complete time distribution records. As a result, the State agency was reimbursed for unsupported personal service and related indirect costs totaling approximately \$790,000.
- The State agency submitted inaccurate annual reports for FY's 1994 through 1996. Due to problems with the State's accounting system, officials used estimates rather than actual expenditures and processed large accounting adjustments that were either unsupported or erroneous. As a result, the State agency misclassified expenditures totaling at least \$3.7 million in FY 1994 and \$1.5 million in FY 1995. Also, the State agency inadvertently misclassified a \$223,000 expenditure in FY 1995 and charged other expenditures to the wrong fiscal year, further adding to the inaccuracy of the annual close-out reports.
- The State agency maintained approximately 5.5 million obsolete vouchers in inventory with a face value of over \$332 million. While making a transition to a new computer system, we estimate that the State agency needlessly expended approximately

\$906,000 to print vouchers that would not be useable under the new system. The State will soon incur additional costs to shred them.

- In FY's 1994 and 1995, a local agency claimed ineligible costs of \$35,000.

We recommended that FCS require specific timetables from the State agency for implementing corrective action and conduct timely followup reviews to verify that corrective action was taken on all findings in audits and management evaluations. If deficiencies continue, FCS should consider withholding up to 100 percent of the grant amount.

The State agency must provide adequate support for personal service costs or reimburse FCS as much as \$790,000. The State agency must also submit corrected annual reports ensuring that all costs are accurately reported, adequately supported, correctly categorized, and reported in the appropriate fiscal year. We also recommended that the State agency determine more reasonable voucher inventory levels and that FCS recover approximately \$247,000 in printing costs for obsolete vouchers. FCS officials generally agreed with our audit results and recommendations.

Food Safety

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

The Food Safety and Inspection Service (FSIS) administers a comprehensive system of inspection laws to ensure that meat, poultry, and egg products moving in interstate and foreign commerce for use as human food are safe, wholesome, and accurately labeled. FSIS' appropriation for FY 1997 totaled approximately \$574 million.



An FSIS scientist conducts a microbiological test for the presence of specific pathogenic organisms in or on the product. FSIS photo.

Export Control Needs Strengthening

Our review of FSIS' export policies and procedures determined that controls over the export of meat and poultry products need strengthening. FSIS had not implemented effective management and internal controls to safeguard, account for, or reconcile export certificates upon their receipt from the printer through their issuance to exporters. This weakness exists even though the Federal Meat Inspection Act (FMIA) requires the issuance of certificates attesting to the wholesomeness of exported food products and FSIS regulations identify export certificates as accountable documents (uniquely prenumbered).

FMIA further requires inspectors to conduct a "careful examination" of meat and poultry products intended for export, yet FSIS issued a directive that in effect instructs inspectors not to open shipping containers unless they are damaged or there is an indication the contents are off-condition. Thus, this directive appeared to

countermand the intent of FMIA's "careful examination" requirement. Also, FSIS regulations require FSIS inspectors to certify that foreign expectations have been met; however, FSIS inspectors did not always have primary knowledge of the conditions, such as the origin or environment of the meat or poultry products, to which they attested.

FSIS officials assured us that the return of rejected U.S. exports in this country followed the same procedures as the return of rejected products in domestic operations. However, we found that domestic procedures were not always followed; for example, inspectors at the producing establishment were not notified rejected product was being returned. FSIS procedures were silent for exported products returned to unofficial establishments (i.e., those not requiring mandatory Federal inspection).

We recommended that FSIS take the following actions to improve management and internal control systems over the export of meat and poultry products: (1) Require inventory control and reconciliations of export certificates and proper accounting for each export certificate throughout the ordering, distribution, and reconciliation process, (2) require that inspectors have sufficient documentation available to justify their attestations to foreign countries, (3) establish procedures to ensure rejected export products are properly controlled when reentering the country, and (4) rescind the provisions of an FSIS directive which precludes FSIS inspectors from performing careful inspections of the contents of the meat and poultry-food products presented for export.

FSIS officials have agreed to the corrective action we recommended or provided acceptable alternatives, except for the need to rescind their directive which precluded the requirement for careful inspections of products presented for export. We are working with agency personnel to reach management decision.

Convictions, Sentencings for Adulterated Poultry Operation

The owner of a poultry operation in northern California was fined \$3,000, sentenced to 6 months in a halfway house, and given 3 years' probation after he pled guilty to transporting and selling adulterated poultry. His wife and brother were each placed on probation for 2 years after they pled guilty to lesser charges regarding their involvement in the operation.

Our investigation disclosed that, for at least 6 months, the three individuals slaughtered chickens in a slaughtering facility with unsanitary conditions and without the benefit of inspection. They then transported the uninspected, adulterated poultry to San Francisco where it was being sold to grocery stores.

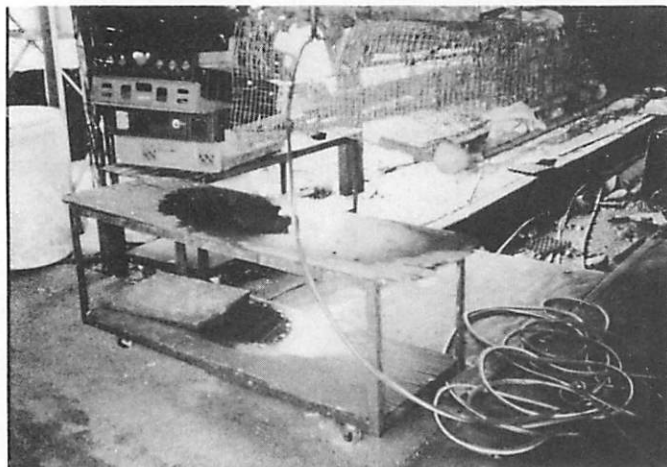
The investigation was initiated after a county health official received an anonymous complaint alleging that the subjects were operating an unsanitary and uninspected poultry slaughtering operation on weekends and selling the poultry to unknown individuals in San Francisco. During a surveillance by OIG investigators, the subjects were observed transporting poultry from their facility north of Sacramento, California, to retail outlets in San Francisco (approximately 110 miles away).

The investigators immediately contacted the retail outlets and, with the assistance of FSIS Compliance officers, retained the poultry before it could be sold to the public. A search of the truck used to transport the poultry disclosed that the truck was unrefrigerated and contained slaughtered chickens, live chickens, and eggs. All poultry products still on the truck were destroyed that day under OIG supervision.

A search of the slaughtering facility disclosed that the chickens were slaughtered under a number of unsanitary conditions.

- The slaughtering table was located in a room that housed live chickens, as well as dead chicken carcasses in varying stages of decomposition (which exposed the slaughtered carcasses to chicken feces and feathers).
- The slaughter table and the plastic drums used to store the slaughtered chickens were not in a separate enclosed area and were exposed to a heavy accumulation of feathers, dust, and other pollutants in cobwebs located in the ceiling directly above the slaughter area.
- Dogs and cats ate the entrails from the slaughtered chickens.
- The wooden slaughter table was splintered and pervious, which allowed blood to permeate the surface, subjecting the slaughtered chickens to bacteria and other pollutants.
- The slaughter table was not properly cleaned, and the knife used in slaughtering was not properly washed and stored.
- The chickens were not properly refrigerated after slaughtering and during transportation.

This investigation was conducted with the assistance of FSIS Compliance officers.



The slaughtering table and surrounding area used in the adulterated poultry operation contained a number of unsanitary conditions. OIG photo.



The knife used to slaughter the adulterated poultry was not properly washed and cleaned. OIG photo.

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 \$233 million.

Dairy Plant Inspections in Wisconsin Benefited Both Government and Industry

Dairy plants, to qualify for AMS grading services of their dairy products, must operate under sanitary conditions and maintain high levels of product quality. To ensure that these food safety requirements are met, AMS conducts at least 2 surveys of each participating plant a year and evaluates each plant on over 100 sanitation and quality related items. A number of States, such as Wisconsin, maintain their own food safety/dairy plant inspection programs, and dairy plant operators in such States have expressed concerns about the amount of unproductive downtime they incur with these multiple inspections.

The House Committee on Appropriations in its report on USDA appropriations for FY 1994 stated that it expected AMS to enter into a pilot program with the State of Wisconsin to eliminate unnecessary duplication in dairy plant inspections by permitting the State to perform the Federal inspection responsibilities for dairy plants. Responding to that report, AMS and the Wisconsin Department of Agriculture (WDA) entered into a 2-year pilot program under which the two agencies would accept one dairy plant inspection performed by the other agency for their program use during 1995 and 1996. Under this program, each participating plant would receive, at a minimum, one sanitation survey per year from each agency instead of the four that would have been made by AMS and WDA.

At the request of AMS we were asked to evaluate the results of the pilot program, which had concluded on December 31, 1996. The purpose of the review was to determine whether the pilot program (1) achieved its stated goals of reducing duplication of effort, conserving State and Federal resources, and minimizing

disruptions to the dairy plants and (2) provided adequate controls to ensure inspection activities under the pilot program met AMS standards. To accomplish this we visited the AMS National Field Office, WDA's Division of Trade and Consumer Protection, and 21 of the 113 dairy plants participating in the program as of October 1996. We also evaluated supervisory reports prepared by AMS supervisory inspectors and the agency's review and evaluation specialist. Finally, we provided questionnaires to 129 dairy plants that had participated in the pilot program during 1995 and/or 1996, and to an additional 43 plants that had declined to participate.

Our evaluation and analysis found that the pilot program had been successful in many respects. It allowed AMS and the State agency to accomplish their inspection responsibilities in Wisconsin with a reduced level of resources and minimized operational downtime at the dairy plants. We did note that many WDA inspectors, because of a lack of experience and training, initially may not have been performing at the same level of effectiveness as their AMS counterparts. This was largely due to the fact that although all 78 of WDA's inspectors were licensed by AMS to inspect dairy plants, many had little or no advanced training or experience in this field. AMS also did not provide active or consistent supervision to WDA inspectors, or follow up to ensure that WDA took sufficient action to correct noted deficiencies in its inspectors' performance. However, we saw evidence that the quality of inspections improved during the course of the 2-year pilot program.

We concluded that the pilot program was largely successful in promoting more efficient use of resources by AMS and WDA, and in reducing disruptions at many dairy plants. We believe that, with better communication and coordination between the two agencies and more active oversight by AMS, continued joint operations based on the pilot program would be both feasible and beneficial.

AMS officials expressed doubts that the pilot program significantly reduced duplication of efforts or minimized disruptions. WDA officials generally agreed with our conclusions that the pilot program promoted more efficient use of resources by AMS and WDA, and reduced disruption of dairy plant operations.

Audit Alleviates AMS' Concerns Regarding Costs Charged to Trust Funds

Responding to AMS' concerns, we performed an audit of the Federal-State Inspection Program in Washington to review the administrative service costs that the State was charging to commodity inspection trust funds. AMS' concern was that administrative costs had significantly increased over the past few years, which could have adversely affected the Federal-State Inspection Fund's future viability. Our audit reviewed the methodology used by the State to allocate its administrative costs and concluded that the method was reasonable and met the terms of the cooperative agreement with AMS. The Federal-State Inspection program's share of the administrative costs had increased because, under the terms of the agreement, those costs that had previously been subsidized by the State were now being passed back to the Federal-State Inspection program.

However, we did find that the State's horticulture districts had commingled Federal-State inspection funds with other State funds and that the accounting system could not specifically separate and identify the Federal-State portion of the funds. The State also failed to bill and collect all fees due the program and, as a result, understated the Federal oversight assessment payments due AMS.

We recommended that AMS direct the State to incorporate a separation of the Federal-State and State revenues, expenditures, and reserve fund balances into its new computer system and to collect the previously uncollected fees. AMS officials agreed with the report's conclusions and have undertaken corrective action.

Company, Owner Charged With Falsely Certifying Origin of Strawberries Sold to School Lunch Program

A former sales representative of a San Diego-based food broker and processing company pled guilty to conspiracy with intent to defraud and to having made false statements to USDA in regard to the substitution of Mexican strawberries for U.S. domestically grown strawberries in the USDA School Lunch Program. Sentencing is pending. The company and its president have also been indicted for submitting false claims to USDA and for conspiracy.

Our investigation began after a March 1997 outbreak of the hepatitis A virus in Michigan which eventually sickened approximately 190 school children. Subsequent investigation by the Centers for Disease Control and Prevention and the Food and Drug Administration (FDA) determined that the hepatitis A outbreak was associated with frozen strawberries served to school children as part of the USDA School Lunch Program. The origin of those frozen strawberries was traced back to the San Diego-based food broker/processing company. The company, through three other brokers, supplied 1.7 million pounds of frozen strawberries to the School Lunch Program, for which the brokers received more than \$900,000 from USDA.

The USDA contract called for frozen strawberries "originating from crops 100-percent grown, processed, and packed in the United States." The company's president certified to USDA that all of the 1.7 million pounds of frozen strawberries were 100-percent grown and packed in the United States, when in fact at least 99 percent of the product supplied to USDA was grown in Mexico.

This investigation was conducted jointly with the Federal Bureau of Investigation and FDA.

More Indictments, Convictions in Milk Adulteration Cases

As the result of our ongoing investigation with the AMS Dairy Division and FDA, one additional dairyman and two more milk truck drivers have been indicted in Texas. The dairyman and three other drivers have been convicted during this period and ordered to pay more than \$100,000 restitution. The dairyman received a 6-month prison term. Two of the drivers received prison terms of 8 and 12 months, respectively. The third driver, who cooperated in the investigation, was placed on probation for 5 years.

These actions are part of our continuing investigation into dairymen and milk handlers conspiring to add water to milk production in order to increase their milk payments from a local dairy cooperative.

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 to total over \$525 million.

Miscommunication Caused Conflicting Procedures for Preclearance Program

To protect U.S. agricultural products, the APHIS staff participates in preclearance programs which involve the inspections of foreign packing and treatment facilities, commodities, and the treatment of commodities in the country of origin prior to U.S. entry.

During our review of the Mexican Preclearance Program, we did not identify any instances in which APHIS allowed harmful plant diseases or pests to enter the United States, and we found that APHIS had adequately implemented our prior audit recommendations. However, we did identify some procedures needing clarification to avoid confusion in the preclearance process.

We identified areas where procedures in the workplans, developed jointly by APHIS International Services and the Mexican Secretary of Agriculture, differed from the procedures developed by APHIS' Plant Protection and Quarantine staff in the manual for nonpropagative (not reproducing) plants, which is to be used at U.S. ports of entry. These areas included required certificates not being issued, sampling procedures not being followed, and correct workplans not being applied. APHIS management has already developed and distributed policy correspondence to all ports of entry to ensure adherence to approved random sampling procedures.

We also found that sidedoor seals were not being checked. APHIS management has now issued a directive concerning inspection of seals located on vehicle sidedoors.

We recommended that APHIS clarify preclearance procedures that differ between workplans and the manuals. We also recommended that APHIS instruct inspectors on the correct procedures for precleared commodities. APHIS management is revising procedures to clarify various preclearance functions.

Doing so should eliminate discrepancies between work plans and agency manuals.

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, Managers Convicted of Adulterating and Misgrading Grain

We previously reported that a multinational food company headquartered in Omaha, Nebraska, agreed to plead guilty to charges that it had intentionally misgraded soybeans, misweighed and added water to grain to increase its volume, and paid gratuities to federally licensed grain samplers, who allowed substitution of grain samples. During this period, the corporation pled guilty to the charges and paid \$8.3 million in fines and disgorgement of criminal profits. A significant part of the sum is being disbursed to more than 4,000 farmers who were cheated by the company's schemes to defraud.

In addition, four former managers of the grain company pled guilty to misgrading grain. Two of the managers also pled guilty to wire fraud. One of the managers guilty of wire fraud was sentenced to a prison term of 15 months, followed by probation of 2 years, and the other manager was fined \$3,000 and placed on 4 months' home detention. The other two managers were fined \$500 and \$200, respectively, because they cooperated in the investigation and had not led the schemes.

In lieu of debarment, the company signed a compliance agreement that establishes a corporate code of ethics and conduct and provides for training in ethics, as well as grading and weighing. The agreement also ensures a prohibition against adding water to grain except for processing.

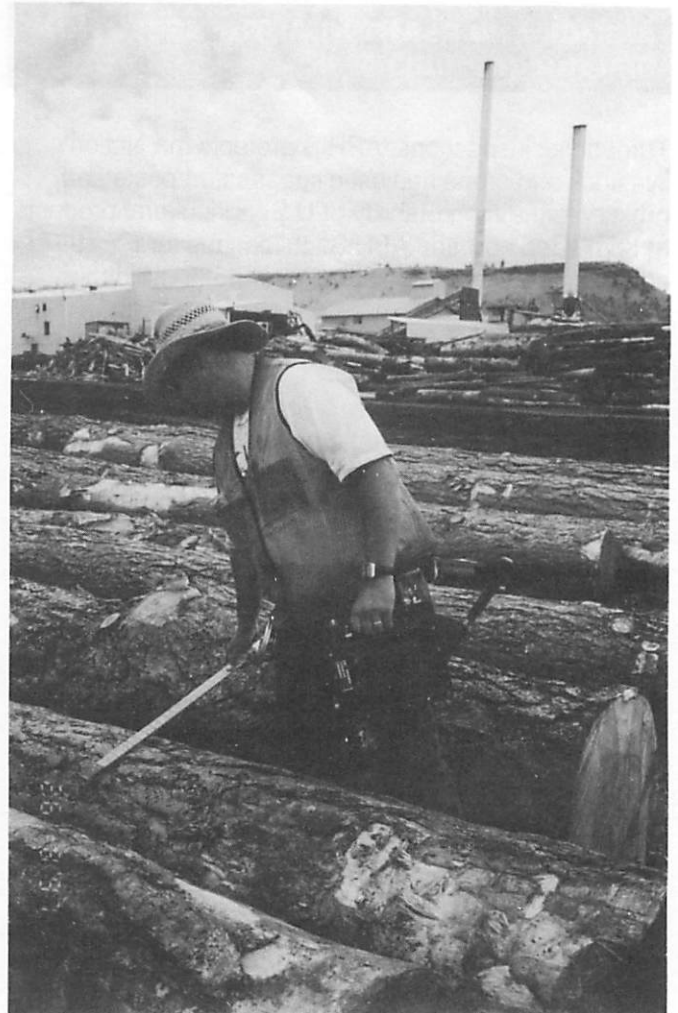
Natural Resources and Environment

FOREST SERVICE (FS)

FS manages natural resources on over 191 million acres of National Forest System lands. It provides cooperative forestry assistance to States, communities, forest industries, and private landowners; manages a comprehensive forest research program; and applies conservation measures to preserve wilderness and manage recreation areas. For FY 1997, total FS funding was approximately \$3.5 billion with receipts from timber sales and other activities estimated at \$1 billion.



A Forest Service timber manager chemically tests tracer paint to determine whether a tree is authorized for harvest. OIG photo.



A sawmill employee "scales" (measures) unprocessed Federal logs at a designated scaling site. OIG photo.

Reevaluation of Federal Excess Personal Property (FEPP) Program Needed

Through the FEPP program, FS lends Federal property, largely made available by the Department of Defense, to State and local fire protection agencies for community and wildland fire prevention and for fire control activities on non-Federal lands.

We identified material weaknesses in the existing controls over FEPP, and concluded that FS should reevaluate the level of the Federal presence in the program and determine whether greater State control would be in the best interests of all agencies involved. We also concluded that FS may want to make a significant adjustment to its current controls by raising the threshold of accountable property to recognize the overstated value of FEPP in relation to its fair market

value. This recognition, based on available data, would in effect give up to 80 percent of all FEPP to the States as nonaccountable property. Alternatively, FS could adopt a long-term solution to FEPP accountability problems by seeking a legislative change in the program that would allow the title to all FEPP to be transferred to the States. This could improve accountability because the ownership of the property would be in the hands of its actual users.

If FS elects to retain its present system of accountability while recognizing fair market values, it needs to significantly improve its efforts to track FEPP. We found, through a nationwide review that included statistical analysis and physical inspection of FEPP, that current efforts are deficient. About 15 percent of items selected for review were either misused, unused, or unusable. Another 11 percent of items were not

maintained in accordance with FEPP regulations (were stored improperly, cannibalized without prior approval, etc.). Our projections show that of the total universe of FEPP, equipment with an acquisition cost of \$238 million was broken and needed major repairs, and equipment with an acquisition cost of \$38 million was unusable scrap. Other items, worth \$2.4 million, were missing. In addition to our statistical analysis, we could not physically locate 83 FEPP items valued at \$1.2 million. This included items such as trucks, compressors, and aircraft engines.

FS is unaware of the condition of FEPP equipment as well as the actual amount of equipment on loan. Although FS is obliged to track all accountable FEPP, regardless of its condition, improper inventory procedures have resulted in a faulty FS tracking data base. Reconciliations are not performed to account for differences between items requested and items received, or to verify the status of items claimed to be missing. We tested one State's inventory list and found that most items on it did not correspond to any in the FS data base.

Weaknesses were also evident in the FEPP redistribution and disposal process. Unneeded FEPP was not disposed of in a timely manner, sometimes deteriorating for 9 years in a county's "boneyard" while other communities that could have used the equipment were unaware of its availability.

We recommended that FS (1) seek legislative changes that would allow the title to all FEPP to be transferred to the States or (2) raise the threshold of accountable property in order to allow most of FEPP under FS control to be given to the States as nonaccountable property. We also recommended that if FS elects to retain its present system of accountability over high-value FEPP, it should develop and implement a plan to strengthen its basic internal controls in the areas noted. Finally, we recommended that FS recover the \$1.2 million acquisition value of the missing FEPP, and require the States to return \$430,000 in equipment being misused so that other communities with firefighting needs may put it to proper use.

Agency officials generally agreed with our findings and are developing a plan for corrective action.



This helicopter in the Federal Excess Personal Property (FEPP) program was being used by a local sheriff's department, when it was intended for fire-related activities. OIG photo.



This rusting FEPP jeep was awaiting disposal for years, without paperwork. OIG photo.



This FEPP truck was being used by a local government for weed control, rather than fire-related activities. OIG photo.

Better Supervision Needed To Ensure FS Scientists Comply With Requirements for Outside Activities

During a prior OIG nationwide audit of research grants and cooperative agreements, we identified a potential conflict of interest involving activities between a research scientist and a major university. Our evaluation reviewed the activities of the research scientist and assessed management controls over activities of research scientists in general.

We found that station managers did not effectively supervise and monitor the activities of their scientists. Station managers encouraged their scientists to seek outside research funding and adjunct professorships from non-Federal sources, but they did not require the scientists to get prior approval before accepting these benefits.

Our audit found that the scientist under review became an adjunct professor at a major university that appointed the scientist as its principal investigator on a research project funded by FS and overseen by the same scientist in the capacity as FS lead scientist. In addition, the scientist participated in a joint research project at a foreign location, and received in-kind benefits from foreign sources, even though there was no formal agreement between FS and the foreign sources. All these activities were performed without prior approval from station managers and without their knowledge.

The scientist, who was recruited from a major university, was not familiar with the Federal regulations concerning activities relating to non-Federal organizations. At FS' request, OGC reviewed the circumstances of the case, and OIG has referred it for possible criminal action.

We recommended that station management establish written policy requiring research scientists to file financial disclosure reports and obtain prior written approval before accepting adjunct professorships and any type of outside funding from non-Federal sources. We also recommended that station managers provide the proper training and supervision to their research scientists prior to giving them the responsibility to initiate and establish financial relationships with non-Federal sources.

FS officials agreed to implement all recommendations cited in the report.

Grantee Did Not Match All Federal Funds Provided for Urban Forestry Grants

FS initiated a series of grants to assist Southern University, located in Baton Rouge, Louisiana, in establishing an urban forestry curriculum. We audited the matching costs for five urban forestry training program grants of \$130,000 each, awarded to Southern University in FY's 1991 through 1995. In addition, we audited three other related grants totaling \$38,500 to the university during the period. In total, FS disbursed approximately \$638,000 in Federal funds to the university, requiring matching funds of approximately \$640,000.

We determined that officials of Southern University had not kept adequate records of matching costs; therefore, the \$640,000 (100 percent) was unsupported. However, we concluded that their satisfactory progress on the agreements justified a limited "presumption of regularity"; i.e., they must have incurred some allowable expenses. Therefore, although \$640,000 in matching costs was unsupported, only around \$28,000 was unallowable under Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions." We also determined that Southern University did not provide an additional \$22,000 in matching costs as required.

We recommended recovery of approximately \$46,000 of Federal funds not matched by Southern University expenditures.

Rural Development

RURAL HOUSING SERVICE (RHS)

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.

Rural Rental Housing (RRH) Authority Official Suspected of Misusing Over \$200,000

RHS makes RRH loans to provide affordable housing to low- and moderate-income persons in rural areas. RRH borrowers are required to report project financial operations to Rural Development through monthly and annual reports. Rental rates are established by RHS, and are adjusted based on a project's reported financial operations. RHS performs triennial supervisory visits to RRH projects, which include a review of financial records and a physical inspection of the projects.

This audit was requested by RHS officials after they identified two project accounts that had substantially less funds than reported on the annual financial statements. We reviewed the financial operations for the two projects and found that the executive director had diverted just over \$178,000 from the two projects by failing to deposit funds into project accounts and making unauthorized withdrawals from restricted accounts. Also, we found evidence that the executive director had cashed tenant rent payments and collected rent from units that were shown as vacant. She reported tenants living in units long after they had been vacated so she could continue to collect rent subsidies. In one instance, she collected rental subsidies from the U.S. Department of Housing and Urban Development (HUD) for a tenant who had been deceased for 11 months. Additional project funds totaling approximately \$60,000 were improperly used for unallowable costs and obtaining an unauthorized loan, and by making questionable withdrawals from project accounts.

Attempts were made to conceal these improprieties by submitting falsified reports and documents to RHS, HUD, and the projects' board of directors. Because the projects' board of directors failed to provide sufficient oversight over the manager of operations, the projects' bank accounts were depleted, causing serious financial difficulties and jeopardizing the Government's security interest in the properties. We recommended that the borrower reimburse the projects for approximately \$181,000 for diverted and improperly used funds. We also recommended that RHS determine whether foreclosure actions should be initiated.

RHS officials generally concurred with the recommendations and agreed to pursue collection.

Prominent Pennsylvania Official Pleads Guilty to RRH Fraud

In Pennsylvania, the general partner of a management company pled guilty to nine counts of false statements made to RHS. The individual planned, built, and managed 32 apartment projects in Pennsylvania, New York, Maryland, Delaware, and West Virginia. All the apartment projects were under the RRH program. The general partner established a central disbursement company to oversee the operation of the projects and their accounts. It was determined that the individual made more than \$1.3 million in unauthorized withdrawals from the tenants' security deposit and replacement reserve accounts. The money was used to support private real estate ventures that were losing money, which included housing developments and shopping malls.

Sentencing is pending.

Research, Education, and Economics

AGRICULTURAL RESEARCH SERVICE (ARS)

Laboratory Controls Over Plant Research Materials Need Strengthening

OIG investigated the disappearance of sweet potato polycross breeding seeds from the U.S. Vegetable Laboratory (USVL) in Charleston, South Carolina. The seeds were valued at \$1 million and were the result of over 20 years' research and an ARS investment of approximately \$2.5 million. The seeds disappeared when a researcher using the seeds was terminated; they reappeared when the researcher was reinstated.

While the investigation did not result in criminal prosecution, it disclosed significant security weaknesses involving plant research material at USVL: (1) No written procedures to account for plant breeding lines and to secure research material when individuals using the material leave employment and (2) open access to seed storage locations. We requested that ARS take actions to (1) safeguard research material at USVL, (2) establish procedures to secure material used by researchers who leave ARS, (3) determine whether similar control deficiencies exist at other laboratories, and (4) correct similar deficiencies at any other lab.

The Acting ARS Administrator provided us a copy of the written standard operating procedures now in effect at USVL to strengthen controls over plant research material. A survey of 20 other laboratories found that, in general, laboratories had procedures for securing and accounting for plant material; however, the quality of the procedures varied significantly. ARS has drafted national plant germplasm storage security and accountability policy, which will be implemented by yearend.

Financial, Administrative, and Information Resources Management

EQUAL EMPLOYMENT OPPORTUNITY (EEO)

The Department's Backlog of Discrimination Complaints Has Increased; Greater Technical Assistance Is Needed for Loanmaking and Loan-Servicing

As requested by the Secretary, we continued to review the backlog of complaints made by disadvantaged and minority farmers. We issued a report in February of this year that detailed the staffing problems, obsolete procedures, and lack of direction from management that resulted in a backlog of 530 civil rights complaints within the Department. During this second phase of our work, we found that the backlog had increased from 530 to 984, as of August. In FSA alone, the backlog nearly doubled, increasing from 241 to 474.

Although an ad hoc team was formed in April 1997, with the goal of eliminating the backlog by June 1997, the Office of Civil Rights (OCR) found that the complaints had never been properly investigated. As a result, the ad hoc team was disbanded without accomplishing its goal. OCR is currently taking steps to hire complaint investigators and to have investigations performed through contracts with private firms. We still believe additional efforts are needed by ad hoc teams, under the direction and control of OCR, to help address the backlog of complaints. Further, we think the task of performing preliminary inquiries on FSA complaints should be performed by OCR investigators, who can be more objective and independent than FSA employees in performing the task.

The Secretary also asked us to review a broad range of issues concerning program participation by minorities. For this review, we judgmentally selected 11 States and 33 counties to determine if FSA provided sufficient technical assistance to help minority farmers apply for and receive farm credit loans, and if FSA processed minority farm loan applications and serviced minority accounts in the same manner as for nonminorities. Our review disclosed the following.

- FSA needs to provide greater technical assistance during the loanmaking and loan-servicing processes. One of the greatest frustrations to applicants is the extent of the information needed to complete the multiple documents for financial assistance. State-wide data for the 11 States reviewed shows that it

took minorities and nonminorities about the same number of days, on average, to get their applications processed from receipt to loan closing. However, in certain locations, it took minorities longer than nonminorities to complete an approved application (from receipt to complete status). At certain locations, disparities were noted in the number of multiple servicing decisions provided to nonminority farmers compared to the number provided to minority farmers. In those locations, the percentage of accounts that were delinquent was higher for minorities than for nonminorities.

- FSA could improve its relations with the minority community by better targeting its outreach efforts, upgrading the status of its minority advisors, and increasing its workforce diversity at the local level. The field offices visited used traditional means to reach out to minority farmers, relied on 1890 Land Grant colleges to promote their programs for them, or were satisfied with the status quo and awaited guidance from headquarters. FSA officials rarely made personal calls on farmers to introduce themselves and discuss farm loan programs.

County officials told us that outreach has been a pointless exercise in recent years because funding for loans has been unavailable. However, we found that during FY's 1992 through 1996, \$557 million in available loan funds nationwide was allowed to expire and was never obligated. (Most of these funds, approximately \$542 million, were available in FY's 1992 and 1993.)

- Concerning FSA's fund allocating decisions, the agency needs a record keeping system to account for its unspent direct operating loan funds which are redistributed to States from a national reserve account. FSA's current practice of "pooling" and redistributing its unspent direct operating loan funds does not always follow the normal "first-come, first-served" procedure. We also believe that socially disadvantaged applicant (SDA) direct operating loan funds should be "pooled" along with non-SDA funds that are sent to the national reserve account for redistribution. Pooling of SDA funds, however, will require a legislative change.

The Secretary also asked us to determine the degree of participation in farm credit programs by minority farmers. We attempted to make direct correlations

between FSA's direct loan portfolio and Government census data but were unable to make any meaningful correlations. Neither the general population census nor the agricultural census identified the number of individuals in the business of farming. Further, the FSA portfolio itself may contain borrowers who are still indebted to FSA but are no longer farming.

We did compare the applications received and approved from minority and nonminority farmers for the sites visited. We found that during FY 1996, the loan service centers that serviced the 33 targeted counties received 1,416 applications for direct loans, 317 (22 percent) of which were submitted by minority applicants and 1,099 (78 percent) of which were submitted by non-minority applicants. A total of 190 (60 percent) of the minority applications were approved, whereas 729 (66 percent) of the nonminority applications were approved.

We recommended that the Secretary seek changes to legislation that will allow FSA to "pool" SDA direct operating loan funds and reallocate the funds to States instead of allowing them to expire. We also recommended that the Secretary (1) convene ad hoc teams to help address the backlog of civil rights complaints in the Department and (2) revoke the delegation of authority that granted FSA responsibility to conduct preliminary inquiries and return this authority to OCR.

We also recommended that the Secretary direct FSA to provide greater technical assistance to farmers for the entire application process and throughout loan-servicing, establish effective methods of outreach, and develop standards and benchmarks by which to evaluate outreach performance.

FINANCIAL MANAGEMENT

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

Financial Statement Audits

We issued a qualified opinion on the FY 1996 financial statements for the Food and Consumer Service (FCS). We also disclaimed an opinion on the Commodity Credit Corporation's (CCC) FY 1996 financial statements and the USDA consolidated financial statements for FY 1996.

Food and Consumer Service: Qualified Opinion

We issued FCS a qualified opinion because we were unable to assess the reasonableness of its gross, non-Federal accounts receivable for the Food Stamp Program (FSP) and the related account balances and notes to the financial statements. In conjunction with our audit of the FY 1996 financial statements of FCS, we performed a separate audit to determine if States were maintaining systems that could support claims and collections activity reported to FCS under FSP. The audit concluded that FSP claims against households, as reported by States, could not be substantiated in that States did not always perform reconciliations of their accounts receivable systems with outstanding claims amounts reported to FCS. In addition, States had not ensured that their FSP claims overissuances were timely and accurately processed so that all existing receivables were reflected by FCS's financial statements.

During our audit of the FY 1996 financial statements, we identified other material internal control weaknesses that could adversely impact FCS's financial data.

- Accounting principles and procedures used to record accounts receivable for FSP recipient claims relating to terminations (total writeoffs), compromises (partial writeoffs), and prior period adjustments were not correctly applied. As a result, affected financial statement line items had to be significantly adjusted.
- Trial balance reconciliations were not always performed properly, some transaction postings were in error or not adequately documented, and abnormal balances in general ledger accounts, while not materially affecting financial statement line items for FY 1996, were not being identified and resolved.
- Budgetary reports submitted to OMB were not adequately supported by the general ledger.

We also reiterated an instance of noncompliance with laws and regulations in that FCS' implementation of the Account Management Agent System resulted in a violation of Federal appropriation law for FSP. Because FCS design requirements for the Account Management Agent System did not accurately match a fiscal year's expenditures to the related year's appropriation, at least \$3.7 million of FY 1996 appropriations was used for FY 1997 expenditures. FCS has requested a legislative change to address this issue.

FCS has recognized the need and made significant commitments to improve its financial systems and processes. Corrective actions have included the development of review material to be used by State and local governments and a plan to perform an onsite review in all States by the end of FY 1998. FCS has established a Data Integrity and Reporting Branch to address problems that, by nature, will require long-term solutions and lengthy correction periods, so that future financial information will be complete, accurate, and reliable.

Commodity Credit Corporation: Disclaimer of Opinion

We issued a disclaimer of opinion on CCC's comparative financial statements for FY 1996 because of a scope limitation resulting from restrictions imposed on our access to necessary records, arising from a separate audit of the Farm Service Agency (FSA). That review of the mediation program revealed a variety of program abuses, including the preparation of inadequate/incomplete farm and home plans by mediation personnel for the purpose of granting improper agricultural loans in consultation with FSA officials. We expanded our review to three additional States to determine the scope and materiality of the irregularities, but officials in these States denied us access to the mediation records needed for our assessment. FSA management asserted that the records available for our review in its State offices were sufficient (when, in fact, they were not) and did not aggressively assist us in resolving the encumbrance.

Because FSA officials have significant roles in CCC's internal control structure, the actions taken to deny our access to records needed to assess compliance with applicable laws and regulations caused us to question the representations of CCC management. These representations, which are to include a representation that there have been no irregularities involving

management or employees who have significant roles in the internal control structure or irregularities involving other employees that could have a material effect on the financial statements, constitute a part of the evidential matter essential for our opinion on the financial statements.

Since we were unable to rely on management's representations, review the mediation records to conclude whether certain irregularities would materially affect the financial statements, or apply other auditing procedures to satisfy ourselves as to the appropriate amount of program expenses, the scope of our work was not sufficient to enable us to express an opinion on CCC's financial statements. For audit work which we were able to perform, we identified several control weaknesses and compliance issues which could adversely affect CCC's ability to develop financial data.

- Controls and procedures used by CCC were not sufficient to properly oversee associations established to cooperatively market their member producer crops with the assistance of CCC price-support loans.
- CCC had not completed documentation of its strategic and tactical control objectives and techniques to ensure management's overall goals are achieved consistently and uniformly.
- The process used by CCC for reviewing field operations needed enhancement to ensure that reviews identify any nationwide systemic problems and material control weaknesses.
- CCC did not appropriately amend its budget request and, as a result, received an excessive appropriation of \$5.3 billion for its unreimbursed realized losses.
- CCC had not implemented the U.S. Government Standard General Ledger at the transaction level.

In recent years, CCC has significantly improved its financial management systems, and more effective processes are forthcoming through a new accounting system scheduled for implementation in October 1998. However, enhancements are still needed in certain critical areas to ensure the timely and accurate preparation of financial information.

USDA Consolidated Financial Statements: Disclaimer of Opinion

We issued a disclaimer of opinion on USDA's consolidated financial statements for FY 1996 because the Department could not provide assurance that its consolidated statements were presented in accordance with applicable accounting principles. This lack of assurance was primarily due to two factors.

- On August 15, 1996, the Forest Service (FS) advised the Department's Acting Chief Financial Officer that it was not able to provide the Department with complete, auditable financial statements timely for FY 1996. As a result, the USDA consolidated financial statements were prepared using FS' FY 1995 account balances and activity.
- In its FY 1996 Financial Managers' Financial Integrity Act report, the Secretary of Agriculture reported to the President that the Department still cannot provide assurance that, as a whole, its internal control and financial management systems comply with requirements.

We noted that the Department is continuing with its efforts to bring about major financial management improvements over the coming years, with a major initiative being its Financial Information System Vision and Strategy (FISVIS). In addition, throughout FY 1997 we participated with the Office of the Chief Financial Officer (OCFO) and FS in an effort to establish and strengthen financial management operations within FS to resolve longstanding accounting deficiencies and permit the preparation of timely, auditable financial statements for future years. Through consulting services and monitoring reviews, we continue to help FS management clean up financial data and implement applicable accounting standards. Significant progress has been achieved in cleaning up invalid accounting data. Our monitoring reviews have also identified several areas where FS can potentially modify its accounting processes or systems to improve accountability and/or reduce the amount of manual accounting adjustments. During June 1997, FS issued a financial health desk guide, which should make data quality and accounting processes at its field-level accounting units better and more consistent. Other agencies also have under way modernization projects we support.

Development of New Financial Information System

By adopting FISVIS, the Department has made progress in correcting its longstanding financial management system weaknesses. One key part of FISVIS was the purchase of a commercial off-the-shelf accounting system, the Foundation Financial Information System (FFIS), to replace NFC's Central Accounting System (CAS). This system was purchased by OCFO to address the longstanding and significant weaknesses in the current accounting system located at NFC. OIG audits of the Department's financial statements and NFC's internal control structure disclosed that the existing accounting system was not in compliance with applicable accounting standards, controls were weak, and the system could not provide the financial information that USDA managers need. Examples follow.

- Reconciliation procedures were weak due to design and/or system weaknesses that prevented effective use of established reconciliation processes.
- System weaknesses did not provide reasonable assurance that adjustments to user agency accounts, financial statements, and/or reports were processed accurately.

In June 1997, we completed an evaluation of FFIS to identify matters that could prevent the successful implementation of FFIS in FY 1998. We concluded that unless changes were made the successful implementation of FFIS on October 1, 1997, was questionable. We identified the following concerns.

- The decision-making process was slow, which delayed critical decisions that affected FFIS implementation.
- The need for an integrated project plan to track "critical path" tasks.
- The need for additional progress in identifying and making operational changes at NFC.
- Too many agencies were scheduled for FFIS implementation by October 1, 1997.
- The validation and conversion of data from the old accounting system to the new was behind schedule.

- The system testing must not be sacrificed to implement FFIS on October 1, 1997.

During our review, OCFO undertook a major review of FFIS' status to assess whether the project could be implemented as planned on October 1, 1997. OCFO concluded that changes were necessary if implementation by October 1, 1997, were to be possible. OCFO took the following actions to address our recommendations.

- Reduced the number of agencies scheduled for implementation and discontinued work on any areas that do not impact implementation of the selected Forest Service units.
- Provided additional resources.
- Developed a critical-path document for management to track the status of key items.
- Streamlined the decision-making process.
- Did not convert any data not validated from CAS to FFIS.
- Agreed to certify the system in accordance with OMB Circular A-130.
- Agreed to closely monitor the system and defer implementation if necessary testing could not be accomplished.

Policy and Oversight Improvements Needed for the Working Capital Fund (WCF)

WCF finances 22 separate activity centers providing a wide variety of centralized and common administrative services. These services are commercial in nature, and WCF activities rely entirely on reimbursements from user agencies to support and fund their operating costs. User charges are supposed to be commensurate with the agency's share of services received. The activity centers are operated under several Departmental staff offices, and oversight is provided by the OCFO WCF staff and a WCF executive committee. Each WCF activity has an annual operating budget for its operations and any capital (primarily property, plant, and equipment) procurements.

Our review focused on whether user billing rates were fair and equitable to all users; the capital procurement process was properly managed; WCF activity managers and WCF staff effectively managed the fund; and conditions that existed during a previous audit of WCF's largest activity, NFC, also existed in other WCF activities.

We found that significant control weaknesses in the accounting system used to prepare WCF operating and financial reports continued to exist. In a previous OIG audit of NFC, OIG recommended that improvements be made to the WCF and NFC financial reporting process to ensure that the results of their operations are accurately presented. In responding to our prior audit OCFO agreed to implement changes to WCF; however, we found that the same problems still existed in the other WCF activities. Although there are systemic accounting problems with WCF, nothing came to our attention to cause us to question the allocation of costs in any material respect.

Capital procurement requirements need to be identified for the short- and long-range goals included in the WCF activities' business plans. In addition, WCF staff did not seek approval when making significant changes to previously approved capital budgets.

For the National Information Technology Center (NITC) mainframe WCF activity, we noted that the ratesetting process is not documented and the final decision on rates is ultimately determined by NITC managers but the deciding factors are not documented.

We recommended that OCFO WCF staff develop formal accounting and operating procedures for the entire WCF operation, develop a written policy to ensure that WCF financing approximates expenses for all rate centers, notify all users/agencies involved in WCF activities of the decisions made regarding the policy for handling excess revenues, develop complete WCF activity business plans with clearly defined goals for capital investment funds, and establish a threshold at which WCF activities must submit appropriate justification and obtain concurrence for changes in capital investment plans.

INFORMATION RESOURCES MANAGEMENT

Department Progressing With "Year 2000" Conversion

The "year 2000" date conversion crisis poses a significant challenge to all users of affected information technology. Every organization, whether Federal or private, must ensure that its information systems are fully year 2000 compliant well before December 31, 1999, or risk catastrophic failure of those systems. The Office of the Chief Information Officer (OCIO) serves as the Department's focal point for addressing year 2000 issues.

We have initiated a review to assess the readiness of USDA agencies and service centers to achieve year 2000 computer compliance. This review will encompass a determination as to whether agencies have (1) established an overall strategy, (2) prioritized the conversion or replacement of certain systems and/or hardware, including system interfaces, (3) a strategy to convert, replace, or eliminate certain hardware and software, including operating systems software and application software, (4) a strategy to test, verify, and validate converted or replaced systems, (5) devoted sufficient resources to accomplish the plan and prioritized critical systems and activities, and (6) a contingency plan for critical systems and activities.

Generally, we have found the agencies we have examined thus far have initiated actions to address their individual year 2000 conversion projects. We have, however, found areas for improvement at four USDA agencies visited and have reported those matters to them.

- We found the Risk Management Agency (RMA) had not taken action to identify its inventory of mission-critical computer systems, develop conversion strategies, or dedicate sufficient resources to convert and test its computer systems and programs. RMA personnel informed us that, although they had performed some preliminary work on their year 2000 conversion project, they had not yet documented their overall plans and strategies. In addition, they advised us that assessments had yet to be initiated for RMA field offices. By falling behind in this endeavor, RMA risks widespread ADP system failures which, in turn, could adversely affect program delivery, cause loss to the Government, and lower the level of service to agency customers.

We recommended that RMA take immediate action to develop and document its year 2000 plans and inventory information systems, components, and strategies in accordance with OMB's Department guidance and the General Accounting Office (GAO) year 2000 assessment guide, and that RMA ensure its year 2000 project activities are adequately managed and coordinated with the Department's effort.

- USDA agencies, under a departmentwide contract, have recently purchased a large number of personal computers which were found to be year 2000 incompatible. The particular vendor sold various types and configurations of computers, totaling approximately \$31.6 million, to 10 USDA agencies. One of the agencies, NFC, advised us that it had been unable to get the vendor to resolve the problem. The computers supplied to the Office of the Chief Financial Officer (OCFO)/NFC were provided by one of four 8(a) Program vendors under a single contract with USDA, which totaled \$103.5 million. Some of the computers USDA has received were year 2000 compliant. Therefore, it is not known what the full extent of the problem is in relation to the equipment supplied under this contract.

We recommended that the Acting Chief Information Officer require all affected USDA agencies to test all the computer equipment received to determine if it is year 2000 compliant. We also recommended that each agency report the results of its tests to the Office of Operations (OO) contracting officer and ensure that OO and the contractor resolve the deficiencies.

Based on our review of the OCFO/NFC and Farm Service Agency (FSA)/Kansas City Management Office (KCMO) year 2000 conversion projects, we observed that both agencies are making good progress to achieve year 2000 compliance. For example, we found that both OCFO/NFC and FSA/KCMO had assessed the year 2000 computing problems and developed an overall project plan, which addressed the key elements needed to achieve year 2000 compliance. However, we noted that both agencies must continue to monitor the establishment/availability of a test facility to adequately test for year 2000 compliance and to verify operational readiness. We also noted that OCFO/NFC must closely monitor the development of contingency plans if critical systems fall behind schedule and that FSA/KCMO must monitor the operational readiness of equipment and

buildings at all office locations, including KCMO, the Aerial Photography Field Office, and State and county offices. We did not make any specific recommendations to these agencies.

- Our review of NITC's progress disclosed that its planning documentation was insufficient, including the absence of project completion dates to adequately track all of the work needed to achieve compliance. Although NITC had prepared a Project Definition Statement, this plan did not meet the requirements for a detailed plan which should include an inventory of specific products that are available for each computer operating platform.

NITC officials said they are proceeding with the current year 2000 operating plans, which emphasize primarily only its major mainframe computer operating platform. We recommended that NITC take immediate action to document in detail its year 2000 plans and inventory information systems, components, and strategies in accordance with OMB's departmental guidance including establishing project completion dates.

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 State and local governments for which we have been assigned single audit cognizance under OMB Circular A-133, "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-133 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.

Single Audits

During this reporting period, we issued audit reports covering areas over which we have been assigned cognizance. Examples follow.

- The Louisiana Legislative Auditor's Single Audit of the State of Louisiana for the fiscal year ended (FYE) June 30, 1996, included three repeat findings.
 - For the second consecutive year, the Office of Public Health (OPH) had not developed policies and procedures to ensure that food vendors for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) were charging for food packages in accordance with the WIC Grocer's Price Report Sheet. In the legislative auditor's test of 77 food instruments, a wide difference in amounts that food vendors charged for the same food packages was noted. For three types of food packages, charges by different vendors varied by 56 to 89 percent. The value of WIC food instruments for FYE June 30, 1996, was \$84 million.
 - For the eighth consecutive year, OPH had not ensured that recipients of the Commodity Supplemental Food Program (CSFP) and recipients of WIC do not participate in both programs. OPH had developed a computer program to detect dual participation; however, a report that identified dual program participants was not produced until July 10, 1996. Therefore, as of FYE June 30, 1996, OPH had not taken appropriate corrective action to detect dual participation. The value of the food distribution subject to dual participation in CSFP and WIC programs for FY 1996 was over \$13 million and \$27 million, respectively.
 - For the third consecutive year, OPH had not reconciled, within 150 days of validation, WIC food instruments issued with those redeemed, as required by regulation. Consequently, lost, stolen, or expired instruments could be cashed and not timely detected, and, as regulations state, FCS could issue a claim against OPH for its unreconciled food instruments. As of May 31, 1996, 186,168 unmatched records totaled approximately \$5.7 million. OPH issues approximately 199,000 food instruments monthly, totaling approximately \$6.2 million.

The Louisiana Department of Social Services, Office of Family Support, did not ensure that changes in Federal regulations for the Food Stamp Program were implemented on time. Regulatory changes that were to have taken effect October 1, 1995, were not implemented until March 15, 1996, and, as a result, over \$12 million

in food stamp benefits was underissued. During that delay, Louisiana mailed supplemental authorization-to-participate (ATP) cards to affected recipients. At the same time, 457 applicants, whose benefits exceeded \$86,000, either were denied benefits or had their cases improperly closed.

Other findings related to USDA programs included inadequate controls over meal counts for students participating in the National School Lunch Program at the Central Louisiana State Hospital; failure to obtain single audits from all Louisiana Department of Agriculture and Forestry subrecipients that received \$25,000 or more in Federal assistance; and controls that are inadequate to ensure that required reports for the School Breakfast Program, National School Lunch Program, and Food Distribution Program are submitted timely by the Pinecrest Developmental Center to the Louisiana Department of Education.

Also, the Louisiana legislative auditor attempted to perform an audit in accordance with OMB Circular A-128 of the Calcasieu Area Council on Aging, Inc., for FYE June 30, 1996. However, the auditor was unable to complete an audit in accordance with these standards because the auditee did not maintain adequate accounting records.

The auditor did identify two findings involving the Nutrition Program for the Elderly, for which the council received USDA funding from the Louisiana Office of Elderly Affairs (OEA). First, the council did not comply with its contract with OEA in regard to USDA funds. Non-Federal revenues were commingled with USDA funds, the council did not pay the provider promptly for inhome and congregate meals, the council had no written policies and procedures to monitor and assess the services of the providers, and employees were paid from the Federal program fund but did not complete timesheets indicating they worked on the Federal programs.

Disbursements totaling approximately \$49,000 from the USDA bank account were not supported by underlying documentation and did not appear to be necessary and reasonable for the proper administration of the program, as required by OMB Circular A-87. Questioned disbursements included over \$31,000 transferred to the council's general fund, payment of principal (\$10,000) and interest (\$5,230) on a bank loan, and payment of bank credit card charges of \$2,300.

- The Texas State Auditor's Single Audit of the State of Texas for FYE August 31, 1996, included two repeat findings.
 - For the second consecutive year, the Texas Department of Human Services (TDHS) used Federal funds to pay for settlement of lawsuits in which TDHS allegedly violated Federal and State laws and regulations. As a result, unallowable costs totaling approximately \$99,000 were charged to Federal programs in FY 1996, including approximately \$35,000 that was charged to the State administrative matching grants for the Food Stamp Program.
 - TDHS' cash management policies do not prevent subrecipients (e.g., school districts, child care centers) from receiving funds in excess of need and do not identify actions needed to reduce any excesses. Therefore, cash advances are not limited to immediate cash needs.

The State auditor also found that controls at TDHS did not exist to ensure that commodities exceeding a 6-month supply are accurately identified and reported to USDA. This represents a material weakness in the internal control structure designed to detect and prevent errors and irregularities that could be material to the Food Distribution Program. The State may store commodities at inventory levels greater than those considered reasonable by USDA, and excess inventory is at risk for disaster, pilferage, and spoilage. Also, inaccurate reporting of excess commodities to USDA impairs USDA's ability to make accurate and timely management decisions regarding the distribution of commodities.

The TDHS subrecipient single audit tracking system is not capturing all relevant Federal financial assistance data. The Special Nutrition Program Single Audit Management System (SAMS) determines audit requirements based on incomplete commodity distribution data for the Food Distribution Program, and the subrecipients' total Federal financial assistance is not being accurately entered into the tracking system. Without complete and accurate data entered into SAMS, the Department cannot ensure subrecipient compliance with single audit requirements.

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 14 convictions of current or former USDA employees and 34 personnel actions, including reprimands, removals, suspensions, and resignations. The following are examples of some of the investigations that yielded results during the past 6 months.

FSA Employee Embezzles \$945,000

A Texas FSA program assistant was charged with theft and embezzlement of more than \$945,500, confessed and pled guilty, and was suspended without pay pending conclusion of the criminal action.

The employee had created numerous false loans, altered several CCC checks to bear her name, forged the signatures of two FSA county supervisors on the CCC checks, and deposited several CCC loan and program payment checks into her personal bank account. The actual dollar loss to the Government was approximately \$286,400 as the employee used some of the fraudulent loans to pay off other fraudulent loans in order to keep the scheme active.

Sentencing is pending.

FSA Employees and Co-Conspirators Sentenced to Prison

In Lauderdale County, Tennessee, two FSA county office employees, the County Executive Director, and three county committee members were dismissed because of their involvement in a scheme to receive questionable disaster payments of about \$313,000 for the 1993 crop year.

Seven defendants, including the two suspended county office employees, were charged with false claims, false statements, and conspiracy. Four of the defendants were convicted and the three others pled guilty. All the defendants received prison terms ranging from 5 to 46 months, combined fines totaling \$8,900, and combined restitution of nearly \$330,400. One additional case was settled civilly for \$170,500.

The scheme involved false and fictitious claims for disaster benefits on crops that never existed or were not planted with the intent to harvest. Both county office employees altered documents in order to receive disaster benefits for themselves, the county committee members, and other producers. Lauderdale County received almost \$6 million in disaster assistance for 1993.

Employee Pleads Guilty, Sentenced for Theft Via Government-Issued Credit Card

A 6-year employee of ARS in Pennsylvania pled guilty to the theft of \$5,250 in Government funds, was removed from Federal service, and was sentenced in Federal court to 5 years' probation and to pay full restitution.

The employee, on 37 occasions, used a Government-issued VISA card to purchase 40 gift certificates from various department stores near her home. The employee concealed the improper charges by submitting false procurement documents and purposely damaging receipts so they could not be easily reviewed. The gift certificates were converted to cash, which the employee then used to pay off personal debts.

Former NRCS Employee Sentenced for Travel Voucher Fraud

A former NRCS employee in Alabama was convicted in Federal court for making false statements on a travel voucher submitted for reimbursement. The individual transferred from Washington, D.C., to Alabama; in the process of claiming relocation expenses, she decided to alter a lease agreement to falsely reflect that she had paid certain rental fees as the result of a broken lease. The individual submitted a travel voucher with the altered lease agreement and was improperly reimbursed for \$600.

The individual resigned shortly after being indicted by a Federal grand jury, and she was sentenced to probation for 1 year and ordered to participate in a substance abuse treatment program.

Employee Pleads Guilty to \$11,000 Imprest Fund Embezzlement

A former program analyst who worked for 27 years with CSREES in Washington, D.C., pled guilty in Federal court to embezzling \$11,000 from the USDA imprest fund. Over a period of 1 year, the employee submitted to the imprest fund 36 fraudulent requests for procurement in the names of various coworkers and then converted the monies to her own use to pay bills and other personal expenses.

The employee was sentenced to 4 months' home confinement, restitution of \$11,000, and 36 months of probation.

Two Sentenced for Time and Attendance Fraud

An investigation of the Rural Development office in Alpena, Michigan, disclosed that the community development manager and the program assistant routinely used their assigned Government-owned vehicle for personal business and were often absent from work without reporting those absences on their official time and attendance submissions.

Each pled guilty to charges of submitting false reports and aiding and abetting in the submission of false reports, resulting in their being paid for hours they had not worked. The community development manager was sentenced to 4 years' probation and ordered to pay nearly \$3,000 in restitution, and the program assistant was sentenced to 3 years' probation and ordered to pay \$1,700 in restitution. The plea agreements required that both resign their positions with Rural Development and never seek employment with another Federal agency.

Statistical Data

Audits Without Management Decision

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

Audits Pending Agency Action

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
CSREES	02/16/96	1. Evaluation of the Oregon-Massachusetts Biotechnology Partnership (13801-1-Hy)*	395,981	395,981
	03/27/97	2. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
FAS	12/02/96	3. Evaluation for the Fund for Democracy and Development (07801-4-Te)	5,855,623	5,853,585
FCS	03/13/97	4. Florida Food Stamp Administrative Costs (27801-4-At)	867,938	867,938
	03/21/97	5. Reporting of Food Stamp Program Claim Activity in Texas (27002-2-Te)	1,908,988	1,908,988
FS	07/18/96	6. FY 1995 FS Financial Statements (08401-1-At)*	1,150,183,750	1,150,183,750
	09/30/96	6. Real and Personal Property Issues (08801-3-At)*	0	0
	03/31/97	7. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	469,000	469,000

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FSA	09/08/95	8. Management of the Sumter County, GA Consolidated Farm Service Agency (CFSA) (03006-5-At)*	4,479,035	2,513,132
	09/18/95	9. Management of the Dade County, FL, CFSA Office (03006-1-At)*	75,175,410	909,437
	03/15/96	10. Wool and Mohair Payment Limitation, Concho County, TX (03099-2-Te)*	2,072,102	1,177,675
	03/29/96	11. Texas Agricultural Mediation Program (03801-15-Te)*	964,878	964,878
	03/29/96	12. Cash/Share Lease Provisions (03801-2-Te)*	1,076,557	1,076,557
	05/02/96	13. Disaster Assistance Program-1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	06/05/96	14. 1994 Crop Disaster Payments, MN (03006-5-Ch)*	375,801	183,095
	08/08/96	15. Emergency Conservation Program Payments (03004-1-Te)*	154,521	154,480
	09/30/96	16. 1994 Disaster Assistance Program - Burlington County, NJ (03006-1-Hy)*	132,815	38,402
	01/31/97	17. Crop-Year 1995 NAP Payments - MN (03099-2-Ch)	59,366	59,366

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/04/97	18. State-Administered Mediation Programs (03801-23-Te)	1,174,624	1,174,624
Multi-Agency	07/11/96	19. Review of USDA Contracts with Synex, Inc. (50099-2-Hq)	194,000	194,000
	02/25/97	20. OMB Circular A-128 Audit of the Morehouse Parish Sheriff for 2 Years Ended 6/30/95 (50022-1-Te)	3,180,000	3,180,000
	02/26/97	21. Misuse of the American Express Government Charge Card (50601-1-Hq)	0	0
Office of Community Development	12/05/96	22. Empowerment Zones - Enterprise Communities (34801-1-Te)	144,073	144,073
OCFO	02/28/97	23. Audit of NFC Imprest Fund and Field Party Advance System (11099-4-FM)	0	0
	03/05/97	24. FY 1996 NFC General Controls Reviews (11401-2-FM)	0	0
RBS	03/31/97	25. Intermediary Relending Program (34601-1-Te)	3,602,795	3,602,795
RHS	12/16/96	26. Additional Servicing of 8/515 RRH Projects (04601-1-KC)	110,886,739	51,039,798
RMA	07/01/96	27. Options Pilot Program (03099-5-KC)	16,550	16,550

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
Audits Pending Judicial, Legal, or Investigative Proceeding				
AARC	09/30/96	28. AARC-Cooperative Agreement with Agro-Fibers, Inc. (34099-1-At)*	0	0
FCS	03/12/97	29. Survey of New Mexico EBT Benefit System (27099-6-Te)	199,329	195,669
FS	10/27/92	30. Historic Aircraft Exchange Program (08097-2-At)*	35,260,665	1,079,189
FSA	09/30/93	31. Disaster Program Nonprogram Crops, Mitchell County, GA (03097-2-At)*	5,273,795	1,482,759
	01/19/95	32. Disaster Assistance Program, Geneva County, AL (03099-157-At)*	1,667,814	229,828
	03/02/95	33. Disaster Assistance Program, Jackson County, FL (03099-158-At)*	359,265	359,265
	03/31/95	34. Disaster Assistance Program, 1993 Nonprogram Crops, Yuba County, CA (03600-26-SF)*	484,972	420,255
	06/09/95	35. Large Operator Compliance with Payment Limitations - GA (03099-5-Te)*	491,680	491,680
	06/22/95	36. Disaster Assistance Program-1993 Nonprogram Crops, Sutter County, CA (03006-1-SF)*	1,217,475	231,315

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/07/95	37. 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	38. A&B Professional Consulting, Inc. (03004-1-At)*	628,976	628,976
	09/28/95	39. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)*	1,805,828	1,805,828
	01/02/96	40. Crop Disaster - Brooks/ Jim Hogg, TX (03006-1-Te)*	2,469,829	2,469,829
	09/18/96	41. Emergency Food Program in TX (03601-7-Te)*	626,182	170,191
	09/30/96	42. 1994 Disaster Assistance Program - ME (03601-1-Hy)*	2,666,383	2,660,573
	03/27/97	43. Emergency Disaster Loan Eligibility, AR (03099-13-Te)*	614,490	280,000
RHS	05/02/96	44. RRH Project Operations - CATO Company, MI (04010-12-Ch)*	235,498	215,631

*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. Also, one of the partners charged questionable expenditures to the grant related to salaries, rent, travel, and business expenses. In addition, OGC found that the major fundholder had violated Federal antilobbying requirements by exempting the subrecipient from filing a lobbying disclosure statement. 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 this and other CSREES delivery systems we have reviewed, the agency formed a task force to address accountability in this area. While we do not totally agree with the actions recommended by the task force, we believe the actions are sufficient to prevent further losses on this specific partnership. The antilobbying violation was referred to OGC for assistance in applying the Program Fraud and Civil Remedies Act (PFCRA) procedures in order to impose a civil monetary penalty.

CSREES needs an OGC determination in order to establish a dollar amount for the penalty and then proceed to collect the penalty through the PFCRA process before proceeding with any further distribution of funds to the partnership. The agency should then obtain a revised proposal for the remaining funds and ensure that the safeguards are in place as agreed.

2. Use of 4-H Program Funds - University of Illinois, Issued March 27, 1997

We recommended that CSREES require the Illinois Cooperative Extension Service (CES) to dismiss several adult 4-H volunteers because of program irregularities they committed. We also recommended that Illinois CES be required to suspend its personnel actions against a former unit leader and regional director, both Federal appointees, and that CSREES monitor the

situation to ensure that any rights due these employees under the Merit Service Protection Act are honored. Finally, we recommended that CSREES clarify and disseminate its position regarding the legal rights and protections of Federal appointees to all CES directors. There are approximately 8,000 CES employees who hold Federal appointments.

CSREES sought OGC's opinion on the rights of CES employees under the Merit Service Protection Act. OGC advised the agency that the CES positions were covered under the 1990 law extending coverage to Schedule A excepted service positions. OGC concluded that specifically in the case of the two Illinois CES appointees the provisions of the act covering due process and appeal rights applied. CSREES officials stated they will implement all recommendations except those relating to the dissemination of the OGC opinion of Federal appointees' employment rights and to our recommended intervention in the ongoing personnel actions at the University. The university had informed OIG that CES professional staff did not have rights to counsel prior to dismissal nor any appeal rights following their notification of termination. CSREES however, has taken the position that since the rights of appointees are already covered by local procedure, the agency would seek a statutory amendment to relieve universities from subjecting their adverse personnel actions to a 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 protection.

CSREES has reached agreement with Illinois CES to suspend certain volunteers from participating on a 4-H volunteer committee for a period of 12 months. Also, a regional Merit Systems Protection Board (MSPB) administrative judge has ruled to dismiss appeals filed by the two CES appointees for a hearing that the personnel actions taken against them were in reprisal to the actions they took against the 4-H volunteers. However, in our opinion, the status of MSPB coverage, as it generally applies to the Federal appointees, has not been fully resolved. We will work with CSREES and OGC in an effort to reach management decision on this issue.

3. Evaluation for the Fund for Democracy and Development, Issued December 2, 1996

FAS asked OIG to evaluate how the Fund for Democracy and Development (FDD) managed the \$19.6 million worth of CCC-donated commodities provided during FY 1993 and 1994 to carry out humanitarian and developmental programs in Russia. OIG recommended that FAS collect \$2,163,390 from FDD for its failure to account for donated commodities and its agent's misappropriation of donated commodities. As FAS requested, the CCC Comptroller established an accounts receivable for \$2.1 million. FAS, however, has not sent a demand letter or bill of collection requesting payment. OIG will continue to work with FAS concerning appropriate corrective action.

We also recommended that FAS determine the proper disposition of \$1.8 million in sales proceeds from donated commodities because of the auditee's non-compliance with its operating plan. FAS officials have advised us they are seeking additional information from FDD to assess the auditee's use of the proceeds and to determine if the use is a proper disposition of the funds given the changing situation with the Russian Humanitarian Commission. As yet, FAS has not provided OIG with information showing what decisions have been made regarding the disposition of the funds or the proposed completion date for implementation, nor has it issued a letter of determination to the auditee.

OIG is working with FAS to reach management decision.

4. Florida Food Stamp Administrative Costs, Issued March 13, 1997

We questioned some of the administrative costs claimed by the Florida Department of Health and Rehabilitation Services because of the inconsistent application of cost-allocation principles. We recommended FCS review which costs were captured, and the allocation methods, for 36 cost pools totaling \$867,938 and recover any unallowable amounts. We also recommended that FCS (1) instruct Florida to analyze its operations and amend the cost-allocation methods, or delete cost pools, as necessary, (2) require Florida to submit costs claimed for reimbursement by cost pools and reduce the reimbursement associated with cost pools that have not been properly approved, (3) instruct Florida to develop written procedures for

processing operational changes and updating the cost-allocation plan, and (4) require Florida to keep its cost-allocation plan current by amending the document to coincide with changes to cost-allocation procedures. We continue to work with FCS to achieve management decision.

5. Reporting of Food Stamp Program Claim Activity in Texas, Issued March 21, 1997

We reported that the State agency did not establish claims in its accounting records for households who received FSP overissuances when the cases were referred for investigation for potential fraud. We believe that claims should initially be established as inadvertent household errors pending completion of the fraud investigation. Because this was not done, outstanding claims reported to FCS by the State agency were undervalued by at least \$1.9 million. We are working with FCS to reach management decision on how the potential fraud cases are to be reported.

6. FY 1995 FS 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 taskforce approach 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. 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.

7. Research Cooperative and Cost Reimbursable Agreements, Issued March 31, 1997

We recommended FS recover about \$469,000 of administrative overhead expenses that had been incorrectly reimbursed to a university. FS has requested a legal review by OGC before determining the corrective actions it will take. No action will be taken prior to an OGC opinion regarding this matter.

8. 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. We are working with FSA officials to reach agreement on the cases.

9. 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.

10. 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.

11. 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 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.

**12. 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.

**13. 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.

**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. 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.

**16. 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.

**17. Crop-Year 1995 NAP Payments - Minnesota,
Issued January 31, 1997**

We reported that actual production yields were based on inaccurate and unsupported production evidence provided by producers. Producers also provided false certification in that reported production for prior years exceeded amounts previously reported to FSA to calculate payments for the old ad hoc disaster assistance program. We recommended that the State office require the use of T-yields (yields assigned by the county committee) unless production evidence provided by producers could be verified and the State office require county offices to collect all overpayments. We are working with the FSA State office to reach management decision.

**18. State-Administered Mediation Programs, Issued
March 4, 1997**

We determined that the mediation program was mismanaged. This report summarized the results of our review of the certified State mediation programs in Texas, Michigan, Minnesota, and North Dakota. We recommended that FSA recover \$2.1 million as a result of excessive and unsupported claims for reimbursement (includes almost \$1 million recommended for recovery in Audit Report No. 03801-15-Te, Texas Agricultural Mediation Program). We also recommended that FSA

withhold FY 1997 and future grant funds until the State agencies provide access to all mediation records needed to evaluate the effectiveness of program operations and use of grant funds. We are working with FSA to reach management decision.

19. Review of USDA Contracts with Synex, Inc., Issued July 11, 1996

Our evaluation disclosed that Synex, Inc., was not always in compliance with terms and conditions of its contracts with USDA and laws and regulations intended to protect the interests of USDA. We found that Synex, Inc., (1) inflated costs by using related companies to supply products that were to have been acquired competitively at the lowest cost, (2) inflated costs for products and services under a cost-reimbursement contract, and (3) included non-USDA costs in settlement and cost proposals. As a result, Synex, Inc., and associated companies improperly billed, and were paid, nearly \$194,000. We recommended that OO recover the improper payments made to Synex, Inc., and OO is working with OGC to seek recovery.

20. OMB Circular A-128 Audit of the Morehouse Parish Sheriff for 2 Years Ended June 30, 1995, Issued February 25, 1997

The single audit reported that the Morehouse Parish Sheriff and a contractor provided false and misleading information to the former Farmers Home Administration (FmHA) to obtain a \$3.18 million loan to build the Morehouse Parish Correctional Center. The auditor recommended that Rural Development (formerly FmHA) review the information and take appropriate action. We assumed general oversight for the audit specific to USDA funds and requested the Rural Development Louisiana State Director provide us with a management decision pursuant to the auditor's recommendations. The State Director requested OIG conduct a review of the situation to determine an appropriate course of action for USDA. We are in the process of making this review.

21. Misuse of the American Express Government Charge Card, Issued February 26, 1997

The evaluation reported that, although USDA employees predominantly used the card within established guidelines, controls over the use of the card needed to be improved to provide increased assurance that the

card program was functioning as intended. We found some cardholders used their cards to acquire products, services, and cash for unauthorized, questionable, and/or personal use. We also determined that disciplinary action taken in response to misuse of the card was not equitably or systematically administered. Our report recommended that the Department: (1) Develop and implement enhanced internal control requirements, with the assistance of agency travel coordinators and American Express, to provide reasonable assurance that the card program is monitored effectively to detect and prevent unauthorized use; (2) establish a "retail block" to prevent retail transaction over a certain amount; (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 card, or have not paid American Express in a timely manner. OCFO and Office of Human Resources Management (formerly Office of Personnel) have agreed with the findings and recommendations, and management decision has been reached on all but one recommendation. We will reach management decision on the remaining recommendation when OCFO provides the timeframes for implementing the recommendations provided by the task force established to respond to the evaluation report's findings and recommendations.

22. Empowerment Zones - Enterprise Communities, Issued December 5, 1996

We reported that, contrary to the Cash Management Improvement Act, the Kentucky Highlands Investment Corporation, the implementing entity for the Kentucky Highlands Empowerment Zone, prematurely drew down \$2.9 million in Federal Social Services Block Grant (SSBG) funds from the U.S. Treasury. As a result, the Federal Government incurred \$144,073 in added interest costs for the period June 1995 through June 1996. We recommended the added interest costs be recovered and the Kentucky Highlands Investment Corporation establish controls that will ensure fund drawdowns are limited to the minimum amounts needed.

To date, no action has been taken to recover the added interest costs. Rural Development officials merely referred the matter to HHS. The Kentucky Highlands Investment Corporation has proposed to draw down funds on a quarterly basis. Quarterly drawdowns are

not consistent with regulations implementing the Cash Management Improvement Act, which requires that drawdowns be limited to minimum amounts needed to meet immediate cash requirements. We are continuing to work with HHS and USDA officials to resolve these matters.

23. Audit of NFC Imprest Fund and Field Party Advance System, Issued February 28, 1997

Our audit of imprest fund operations at OCFO/NFC and selected client agencies reported material problems in the administration of imprest fund operations, ranging from 10 imprest funds totaling over \$27,000 that appeared on NFC's records which did not physically exist, to a breakdown of each control developed to ensure the integrity of imprest fund operations. The number and significance of the control weaknesses were material and losses beyond those we noted were possible under the current control environment. We recommended the OCFO either immediately implement further controls to ensure the integrity of imprest funds or undertake the prompt elimination of the funds. We continue to work with OCFO to reach management decision on all recommendations.

24. FY 1996 NFC General Controls Review, Issued March 5, 1997

As in the prior year's audit of general controls at NFC, our FY 1996 audit resulted in a qualified opinion. We found the following.

- Various reconciliation procedures did not provide an effective control structure for following up and/or resolving identified reconciling items. We also noted instances where design and/or systemic weaknesses prevented effective use of the reconciliation processes.
- Control policies and procedures did not provide reasonable assurance that adjustments to user agency accounts, financial statements, and/or reports are authorized and processed accurately.
- The general ledger at OCFO/NFC did not conform to the U.S. Government Standard General Ledger (SGL), accounts were not always appropriately crosswalked to financial statements, the audit trail, in some cases, was nonexistent, and subsidiary ledger detail does 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/timely performed.
- Many of OCFO/NFC's older applications did not adhere to currently recognized development/documentation processes.

We made no further recommendations regarding the conditions for which OCFO/NFC had corrective action under way. We also made recommendations addressing conditions not previously noted:

- Develop and review a report of unauthorized access attempts to programs, schemas, subschemas, file control tables, and Customer Information Control System transactions;
- establish policies and procedures for the review of accounts receivable for claim status eligibility and perform the reviews on a periodic basis; and
- identify the specific network software, configuration files, and programs that should be protected and ensure that only authorized personnel have access.

25. Intermediary Relending Program, Issued March 31, 1997

We recommended that Rural Business-Cooperative Service notify cited relenders that 17 loans totaling \$1.4 million were for ineligible purposes, and initiate action to recover the loan funds; determine whether another 22 questioned loans totaling \$1.6 million met program guidelines, loan agreements, and workplans, and for those loans that do not meet eligibility requirements, initiate action to recover the funds from the relenders; and determine if 5 loans totaling \$750,000 (also includes a \$150,000 loan included above) that involved conflicts of interest should be recovered. The agency agreed to review the cited loans. We continue to work with the agency to reach management decision.

26. Additional Servicing of Section 8/515 RRH Projects, Issued December 16, 1996

The audit disclosed borrowers who did not transfer excess balances totaling about \$695,000 in general operating, and tax and insurance accounts to countersignature reserve accounts. Also disclosed in the report were five projects where funds totaling about

\$169,100 were spent for unallowable, unsupported, and questionable expenditures. The audit identified large retroactive payments made by the U.S. Department of Housing and Urban Development (HUD) to RRH projects which RHS officials were not aware of. We reported the HUD payment data indicated that retroactive rent subsidy payments totaling about \$4.3 million may have been received by 125 RHS-financed projects without a proper accounting to RHS. We are currently working with RHS 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 1996 Farm Bill 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 Farm Bill 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 the company had only \$100 equity investment in the business and had also misrepresented its financial position to a bank to obtain an \$800,000 loan guaranteed by the Tennessee Valley Authority (TVA). The company's records did not support the financial statement submitted to AARC and the TVA guaranteed bank, 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 most of the AARC funds had been used for operating expenses, AARC would not recover any monies from the fire 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. Survey of New Mexico EBT Benefit System, Issued March 12, 1997

We reported that the State of New Mexico claimed unallowable administrative costs under FSP and WIC. The State claimed reimbursement for a gross receipt tax (GRT) it paid to its EBT vendor for services provided. We concluded these payments were contrary to law and Federal allowable-cost principles because the vendor returned GRT to the State. Thus, the State incurred no cost and is reimbursed 52.5 percent of its FSP administrative costs and 105 percent of its WIC administrative costs for GRT. Federal law limits FSP reimbursement to 50 percent and WIC reimbursement to 100 percent. The total excess reimbursement was \$92,250. Since FCS did not agree with our position and declined to recover the overpayments, we have requested OGC's opinion on this matter.

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

We recommended that the FS officials (1) resolve ownership issues involving the C-130A and P-3A

aircraft that were improperly exchanged for private aircraft and (2) disallow the airtanker contractors from applying the value of the aircraft they traded in against future firefighting contracts. The U.S. Department of Justice is investigating these issues. No action can be taken until any criminal actions are complete.

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, 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 complete.

33. 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 complete.

34. 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 producers' 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.

35. 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.

36. 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.

37. 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.

38. 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.

39. 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.

40. 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 \$1,353,860 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 complete.

41. 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.

42. 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 recommendations, but the agency has determined that no action should be taken until the investigations are complete.

43. Emergency Disaster Loan Eligibility in Arkansas, Issued March 27, 1997

This report identified one borrower who falsified information to qualify for excessive loan funds and two borrowers who did not qualify for the excessive loans due to excessive resources. We also identified nine borrowers to whom excessive loans were made due to agency errors in determining qualified disaster losses. We recommended that FSA take administrative action; however, claims against the borrower who falsified information cannot be established until the investigative actions are completed.

44. RRH Project Operations - CATO Company, 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. RHS has suspended corrective action pending completion of an ongoing investigation.

Indictments and Convictions

Between April 1 and September 30, 1997, OIG completed 466 investigations. We referred 318 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 335 indictments and 333 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 333 convictions do not necessarily relate to the 335 indictments. Fines, recoveries/collections, administrative penalties, restitutions, claims established, and cost avoidance resulting from our investigations totaled about \$29.8 million.

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

Indictments and Convictions April 1 - September 30, 1997

Agency	Indictments	Convictions*
AMS	4	6
ARS	1	1
APHIS	5	1
CSREES	1	1
FAS	2	4
FCS	288	247
FSA	15	46
FSIS	6	10
NRCS	0	1
RHS	9	10
RMA	2	5
SEC	2	1
Totals	<u>335</u>	<u>333</u>

*This category includes pretrial diversions.

The OIG Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,618 calls and letters. In addition, seven complainants met with the Hotline staff, and two communicated their complaints via e-mail. These contacts included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 2 displays the volume and type of the complaints we received, and figure 3 displays the disposition of those complaints.

Figure 2

Hotline Complaints

April 1 to September 30, 1997
(Total = 1,627)

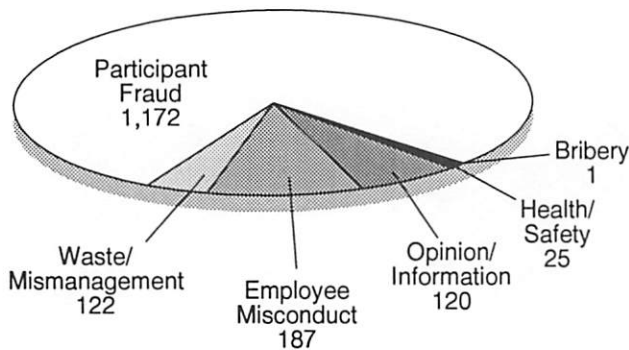
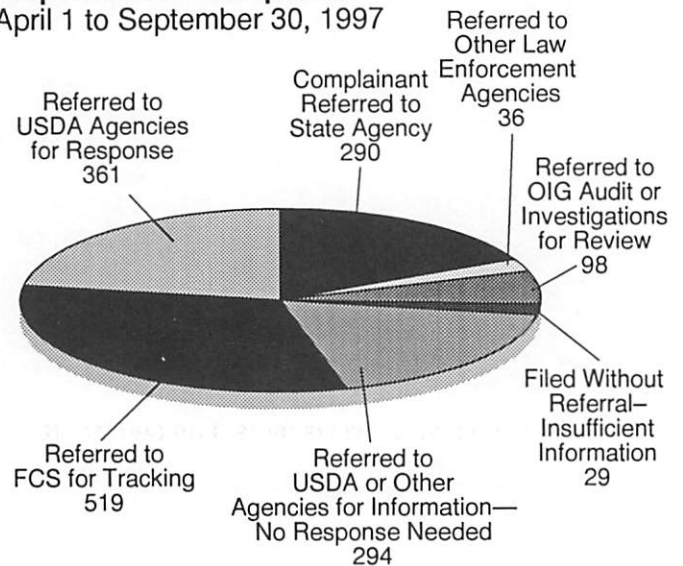


Figure 3

Disposition of Complaints

April 1 to September 30, 1997



**Freedom of Information Act (FOIA) and Privacy Act Requests (PA)
for the Period April 1 to September 30, 1997**

Number of FOIA/PA Requests Received 276

Number of FOIA/PA Requests Processed 272

Number of Requests Granted in Full 134

Number of Requests Granted in Part 90

Number of Requests Not Granted 48

Reasons for Denial:

No Records Available 12

Requests Denied in Full 22

Referrals to Other Agencies 14

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

Received 73

Processed 74

Appeals Processed 8

Appeals Granted 0

Appeals Denied in Full 8

Appeals Denied in Part 0

**Number of OIG Reports Released
in Response to Requests** 279

NOTE: A request may involve more than one report.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS

DOLLAR VALUES

	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED COSTS AND LOANS*</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1997	77	\$1,021,593,213	\$10,809,387
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	60	355,509,225	138,611,835
TOTALS	<u>137</u>	<u>\$1,377,102,438</u>	<u>\$149,421,222</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	48		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$12,156,680	\$555,653
NOT RECOMMENDED FOR RECOVERY		\$876,735,177	\$129
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$2,838,621	\$319,985
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	89	\$485,517,457	\$148,545,455
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	44	\$180,036,926	\$10,275,303

*Unsupported values are included in questioned values.

Appendix II

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

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 1997	20	\$1,165,847,394
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	10	5,364,699,227
TOTALS	<u>30</u>	<u>\$6,530,546,621</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	7	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$18,193,692
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$57,236
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	23	\$6,512,295,693
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	14	\$1,147,613,137

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1 AND SEPTEMBER 30, 1997

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 1997, THE OFFICE OF INSPECTOR GENERAL ISSUED 128 AUDIT REPORTS, INCLUDING 10 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS ^a	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	3	\$1,465	0	0
AGRICULTURAL RESEARCH SERVICE	3	0	0	0
FARM SERVICE AGENCY	15	\$210,639,367	\$123,502,201	\$5,300,296,052
RURAL HOUSING SERVICE	2	\$209,875	0	0
RISK MANAGEMENT AGENCY	6	\$15,468,889	\$13,640,210	0
FOREIGN AGRICULTURAL SERVICE	2	\$49,548,368	0	0
FOREST SERVICE	6	\$1,252,596	0	\$3,264,146
RURAL UTILITIES SERVICE	1	0	0	0
OFFICE OF THE CHIEF FINANCIAL OFFICER	1	0	0	0
OFFICE OF OPERATIONS	1	0	0	0
FOOD SAFETY AND INSPECTION SERVICE	1	0	0	0
FOOD AND CONSUMER SERVICE	28	\$76,475,348	\$1,126,414	\$61,139,029
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1	0	0	0
RURAL BUSINESS-COOPERATIVE SERVICE MULTIAGENCY	1 57	0 \$1,913,317	0 \$343,010	0 0
TOTALS	128	\$355,509,225	\$138,611,835	\$5,364,699,227
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	71			
MULTIAGENCY	57			
TOTAL RELEASED NATIONWIDE	128			
TOTAL COMPLETED UNDER CONTRACT^b	10			
TOTAL SINGLE AUDIT ISSUED^c	50			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE				
01-001-0001-SF 97/04/14	SHIPPING POINT INSPECTION PROGRAM - WASHINGTON	\$1,465		
01-601-0002-CH 97/06/26	FRUITS AND VEGETABLES DIVISION - CERTIFICATION OF PROCESSED COMMODITIES			
01-801-0002-CH 97/04/17	DAIRY PLANT INSPECTION PILOT PROGRAM - WISCONSIN			
TOTAL: AGRICULTURAL MARKETING SERVICE		<u>3</u>	<u>\$1,465</u>	
AGRICULTURAL RESEARCH SERVICE				
02-017-0001-CH 97/07/08	FOUR SEASONS ENVIRONMENTAL			
02-017-0002-CH 97/07/14	JONES TECHNOLOGY ENTERPRISES			
02-017-0003-CH 97/09/30	CONSORTIUM FOR INTERNATIONAL RESEARCH SCIENCE INFORMATION NETWORK			
TOTAL: AGRICULTURAL RESEARCH SERVICE		<u>3</u>		
FARM SERVICE AGENCY				
03-001-0002-AT 97/09/23	ASSESSMENTS ON IMPORTED TOBACCO	\$123,481,825	\$123,481,825	
03-006-0005-KC 97/08/27	OPERATOR COMPLIANCE WITH PAYMENT ELIGIBILITY AND/OR LIMITATION PROVISIONS IN SOUTH DAKOTA	\$61,459		
03-099-0017-TE 97/09/29	AVOIDANCE OF ADMINISTRATIVE OFFSET OF PROGRAM PAYMENTS	\$20,376	\$20,376	
03-601-0005-CH 97/06/11	PRODUCTION FLEXIBILITY CONTRACTS COMPLIANCE - PHASE III - MICHIGAN			
03-601-0005-HY 97/04/15	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE AND PAYMENTS - MARYLAND	\$662		
03-601-0006-AT 97/09/29	PEANUT PRICE SUPPORT PROGRAM	\$46,408,336		\$296,052
03-601-0006-CH 97/04/18	PRODUCTION FLEXIBILITY CONTRACTS COMPLIANCE - PHASE III - WISCONSIN	\$987		
03-601-0006-HY 97/07/15	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE AND PAYMENTS - NEW JERSEY	\$925		
03-601-0007-KC 97/06/18	PRODUCTION FLEXIBILITY CONTRACT PAYMENT RECONCILIATION			
03-601-0009-SF 97/09/05	REORGANIZATIONS FOR PAYMENT LIMITATIONS - CALIFORNIA			
03-601-0010-SF 97/09/30	REORGANIZATIONS FOR PAYMENT LIMITATIONS - WASHINGTON	\$7,797		
03-601-0015-TE 97/09/30	PRODUCTION FLEXIBILITY CONTRACT COMPLIANCE (AUDIT PROGRAM AND NATIONAL OFFICE COVERAGE)			
03-801-0027-TE 97/04/23	DISASTER RESERVE ASSISTANCE PROGRAM	\$13,327		
03-801-0028-TE 97/09/30	PROGRAM PAYMENTS TO DELINQUENT BORROWERS	\$40,643,673		
06-401-0006-FM 97/07/15	FISCAL YEAR 1996 CCC FINANCIAL STATEMENTS			\$5,300,000,000
TOTAL: FARM SERVICE AGENCY		<u>15</u>	<u>\$210,639,367</u>	<u>\$123,502,201</u> <u>\$5,300,296,052</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
RURAL HOUSING SERVICE				
04-010-0013-CH 97/06/06	RRH FUND ACCOUNTABILITY AT THE CITY OF PRESCOTT HOUSING AUTHORITY	\$206,491		
04-099-0002-TE 97/08/13	SINGLE FAMILY HOUSING SUBSIDY RECAPTURE	\$3,384		
TOTAL: RURAL HOUSING SERVICE		<u>2</u>	<u>\$209,875</u>	
RISK MANAGEMENT AGENCY				
05-099-0001-AT 97/09/30	CROP INSURANCE ON FRESH MARKET TOMATOES	\$15,082,744	\$13,640,210	
05-099-0001-SF 97/09/30	CROP INSURANCE LOSSES FOR ALMONDS IN CALIFORNIA - CROP YEAR 1995	\$233,745		
05-099-0001-TE 97/09/30	REINSURED COMPANIES ACTUAL PRODUCTION HISTORY SELF-REVIEWS			
05-601-0001-AT 97/09/22	CROP INSURANCE CLAIMS	\$27,346		
05-601-0001-SF 97/05/28	CROP INSURANCE CLAIMS IN CALIFORNIA - 1995 AND 1996	\$125,054		
05-601-0001-TE 97/09/18	SELECTED CROP INSURANCE CLAIMS IN THE SOUTHWEST			
TOTAL: RISK MANAGEMENT AGENCY		<u>6</u>	<u>\$15,468,889</u>	<u>\$13,640,210</u>
FOREIGN AGRICULTURAL SERVICE				
07-099-0001-HY 97/09/30	MARKET ACCESS AND THE COOPERATOR MARKET DEVELOPMENT PROGRAMS			
07-801-0003-TE 97/06/20	EVALUATION OF JOINT COMMISSIONS	\$49,548,368		
TOTAL: FOREIGN AGRICULTURAL SERVICE		<u>2</u>	<u>\$49,548,368</u>	
FOREST SERVICE				
08-007-0001-SF 97/08/29	REVIEW OF SELECTED FS RESEARCH COOPERATIVE AGREEMENTS AT THE PACIFIC NORTHWEST STATION			
08-017-0004-SF 97/04/29	EQUITABLE ADJUSTMENT CLAIM - BODENHAMER, INC., OLYMPIA, WA			\$1,258,116
08-017-0006-SF 97/08/11	TERMINATION SETTLEMENT PROPOSAL - WHITE BUFFALO CONSTRUCTION, INC., AUMSVILLE, OR			\$1,558,722
08-017-0007-SF 97/06/10	TERMINATION SETTLEMENT PROPOSAL - TIMBER ROCK REFORESTATION, BEND, OR			\$16,671
08-099-0006-TE 97/08/29	FOLLOWUP AUDIT OF MATCHING COSTS FOR SOUTHERN UNIVERSITY URBAN FORESTRY GRANTS	\$46,406		
08-601-0019-SF 97/09/30	FEDERAL EXCESS PERSONAL PROPERTY	\$1,206,190		\$430,637
TOTAL: FOREST SERVICE		<u>6</u>	<u>\$1,252,596</u>	<u>\$3,264,146</u>
RURAL UTILITIES SERVICE				
09-001-0001-FM 97/09/22	QUALITY OF AUDITS PERFORMED ON RUS ELECTRIC AND TELEPHONE BORROWERS			
TOTAL: RURAL UTILITIES SERVICE		<u>1</u>		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
OFFICE OF THE CHIEF FINANCIAL OFFICER				
11-099-0009-FM 97/04/17	OCFO/NFC USE OF FEDLINE II FOR ELECTRONIC FUNDS TRANSFER			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		<u>1</u>		
OFFICE OF OPERATIONS				
23-009-0002-FM 97/08/04	FOLLOWUP ON CORRECTIVE ACTIONS FOR THE FISCAL YEAR 1995 NITC GENERAL CONTROL REVIEW			
TOTAL: OFFICE OF OPERATIONS		<u>1</u>		
FOOD SAFETY AND INSPECTION SERVICE				
24-099-0001-TE 97/05/23	CONTROLS OVER EXPORT OF MEAT AND POULTRY PRODUCTS			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		<u>1</u>		
FOOD AND CONSUMER SERVICE				
27-002-0008-CH 97/04/09	REPORTING ACCURACY OF CLAIMS ACTIVITIES - NEW YORK			
27-004-0002-CH 97/08/25	ADMINISTRATION OF THE FOOD STAMP EMPLOYMENT & TRAINING PROGRAM IN WISCONSIN	\$25,600,429		
27-004-0009-HY 97/09/29	MARYLAND WIC PROGRAM - ADMINISTRATIVE COST			
27-010-0002-AT 97/08/06	CHILD CARE FOOD PROGRAM - SPONSOR ABUSES	\$3,088		
27-010-0003-TE 97/05/29	CHILD CARE FOOD PROGRAM - SELECTED SPONSOR REVIEWS	\$1,410	\$1,410	
27-010-0004-SF 97/08/20	CHILD AND ADULT CARE FOOD PROGRAM - PACIFIC ASIAN AMERICAN FAMILY CARE, INC.	\$3,299,567		
27-010-0004-TE 97/09/30	ADULT AND CHILD CARE FOOD PROGRAM - SPONSOR REVIEW IN NEW MEXICO	\$8,451		
27-010-0005-SF 97/09/17	CACFP - CHILD CARE SERVICES - ROSEBURG, OR	\$15,035		
27-010-0009-CH 97/08/15	CHILD AND ADULT CARE FOOD PROGRAM - NEW JERUSALEM CHURCH OF GOD IN CHRIST, TOLEDO, OH	\$496,968		
27-010-0010-CH 97/08/22	CHILD AND ADULT CARE FOOD PROGRAM - ILLINOIS	\$15,724		
27-010-0011-CH 97/08/25	NSLP VERIFICATION OF APPLICATIONS IN ILLINOIS			\$31,200,000
27-017-0011-HY 97/08/25	FY 1995 INCURRED COST AUDIT OF MATHEMATICA POLICY RESEARCH, INC.			
27-017-0013-HY 97/07/14	CALENDAR YEAR 1995 INCURRED COST OF BURNS & ROE CORPORATION			
27-017-0014-HY 97/07/14	INCURRED COST AUDIT PHONEIX PLANNING AND EVALUATION, LTD.			
27-099-0003-KC 97/06/30	DISASTER FOOD STAMP PROGRAM - NORTH DAKOTA			
27-099-0004-AT 97/07/08	REINVESTMENT OF FOOD STAMP PENALTIES	\$29,790,252		\$20,360,289
27-099-0004-HY 97/09/30	IMPLEMENTATION OF THE ACCOUNT MANAGEMENT AGENT SYSTEM			
27-099-0006-SF 97/07/11	WIC ADMINISTRATIVE COSTS - CALIFORNIA	\$1,736,259	\$790,122	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
27-099-0007-SF 97/04/24	CHILD NUTRITION PRGMS-GOV'T OF GUAM, DEPT OF EDUCATION-FOOD SVCS OPERATIONS-FOLLOWUP AUDIT	\$351,231	\$334,882	
27-099-0011-CH 97/09/25	STRATEGIC MONITORING OF EBT SYSTEMS - ILLINOIS			
27-099-0013-CH 97/06/05	DISASTER FOOD STAMP PROGRAM - OHIO			
27-401-0008-HY 97/06/27	FISCAL YEAR 1996 FCS FINANCIAL STATEMENTS			
27-601-0006-KC 97/06/18	FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVA- TIONS (FDPIR)	\$41,425		\$6,145,810
27-601-0007-KC 97/09/22	CHILD CARE FOOD PROGRAM - SPONSOR ABUSES	\$56,296		
27-601-0012-CH 97/09/30	REPORTING ACCURACY OF CLAIMS ACTIVITIES			
27-801-0005-AT 97/07/16	EMERGENCY FOOD STAMP PROGRAM IN NORTH CAROLINA	\$14,726,061		\$3,432,930
27-801-0006-AT 97/08/06	CHILD AND ADULT CARE FOOD PROGRAMS - TENNESSEE	\$333,152		
27-801-0007-AT 97/06/26	DISASTER FOOD STAMP PROGRAM - KENTUCKY			
TOTAL: FOOD AND CONSUMER SERVICE		<u>28</u>	<u>\$76,475,348</u>	<u>\$1,126,414</u>
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-801-0001-TE 97/08/12	FOLLOWUP AUDIT OF PRECLEARANCE INSPECTIONS FOR MEXICO			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>1</u>		
RURAL BUSINESS-COOPERATIVE SERVICE				
34-601-0001-SF 97/09/25	BUSINESS AND INDUSTRY LOANS - FINANCIAL STATEMENT ANALYSIS IN CALIFORNIA			
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		<u>1</u>		
MULTIAGENCY				
50-017-0005-HY 97/09/30	AUDIT OF DCAA AUDIT REQUESTS			
50-018-0004-CH 97/04/10	SINGLE AUDIT OF THE STATE OF MINNESOTA FY 95	\$918		
50-018-0006-HY 97/09/30	COMMONWEALTH OF PENNSYLVANIA SINGLE AUDIT A-128, 8/30/96	\$245	\$245	
50-018-0006-SF 97/06/19	A-128 AUDIT OF CITY OF SAN JOSE, FYE 6/30/96			
50-018-0007-SF 97/06/24	A-128 AUDIT OF STATE OF HAWAII, DEPARTMENT OF AGRICULTURE, FYE 6/30/96			
50-019-0009-HY 97/04/17	CAROLINE NURSING HOME, INC., FYE 6/30/94			
50-019-0010-HY 97/04/18	TOWNSHIP OF HARFORD, A-128, FYE 12/31/93			
50-019-0011-HY 97/04/18	FRIENDS ASSOCIATION FOR CHILDREN, A-133, FYE 06/30/94	\$32		
50-020-0008-TE 97/06/23	SINGLE AUDIT OF THE STATE OF LOUISIANA FYE 6/30/96	\$3		
50-020-0009-TE 97/06/23	SINGLE AUDIT OF THE STATE OF TEXAS FYE 8/31/96	\$35,434		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0010-TE 97/06/10	SINGLE AUDIT OF THE CALCASIEU AREA COUNCIL ON AGING, INC., FYE 6/30/97	\$49,283		
50-020-0011-CH 97/08/20	SINGLE AUDIT OF THE STATE OF OHIO	\$515,256		
50-020-0012-CH 97/08/07	SINGLE AUDIT STATE OF WISCONSIN			
50-020-0022-KC 97/04/15	A-128, STATE OF SOUTH DAKOTA (FY 6/95) PIERRE, SD	\$6,801	\$6,801	
50-020-0025-AT 97/07/08	A-128 AUDIT OF THE COMMONWEALTH OF KENTUCKY, FYE 6/30/95			
50-020-0027-KC 97/07/03	A-128 AUDIT OF THE STATE OF NEBRASKA, FOR FYE 6/30/96			
50-020-0028-KC 97/06/26	A-128 AUDIT OF STATE OF KANSAS, TOPEKA, KS FYE 6/30/96	\$213		
50-020-0029-KC 97/07/08	A-128 AUDIT OF STATE OF UTAH (FY96) SALT LAKE CITY, UT			
50-020-0030-KC 97/07/17	A-128 AUDIT OF STATE OF IOWA (FY 6/96), DES MOINES, IA	\$78,995		
50-020-0031-KC 97/08/06	A-128 AUDIT OF STATE OF SOUTH DAKOTA (FY 6/96) PIERRE, SD	\$596		
50-020-0032-KC 97/08/07	A-128 AUDIT OF STATE OF MISSOURI (FY 6/96), JEFFERSON CITY, MO			
50-020-0033-KC 97/09/19	A-128 STATE OF NORTH DAKOTA (2 FY'S 6/96) BISMARCK, ND	\$5,254	\$5,254	
50-020-0034-KC 97/09/19	A-128 AUDIT OF ROSEBUD SIOUX TRIBE (FY 9/94) ROSEBUD, SD	\$4,859		
50-020-0040-HY 97/04/11	STATE OF VERMONT, A-128, 6/30/92-6/30/94	\$8,391		
50-020-0041-SF 97/05/21	A-128 AUDIT OF STATE OF IDAHO, STATEWIDE, FYE 6/30/95			
50-020-0042-HY 97/04/18	COMMONWEALTH OF PUERTO RICO DEPARTMENT OF EDUCATION, A-128, 6/30/93	\$7,850		
50-020-0042-SF 97/07/11	A-128 AUDIT OF HOOPA VALLEY TRIBE, FYE 9/30/95	\$1,657		
50-020-0043-HY 97/04/18	D.C. PUBLIC SCHOOLS, A-128, SEPTEMBER 30, 1995, 1994 AND 1993			
50-020-0043-SF 97/08/14	A-128 AUDIT OF GUAM TELEPHONE AUTHORITY, FYE 9/30/95			
50-020-0044-SF 97/08/18	A-128 AUDIT OF GUAM TELEPHONE AUTHORITY, FYE 9/30/96			
50-020-0045-HY 97/06/03	STATE OF VERMONT, A-128, 6/30/95			
50-020-0045-SF 97/08/13	A-128 AUDIT OF STATE OF NEVADA - FYE 6/30/96			
50-020-0046-HY 97/07/21	STATE OF MAINE, A-128, SFYE 6/30/95	\$13,285		
50-020-0046-SF 97/08/14	A-128 AUDIT OF STATE OF WASHINGTON FYE 6/30/96			
50-020-0047-HY 97/08/18	STATE OF NEW JERSEY, A-128, SFYE 6/30/95	\$1,744		
50-020-0047-SF 97/08/25	A-128 AUDIT OF STATE OF HAWAII, DEPARTMENT OF HEALTH - FYE 6/30/95			
50-020-0048-HY 97/07/23	STATE OF RHODE ISLAND, A-128, 6/30/95			
50-020-0048-SF 97/08/29	A-128 AUDIT OF STATE OF OREGON - FYE 6/30/96			
50-020-0049-SF 97/09/02	A-128 AUDIT OF COMMONWEALTH OF NORTHERN MARI- ANA ISLANDS, PUBLIC SCHOOL SYSTEM-FYE 9/30/94			
50-020-0050-HY 97/07/21	STATE OF NEW HAMPSHIRE, A-128, 6/30/95	\$829,832		
50-020-0050-SF 97/09/02	A-128 AUDIT OF SUPERIOR CALIFORNIA DEVELOP- MENT COUNCIL, REDDING, CA - FYE 6/30/95	\$538		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 1997**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
50-020-0051-SF 97/09/03	A-128 AUDIT OF STATE OF HAWAII, DEPARTMENT OF HUMAN SERVICES - FYE 6/30/96			
50-020-0052-SF 97/09/08	A-128 AUDIT OF STATE OF HAWAII, DEPARTMENT OF EDUCATION - FYE 6/30/96	\$1,870		
50-020-0053-SF 97/09/17	A-128 AUDIT - STATE OF ALASKA - FYE 6/30/96	\$7,113		
50-022-0003-HY 97/08/08	NATIONAL COUNCIL FOR AGRICULTURAL EDUCATION A-133, FYE 6/30/95			
50-023-0002-KC 97/05/07	A-133 YEAR ENDED 6/30/96 AUDIT OF UNIV. OF NEBRASKA, LINCOLN, NE			
50-023-0006-SF 97/07/09	A-133 AUDIT OF NORTHERN MARIANAS COLLEGE FOR FYE 9/30/92	\$283,360	\$283,360	
50-023-0007-SF 97/07/09	A-133 AUDIT OF NORTHERN MARIANAS COLLEGE FOR FYE 9/30/93	\$47,350	\$47,350	
50-023-0008-SF 97/07/09	A-133 AUDIT OF NORTHERN MARIANAS COLLEGE FOR FYE 9/30/94	\$12,438		
50-023-0009-SF 97/08/19	A-133 AUDIT OF UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NV - FYE 6/30/96			
50-023-0010-SF 97/08/26	A-133 AUDIT OF COLLEGE OF MICRONESIA FYE 9/30/95			
50-099-0004-HY 97/09/30	REVIEW OF DEPARTMENTAL COMPLIANCE WITH OMB CIRCULAR A-131: VALUE ENGINEERING			
50-099-0009-FM 97/08/25	USDA WORKING CAPITAL FUND OPERATIONS-PHASE II			
50-401-0017-FM 97/08/22	FISCAL YEAR 1996 USDA FINANCIAL STATEMENTS			
50-401-0018-FM 97/06/30	FISCAL YEAR 1996 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT-MANAGEMENT ISSUES			
50-801-0002-FM 97/06/18	FISVIS IMPLEMENTATION ON OCTOBER 1, 1997			
50-801-0003-HQ 97/09/29	FARM LOAN PROGRAMS - CIVIL RIGHTS COMPLAINT SYSTEM			
TOTAL: MULTIAGENCY		<u>57</u>	<u>\$1,913,317</u>	<u>\$343,010</u>
TOTAL: RELEASE - NATIONWIDE		<u>128</u>	<u>\$355,509,225</u>	<u>\$138,611,835</u> <u>\$5,364,699,227</u>