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Second Half

2010

April 1, 2010–September 30, 2010

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD — April 2010-September 2010

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	34
Number of Recommendations	169

Management Decisions Made

Number of Reports	21
Number of Recommendations	168

Total Dollar Impact (Millions) of Management-Decided Reports

Questioned/Unsupported Costs	\$7.2
Funds To Be Put To Better Use	\$12.0

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued

116

Impact of Investigations

Indictments	192
Convictions	272
Arrests	844

Total Dollar Impact (Millions)

\$53.5

Administrative Sanctions

170

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2010)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

Related material can be found on page 1.

2) Implementation of Strong, Integrated, Internal Control Systems Still Needed

Related material can be found on pages 2-3 and 7.

3) Continuing Improvements Needed in Information Technology Security

Related material can be found on pages 18-19.

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Related material can be found on page 4.

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

No work was reported during this period.

6) USDA Needs To Develop a Proactive, Integrated Strategy To Help American Producers Meet the Global Trade Challenge

No work was reported during this period.

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

Related material can be found on page 2.

8) Improved Controls Needed for Food Safety Inspection Systems

No work was reported during this period.

9) Implementation of Renewable Energy Programs at USDA

No work was reported during this period.

10) Implementation of the American Recovery and Reinvestment Act of 2009

Related material can be found on pages 11-13, 21-22, and 26-28.

Message from the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA) for the 6-month period ending September 30, 2010. Our overall statistical accomplishments this period have been impressive. We conducted successful investigations and audits that led to 844 arrests, 272 convictions, \$53.5 million in recoveries and restitutions, 154 program improvement recommendations, and \$19.2 million in financial recommendations.

During this period, OIG has devoted a significant portion of its resources to supporting the effective implementation of an estimated \$28 billion in funding provided to USDA programs through the American Recovery and Reinvestment Act of 2009 (Recovery Act). We have 32 Recovery Act audit projects underway, with additional audit work scheduled for Fiscal Year (FY) 2011. OIG's investigations program is also supporting effective implementation of the Recovery Act by providing fraud awareness training and materials to USDA employees, contractors, and grantees. The scope and effectiveness of our Recovery Act work would not be possible without the support of the Administration and the resources provided by Congress.

This report summarizes the most significant OIG activities (including our Recovery Act work) during the period, organized according to our strategic goals, as outlined in the OIG Strategic Plan for FYs 2007-2012:

- **Safety, Security, and Public Health** — Our work helped USDA agencies better protect animals that come under their purview. In one audit, we determined that the Animal and Plant Health Inspection Service's (APHIS) inspection and enforcement activities were not adequate to deter dog dealers from repeatedly violating the Animal Welfare Act (AWA); in another, we determined that the agency needed to improve its system for ensuring that show and slaughter horses are treated humanely. Our investigative efforts as part of a nationwide crackdown on dogfighting continued to produce results as another defendant was indicted, 6 more pled guilty, and 15 were sentenced.
- **Integrity of Benefits** — Investigations into the Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) resulted in 145 convictions and approximately \$26.5 million in monetary results. Ensuring these funds are used as intended is vital because SNAP serves both to help low-income households buy healthy food and to increase sales for farmers and participating retailers. We also made recommendations to bolster the Risk Management Agency's (RMA) ability to prevent duplicative benefits and to strengthen how it administers two pilot programs that offer insurance for grazing and hay losses. We recommended that RMA improve the programs' integrity through formal risk assessments, better interagency communication, and stronger oversight of insurance providers.
- **Management Improvement Initiatives** — In the wake of the Government paying \$13 million after a bankrupt company could not pay costs associated with the largest beef recall in U.S. history, we recommended that Agricultural Marketing Service (AMS) better protect the public's interest by conducting a cost-benefit analysis to determine if participating companies need insurance or bonding. OIG investigations also uncovered thefts of money and property, and helped recover some of the Government's losses. In one case, we worked with the General Services Administration's (GSA) OIG and other investigative agencies to identify two brothers who were charged with stealing over \$3 million in Federal property, including an airplane; they were sentenced to prison and required to pay restitution.
- **Stewardship Over Natural Resources** — Our audit work focused on ensuring proper oversight of, accountability for, and transparency in the use of Recovery Act funds that were used for conservation and natural resource projects and programs. In general, we worked with USDA agencies, States, and other recipients to help them institute policies and procedures to better assure the American public that its money is being spent to achieve the Act's main purpose—promoting economic growth and creating jobs.

As Inspector General, I am deeply appreciative of USDA OIG staff members' commitment and expertise—the accomplishments reported here are the direct results of their dedicated work. Our successes are also due in large part to the continued support and encouragement of USDA Secretary Tom Vilsack, Deputy Secretary Kathleen Merrigan, and interested Committees and members of the Congress.



Phyllis K. Fong
Inspector General

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Safety, Security, and Public Health

OIG Strategic Goal 1:

Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent and professional audits and investigations in these areas. Our work addresses issues such as the ongoing challenges of agricultural inspection, food safety, and homeland security.

In the second half of FY 2010, we devoted 11 percent of our total direct resources to Goal 1, of which 99.9 percent was assigned to critical-risk and high-impact work. A total of 78 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 76.2 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 5 audit reports under Goal 1 during this reporting period; OIG's investigations under Goal 1 yielded 42 indictments, 64 convictions, and \$1.1 million in monetary results.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 2)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Ineffective Enforcement Weakened APHIS' Ability to Protect Animals

The Animal and Plant Health Inspection Service (APHIS) inspection and enforcement activities were not adequate to deter dog dealers regulated by the Animal Welfare Act (AWA) from repeated violations that endangered animals. We visited many problematic dealers that had a history of violating AWA and found grave violations that jeopardized animals' welfare. For example, one dealer left a dog's bite wound untreated while the flesh rotted away to the bone. Despite the high rate of recurring violations, some inspectors did not correctly report repeat and serious violations. Further, APHIS did not make full use of its enforcement options—in many cases, issuing minimal penalties and misusing its penalty worksheet to assess inappropriately lowered fines. Instead of taking strong enforcement action, APHIS generally chose to try education and cooperation as tools to convince dealers to comply. In addition, a loophole in the pre-Internet AWA (passed in 1966) has allowed large Internet operations to sell animals without

regulatory oversight. In general, APHIS agreed with our recommendations to propose that the Secretary of Agriculture seek legislative change allowing the agency to regulate Internet dealers, and to strengthen its AWA inspection, enforcement, and penalty procedures. (Audit Report 33002-4-SF, APHIS, Animal Care Program, Inspections of Problematic Dealers)

Improvements Needed to Ensure Show and Slaughter Horses Are Treated Humanely

APHIS lacks the resources and enforcement options necessary to ensure that show and slaughter horses receive proper protection. With a limited budget, inspectors can visit only about 6 percent of all horse shows each year to determine, for example, if horses' legs are purposefully hurt to accentuate their show gait (i.e., soring). Further, industry organizations sponsor shows and hire their own inspectors, which is a conflict of interest. APHIS also does not have an adequate system to ensure that horses sold for slaughter outside the United States are treated humanely during transport; for example, that pregnant or blind horses are not shipped. While violators face fines—\$5,000 per horse, per violation—they are ineffective because those who do not pay are still allowed to ship horses.

In addition, APHIS cannot adequately link a slaughter horse to its owner or shipper because the tags can be applied by an owner to horses that weren't examined by a USDA accredited veterinarian and weren't fit to travel. To better protect show horses, we recommended that APHIS seek more funding and hire independent veterinarians as inspectors. APHIS agreed to revise its slaughter transport regulations to allow it not to issue shipping documents when the owner or shipper has unpaid fines and to ensure that it better controls tracking tags. (Audit Report 33601-2-KC, APHIS Administration of the Horse Protection Act and the Slaughter Horse Transport Program)

More Defendants Sentenced in Previously Reported Case of Dogfighting

To update a case previously reported in the *Semiannual Report to Congress (SARC), First Half of 2010*, another defendant was indicted, 6 more pled guilty to conspiracy or engaging in dogfighting, and 15 more were sentenced as part of what may have been the largest crackdown on dogfighting in the United States. These defendants were among 28 people in 7 States who were indicted and arrested in or about July 2009 when OIG agents, the Missouri Highway Patrol, and the Federal Bureau of Investigations (FBI) executed more than 50 Federal search warrants in a multi-jurisdictional operation. This reporting period brings the total to 26 defendants who have pled guilty to conspiracy to engage in dogfighting, with 9 sentenced to prison terms ranging from 6 to 24 months. Six others have been sentenced to serve between 24 and 36 months of supervised release. In addition, restitution and fines totaling more than \$260,000 were ordered during this reporting period.

23 Individuals Sentenced on Animal Fighting Charges in South Carolina

In November and December 2009, 23 individuals were charged in the District of South Carolina with unlawful animal fighting, illegal gambling, and conspiracy to violate AWA through cockfighting. Our investigation focused on two separate organizations that routinely hosted illegal cockfights. In April and May 2010, 17 individuals pled guilty in Federal court. Also in May 2010, a jury returned guilty verdicts for six defendants after a week-long trial. In July and August 2010, the owner of a pit (where the birds fight) was sentenced to 5 years of probation, fined \$3,300, and ordered to pay a \$25,000 forfeiture money judgment. Two pit operators were each sentenced to 21 months in prison, 3 years of probation, and

fined \$5,000. Three other individuals who were involved in managing one of the cockfighting organizations were sentenced to 12 months and 1 day in prison, 3 years of probation, and \$6,000 in fines. During this reporting period, 17 other individuals were sentenced to 3 years of probation and fined amounts ranging from \$500 to \$2,000. This was a joint investigation with the South Carolina Department of Natural Resources.

Controls to Prevent the Import and Spread of Foreign Animal Diseases Need Improvement

APHIS' procedures for handling animals destined for quarantine need strengthening, including precautions taken when importing the animals into the country and bio-security conditions at the quarantine facilities. APHIS did not identify these weaknesses prior to our audit because it did not exercise sufficient oversight to ensure import and quarantine requirements were implemented. As a result, there was a significantly increased risk that infected animals could enter the United States without being detected. In fact, we determined that infected animals had indeed entered the country and spread contagious diseases to other animals. In addition, the fees APHIS charges importers do not cover operating costs and capital improvements needed to make sure that quarantine facilities meet basic bio-security requirements. We recommended that APHIS implement supervisory reviews of its animal import process and biosecurity practices at ports-of-entry, animal import centers, and quarantine facilities. We also recommended that APHIS implement procedures for handling animal shipments safely and review user fee calculations. APHIS generally agreed with our findings and recommendations. (Audit Report 33601-11-Ch, USDA Controls Over Animal Import Centers)

FS Needs to Improve Invasive Species Program

The Forest Service's (FS) Invasive Species Program lacked many of the internal controls ordinarily associated with the effective stewardship of Federal funds, such as a proper control environment; an overall assessment of the risks posed by invasive species; effective control activities; effective communication of relevant information within the agency; and adequate monitoring of the program's performance. These internal control problems have occurred because FS relies on functional areas and field units that operate independently of each other and multiple funding sources tied to 17 different

budget line items. Consequently, FS can neither accurately gauge the effectiveness of its attempts to control invasive species, nor state with accuracy how much money it spent on the program overall or for a given species. In general, FS agreed with our conclusions that it needed to strengthen its control over the invasive species program, including our recommendations to establish program-wide policies for early detection and rapid response; document internal policies and procedures; establish cohesive management controls; implement controls for reporting funds spent fighting invasive species; and implement a monitoring plan to continually assess the program's overall internal controls. (Audit Report 08601-7-At, Forest Service Invasive Species)

APHIS Needs to Better Safeguard Exhibited Animals and the Viewing Public

At 15 of 31 exhibitors we visited, there was not a safe distance between dangerous animals and the viewing public. Visitors at one facility were so close to an exhibited cougar that they could have reached into its cage. APHIS' safety guidance is worded broadly to allow for the particularities of different animals and different enclosures, but this ambiguity can lead to inconsistent safety standards. Accordingly, we recommended that APHIS clarify its guidance about safe distances and barriers, consult experts when needed, and implement procedures to ensure that inspectors review all public safety-related areas. We also found that APHIS did not have a system in place to document and disseminate details of dangerous animal escapes and subsequent corrective actions taken. We recommended, APHIS agreed, that such a system would help its inspectors at other facilities evaluate safety features to better protect both exhibited animals and the public. (Audit Report 33601-10-Ch, Controls Over APHIS Licensing of Animal Exhibitors)

FS Did Not Adequately Implement Audit Recommendations Pertaining to Firefighting Safety

We followed up on two previous FS audits that identified 9 issues and made 18 recommendations to enhance firefighter safety and strengthen FS' controls over contract crews (*Firefighting Safety Program* (September 2004) and *Firefighting Contract Crews* (March 2006)). FS took significant steps towards implementing all but four recommendations,

which were to: (1) develop a consolidated tracking system that included all wildfire Accident Prevention and Hazard Abatement Plan action items; (2) order administrative investigations for wildfire incidents when there is evidence of firefighter misconduct or serious safety violations; (3) establish procedures to ensure the adequate review of contract crew firefighter qualification records; and (4) modify contractor associations' agreements to restrict access to electronic training records. FS did not follow through on these recommendations due to insufficient controls, planning, and oversight. FS agreed to complete its implementation. (Audit Report 08601-58-SF, Forest Service Firefighting Safety Followup)

California Corporation Pleads Guilty to Charges of False Statements and Aiding and Abetting

In July 2010, a California company was placed on 3 years of supervised probation, fined \$50,000, and ordered to pay a \$400 special assessment as a result of making false statements about where produce was grown. Our investigation determined that the company provided false certificates of origin to county inspectors in order to obtain multiple Federal phytosanitary (i.e., clean health) certificates for red chili peppers, claiming that they were grown in the United States when in fact they were imported from India and China. In May 2010, a company representative signed a plea agreement that charged the company with making false statements and aiding and abetting.

North Dakota Man Convicted of Assaulting Female FSA Employee

In September 2009, a Lisbon, North Dakota, man who was a customer in a Farm Service Agency (FSA) county office approached a female employee in the hallway, suddenly put one arm tightly around her neck and the other around her waist, pulled her close, and said "You can't do anything about this," and then started kissing her neck. The woman broke away and fled to office area. The man followed but was intercepted by a male employee and told to stop following her. The man was known to have followed the woman and harassed her. Based on our investigation, in October 2009, the man was charged in North Dakota State Court with one count of disorderly conduct. In April 2010, the man was found guilty and sentenced to 50 hours of community service.

GOVERNMENTWIDE ACTIVITIES – GOAL 1

Participation on Committees, Working Groups, and Task Forces

- *FBI's National and Local Joint Terrorism Task Forces.* One OIG special agent is assigned full-time to the national task force and others liaise with their local task forces. The national task force special agent attends threat briefings and provides terrorist intelligence products to OIG and other USDA agencies and offices. Overall, OIG's participation provides an excellent conduit for sharing critical law enforcement intelligence and has broadened the FBI's and other law enforcement agencies' knowledge of how to conduct criminal investigations connected to food and agriculture.
- *FBI's Joint Interagency Agroterrorism Working Group.* OIG's emergency response team continues to participate in this working group, which develops protocols and procedures for the FBI, APHIS, and OIG to coordinate their response to agroterrorism. In addition, the team participates in numerous multiagency, scenario-based exercises throughout the country. Exercises during this reporting period included "Rising Storm II" to prepare for a disaster such as a major hurricane in the New York City area; "Double Back," which simulated two intentional contamination scenarios in the Northeast; and a tabletop exercise that simulated an agroterrorism event in Arkansas.
- During this reporting period, OIG agents also participated in other safety and security-related working groups and task forces, including:
 - *Agriculture Intelligence Working Group*, which discussed bio-defense and international food safety with representatives including APHIS, the Food Safety and Inspection Service (FSIS), the FBI, the U.S. Army, the U.S. Department of State, the Food and Drug Administration, and the U.S. Department of Health and Human Services;
 - *Arrowhead Counter-Terrorism Task Force* is a group of regional law enforcement and emergency response providers, led by the FBI field office in Duluth, Minnesota, which meets monthly for training sessions and sharing

information on various terrorist organizations, as well as related topics, such as crisis response scenarios. (Minnesota/Wisconsin area); and

- *Anti-Terrorism Advisory Councils* in many judicial districts, including the Northern District of Illinois; the Eastern and Western Districts of Missouri; the Northern and Southern Districts of Iowa; and the Districts of Colorado, Kansas, and Minnesota. These councils are umbrella organizations including local, state and Federal agencies and private sector security representatives which work with the U.S. Attorney's Offices for their geographic areas to disrupt, prevent and prosecute terrorism through intelligence-sharing, training, strategic planning, policy review, and problem-solving.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- country-of-origin labeling (AMS),
- National Organic Program's list of allowed and prohibited substances (AMS),
- oversight of procuring poultry products for Federal food programs (AMS),
- National Organic Program—organic milk (AMS),
- retailer handling of organic products (AMS),
- periodic residue testing program for organic products (AMS),
- implementation of select agent or toxin regulations—followup (APHIS),
- effectiveness of the plant pest program (APHIS),
- plant protection and quarantine pre-clearance program (APHIS),
- keeping foreign animal diseases out of the United States (APHIS),
- agriculture import products (APHIS),
- effectiveness of the safeguarding interdiction and trade compliance units' identifying and preventing prohibited products from entering the United States (APHIS),

- USDA's emergency response plan for foot-and-mouth disease (APHIS),
- maintenance of bovine spongiform encephalopathy (i.e., "mad cow" disease) program surveillance (APHIS),
- oversight of research facilities (APHIS),
- followup audit on the implementation of controls to prevent the release of sensitive technology (Agricultural Research Service (ARS)),
- in-commerce surveillance (FSIS),
- State inspection programs (FSIS),
- evaluation of food emergency response network (FSIS),
- implementation of the public health information system for domestic inspection (FSIS),
- followup on 2007 and 2008 audit initiatives (FSIS),
- controls over the voluntary inspection of slaughtered bison (FSIS),
- controls over imported meat and poultry products (FSIS),
- assessment of inspection personnel shortages in processing establishments (FSIS),
- N-60 testing protocol on beef trim for *E. coli*- phases I & II (FSIS),
- inspection of swine slaughter facilities (FSIS),

- controls over shell egg inspections (APHIS, FSIS, and AMS),
- controls over labeling of food allergens (FSIS),
- food defense verification for imported products (FSIS),
- food defense verification at domestic processing establishments (FSIS),
- USDA's response to colony collapse disorder (APHIS, ARS, FSA, National Agricultural Statistics Service (NASS), Natural Resources Conservation Service (NRCS), and RMA.
- USDA's ability to respond to agricultural emergencies (APHIS, ARS, and National Institute of Food and Agriculture (NIFA)), and
- controls over genetically engineered animals and insects (APHIS, ARS, and NIFA).

ONGOING AND PLANNED REVIEWS FOR GOAL 1 UNDER RECOVERY ACT FUNDS

- implementation of flood control dams rehabilitation – phase II (NRCS).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

Integrity of Benefits

OIG Strategic Goal 2:

Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

OIG conducts audits and investigations to ensure integrity in USDA's various benefit and entitlement programs, including many that provide payments directly and indirectly to program participants. These programs support nutrition, farm production, and rural development. The size of these programs is daunting: SNAP alone has accounted for more than \$50 billion in benefits annually in FY 2009 and FY 2010, and well over \$20 billion is spent on USDA farm programs each year. Intended beneficiaries of these programs include farmers and ranchers, the working poor, hurricane and other disaster victims, and schoolchildren.

The \$28 billion in funding USDA received under the Recovery Act is being administered in a number of areas including farm loans, watershed programs, nutrition assistance, wildland fire management, and several rural development programs (such as rural housing, rural business, and broadband). The Recovery Act also provided OIG with \$22.5 million (available through September 2013) for "oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture."

OIG began working immediately with USDA and the IG community, as well as the Government Accountability Office (GAO) and the Recovery Accountability and Transparency Board (Recovery Board), to carry out these oversight responsibilities. Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work and can be found on our website (<http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf>).

In the second half of FY 2010, we devoted 54 percent of our total direct resources to Goal 2, with 94 percent assigned to critical/high-impact work. A total of 73 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 74 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 12 audit reports and 6 Recovery Act *fast reports* (quick turnaround reports intended to alert management to immediate Recovery Act issues) under Goal 2 during this reporting period;

our investigations under Goal 2 yielded 115 indictments, 189 convictions, and \$42 million in monetary results.

Our audit reports and *fast reports* reviewed agencies' program guidance and requirements, internal controls, eligibility criteria, and Departmental compliance activities related to Recovery Act requirements. This semiannual report describes the audit and *fast reports* we issued during the second half of FY 2010. We anticipate that our audit efforts will continue through FY 2011.

In addition, OIG staff has engaged in training and outreach initiatives through presentations to professional organizations involving State, local, and independent audit groups. OIG investigators are working to ensure the integrity of Recovery Act programs by investigating potential fraud, pursuing prosecution, and implementing a Recovery Act whistleblower investigation program. To increase fraud awareness, in FY 2010, investigators participated in 54 meetings, outreach activities, and training sessions with our Federal, State, and local partners. We have reviewed and adjusted our hotline procedures so that we can identify Recovery Act complaints and handle them quickly. We continue to promptly review referrals of potential fraud and mismanagement sent to us by the Recovery Board. We open investigations or forward the referrals to the appropriate USDA agencies as warranted.

Management Challenges Addressed UNDER GOAL 2

- Interagency Communications, Coordination, and Program Integration Need Improvement
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 1)
- Implementation of the Recovery Act (also under Goals 3 and 4)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Controls Over the Intermediary Re-lending Program Need Strengthening

Intermediaries receive low-interest loans that they in turn re-lend at higher rates in their communities to help create rural jobs, but we found that 33 of 435 loans totaling \$7.9 million

did not comply with program requirements, such as loan limit, purpose, or eligibility. In many cases, this occurred because intermediaries made the loans with “revolved” funds (money that loan recipients pay back to intermediaries), which they considered exempt from Federal requirements due to ambiguous regulatory language. We also determined that two of seven intermediaries did not promptly re-lend their revolved funds, totaling over \$1.7 million. Regulations required intermediaries to re-lend funds promptly, but did not provide a specific timeframe. Overall, the Rural Business-Cooperative Service (RBS) agreed with our recommendations to revise its regulations to clarify that revolved funds are subject to Federal requirements and to define prompt re-lending. (Audit Report 34601-6-At, Rural Business-Cooperative Service – Intermediary Re-lending Program)

Rural Development’s Alaska State Office Needs to Strengthen Internal Controls Over Grant Spending

Instead of deobligating unspent grant money as required, Rural Development’s Alaska State office permitted reallocating Federal funds from approved projects that were not progressing to other water and waste projects. (Nearly \$5.5 million obligated to the stalled projects was held for reallocation.) Rural Development’s national office allowed—but never formally approved—the State office’s “stalled” policy because several projects were funded by individual large-dollar grants. We also found that there were not adequate documents to support some reimbursed expenses. The agency agreed with our recommendation that it should deobligate the remaining unspent grant balances and strengthen its internal controls over grant spending. (Audit Report 09099-2-SF, Rural Utilities Service Rural or Native Alaskan Village Grants)

RMA Needs to Improve Communication With USDA Agencies Operating Related Programs When It Starts New Insurance Programs

Beginning in 2007, RMA started two new pilot programs for pasture, rangeland, and forage, which offered insurance for losses of grazing forage or hay. When RMA started this pilot program, it did communicate with some other USDA agencies, but it does not have procedures in place to mitigate the risk of overlap with existing programs. RMA also needs to improve how it oversees the approved insurance providers (AIP) through which it provides insurance and maintains relevant data.

Although AIPs are supposed to review some policies before paying insurance indemnities, they were not selecting those policies according to RMA’s guidelines and were not submitting their review results in a timely, complete, and useful format. We also found that two producers who were not eligible to insure their land received improper indemnities totaling \$1.2 million. Finally, we found that RMA needs to ensure that the private contractor that maintains hay and forage data meets Federal Information Technology (IT) standards. RMA generally agreed with our recommendations, but did not agree to have the contractor certify, accredit, and document the IT system for the hay and forage program. (Audit Report 50601-18-Te, Risk Management Agency, Pasture, Rangeland, and Forage Pilot Program)

New Agreement Negotiated for Federal Crop Insurance Program

In July 2010, RMA renegotiated the standard reinsurance agreement (SRA), which sets the guidelines for AIPs to offer crop insurance and other products. We provided comments to earlier drafts to support some of the new provisions. For example, we supported reducing insurance providers’ guaranteed rate of return and limiting agent commissions in relation to subsidies for administrative and operating expenses. All 16 AIPs participating in the Federal Crop Insurance Program during 2010 had executed new SRAs, which formally ended the renegotiation process. (Audit Report 05601-5-KC, RMA Activities to Renegotiate the SRA)

FSA’s Eligibility Criteria for Emergency Conservation Program (ECP) Assistance Subject to Misinterpretation

Under certain circumstances, producers can obtain ECP disaster assistance for work they start before receiving official approval, but an FSA State and county committee incorrectly approved reimbursing 14 producers a total of \$264,524 for work they started months earlier. The producers only met some of the eligibility criteria; however, after review, FSA’s national office allowed the reimbursements partly because the guidance was not clear about whether some or all requirements had to be met. Based upon our recommendation, the agency agreed to clarify its ECP guidance. (Audit Report 03702-1-Te, Emergency Conservation)

Lender Was Negligent in Servicing Loans

We published two audit reports in response to RBS' request to review the loan B&I portfolio of one of its lenders due to high default rates:

- A borrower in Maryland obtained a \$3 million loan with a Business and Industry (B&I) guarantee of 80 percent; however, the lender did not ensure that there was sufficient collateral to secure the loan. This occurred because the collateral was valued based on future improvements which were not made. As a result, the guaranteed loan was under collateralized by at least \$544,000. The agency waived recovery due to the lender's bankruptcy. (Audit Report 34099-9-Te, Review of Lender with Business and Industry Guaranteed Loan in Maryland)
- The lender also obtained a loan note guarantee of 80 percent on a \$5 million loan but misrepresented the borrower's financial condition. At loan closing, the borrower's working capital was reallocated to pay over \$900,000 for tax delinquency, which would have made the borrower ineligible for the loan. Also, the lender did not ensure that almost \$2 million in loan funds were deposited in lender-controlled accounts. After the borrower became delinquent, RBS had to make good its guarantee, totaling over \$4 million. Accordingly, we recommended that RBS require the lender to repay that loss. (Audit Report 34099-11-Te, Review of Lender with Business and Industry Guaranteed Loan in Louisiana)

Arizona Farmers Pay More than \$3 Million in Civil Settlement

Our investigation of a Yuma, Arizona, family-owned farm partnership disclosed that, from 2001 through 2004, nine individuals made false statements and conspired with one another to circumvent payment limitations in order to receive program payments from FSA. The managing partner established farming entities, in name only, involving the farmer's nieces and nephews and reported to FSA that they were actively involved in the farming operation when they were not. In April 2010, the partnership and its members agreed to collectively pay the Federal Government \$3.1 million to resolve allegations that they violated the False Claims Act by submitting false statements to FSA.

Minnesota Farmer Sentenced for Selling Mortgaged Cattle

Our investigation found that a Pine Island, Minnesota, farmer sold at least 79 head of mortgaged cattle and forged the signatures of FSA county office employees on at least 28 of the sales checks. Due to these conversions and forgeries, FSA suffered a loss of \$136,065. In October 2009, the farmer was indicted in Federal court for the District of Minnesota for bank fraud and converting mortgaged property. He subsequently pled guilty and was sentenced in April 2010 to serve 12 months and 1 day in Federal prison and was ordered to pay \$116,941 in restitution.

Arkansas Farm Family Commits Fraud

Our investigation found that three Forrest City, Arkansas, family members submitted false receipts totaling \$121,806 to FSA for the purchase of livestock and equipment in order to receive reimbursements from the agency. In May 2010, one farmer was sentenced to serve 60 months of probation and ordered to pay \$33,635 in restitution. His father and mother were later sentenced to serve 60 months of probation and ordered to pay \$37,068 in restitution.

Ohio Farmer Convicted of Defrauding FSA and RMA

An investigation we conducted jointly with RMA's Midwest Regional Compliance Office revealed that a Greenville, Ohio, farmer made false statements regarding his 2000 FSA soybean loan deficiency payment and his 2004 FSA corn loan deficiency payment. The farmer also provided false financial statements to two banks to receive operating loans from 2000 to 2004, and filed false crop insurance claims. In July 2008, the farmer was indicted in Federal court for a scheme to defraud USDA in both Ohio and Indiana and was charged with two counts of wire fraud, one count of Commodity Credit Corporation (CCC) loan conversion, and 11 counts of filing false crop insurance claims. He pled guilty to one count each of conversion and filing a false crop insurance claim and was sentenced in April 2010 to 6 months in prison followed by 2 years of probation. He was also ordered to pay \$30,000 in restitution.

New Mexico Farmer Convicted of Tax Fraud While Fraudulently Collecting USDA Farm Subsidies

In April 2010, a farmer in New Mexico was convicted in Federal court of failing to file personal income tax returns since 1986 and owing \$18 million to the Internal Revenue Service (IRS). This farmer also provided fictitious employer identification numbers to FSA in order to collect Federal farm aid totaling over \$225,000. When he is sentenced, the farmer faces a maximum prison term of 49 years and a maximum fine of \$2.9 million.

West Texas Cotton Farmer Convicted of Failing to Disclose Debt on Loan Application

In April 2010, a West Texas cotton farmer was sentenced in Federal court to 60 months of probation and ordered to pay a \$2,600 fine for failing to report his cotton seed loan debt to FSA when applying for additional USDA funding. He obtained four cotton seed loans totaling \$260,116, and failed to repay \$128,707 obtained through the sale of his mortgaged cotton. During the course of the investigation, the subject repaid \$76,994 and was denied additional funding totaling \$200,000.

Owners of Bioenergy Company Sentenced for False Claims

Two owners of a bioenergy company in Mississippi were sentenced in Federal court for submitting false claims to defraud CCC of almost \$2.9 million in connection with 2004 and 2005 bioenergy program payments. One owner was sentenced in July 2010 to 60 months of incarceration followed by 60 months of supervised release. The other owner was sentenced in September 2010 to 26 months of incarceration followed by 36 months of supervised release. Both were ordered to pay nearly \$2.9 million in restitution jointly and severally.

Corporation and Corporate Officers Sentenced in Wireless Broadband Loan Fraud Case

In an update to an investigation reported in the *SARC, First Half of 2009*, two individuals and a company were sentenced during this reporting period for their involvement in a scheme to fraudulently obtain disbursements from a \$3.3 million Rural Utilities Service (RUS) broadband loan.

In March 2002, RUS approved a \$3.3 million loan to a West Virginia corporation to construct a fixed wireless broadband system for areas in Ohio and West Virginia. The corporation then fraudulently disbursed RUS loan funds based on phony invoices submitted for payment and also paid loan funds to an Ohio company where former principals of the West Virginia corporation became employed after submitting their resignations. The matter was investigated jointly by USDA OIG, IRS, and the West Virginia Legislature Commission on Special Investigations.

Corporate officials, a board member, and the Ohio company were charged with a variety of crimes including mail fraud, theft or bribery, money laundering, aiding and abetting, perjury, and obstruction of justice. The Ohio company and two former officials of the West Virginia corporation pled guilty to money laundering conspiracy for their involvement in misappropriating more than \$2.4 million. The former chairman of the board of the West Virginia corporation pled guilty to obstruction of justice for withholding information from investigators about the use of the fraudulently obtained funds. The chief financial officer of the Ohio company was found guilty of obstructing a Federal audit by intentionally providing false information.

The Ohio company and the former officers of the West Virginia corporation have recently been sentenced for these crimes. The Ohio company was sentenced in May 2010 to 60 months of probation and ordered to pay restitution totaling \$1.5 million. The former chief operating officer of the West Virginia corporation was sentenced in April 2010 to 6 months of home confinement followed by 2 years of supervised release and was ordered to pay restitution of \$548,571. Also in April 2010, the former chief executive officer of the West Virginia corporation was sentenced to 18 months of imprisonment to be followed by 3 years of supervised release and was ordered to pay nearly \$850,000 in restitution. Sentencing is pending for the former chairman of the board of the West Virginia corporation and the chief financial officer of the Ohio company.

OIG Targets Fraud and Illegal Trafficking in FNS Food Assistance Programs

The second half of FY 2010 also saw the successful conclusion of OIG investigations into illegal trafficking of SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) benefits:

- In Miami, Florida, we conducted a joint investigation with the City of Miami Police Department and found that individuals posing as owners of a grocery store were involved in SNAP benefit trafficking. Our analysis of financial data determined that the store's fraudulent SNAP transactions totaled approximately \$5 million. One of the subjects opened a second store during the investigation. In December 2009, the store owner and other co-conspirators were indicted and subsequently arrested for conspiracy to commit wire fraud and SNAP fraud. Further investigation disclosed that a third store was also involved in SNAP trafficking totaling \$1.2 million. Between March and May 2010, four defendants pled guilty in U.S. District Court, Southern District of Florida, to conspiracy to commit wire fraud and SNAP fraud. They were sentenced to prison terms ranging from 8 to 48 months and ordered to pay restitution in amounts ranging from \$346,456 to \$2.2 million. On their release from prison, three of the defendants will surrender to immigration officials for deportation. Three additional defendants remain at large and are presumed to be in Guatemala and Jordan.
- An OIG investigation disclosed that two brothers who operated a meat market and grocery store in Detroit defrauded SNAP for more than \$800,000 over 3 years. The men conspired with their employees to purchase SNAP benefits from customers in exchange for cash, cigarettes, and *khat*—an illegal stimulant. At the store, agents seized over 175 pounds of *khat* as well as distribution paraphernalia. The brothers each pled guilty to one felony count of wire fraud in the U.S. District Court, Eastern District of Michigan, and were each sentenced in August 2010 to 30 months imprisonment and restitution of \$817,025. Both brothers also agreed not to contest forfeiture of \$46,084 in seized criminal proceeds.
- A joint investigation involving OIG and IRS resulted in three guilty pleas and substantial forfeiture recoveries. From 2004 through 2005, the owners and employees of a store in Detroit trafficked nearly \$1 million in SNAP



(1) Detroit liquor store that trafficked nearly \$1 million in SNAP benefits in 2004-2005. OIG photo.

benefits and concealed the proceeds inside residences and safety deposit boxes. During the investigation, OIG and IRS agents seized over \$700,000 in cash. Despite having access to this money and other assets, the defendants applied for and received public assistance in the form of WIC, SNAP, and Medicaid subsidies. In April 2010, the store's owners were sentenced in U.S. District Court, Eastern District of Michigan, to incarceration ranging from 20 to 24 months and restitution totaling nearly \$1.8 million. The wife of one owner was sentenced to 1 day in prison, 24 months probation, and nearly \$52,000 in restitution jointly and severally with her husband for the public assistance they had fraudulently received.

- A joint investigation by OIG and the FBI identified a small store in Ypsilanti, Michigan, engaged in SNAP and WIC benefit trafficking. The defendants also operated an illegal overseas money transfer business, commonly known as *hawala*, through which they facilitated the exchange of SNAP and WIC benefits for cash and overseas money transfers, in this case to people in the Middle East and Africa. As we reported in the *SARC, First Half of 2010*, the owner and employees pled guilty to over \$750,000 in SNAP and WIC fraud in September and November 2009. During this reporting period, they were sentenced to incarceration ranging from 18 to 30 months, and restitution from \$432,809 to \$718,743.
- Our investigation and analysis of financial data at a Camden, New Jersey, grocery store disclosed that the store had trafficked in SNAP benefits totaling \$324,282. Two store employees were arrested for charges including

theft of Government funds, immigration violations, and conspiracy. Both store employees pled guilty in Federal court and during this reporting period, were sentenced to terms of imprisonment of 11 months and 12 months plus 1 day, respectively. They were also ordered jointly and severally to pay restitution totaling \$324,282.

South Texas County Health District Employee Sentenced for Stealing WIC Vouchers and Baby Formula

In April 2010, a county health district employee in south Texas was sentenced in Federal court to 6 months of probation and ordered to pay over \$1,000 in fines and restitution for her role in stealing WIC vouchers and baby formula from clients who failed to make their scheduled appointments. When clients did not attend their meetings, the employee gave infant formula and WIC vouchers that were intended for them to ineligible individuals, including a former co-worker. When confronted, she immediately resigned.

Day Care Provider Pleads Guilty to Making False Claims and Using a False Social Security Number

In July 2010, the owner of an Omaha, Nebraska, day care center pled guilty in Federal court to making false claims and using a false social security number after our investigation determined that the woman prepared documents showing a bogus number of day care attendees each day along with fictitious social security numbers. She then submitted the fraudulent documents for reimbursement through USDA's Child and Adult Care Food Program (CACFP). As a result, she received overpayments of at least \$20,256. Sentencing is pending.

Review of Soybean Checkoff Program Completed

In January 2009, in response to requests from several sources (including a former Secretary of Agriculture and a U.S. Senator), OIG began a review of the Soybean Checkoff Program, which is funded by U.S. soybean producers to support domestic and international soybean use. The American Soybean Association had forwarded petitions to a former Secretary of Agriculture, a U.S. Senator, and our office that alleged misconduct on the part of the former U.S. Soybean Export Council (USSEC) Chief Executive Officer, mismanagement and misuse of funds by the United Soybean Board (USB) and USSEC, and conflict of interest on the

part of a law firm that represented both USB and USSEC. Our review disclosed insufficient evidence to substantiate the allegations of mismanagement and misuse of funds, but we did recommend USB take steps to ensure proper internal controls are established for USSEC and to provide closer oversight. Although allegations against the former USSEC Chief Executive Officer were beyond OIG's jurisdiction, the appropriate officials took action when warranted. Finally, based upon a decision by the District of Columbia Bar Association, no conflict of interest was found for the law firm representing USB and USSEC.

RECOVERY ACT REVIEWS

Rural Development (RD) Has Opportunity to Improve Oversight of Single-Family Housing (SFH)

We published a series of four *fast reports* assessing the oversight and control RD maintained over \$1.56 billion in Recovery Act-funded loans to buyers with very low incomes through its Section 502 SFH Direct Loan Program. We found:

- RD did not ensure that calculations supporting borrowers' eligibility were current before loan closing, which increased the risk of making an ineligible loan if a borrower's circumstances changed. RD reviewers also did not document the scope and timing of their second-party reviews in loan files, which reduced assurance in the quality control process. We recommended that RD ensure that supporting documents are updated before loan closing and that the scope and timing of reviews are specified. Recovery Act *Fast Report* (Audit Report 04703-2-KC(1), Single-Family Housing Direct Loans Recovery Act Controls – Phase II)
- Comprehensive State office reviews of loan-making and servicing were not being compiled and analyzed by RD to obviate nationwide trends in control weaknesses or to track the effectiveness of corrective actions. We recommended, with RD's overall concurrence, that the reviews be used for multi-year, national analyses and to train its State staff. Recovery Act *Fast Report* (Audit Report 04703-2-KC(2), Single-Family Housing Direct Loans Recovery Act Controls – Phase II)
- RD was not using information in its loan database to reject loans to recipients who were ineligible because they were making more money than was allowed under program requirements. RD concurred with our recommendations

to update/correct its data and to implement systems identifying potentially ineligible recipients. Recovery Act *Fast Report* (Audit Report 04703-2-KC(3), Single-Family Housing Direct Loans Recovery Act Controls – Phase II)

- Many RD employees had access to multiple IT systems through which SFH loans are initiated, approved, obligated, and disbursed, which increases the risk that improper loans can go undetected. In general, RD agreed with our concern about broad access authority and our recommendations to closely monitor and limit users. Recovery Act *Fast Report* (Audit Report 04703-2-KC(4), Weaknesses in Controls that Segregate Key Duties, Single Family Housing Direct Loans Recovery Act Controls – Phase II)

We compiled these findings into one report and included Rural Development's proposed corrective actions for the weaknesses we identified. (Audit Report 04703-2-KC, Single-Family Housing Direct Loans Recovery Act Controls – Phase II)

Questionable Activity Referred From the Recovery Accountability and Transparency Board

The Recovery Accountability and Transparency Board reported to OIG 17 instances of questionable activity from March through August 2009. The referrals involved 21 contracts that FS awarded for capital improvement and maintenance work authorized by the Recovery Act. We performed audit or investigative work related to each referral and issued 12 reports to the Chief, Forest Service. We also reported to the Recovery Board numerous instances where FS officials did not comply with provisions of the Recovery Act or Federal Acquisition Regulations (FAR). Common violations included clauses missing from contracts and inaccurately reported contract elements, which we concluded were primarily due to errors in reconciling data. FS generally agreed with the recommendations we made to correct internal control weaknesses. (Audit Report 08703-01-Hy(1), Recovery Board Referrals)

States' SNAP Fraud Detection

Two of our *fast reports* evaluated FNS' State-level controls in New Jersey and Florida to mitigate SNAP fraud, an area related at least in part to FNS' increased Recovery Act funding. In one report, we determined that FNS performed reviews to evaluate how States managed SNAP, however, the specific program target areas determined by FNS did not include coverage of State fraud detection units. Although FNS indicated that such

reviews were unnecessary because States' annual activity reports gave the agency adequate fraud detection oversight, we found that the reliability of these reports' data was questionable and often unverified. In the other report, we found that FNS and State agency officials relied on hotline complaints and outside referrals to identify SNAP fraud, but did not use reports from electronic benefit processors that tracked participants' and retailers' activity to show potential fraud or misuse. In its response to each audit, FNS generally agreed with our specific findings and recommendations for the two States, but disagreed that they were applicable nationwide. However, the agency did agree to periodically review the benefits reports and to encourage States to use them to focus on SNAP fraud. Recovery Act *Fast Reports* (Audit Reports 27703-02-Hy(1) & 27703-02-Hy(2), State Fraud Detection)

FS Funded Projects in Counties That Were Not Economically Distressed

FS used \$100 million in Recovery Act money to fund 110 projects in counties that were not economically distressed. Agency officials told us that they considered other factors in addition to economic distress when deciding where to fund projects; factors such as the applicant's ability to timely complete the project. However, we concluded that agency actions were inconsistent with the Recovery Act's goal of creating jobs in areas of economic hardship. As a result, agency officials spent \$100 million in areas with low rates of unemployment, which likely did little to preserve or create jobs. Accordingly, we recommended that FS notify the public that Recovery Act money went to projects in counties that were not significantly impacted by the recession. We also recommended that the agency identify projects not yet started and divert the funds to other projects in economically distressed areas. FS agreed to publish its rationale for funding projects, but not to divert funds because all projects were already underway. Recovery Act *Fast Report* (Audit Report 08703-001-Hy(2) Prioritization and Project Selection)

FNS Properly Used Recovery Act Funds Made Available for WIC

In FY 2009, FNS used \$38 million of the \$400 million in Recovery Act funds made available to WIC for that year and 2010. FNS officials said that they did not anticipate needing more Recovery Act funding the next year (FY 2010). We

determined that FNS' use of these contingency funds was timely and effective, properly controlled, and that States established effective compliance procedures. Accordingly, we made no recommendations. (Audit Report 27703-1-Ch, FNS Oversight of the Recovery Act WIC Contingency Funds)

RD's Adequate Management Control of Rural Community Facilities Direct Loan and Grant Program Recovery Act Activities – Phase I

The Recovery Act funded RD's Community Facilities Direct Loan and Grant Program with \$1.1 billion for direct loans and \$61 million for grants. As of April 2010, \$591.7 million has been obligated for direct loans and \$46.3 million for grants. Our audit determined that RD had adequate management controls and that Recovery Act projects were properly approved. We therefore made no recommendations. (Audit Report 04703-01-Hy, Controls over Rural Community Facilities Program Direct Loan and Grant Recovery Act Activities – Phase 1)

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Participation on Committees, Working Groups, and Task Forces

- *OIG Provided Technical Assistance to National Institute of Food and Agriculture (NIFA).* In August 2010, OIG provided technical assistance to NIFA during its financial and administrative review of one of its grantees in Oahu, Hawaii. We helped NIFA to draft the review program and engagement letter and to conduct the on-site review. After NIFA drafts its report, we expect to participate in a “lessons learned” meeting about the assistance we provided.
- *Operation Talon.* OIG began Operation Talon in 1997 to catch fugitives, many of them violent offenders, who are current or former SNAP recipients. Since its inception, Operation Talon has led to the arrests of thousands of fugitive felons. During FY 2010, OIG agents conducted Talon operations in 6 States and made a total of 748 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest 68 fugitives in Alabama, 24 in Iowa, 342 in Massachusetts, 4 in California, 55 in Arizona, and 255 in Missouri for offenses including arson, assault, blackmail, robbery, sex offenses, weapons violations, drug charges, and offenses against family and children.
- *Hurricane Katrina/Rita Task Forces.* Work continues on investigations opened by OIG special agents who have participated in these multiagency task forces that focus on false claims or statements submitted to obtain Federal benefits for these disasters. From November 2005 through the end of this reporting period, OIG has conducted 108 cases in which FNS, FSA, RD, and other Federal agencies have been defrauded. During this time, 146 individuals have been indicted, 112 have been convicted, and fines and restitution have totaled nearly \$1.8 million.
- *Bridge Card Enforcement Team.* OIG investigators work with this team to investigate criminal SNAP and WIC violations. Team members include the Michigan State Police and IRS investigators. The FBI, Social Security Administration (SSA) OIG, and Department of Homeland Security (DHS) Immigration and Customs Enforcement have also helped during search warrant operations. Since 2007, our teamwork has resulted in 95 arrests made and 120 search warrants served in Michigan. The U.S. Attorney’s Office for the Eastern District of Michigan and the Michigan Attorney General’s Office are pursuing criminal prosecutions, with cases so far resulting in 80 guilty pleas and sentences including incarceration, fines, and restitution. The U.S. Attorney’s Office has initiated forfeitures totaling over \$2 million.
- *Southern Ohio Fugitive Apprehension Strike Team.* In Columbus and Cincinnati, Ohio, two OIG investigators participate with the U.S. Marshals Service on this team to help find fugitives by comparing identification information against the list of SNAP recipients.
- *Ohio Organized Crime Investigations Commission Task Force.* Since 1996, an OIG investigator has been part of this task force in Dayton, Ohio, which helps local law enforcement agencies investigate organized crime. Investigations have included SNAP benefits trafficking, stolen farm equipment, and dogfighting.
- *Animal Fighting – Indianapolis.* An OIG investigator is working with the Indianapolis Metropolitan Police Department and Indianapolis Animal Care and Control in Indiana to investigate illegal animal fighting.
- *Mortgage Fraud Task Forces.* OIG investigators participate in mortgage fraud task forces in California, Michigan, and New Hampshire, in addition to a national mortgage fraud working group that meets monthly in Washington, DC. These task forces identify trends, share information, and coordinate investigations related to mortgage fraud. The task forces are headed by representatives from U.S. attorneys’ offices and the FBI, and include participants from the U.S. Department of Housing and Urban Development (HUD), IRS, SSA, local district attorney’s offices, and police departments.
- *Recovery Board Referral Task Force.* OIG is one of nine Federal agencies participating on this task force in the Pacific Northwest, which is conducting a joint investigation based on a Recovery Board referral.
- *Western Region Inspectors General Council, Northwest Inspectors General Council, and other Western Region Working Groups.* OIG investigators work with these councils and groups to develop Recovery Act training,

share information, discuss ongoing and potential work of mutual interest, and strengthen working relationships. In addition, Western Region OIG investigators organize and participate in meetings to enhance coordination between Federal, State, and local law enforcement agencies in the Pacific Northwest.

OIG agents participated in other task forces and working groups related to benefits fraud, including:

- *U.S. Attorney's Bankruptcy Fraud Working Group* in the Western District of Missouri;
- *Identity Fraud Task Force* in the District of New Hampshire;
- *Law Enforcement Coordinating Committee Conferences* in Colorado, Iowa, Missouri, Nebraska, South Dakota, and Wyoming;
- *Four Corners Investigator Group*, consisting of Federal, State, and local fraud investigators from Arizona, Colorado, Utah, and New Mexico; and
- *Suspicious Activity Report Working Groups* in locations including Maine, Massachusetts, Michigan, New Hampshire, and North Carolina.

Review of Legislation, Regulations, Directives, and Memoranda

- *Proposed Rule for Biomass Crop Assistance Program (BCAP)*. In April 2010, OIG formally commented on regulations CCC and FSA proposed in order to implement the new BCAP authorized by the 2008 Farm Bill. We expressed concerns about the options for determining matching payments, FSA's mechanism for ensuring contract facility performance, and inconsistencies in reducing annual payments if an eligible crop is delivered to a biomass conversion facility. In addition to our formal comments, the audit team has discussed other policy, procedure, and administrative concerns with program managers and agency officials.
- *SRA Renegotiation*. The SRA sets the rules by which the Federal Crop Insurance Corporation (FCIC) subsidizes and reinsures insurance sold by approved providers. As mandated this year, RMA began renegotiating SRA provisions for 2011. We reviewed the draft revisions and offered our comments in January and April 2010.

RMA considered our comments and addressed some of them in the final SRA. For example, we noted that RMA incorporated our suggestion for strengthening provisions against conflicts of interest.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- school nutrition and food safety (FNS),
- school meals (FNS),
- identifying CACFP risk (FNS),
- controls over the use of SNAP at group homes/oversight of the National Commodity Processing Program (FNS),
- controls over electronic benefits transfer (EBT) in WIC (FNS),
- vendor management and participant eligibility in WIC (FNS),
- improper payments in the National School Lunch and School Breakfast Programs (FNS),
- SNAP improper payment rate improvement (FNS),
- CACFP followup (FNS),
- National School Lunch Program – California (FNS),
- controls over FY 2010 food distribution programs: buying fresh fruit and vegetables (FNS),
- 2008 Farm Bill's changes to payment limitation (FSA),
- BCAP collection, harvest, storage, and transportation matching payments (FSA),
- Conservation Reserve Program soil rental rates (FSA),
- ECP emergency disaster assistance for the 2008 natural disasters (FSA),
- verifying income eligibility for program payments (FSA),
- Farm Storage Facility Loan Program (FSA),
- followup of compliance review process (FSA),
- Dairy Economic Loss Assistance Payment Program (FSA),
- automated controls over payment limitation direct attribution rule (FSA),

- Noninsured Crop Disaster Assistance Program (FSA),
- BCAP – project areas (FSA),
- formula grants (NIFA),
- agriculture and food research initiative (NIFA),
- controls over biomass research and development grants (NIFA),
- controls over the Farm and Ranch Lands Protection Program (NRCS),
- Congressionally earmarked funds in FY 2010 appropriations (NRCS),
- equitable relief and waivers of improper payments (NRCS),
- controls over the Biorefinery Assistance Program (RBS),
- Rural Economic Development Loan Program (RBS),
- Rural Energy for America Program (RBS),
- Rural Cooperative Development Grant Program eligibility and grant funds use for a Missouri entity (RBS),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- payments for 2005 citrus canker losses (RMA),
- oversight of approved insurance providers' quality control process (RMA),
- validity of new producers (RMA),
- NASS' average yields (Multiagency),
- AIP compliance with SRA supporting document requirements (RMA),
- AIP compliance with pre-acceptance inspection requirements for non-program crop insurance policies (RMA),
- compliance with inconsistent yield and added land procedures (RMA),
- oversight of AIP transfers of agents, adjusters, and producer policies (RMA),
- oversight of organic crop insurance (RMA),
- controls over prevented planting claims (RMA),
- AIPs' reduction of inconsistent yields (RMA),
- construction costs (RHS),
- project management companies (RHS),

- maintenance cost and inspection procedures (RHS),
- payment assistance recalculation/recapture (RHS),
- controls over disaster assistance payments (RHS),
- Rural Rental Housing Management Company in Indiana (RHS), and
- emergency relief and disaster assistance for past and future natural disasters (FSA, NRCS, and RD).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

ONGOING AND PLANNED REVIEWS FOR GOAL 2 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews for Goal 2 under the Recovery Act include:

- SNAP EBT call centers outside the United States (FNS),
- State SNAP fraud detection efforts (FNS),
- Recovery Act effect on SNAP – phases I & II (FNS),
- administration of grants (FS),
- capital improvement and maintenance (FS),
- wildland fire management (FS),
- direct farm operating loans – phase II (FSA),
- controls over aquaculture grants – phase II (FSA),
- supplemental agricultural disaster assistance programs and Recovery Act transition assistance (FSA),
- watershed protection and flood prevention operations, field confirmations – phases II & III (NRCS),
- emergency watershed protection program floodplain easements – phase III (NRCS),
- emergency watershed protection program floodplain easements – small land parcels (NRCS),
- controls over the 2009 Agricultural Water Enhancement Program (NRCS),
- rural business enterprise grants – phase II (RBS),
- B&I Guaranteed Loan Program – phase II (RBS),
- B&I Guaranteed Loan Program – phase III (RBS),

- lending institutions' questionable use of Recovery Act funds for housing guaranteed loans (RHS),
- single family housing direct loan effectiveness – phase III (RHS),
- Recovery Act servicing of single family housing direct loans (RHS),
- single family housing direct loans – loan file compliance reviews (RHS),
- single family housing direct loans controls testing – phase II (RHS),
- controls over the Rural Community Facilities Direct Grant and Loan Programs – phase II (RHS),

- controls over the Rural Community Facilities Program – phase II, construction loans (RHS),
- controls over eligibility determinations for SFH guaranteed loan stimulus funds – phase II (RHS),
- Recovery Act performance measures and job creation for the Single Family Housing Guaranteed Loan Program – phase III (RHS),
- evaluation of loss claims related to Recovery Act funds distributed through SFH Guaranteed Loan Program (RHS), and
- monitoring implementation of trade adjustment assistance for farmers (FAS and FSA).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives.

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and to provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyber-attack on its IT infrastructure, whether by terrorists attempting to thwart national security or by criminals seeking economic gain.

In the second half of FY 2010, we devoted 29 percent of our total direct resources to Goal 3, of which 71 percent was assigned to critical/high-impact work. One hundred percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 74 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 16 audit reports under Goal 3 during this reporting period; our investigations under Goal 3 yielded 33 indictments, 17 convictions, and \$10.3 million in monetary results.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

Followup on AMS' Purchasing of Frozen Ground Beef

OIG identified significant opportunities for AMS to improve its controls in the following areas: (1) monitoring beef supplier and laboratory performance, (2) selecting product samples for more accurate representative testing, and (3) assessing the financial risks that USDA faces with large beef suppliers, including ways to mitigate these risks in a cost-beneficial manner. Due to a beef supplier's bankruptcy, the agency was required to pay over \$13 million to cover the costs associated with the largest beef recall in U.S. history (20 million pounds). The agency generally agreed with our recommendations. (Audit Report 01601-02-Hy, Follow up on Purchases of Frozen Ground Beef)

USDA Has Met Assigned Disaster Response Requirements

USDA coordinates and supports disaster response as part of a wider DHS plan to handle large-scale emergencies. DHS OIG provided 14 researchable questions related to DHS' National Response Framework Emergency Support Function 11 "Agriculture and Natural Resources" to be answered about USDA's preparedness. We determined that the Department has appropriately fulfilled their assigned responsibilities. USDA's agencies with disaster response roles have also fulfilled their duties. (Audit Report 42099-04-HQ, Assessment of the USDA's Disaster Response Capabilities)

Management Challenges Addressed UNDER GOAL 3

- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 1 and 2)
- Continuing Improvements Needed in IT Security
- Implementation of the Recovery Act (also under Goals 2 and 4)

RUS Could Improve Process for Approving Water and Waste Disposal System Loans and Grants

RUS officials can enhance their procedures for approving water and waste disposal system loans and grants by: (1) providing additional guidance on the appropriate use of special income studies when census data are questionable, (2) establishing more specific instructions to better document health and sanitary problems, and (3) making grant and interest rate eligibility determinations. Rural Development agreed with our recommendations to strengthen these aspects of the program. (Audit Report 09601-1-At, Controls over the Water and Waste Disposal Loan and Grant Program)

USDA Needs To Implement a More Effective Suspension and Debarment Program

Our audit determined that USDA agencies were not suspending and debaring program participants when warranted to maintain program integrity and to protect the Government's interest. For example, between 2004 and 2007, agencies did not suspend or debar 1,035 program participants even though they already had been convicted by criminal courts. Similarly, between 2004 and 2008, FNS did not suspend or debar 3,981 SNAP retailers and wholesalers who violated program regulations.

Agencies indicated that these exclusions were in the public's best interest and consistent with statutes balancing program access. However, the agencies have provided no statutory language that, in our analysis, justifies the exclusions. We maintain that the public's interest may be better served by ensuring the integrity of funds and programs and deterring others bent on misusing Federal funds and benefits. Accordingly, we recommended that USDA provide adequate legal justification or acceptable program rationale for excluding programs from suspension and debarment. We continue to work with USDA to reach agreement on the corrective actions needed to address our recommendations. (Audit Report 50601-14-At, Effectiveness and Enforcement of Debarment and Suspension Regulations)

OCIO/NITC, and OCIO/NFC Receive Unqualified Opinions on Controls

In two separate reports, we determined that the description of controls by the Office of the Chief Information Officer (OCIO)/National Information Technology Center (NITC),

and by the National Finance Center (NFC), presented fairly, in all material ways, the relevant aspects of the controls in operation as of June 2010. Also, the controls included in the description were suitably designed and operating with sufficient effectiveness to provide reasonable assurance that associated objectives would be achieved. (Audit Report 88501-14-FM, Statement on Auditing Standards No. 70 Report on the NITC General Controls – FY 2010; Audit Report 11401-33-FM, Statement on Auditing Standards No. 70 Report on the NFC General Controls – FY 2010)

Retirement, Health, and Life Insurance Withholdings/Contributions Were Reasonable

We assessed the reasonableness of retirement, health, and life insurance withholdings and contributions as well as employee data submitted by OCFO and NFC. We found nothing that exceeded allowable thresholds. (Audit Report 11401-32-FM, Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management)

FSA Should Strengthen Oversight of Loan Collateral

While FSA's direct operating loans were adequately secured, we found that 25 percent of the borrowers we visited had removed loan collateral without authorization. Additionally, we identified loan servicing issues that needed to be corrected in order to protect FSA's interests. We recommended that FSA should strengthen its oversight of loan collateral to ensure that it is not removed without authorization, and, if it is, that the circumstances are documented and appropriate enforcement action is taken. FSA officials agreed with our recommendations. (Audit Report 03601-18-Ch, FSA Farm Loan Security)

Corporation Agrees to Pay Back \$4.5 Million for Improperly Billed Training

USDA OIG and GSA OIG worked jointly to investigate a corporation that provides international IT and education training to business and government organizations. The corporation provided multiple computer software training courses and services to the Federal Government through a pre-paid voucher system. Information developed from a prior investigation of a different company found evidence that this corporation improperly billed and collected payments from the Government for computer software training before providing

the services and then kept millions of dollars for training services that were not actually provided from October 1996 through September 2007. Among the USDA agencies that paid for the corporation's services were APHIS, ARS, Economic Research Service (ERS), FNS, FS, FSA, FSIS, NASS, NFC, OCIO, and RMA.

In April 2010, a civil settlement agreement was entered and executed by the corporation and the Government. As part of this agreement, the corporation agreed to pay back a total of \$4.5 million.

Two Brothers Convicted for Stealing USDA and Other Government Property

A joint investigation involving USDA OIG, GSA OIG, and other agencies found that a Federal Aviation Administration (FAA) employee and his brother illegally gained access to the GSA Excess Personal Property Transfer System and stole over 215 items belonging to the Government with a total value of approximately \$3 million. These items included an airplane, trucks, vehicles, and other items belonging to USDA; a U.S. Navy yacht, and other items belonging to various Federal agencies. In June 2009, one of the individuals was found guilty in Federal court of wire fraud and theft of honest services. He was sentenced to 54 months in prison, 3 years of probation, and restitution of \$239,688. In March 2010, the FAA employee pled guilty to wire fraud and theft of honest services. He was sentenced in June 2010 and received 42 months in prison, 3 years of probation, 100 hours of community service, and restitution totaling \$186,619. Also, in July 2010, the court ordered the forfeiture of the yacht and \$25,100 that had been seized during the investigation.



(2) Recovered USDA plane. Alabama Forestry Commission photo

FS Special Agent Incarcerated for Assaulting Three Co-Workers

An OIG investigation determined that a male FS special agent sexually assaulted three female FS colleagues during a social gathering in June 2009. The gathering took place after agency-sponsored training led by the special agent which the victims attended. The agent was charged with 11 counts of criminal sexual conduct and 3 counts of assault and battery. He was convicted at trial of three counts of criminal sexual misconduct and one count of assault and battery. In June 2010, the subject was sentenced to 9 months of incarceration and has been registered as a sex offender.

Former FS Employee Received Workers' Compensation While Owning and Operating a Company That Was Awarded FS Contracts in Oregon

Our joint investigation with the U.S. Department of Labor (USDOL) OIG revealed that a former FS employee owned and operated a company that contracted with FS to clear brush from roadways in the Willamette National Forest in Oregon, earning about \$265,000 from 2003 through 2007. At the same time, he received workers' compensation for a back injury sustained on the job as an FS employee, but he did not report income from self-employment to the USDOL Office of Workers Compensation Programs (OWCP). In June 2010, he was convicted in Federal court, sentenced to 12 months of probation, and ordered to pay \$48,118 in restitution to the Government after he pled guilty to one misdemeanor count of knowingly and willfully making false statements and concealing a material fact. OWCP estimates that the results of this investigation will include \$209,000 in cost avoidance.

FS Employee Sentenced to Prison for Conspiracy and Theft

In December 2009, a former FS employee in Florida pled guilty in Federal court to theft of Government funds and conspiracy to defraud. The employee admitted that he, along with an FS volunteer, stole materials from the agency, and that he also conspired with a family friend to be awarded FS contracts. The family friend was sentenced to 3 years of probation and was ordered to pay \$18,780 in restitution; the volunteer was sentenced to 1 year of probation and was ordered to pay \$500 in restitution; and the former FS employee was

sentenced to 1 year in Federal prison and was ordered to pay \$19,754 in restitution.

Former FSA Employee Sentenced for Embezzling Loan Funds

In March 2010, a former FSA program specialist in Nebraska pled guilty in Federal court to wire fraud after our investigation uncovered her scheme to embezzle funds from FSA while she serviced her own CCC loans. The former employee admitted that she backdated loan repayment dates and entered false repayment rates in the FSA database relating to loans made to herself and her husband in 2007. As a result, she defrauded FSA of \$44,435. In addition, the woman averted a further \$31,673 in liquidated damages that FSA could have assessed for noncompliance with loan terms. As part of her plea agreement, the woman settled the balance owed to FSA totaling \$44,435. In June 2010, she was sentenced to serve 8 months of house arrest followed by 48 months of probation.

Former FSA Program Technician Pleads Guilty to Theft of Funds

Between September and October 2009, an FSA program technician in Montana destroyed at least six USDA forms in order to increase her husband's loan deficiency payment by \$14,680. The woman admitted that she defrauded FSA and resigned her position with the agency. In May 2010, she was indicted in Federal court on two felony counts of theft of Government funds and acts affecting a financial interest; she subsequently pled guilty. Her sentence is pending.

RECOVERY ACT REVIEWS

FNS Management Control Guidance Deviates from Recovery Act Plan

FNS' guidance for maintaining oversight of its Recovery Act-funded Food Distribution Program on Indian Reservations was not consistent with its Recovery Act plan that the Office of Management and Budget (OMB) approved in the area relating to projects that involve construction, such as roof repairs and cooling/heating system replacement. FNS' guidance stated that staff could conduct desk reviews rather than requiring the on-site facility reviews described in its official Recovery Act plan. Accordingly, we recommended that FNS ensure that the guidance and the program's Recovery Act plan be consistent

in order to accurately reflect the internal controls used to monitor facility improvements projects. FNS concurred with this recommendation and agreed to obtain OMB approval of the revised Recovery Act Plan. (Audit Report 27703-02-HQ, American Recovery and Reinvestment Act of 2009, Food Distribution Program on Indian Reservations)

OCFO Needs to Assign More Staff to Develop Data Quality and Proper Reporting Processes

Maintaining data quality and reporting properly are key to ensuring that USDA, its agencies, programs, and recipients are transparent and accountable in their use of Recovery Act funds. In general, we concluded that the controls and the methodologies used differed significantly from agency to agency, resulting in errors and material omissions not being corrected. Our review of USDA's 3,065 awards identified 450 instances in which the recipient-reported award numbers on *FederalReporting.gov* did not match the agency-reported award numbers on USDA's control list, a discrepancy which OMB considers a significant error. OCFO has not implemented internal controls to ensure that agencies' monitoring efforts are consistent, effective, and complete, due partly to having only one staff member to monitor such issues and develop agency guidance. Accordingly, we recommended, with OCFO's agreement, that sufficient staff be assigned to develop a process to ensure proper reporting and consistent agency reviews. (Audit Report 50703-1-DA, American Recovery and Reinvestment Act – Review of the Effectiveness of the Department/Agency Data Quality (USDA))

Multiagency, Governmentwide Audit of Agency Recipient Reporting Controls

OIGs for six Federal agencies—the Department of Defense, the Environmental Protection Agency, the National Science Foundation, HUD, GSA, and USDA—participated in this audit of recipient reporting controls in agencies throughout the Government. USDA OIG coordinated this audit for the Recovery Board. In general, we found that agencies had issued appropriate policies and procedures, but material omissions and significant errors were not identified or reported when agencies did not have internal controls to ensure that monitoring efforts were consistent, effective, and complete.

As appropriate at the agency level, it was recommended that agencies ensure all awards are reported accurately and that

they review recipient data to identify material omissions and significant errors. At the overall Federal level, we recommended that the Recovery Board pursue discussions with the appropriate Government entities about (1) establishing a uniform, consistent Governmentwide award numbering system for Recovery Act recipients; (2) making suggested logic checks mandatory; and (3) issuing guidance for identifying significant omissions. (Audit Report 50703-2-DA, American Recovery and Reinvestment Act – Review of the Effectiveness of the Department/Agency Data Quality (Governmentwide))

Lack of Policies and Procedures to Ensure Recovery Act Reporting

In auditing contracts undertaken to improve facilities, we determined that USDA agencies lacked documented policies and procedures to ensure proper Recovery Act reporting, which resulted in reduced transparency, untimely reporting, or erroneous reports.

USDA's Management Services awarded a Recovery Act contract for over \$16.5 million to modernize a wing of its Headquarters building in Washington, DC. While we found no contract administration issues, the award was not reported timely to *Recovery.gov*. Management Services agreed with the report's findings and has implemented corrective actions. Management Services has developed and released policies and procedures to ensure future Recovery Act reporting is accurate and timely.

In July 2009, ARS used Recovery Act funding to award a task order to Perkins + Will, Inc., of Atlanta, Georgia, to study replacing the steam distribution system, including boilers and electrical system, for the Area Research Center in Beltsville, Maryland. Lacking guidance on Recovery Act policies and procedures, the recipient did not report its award information correctly. ARS agreed with our findings and implemented our recommendations. (Audit Report 02703-01-HQ, General Procurement Oversight Audit of Beltsville's Agriculture Research Center Steam Study Task Order Awarded to Perkins + Will, Inc.)

ARS also awarded a contract to RMF Engineering, Inc., for design, bid, and construction management services to renovate bathrooms, repair brickwork, and replace windows at the National Agricultural Library in Beltsville, Maryland, but the agency did not have internally documented processes and procedures for monitoring and reviewing the information the recipient and agency reported on *Recovery.gov*. These conditions were noted in an earlier review of a construction contract. ARS implemented corrective actions by issuing policies and procedures; therefore no further recommendations were made. (Audit Report 02703-02-HQ, General Procurement Oversight Audit of Architectural and Engineering Services Contracts Awarded by Agricultural Research Service to RMF Engineering, Inc.)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *GAO/President's Council on Integrity and Efficiency (PCIE, now CIGIE) Financial Audit Manual Update.* As part of a workgroup, GAO asked the financial statement audit network for suggested updates to the GAO/PCIE *Financial Audit Manual*. We recommended that GAO consider changing the title of the *Service Organization Report, Statement Auditing Standards (SAS) 70*, to reflect the *Statement on Standards for Attestation Engagements 16, Reporting on Controls at a Service Organization*, which replaced SAS 70.
- *Whistleblower Protection Enhancement Act of 2010.* OIG reviewed this bill and supports its objective of expanding protections for individuals engaged in credible whistleblower-type activities. However, a provision that would require all IGs to have a “Whistleblower Protection Ombudsman” who would educate and advise agency personnel appears to be contrary to OIG’s role under the Inspector General Act of 1978. The law charges OIGs with operating independently and objectively within their respective establishments, which seems inconsistent with a whistleblower protection advocacy and advisory role. OIGs are also prohibited from exercising program operating responsibilities and managing agency programs, which the proposed legislation would appear to require.
- *Overseas Contractor Reform Act.* OIG reviewed this bill and, in general, supports its objective of expanding the use of debarment. However, we suggested that the bill be amended to make clear that it refers to Governmentwide debarment under the FAR and Nonprocurement Common Rule.

Participation on Committees, Working Groups, and Task Forces

- *Financial Statement Audit Network Workgroup.* This workgroup—which consists of auditors from many OIGs—meets to share ideas about, knowledge of, and experience with Federal financial statement audits. In April 2010, under the workgroup’s auspices, USDA OIG hosted the CIGIE/GAO Annual Financial Statement Audit Conference.
- *Federal Audit Executive Council.* Council members include auditors from many Federal OIGs who meet to discuss issues that affect the Government’s audit community, especially regarding audit policy and operations. USDA OIG’s Assistant Inspector General for Audit chaired the council’s audit committee, which focused on reviewing GAO’s proposed changes to auditing standards and evaluating Federal OIG peer reviews.
- *Intra-Departmental Coordinating Committee on International Affairs.* USDA OIG auditors continue to serve on this committee. Headed by FAS, part of the purpose of the committee (which includes most USDA agencies) is to coordinate international activities. Some of the committee’s issues included USDA’s role in implementing the President’s national export initiative and the Department’s global market strategy; reconstruction in Haiti, Pakistan, and Afghanistan; and international food security and assistance. Our comments on a draft of the Department’s global market strategy stressed the need for performance measures and milestones. As part of our involvement, OIG also attends the Pakistan and Afghanistan team meetings. The Department is receiving funds from the United States Agency for International Development (USAID) under the Foreign Assistance Act to help reconstruction and development in Pakistan and Afghanistan. Section 632(a) of the Act gives audit and fiduciary responsibilities to OIG, so we continue to work with the Department and USAID to ensure accountability and oversight for grants and agreements that use these funds.
- *Inter-Agency Suspension and Debarment Committee.* A USDA OIG auditor and an attorney continue to

serve on this committee, which works to advance the use of suspension and debarment as a Federal enforcement option. The auditor has also co-chaired a subcommittee for parallel proceedings, which promotes pursuing contemporaneous criminal, civil, and suspension and debarment actions against those who abuse Federal programs.

- *National Procurement Fraud Task Force.* OIG is a member of this task force, formed by the Department of Justice (DOJ) in October 2006 as a partnership among Federal agencies charged with investigating and prosecuting Government contracting and grant illegalities. The task force has worked to better allocate resources, improve coordination in procurement and grant fraud cases, and accelerate their investigation and prosecution. At the regional level, OIG investigations field offices in the Northeast, Great Plains, Midwest, Southeast, Southwest, and Western Regions participate in procurement fraud task forces initiated by the local U.S. attorneys' offices. The Counsel to the IG participates as a member of the task force's legislation committee.
- *CIGIE IT Groups.* The National Computer Forensic Division works with a CIGIE subcommittee and working group concerned with IT investigations, computer forensics, and nationwide issues such as Internet connection integrity.
- *FBI's Heart of America Regional Computer Forensics Laboratory.* An analyst from OIG's computer forensics division works full-time with the laboratory and has helped us obtain direct access to regional laboratories, training, samples of applicable policies and procedures, and, when needed, FBI assistance for OIG computer forensic work.
- *CIGIE's Legislation Committee.* On an ongoing basis, OIG personnel monitored and tracked all IG-related legislation that was introduced in Congress and kept affected IGs notified about those bills' progress. Committee members met with Senate Homeland Security and Governmental Affairs Committee staff and House Oversight and Government Reform Committee staff about technical amendments to the Inspector General Reform Act of 2008, and discussed IG concerns about mission impediments imposed by the Paperwork Reduction Act and Computer Matching

Act. Subsequently, these concerns were addressed in the *Inspector General Authority Improvement Act of 2010*, H.R. 5815, which was reported favorably to the full House in July 2010.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

- oversight of Federally authorized research and promotion boards (AMS),
- beef research and promotion board activities (AMS),
- private voluntary organizations' grant fund accountability (FAS),
- USDA food aid coordination and delivery (FAS),
- management oversight and controls over the Market Access Program (FAS),
- acquiring IT software and hardware (FS),
- controls over economic adjustment assistance to users of upland cotton (FSA),
- annual audits of the Department and agencies' financial statements for FYs 2010 and 2011 (OCFO),
- FY 2011 NFC general controls (OCIO),
- FY 2011 NITC general controls (OCIO),
- security over remote access of USDA information systems (OCIO),
- secure domain system deployment in USDA (OCIO),
- oversight of USDA's BigFix implementation (OCIO),
- FY 2010 Federal Information Security Management Act review (OCIO),
- review of International Technology Service (OCIO),
- Small Business Innovation Research Program (NIFA),
- Farm and Ranch Lands Protection Program controls in Michigan (NRCS),
- using the geospatial information system (NRCS),
- database analysis (Rural Development),
- controls over water and waste disposal loan and grant programs (RUS),
- contracting reorganization for domestic and foreign procurements (AMS, FNS, and FSA),

- international trade policies and procedures (APHIS and FAS),
- section 632(a) funds transferred from USAID to USDA (APHIS, ARS, FAS, NASS, and NIFA),
- Departmental oversight of the Deepwater Horizon oil spill (APHIS, FNS, NRCS, and Rural Development),
- monitoring the development of the 2012 Farm Bill (all USDA agencies except FS),
- review of Departmental accountability for actions taken in the civil rights program (USDA), and
- management and security over wireless handheld devices (USDA).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 3 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews for Goal 3 under the Recovery Act include:

- review of selected contractors use of Recovery Act funds (ARS),

- oversight of IT infrastructure improvement (FSA),
- WIC management information systems (FNS),
- National School Lunch Program equipment assistance funding (FNS),
- healthy forest initiative (FS),
- wood to energy projects (FS),
- confirming individual rural business enterprise grants – phase II (RBS),
- rural business enterprise grants – phase III (RBS),
- controls over water and waste loans and grants – phase II (RUS), and
- USDA's oversight of recipient-reported data focusing on jobs created (Departmental).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

Stewardship Over Natural Resources

OIG Strategic Goal 4:

Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as 193 million acres of national forests and wetlands. USDA also provides scientific and technical knowledge to enhance and protect the economic productivity and environmental quality of an estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the second half of FY 2010, we devoted 7 percent of our total direct resources to Goal 4, of which 99.9 percent was assigned to critical/high-impact work. One hundred percent of our audit recommendations under Goal 4 resulted in management decision within 1 year, and 67 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 1 audit report and 8 Recovery Act *fast reports* under Goal 4 during this reporting period; our investigations under Goal 4 yielded 2 indictments, 2 convictions, and \$75,981 in monetary results.

Management Challenges Addressed UNDER GOAL 4

- Better FS Management and Community Action Needed To Improve the Health of the National Forests and To Reduce the Cost of Fighting Fires
- Implementation of the Recovery Act (also under Goals 2 and 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

South Dakota Man Sentenced as a Result of Defrauding FSA, NRCS, and the U. S. Fish and Wildlife Service

An Alpena, South Dakota, man was indicted in August 2009 in Federal court for making false statements and providing fabricated documents to NRCS to receive reimbursement of \$18,368 for restoration of a Wetlands Reserve Program easement. This individual also made false statements to FSA and the U.S. Fish and Wildlife Service to receive almost \$40,000 in reimbursements for various other projects. The man subsequently pled guilty and was sentenced to serve 36 months of probation and to pay restitution of \$17,831 and a fine of \$50,000.

RECOVERY ACT REVIEWS

FS Paid a Grant Recipient Without Adequate Supporting Documents

In reviewing FS' Recovery Act payments to grantees, we found several cases where FS approved payments without adequate documents to ensure expenditures and disbursements met Recovery Act and grant agreement requirements, such as disbursing funds for actual expenditures rather than anticipated expenses. We identified these concerns in three *fast reports*.

- FS disbursed funds for a grant recipient's payment requests without receiving adequate supporting documents to verify that previous disbursements were spent for authorized purposes. Recovery Act *Fast Report* (Audit Report 08703-01-SF(1), Recovery Act – FS Wood To Energy Projects)
- FS reimbursed a grant recipient \$1.4 million though records showed only \$160,882 had been spent. The recipient had a contractual obligation to pay a vendor the additional \$1.2 million, but the grant agreement specified that requests for payments should be based on actual cash disbursements. Recovery Act *Fast Report* (Audit Report 08703-01-SF(2), Recovery Act – FS Wood to Energy Projects)
- FS provided \$3.9 million in Recovery Act funds to grant recipients that did not maintain adequate documents to support pre-award costs. In addition, the grantees did not maintain documents supporting expenditures as required. Recovery Act *Fast Report* (Audit Report 08703-01-SF(3), Recovery Act – FS Wood To Energy Projects)

In general, FS agreed with OIG recommendations to verify the expenditures against supporting documents, monitor requests more closely, and recover any improper payments.

FS Did Not Adequately Monitor a Windows Replacement Project

The Olympia National Forest (an FS administrative division) awarded a \$250,650 contract using Recovery Act funds to replace 150 windows for its laboratory, but had no evidence to demonstrate that FS properly monitored the project to ensure the windows were installed according to contract requirements. FS officials agreed with our findings that they should have examined documents supporting proper installation and monitored the project more closely. Recovery Act *Fast Report* (Audit Report 08703-02-SF(2), Recovery Act - FS Facility Improvement, Maintenance & Rehabilitation)

Oregon's Community College and Workforce Development (CCWD) Charged FS for Unrelated Activities and Allocated Expenditures Arbitrarily

CCWD had three programs funded with FS' Recovery Act funds—both non-Federal and Federal hazardous fuels reduction and trail maintenance—but charged some expenses unrelated to the programs and arbitrarily allocated expenses between the three. For example, CCWD charged FS for landscaping and grounds-keeping work at public facilities. FS agreed to recover any funds not used to meet the programs' goals and to ensure that charges were properly allocated, but disagreed that some of the work in question was unrelated to these goals. Recovery Act *Fast Report* (Audit Report 08703-04-SF (1), Recovery Act – FS Trail Maintenance and Decommissioning)

FS Lacked Guidance About Purchasing Recovery Act-Funded Equipment

As part of Recovery Act-funded hazardous fuels reduction activities, Florida planned to use \$1.2 million to buy mowers and the trucks to transport them, and \$2.1 million for equipment such as fire engines, bulldozers, and pickup trucks. However, we determined that the State did not adequately support its need for the mowers and trucks, or its decision to buy rather than lease the other equipment. Since FS staff at its recovery operations centers did not have guidance about Recovery Act-funded equipment purchases, we recommended that the agency develop such guidance and review all grant agreements to ensure that the equipment purchases were

justified. FS generally agreed with our recommendations. Recovery Act *Fast Report* (Audit Report 08703-05-SF(2), Recovery Act – FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

NRCS Program Decisions to Purchase Easements on Small Tracts of Land and Valuation Methodologies Used to Compensate Landowners Questioned

In June 2009, 289 applications, totaling \$138 million, were approved by NRCS for its watershed and flood protection program. We identified internal control issues related to NRCS' purchase of floodplain easements with these funds, which we reported to NRCS' Chief in two *fast reports* (August and November of 2009):

- Our first report determined that NRCS needed to develop standard operating procedures for purchasing easements on small parcels with structures and to incorporate these procedures into the agency's program manual. Recovery Act *Fast Report* (Audit Report 10703-1-KC(1))
- Our second report found that NRCS did not determine easements' values using its normal method, but instead used an alternative methodology (the same used for Wetlands Reserve Program easements) due to Recovery Act time constraints. However, the Office of the General Counsel (OGC) opined that it would be prudent for NRCS to document its decision-making process to support the alternate valuation methodology. Accordingly, we recommended, with NRCS' concurrence, that the agency stop approving easement agreements until it demonstrates that the normal appraisal method is not practicable. Recovery Act *Fast Report* (Audit Report 10703-1-KC(2))

We compiled these findings into one report and included NRCS' proposed corrective actions in response to the weaknesses we identified. (Audit Report 10703-1-KC, American Recovery and Reinvestment Act - Emergency Watershed Protection Program Floodplain Easements — Phase I)

NRCS Should Consider Unemployment Rates When Funding Watershed Protection and Flood Prevention Projects

The Recovery Act provided \$145 million to NRCS' Watershed Protection and Flood Prevention Operations Program to help protect watersheds, mitigate floods, and improve water quality. However, we questioned if NRCS' project funding best met

the Act's overall goal of creating jobs in economically distressed areas. NRCS funded 75 projects (totaling \$59 million) in areas where unemployment rates were less than the national average (8.1 percent) and rejected funding for 45 projects (totaling \$97 million) in areas where the unemployment rate was greater than the national average. NRCS agreed to consider unemployment rates in future funding decisions but maintained that its decisions were based partly on which projects could be started timely, and met Recovery Act criteria. (Audit Report 10703-2-KC, American Recovery and Reinvestment Act Watershed Protection and Flood Prevention Operations Program – Phase I)

FS Should Ensure Mine Remediation Contracts Are Reviewed

FS approved using \$22.7 million in Recovery Act funds to remediate abandoned mines, but agency staff at three of its recovery operation centers were not reviewing 10 percent of the remediation contracts as required, which weakened the agency's oversight. We recommended, with FS' concurrence, that the agency remind its staff of their review responsibilities and issue guidance specifying how and when the reviews should be conducted. *Recovery Act Fast Report* (Audit Report 08703-06-SF(2), Recovery Act – FS Abandoned Mine Remediation)

GOVERNMENTWIDE ACTIVITIES - GOAL 4

Participation on Committees, Working Groups, and Task Forces

- *New Hampshire Environmental Crimes Working Group.* An OIG agent has joined this newly-established working group in the District of New Hampshire, which was convened by the U.S. Attorney there to enhance the cooperation and capabilities of member agencies in enforcing their respective environmental laws, as well as to exchange information and provide prosecutorial support and training opportunities.

ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- controls and management of drug enforcement issues on national forest land (FS),
- obtaining and granting rights-of-way and easements (FS),
- administering special use permits (FS),
- Forest Legacy Program (FS), and
- Conservation Stewardship Program (NRCS).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 4 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews for Goal 4 under the Recovery Act include:

- oversight and control of FS activities,
- oversight and control of watershed and flood prevention operations (NRCS), and
- oversight and control of the Watershed Rehabilitation Program (NRCS).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our FY 2010 goals:

1. Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
2. Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to individuals.
3. Support USDA in implementing its management improvement initiatives.
4. Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the IG Act of 1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

For audits we show:

- reports issued,
- management decisions made (number of reports and recommendations),
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use),
- program improvement recommendations, and
- audits without management decision.

For investigations we show:

- indictments,
- convictions,
- arrests,
- total dollar impact (recoveries, restitutions, fines, asset forfeiture),
- administrative sanctions, and
- OIG Hotline complaints.

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2009 Actual	FY 2010 Target	FY 2010 2nd Half Actual	FY 2010 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact work.	95.3%	90%	88.4%	91.8%
Audit recommendations resulting in management decision within 1 year of report issuance.	88.8%	85%	84.5%	90.2%
Mandatory, Congressional, Secretarial, and agency-requested audits completed within required or agreed-to timeframes.	100%	90%	100%	100%
Closed investigations that resulted in a referral for action to DOJ, State/local law enforcement officials, or relevant administrative authority.	74.6%	70%	88.2%	84.8%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	76.8%	65%	74.5%	72.8%

RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2010 Target	FY 2010 2nd Half Actual	FY 2010 Full Year Actual
Review internal controls related to individual Recovery Act programs prior to substantial funds being obligated or expended.	75%	78.9%	78.9%
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	80%	85.7%	83.3%
Respond to Recovery Board sponsored requests and projects within established schedules or agreed-upon timeframes.	85%	100%	100%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt.	75%	100%	100%
Investigations staff will participate in 10 outreach/training meetings each quarter on Recovery Act work.	80%	145%	135%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	100%
Monthly reporting to Recovery Board on Recovery Act funds within required deadline.	100%	100%	100%

RECOGNITION OF OIG EMPLOYEES BY THE SECRETARY AND IG COMMUNITY**SECRETARY'S HONOR AWARD****Personal and Professional Excellence****Allan C. Kennedy***Investigations***National Organic Program Team***Audit***COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY (CIGIE) AWARDS****Award for Individual Accomplishment****Mark Jones***Investigations***Barry R. Snyder Joint Award****Introductory Auditor Training Team***Alfreda White***Awards for Excellence****CIGIE Legal Support Team***Counsel***Guardian Angel Investigations Team***Investigations***National Residue Program Audit Team***Audit*

SUMMARY OF AUDIT ACTIVITIES—APRIL—SEPTEMBER 2010	
Reports Issued	34
Audits Performed by OIG	30
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	4
Management Decisions Made	
Number of Reports	21
Number of Recommendations	168
Total Dollar Impact (Millions) of Management-Decided Reports	\$19.2
Questioned/Unsupported Costs	\$7.2 ^{ab}
Recommended for Recovery	\$6.7
Not Recommended for Recovery	\$0.5
Funds To Be Put to Better Use	\$12.0
<p>a These were the amounts the auditees agreed to at the time of management decision.</p> <p>b The recoveries realized could change as auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.</p>	

SUMMARY OF INVESTIGATIVE ACTIVITIES—APRIL—SEPTEMBER 2010	
Reports Issued	116
Cases Opened	328
Cases Referred for Prosecution	87
Impact of Investigations	
Indictments ^a	192
Convictions	272
Searches	103
Arrests	844
Total Dollar Impact (Millions)	\$53.5
Recoveries/Collections ^b	\$11.0
Restitutions ^c	\$37.8
Fines ^d	\$1.1
Asset Forfeitures ^e	\$2.1
Claims Established ^f	\$1.1
Cost Avoidance ^g	\$0.4
Administrative Penalties ^h	\$0.0
Administrative Sanctions	170
Employees	28
Businesses/Persons	142
<p>^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 272 convictions do not necessarily relate to the 192 indictments.</p> <p>^b Includes money received by USDA or other Government agencies as a result of OIG investigations.</p> <p>^c Restitutions are court-ordered repayments of money lost through a crime or program abuse.</p> <p>^d Fines are court-ordered penalties.</p> <p>^e Asset forfeitures are judicial or administrative results.</p> <p>^f Claims established are agency demands for repayment of USDA benefits.</p> <p>^g Consists of loans or benefits not granted as the result of an OIG investigation.</p> <p>^h Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.</p>	

Full FY 2010 Results in Key Categories—OCTOBER 2009—SEPTEMBER 2010

Summary of Audit Activities	
Reports Issued	
Number of Reports	65
Number of Recommendations	336
Management Decisions Made	
Number of Reports	39
Number of Recommendations	287
Total Dollar Impact (Millions) of Management-Decided Reports	\$35.2
Questioned/Unsupported Costs	\$7.3
Funds To Be Put To Better Use	\$27.9
Summary of Investigative Activities	
Reports Issued	
	247
Impact of Investigations	
Indictments	356
Convictions	459
Arrests	992
Total Dollar Impact (Millions)	\$148.6
Administrative Sanctions	289

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS FROM APRIL 1 THROUGH SEPTEMBER 30, 2010

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2010	7	\$238,793,432	\$2,101,093
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	7	\$21,841,329	\$0
	TOTALS	14	\$260,634,761	\$2,101,093
C.	FOR WHICH MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	2		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$6,667,707	\$0
	NOT RECOMMENDED FOR RECOVERY		\$544,000	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0	\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	12	\$259,675,051	\$2,101,093
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	6	\$238,377,722	\$2,101,093

^a Unsupported values are included in questioned values.

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2010**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2010	2	\$30,870,602
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	4	\$6,763,240
	TOTALS	6	\$37,633,842
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	2	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$11,977,980
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$15,700,000
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	4	\$9,955,862
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	\$3,370,602

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 154 program improvement recommendations, and management agreed to implement a total of 168 that were issued this period or earlier. Examples of those issued this period (see the main text of this report for a summary of the audits that prompted these recommendations) include the following:

- APHIS agreed to strengthen its AWA inspection, training, enforcement, and penalty procedures, and to seek legislative change to regulate dog breeders that sell on the Internet.
- APHIS also agreed to issue guidance for safe, public viewing of exhibited animals, and to collect, analyze, and disseminate information about animal escapes and attacks so others can take appropriate preventive measures.

- RMA agreed to coordinate better with other agencies in order to minimize risks (such as duplicate payments) that can result from overlapping programs.
- FS agreed to publicly report Recovery Act funds approved for projects in areas that were not the most economically distressed, and to explain its decision to approve these projects.

INVESTIGATION AND AUDIT PEER REVIEWS

- During the current semiannual reporting period, there were no audit peer reviews of USDA OIG. The USDA OIG received a grade of pass on the peer review report issued by HUD OIG on September 30, 2009. The report contained no findings or recommendations. However, HUD OIG did issue a separate Letter of Comment that communicated issues that were not significant enough to affect their overall conclusions. The Letter of Comment contained 8 suggestions that recommend enhancements to the system of quality control. To date, USDA OIG has addressed 7 of those suggestions by reevaluating and reiterating policy and practice. In FY 2011, USDA OIG is taking steps to address the remaining suggestion.

SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2010
 FROM APRIL 1 THROUGH SEPTEMBER 30, 2010, OIG ISSUED 34 AUDIT REPORTS, INCLUDING 4
 PERFORMED BY OTHERS. THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY.

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL MARKETING SERVICE	1			
AGRICULTURAL RESEARCH SERVICE	3			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	4			\$177,980
FARM SERVICE AGENCY	2	\$22,578		\$264,524
FOOD AND NUTRITION SERVICE	2			
FOREST SERVICE	2			
MULTIAGENCY	5	\$1,169,645		
NATURAL RESOURCES CONSERVATION SERVICE	2			
OFFICE OF THE CHIEF FINANCIAL OFFICER	3			
OFFICE OF THE CHIEF INFORMATION OFFICER	1			
OFFICE OF HOMELAND SECURITY AND EMERGENCY COORDINATION	1			
RISK MANAGEMENT AGENCY	1			
RURAL BUSINESS-COOPERATIVE SERVICE	3	\$12,473,195		
RURAL HOUSING SERVICE	2			
RURAL UTILITIES SERVICE	2	\$8,175,911		\$6,320,736
TOTALS	34	\$21,841,329		\$6,763,240
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	29			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	34			
TOTAL COMPLETED UNDER CONTRACT ^b	4			
TOTAL SINGLE AUDIT ISSUED ^c	0			
^a Unsupported values are included in questioned values. ^b Indicates audits performed by others. ^c Indicates audits completed under the Single Audit Act.				

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2010**

AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Marketing Service					
01601-2-Hy	04/12/2010	Followup on Purchases of Frozen Ground Beef			
Total: Agricultural Marketing Service			1		
Agricultural Research Service					
02017-14-HQ	04/16/10	DCAA Contract Audit of International Science and Technology Centers (ISTC) Internal Controls for FY 2009, Funded by ARS – Project T-1420			
02703-1-HQ	09/15/10	Recovery Act General Procurement Oversight Audit of ARS Steam Study Task Order Awarded to Perkins + Will, Inc.			
02703-2-HQ	09/15/10	Recovery Act General Procurement Oversight Audit of ARS Architectural-Engineering Services Contract Awarded to RMF Engineering, Inc.			
Total: Agricultural Research Service			3		
Animal and Plant Health Inspection Service					
33002-4-SF	05/14/10	Animal Care Program – Inspections of Problematic Dealers			\$177,980
33601-2-KC	09/30/10	Administration of the Horse Protection Program and Slaughter Horse Transportation Program			
33601-10-Ch	06/29/10	Controls Over Licensing of Animal Exhibitors			
33601-11-Ch	08/13/10	Controls Over Animal Import Centers			
Total: Animal and Plant Health Inspection Service			4		\$177,980
Farm Service Agency					
03601-18-Ch	08/10/10	FSA Farm Loan Security			
03702-1-Te	09/30/10	Emergency Disaster Assistance for the 2008 Natural Disasters: Emergency Conservation Program	\$22,578		\$264,524
Total: Farm Service Agency			2	\$22,578	\$264,524
Food and Nutrition Service					
27703-1-Ch	04/22/10	Oversight of Recovery Act Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Contingency Funds			
27703-2-HQ	09/30/10	Recovery Act Equipment Upgrades and Facility Improvement Assistance Provided to the Food Distribution Program on Indian Reservations			
Total: Food and Nutrition Service			2		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2010**

AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Forest Service					
08601-7-At	09/30/10	Forest Service Invasive Species			
08601-58-SF	09/30/10	Forest Service Firefighting Safety - Followup			
Total: Forest Service			2		
Multi-Agency					
50601-14-At	08/16/10	Effectiveness and Enforcement of Debarment and Suspension Regulations in USDA			
50601-18-Te	08/27/10	Pasture, Rangeland, and Forage Loss Pilot Program	\$1,169,645		
50703-1-DA	06/23/10	Recovery Act Review of the Effectiveness of Departmental/ Agency Data Quality Review Processes			
50703-1-HQ	06/30/10	Procurement Oversight Recovery Act Audit of South Building Modernization (Phase 4A, Wing 5) Project			
50703-2-DA	06/25/10	Governmentwide Recovery Act Review: Effectiveness of Department/ Agency Data Quality			
Total: Multi-Agency			5	\$1,169,645	
Natural Resources Conservation Service					
10703-1-KC	09/08/10	Recovery Act – Emergency Watershed Protection Program Floodplain Easements, Phase I			
10703-2-KC	09/30/10	Recovery Act – Watershed Protection and Flood Prevention Operations Program, Phase I			
Total: Natural Resources Conservation Service			2		
Office of the Chief Financial Officer					
11401-32-FM	09/16/10	Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/ Contribution and Supplemental Headcount Report Submitted to the Office of Personnel Management, FY 2010			
11401-33-FM	09/24/10	Statement on Auditing Standards No. 70 Report on National Finance Center General Controls			
11601-1-HQ	06/29/10	Implementation and Operation of GovTrip at USDA			
Total: Office of the Chief Financial Officer			3		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2010**

AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Office of the Chief Information Officer					
88501-14-FM	09/02/10	Statement on Auditing Standards No. 70 Report on National Information Technology Center General Controls			
Total: Office of the Chief Information Officer			1		
Office of Homeland Security and Emergency Coordination					
42099-4-HQ	08/30/10	Assessment of USDA's Disaster Response Capabilities			
Total: Office of Homeland Security and Emergency Coordination			1		
Risk Management Agency					
05601-5-KC	08/27/10	RMA's Activities to Renegotiate the Standard Reinsurance Agreement			
Total: Risk Management Agency			1		
Rural Business-Cooperative Service					
34099-9-Te	06/24/10	Review of Lender with Business and Industry (B&I) Guaranteed Loan in Maryland	\$544,000		
34099-11-Te	09/29/10	Review of Lender with B&I Guaranteed Loan in Louisiana	\$4,019,657		
34601-6-At	06/25/10	RBS' Intermediary Re-lending Program	\$7,909,538		
Total: Rural Business-Cooperative Service			3	\$12,473,195	
Rural Housing Service					
04703-1-Hy	06/29/10	Controls Over Eligibility Determinations for Rural Community Facilities Program Direct Loan and Grant Recovery Act Funds, Phase I			
04703-2-KC	09/24/10	Single-Family Housing Direct Loans Recovery Act Controls, Phase II			
Total: Rural Housing Service			2		
Rural Utilities Service					
09099-2-SF	09/09/10	Water and Waste Disposal Grants in Alaska	\$939,300		\$5,520,736
09601-1-At	09/30/10	Controls Over Water and Waste Disposal Loan and Grant Program	\$7,236,611		\$800,000
Total: Rural Utilities Service			2	\$8,175,911	\$6,320,736
Grand Total			34	\$21,841,329	\$6,763,240

AUDITS WITHOUT MANAGEMENT DECISION

The IG Act has a number of reporting requirements, including tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit set by Congress. Narratives for new entries follow this table. An asterisk indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt Decision (in dollars)
CCC	11/12/09	1. Fiscal Year 2009 CCC Financial Statements (06401-24-FM)	\$0	\$0
FS	11/13/09	2. Fiscal Year 2009 Forest Service Financial Statements (08401-10-FM)	0	0
Multi-agency	11/18/09	3. Fiscal Year 2009 Federal Information Security Management Act (FISMA) Report (50501-15-FM)	0	0
Multi-agency	03/31/10	4. Hurricane Indemnity Program – Integrity of Data Provided by the Risk Management Agency (50601-15-At)	1,061,958	1,061,958

AUDIT REPORTS PREVIOUSLY REPORTED BUT NOT YET RESOLVED

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous SARCs. Agencies have been informed of actions that must be taken to reach management decision but, for various reasons, the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt Decision (in dollars)
FSA	02/02/09	5. Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-23-KC)	\$1,866,412	\$1,288,247
Multi-agency	09/30/03	6. Implementation of the Agricultural Risk Protection Act (50099-12-KC)	0	0
NRCS	06/25/09	7. Conservation Security Program (10601-4-KC)	\$4,895,958	\$4,895,958
	07/06/09	8. Farm and Ranch Lands Protection Program – Nationwide Selected Non-Governmental Organization (10099-6-SF)	716,563	716,563
RMA	03/15/02	9. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	09/30/08	10. Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)	15,951,016	15,951,016
	03/04/09	11. RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-28-At)	217,256,417	217,256,417
	09/16/09	12. RMA Compliance Activities (05601-11-At)	0	0

AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

1. Fiscal Year 2009 Commodity Credit Corporation (CCC) Financial Statements (06401-24-FM, issued November 12, 2009)

During the review of the FY 2009 CCC Financial Statements, the independent auditors recommended that CCC reconcile and investigate the differences between the gross outlays and offsetting collections which are recorded in their books and the balances which are reported monthly in Governmentwide Accounting and Reporting Modernization. CCC does not concur with the recommendation. CCC believes the reconciliation does not need to be performed regularly in the future; however, the independent auditors believe that regular performance of this reconciliation will provide value by potentially identifying erroneous accounting entries with trading partners. Further meetings are anticipated to discuss a course of action.

2. Fiscal Year 2009 Forest Service (FS) Financial Statements (08401-10-FM, issued November 13, 2009)

During the review of FY 2009 FS Financial Statements, the independent auditors recommended that FS' management work with USDA to develop system configurations/account mappings in the new general ledger system and work with Strategic Planning Budget and Accountability to align FS' FY 2010 – 2015 strategic goals to FS' presentation of its major responsibility segments in the statement of net cost. FS concurs with the recommendation; however, its corrective action plans lacked sufficient specificity to allow management decision. Meetings with OCFO and FS are being scheduled.

3. Fiscal Year 2009 Federal Information Security Management Act (FISMA) Report (50501-15-FM, issued November 18, 2009)

OIG found that, although improvements have been made in the Department's IT security, many longstanding weaknesses

remain. As part of the mandatory annual FISMA review, OIG made 14 recommendations to the Department based on our findings. We recommended that in order to mitigate the continuing material weaknesses, the Department should rethink its policy of attempting to simultaneously achieve numerous goals in short timeframes. Instead, the Department and its agencies, working together, should define and accomplish one or two critical objectives prior to proceeding on to the next set of priorities. We have met with OCIO officials to discuss these recommendations. OIG is continuing to work with the Department and reviewing the documentation submitted.

4. RMA Hurricane Indemnity Program (HIP) – Integrity of Data Provided by the Risk Management Agency (50601-15-At, issued March 31, 2010)

Based on our review of HIP, we concluded that the program was adversely affected by a lack of coordination between RMA and FSA and that improper payments resulted from AIPs disregarding RMA controls intended to ensure accurate, supported changes to its data. FSA and RMA generally agreed with our recommendations, and we have reached management decision on six of the seven recommendations.

To reach management decision on the last recommendation, RMA needs to establish a policy indicating that routine monitoring controls should be implemented when other agencies (in addition to FSA) rely on its data to implement their programs. Since Information Technology Modernization—which will maintain the history of changes to policies and better mitigate future data discrepancies—is not available until the 2011 reinsurance year, RMA needs to provide details of interim monitoring controls to ensure the accuracy of transmitted data used by other agencies. These interim controls are particularly critical since FSA's Supplemental Revenue Assistance Payments Program relies on RMA data.

INDICTMENTS AND CONVICTIONS

From April 1 through September 30, 2010, OIG completed 116 investigations. We referred 87 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 192 indictments and 272 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 272 convictions do not necessarily relate to the 192 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$53.5 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions—April 1, 2010 – September 30, 2010		
Agency	Indictments	Convictions*
AMS	1	0
APHIS	28	64
ARS	1	2
FAS	6	0
FNS	113	156
FS	16	8
FSA	6	24
FSIS	2	2
GIPSA	3	1
NRCS	4	6
RHS	6	2
RMA	6	6
RUS	0	1
Totals	192	272
* This category includes pretrial diversions.		

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG hotline serves as a national intake 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 hotline received 1,711 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays their disposition.

Figure 1. Volume and Type

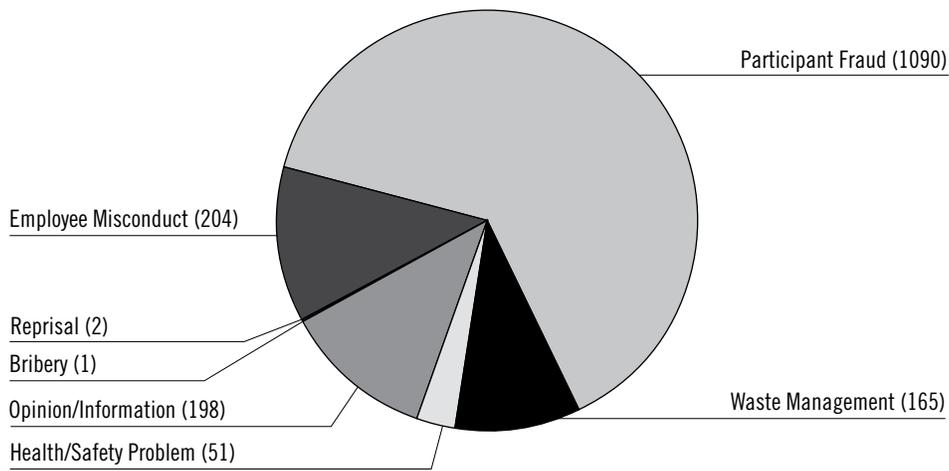
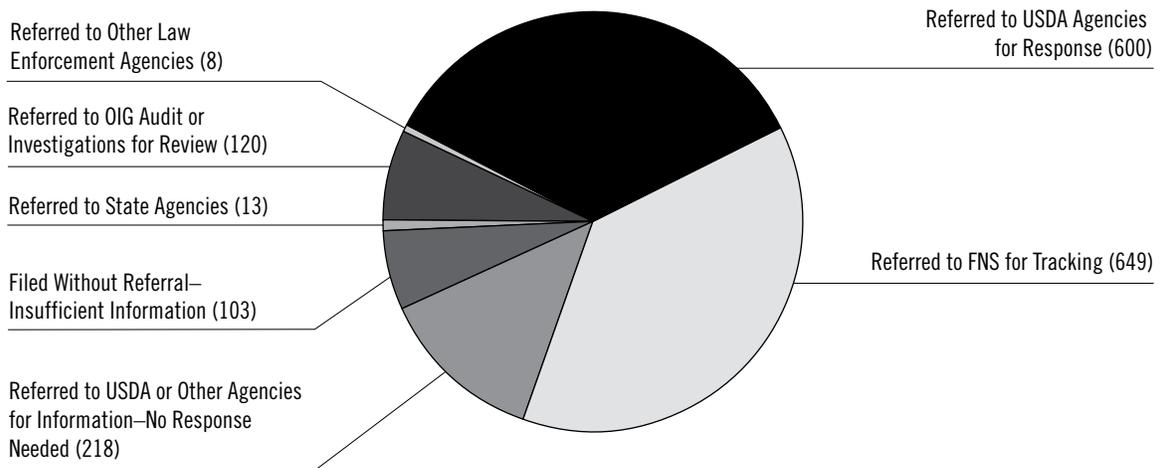


Figure 2. Disposition of Complaints Received



**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS
FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2010**

Number of FOIA/PA Requests Received	64
Number of FOIA/PA Requests Processed	71
Number Granted	7
Number Partially Granted	31
Number Not Granted	33
Reasons for Denial	
No Records Available	15
Referred to Other Agencies	2
Requests Denied in Full Exemption 3	0
Requests Denied in Full Exemption 6	2
Requests Denied in Full Exemption 7(A)	4
Requests Denied in Full Exemption 7(C)	4
Request Withdrawn	5
Fee-Related	1
Not a Proper FOIA Request	2
Not an Agency Record	0
Duplicate Request	2
Other	1
Requests for OIG Reports from Congress and Other Government Agencies	
Received	5
Processed	5
Appeals Received	8
Appeals Processed	4
Appeals Completely Upheld	4
Appeals Partially Reversed	0
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Not Proper FOIA request	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	31
NOTE 1: A request may involve more than one report.	
NOTE 2: During this 6-month period, 42 audit reports were posted online on the OIG Web site: http://www.usda.gov/oig .	

Abbreviations

Abbreviation	Full Name
AIP	Approved Insurance Provider
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
AWA	Animal Welfare Act
BCAP	Biomass Crop Assistance Program
CACFP	Child and Adult Care Food Program
CCC	Commodity Credit Corporation
CCWD	Community College Workforce Development
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DOJ	U.S. Department of Justice
DHS	U.S. Department of Homeland Security
EBT	Electronic Benefits Transfer
ECP	Emergency Conservation Program
EPA	Environmental Protection Agency
ERS	Economic Research Service
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulations
FAS	Foreign Agricultural Service
FSA	Farm Service Agency
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FISMA	Federal Information Security Management Act
FNS	Food and Nutrition Service
FS	Forest Service
FAS	Foreign Agricultural Service
FDA	Food and Drug Administration
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyard Administration
GSA	General Services Administration
HUD	Housing and Urban Development
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology

Abbreviation	Full Name
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NIFA	National Institute of Food and Agriculture
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
NSLP	National School Lunch Program
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OGE	Office of Government Ethics
OIG	Office of Inspector General
OMB	Office of Management and Budget
OWCP	Office of Workers Compensation Programs
PCIE	President's Council on Integrity and Efficiency
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RBS	Rural Business-Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SARC	Semiannual Report to Congress
SAS	Statement Auditing Standards
SNAP	Supplemental Nutrition Assistance Program
SFH	Single-Family Housing Direct Loan Program
SRA	Standard Reinsurance Agreement
SSA	Social Security Administration
TEFAP	The Emergency Food Assistance Program
USAID	U.S. Agency for International Development
USB	United Soybean Board
USDA	U.S. Department of Agriculture
USDOL	U.S. Department of Labor
USSEC	U.S. Soybean Export Council
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (168 TOTAL)

- APHIS agreed to strengthen its AWA inspection, training, enforcement, and penalty procedures, and to seek legislative change to regulate breeders that sell on the Internet.
- APHIS also agreed to issue guidance for safe, public viewing of exhibited animals, and to collect, analyze, and disseminate information about animal escapes and attacks so others can take appropriate preventive measures.
- RMA agreed to coordinate better with other agencies in order to minimize risks (such as duplicate payments) that can result from overlapping programs.
- FS agreed to publicly report Recovery Act funds approved for projects in areas that were not the most economically distressed, and to explain its decision to approve these projects.

OIG MISSION

- OIG assists USDA by promoting effectiveness and integrity in hundreds of Department programs. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

OIG STRATEGIC GOALS

We have focused nearly all of our audit and investigative direct resources on our four goals:

- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
- Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Support USDA in implementing its management improvement initiatives.
- Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

To learn more about OIG, visit our website at
<http://www.usda.gov/oig/index.htm>

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Semiannual Report to Congress

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