



United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

First Half
October 1, 2012-March 31, 2013

Office of Inspector General
No.69
May 2013



FISCAL YEAR 2013

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD—October 2012-March 2013

SUMMARY OF AUDIT ACTIVITIES

Reports Issued	
Number of Final Reports	38
Number of Interim Reports	0
Number of Final Report Recommendations (230 program improvement / 47 monetary)	277
Number of Interim Report Recommendations	0
Management Decisions Reached	
Number of Reports	32
Number of Recommendations* (180 program improvements / 21 monetary)	201
Total Dollar Impact of Reports with Management Decisions (Millions)	\$138.9
Questioned/Unsupported Costs	\$15.4
Funds To Be Put To Better Use	\$123.5

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	180
Impact of Investigations	
Indictments	378
Convictions	298
Arrests	257
Total Dollar Impact (Millions)	\$83.8
Administrative Sanctions	192

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2012)

- 1) Interagency Communications, Coordination, and Program Integration Need Improvement
Related material can be found on pages 1-3 and 29.
- 2) Strong, Integrated Internal Control Systems Still Needed
Related material can be found on pages 1-3, 7-8, 13-15, 19-20, and 29-30.
- 3) Information Technology Security Needs Continuing Improvements
Related material can be found on pages 18-21.
- 4) Material Control Weaknesses in Civil Rights Should Be Mitigated
Related material can be found on pages 7-8.
- 5) Proactive, Integrated Strategy Is Necessary To Increase Agricultural Commerce and Trade
Related material can be found on page 19.
- 6) Forest Service Management and Community Action Needed to Improve Forest Health and Reduce Firefighting Costs
Related material can be found on pages 29-30.
- 7) Food Safety Inspection Systems Need Improved Controls
Related material can be found on pages 1-2.
- 8) Efforts to Identify, Report, and Reduce Improper Payments Need To Be Strengthened
Related material can be found on pages 14-15 and 20.
- 9) Planning Needed for Succession Planning and Reduced Staffing
Related material can be found on page 30.

*Please refer to examples of program improvement recommendations cited on the inside back cover.

Message from the Inspector General

This Semiannual Report to Congress (SARC) covers the 6-month period ending March 31, 2013, and summarizes the most significant accomplishments of the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG). During the first half of the year, our office has worked extensively with the Department, Congress, and other Federal agencies to ensure the integrity and efficiency of USDA programs, safeguard the taxpayers' investment in these programs, and investigate those who abuse USDA programs.

During this period, OIG has been concluding its oversight of the \$28 billion in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds provided for USDA programs. Since 2009, we have completed a total of 75 Recovery Act audit projects—we have 5 projects in their final phases, which focus on whether USDA has fulfilled the transparency and reporting requirements of the Recovery Act.

Our accomplishments during this period have been significant. We conducted successful investigations and audits that led to 257 arrests, 298 convictions, \$83.8 million in investigative recoveries and restitutions, 180 program improvement recommendations, and \$138.9 million in audit financial recommendations. Our activities, including our Recovery Act work, are described according to our strategic goals, as outlined in the OIG Strategic Plan for fiscal years (FY) 2010-2015:

- **Safety, Security, and Public Health**—To help ensure the safety of U.S. beef, we reviewed how the Food Safety and Inspection Service (FSIS) tests beef components that are often made into ground beef at downstream processors, as well as grocery stores, butcher shops, and restaurants, and found that the agency could improve how it tests these components at slaughter plants. Two recent OIG investigations have led to prison sentences for owners of fertilizer companies who fraudulently marketed and sold fertilizer as organic when it contained non-organic components.
- **Integrity of Benefits**—OIG investigations continue to ensure the integrity of USDA's food assistance programs. In a particularly noteworthy case, prison sentences have now been handed down for 13 of 16 individuals charged with opening 13 storefront operations in Georgia to defraud the Supplemental Nutrition Assistance Program (SNAP) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). These individuals have been sentenced to a combined 43 years of prison time and ordered to pay restitution totaling more than \$6 million. We also found that Rural Development (RD) needs to strengthen its controls for reimbursing lenders when borrowers default on home loans. We estimate that the agency paid about \$87 million in loss claims that were at risk of improper payments due to questionable loan eligibility and paid about \$254 million in loss claims for loans that were at risk of improper payments due to questionable lender servicing.

- **Management Improvement Initiatives**—OIG found that, although the Rural Utilities Service (RUS) complied with the provisions of the Recovery Act in how it implemented the Broadband Incentives Program, RUS could have implemented the program so that it would have focused more exclusively on rural residents who did not already have access to broadband. An OIG investigation led to an area director with RD in Alabama pleading guilty to wire fraud for depositing \$6.2 million in checks into his personal accounts.
- **Stewardship Over Natural Resources**—Because USDA is entrusted with 193 million acres of national forests and grasslands, OIG focuses on the Department’s stewardship of these natural resources. Rising energy prices have led to increased interest in the exploration and development of domestic oil and gas resources on these lands. Our review of how the USDA Forest Service (FS) is working with the Department of the Interior’s Bureau of Land Management (BLM) to approve applications to drill for oil and gas beneath national forests found that the two agencies need to improve how they work together so that oil and gas lease nominations and operations are approved expeditiously. FS also needs to ensure that it acts to mitigate the environmental damage of such drilling by requiring operators to prepare to respond to any spills.

Finally, in response to recent congressional mandates, OIG has embarked on initiatives to provide oversight of USDA’s disaster assistance and Hurricane Sandy relief programs and to establish a whistleblower ombudsman function within OIG.

As always, OIG’s team of dedicated and professional staff is committed to helping USDA improve the services it provides American taxpayers—the accomplishments reported here are the direct results of their efforts. We appreciate the interest and support shown by Secretary Tom Vilsack and his management team and look forward to working together to reduce fraud, waste, and abuse; ensure that USDA programs are efficient and cost-effective; and help USDA respond to the demands of a challenging budget environment.

Phyllis K. Fong
Inspector General

Contents

Safety, Security, and Public Health1

Integrity of Benefits6

Management Improvement Initiatives19

Stewardship Over Natural Resources30

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 audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, the safety of the food supply, and homeland security.

Management Challenges Addressed Under Goal 1

- Interagency Communication, Coordination, and Program Integration Need Improvement (also under Goals 3 and 4)
- Strong, Integrated, Internal Control Systems Still Needed (also under Goals 2, 3, and 4)
- Food Safety Inspection Systems Need Improved Controls

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

FSIS Should Improve How It Tests Boxed Beef Products for *Escherichia coli* O157:H7 (*E. coli*)

FSIS needs to re-evaluate its *E. coli* testing methodology as it relates to the downstream processing of boxed beef products—cuts of meat that are sometimes ground, but sometimes cooked whole. While FSIS inspectors test product designated as ground beef or likely to become ground beef, they do not sample all boxed beef products. Some downstream processors grind such boxes of unsampled cuts of beef without sampling it for *E. coli* prior to grinding. Similarly, “retail exempt establishments”—e.g., grocery stores, butcher shops—potentially grind their own ground beef; but unlike federally inspected plants, FSIS does not sample and test bench trim at these establishments for *E. coli*. Additionally, FSIS has recently transitioned to its new Public Health Information System (PHIS). This system relies, in part, on correct profile information to accomplish such tasks as sending inspectors *E. coli* sampling requests; however, we found some

In the first half of FY 2013, we devoted 12 percent of our total direct resources to Goal 1, with 100 percent of these resources assigned to critical-risk and high-impact work. A total of 100 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 60 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued five audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 46 indictments, 30 convictions, and approximately \$10 million in monetary results during this reporting period.

establishments had incorrect profile information, resulting in incorrect requests for sampling. Lastly, not all plants we reviewed had adequate records for tracing source material back to the originating slaughter establishment. Such information is crucial during a recall. We recommended that FSIS take steps to correct these issues. FSIS agreed with our recommendations. (Audit Report 24601-0003-31, FSIS *E. coli* Testing of Boxed Beef)

USDA Needs to Better Coordinate with Food and Drug Administration (FDA) to Ensure That Shell Eggs Are Safe

In August 2010, the Department of Health and Human Service's FDA posted a voluntary recall of over 500 million shell eggs nationwide that were potentially contaminated with *Salmonella enteritidis* and that were reportedly linked to more than 1,900 illnesses in 11 States. OIG initiated this audit to evaluate USDA's controls to detect *Salmonella enteritidis* and other contaminants in shell eggs and to determine how well these agencies are coordinating with FDA to ensure that shell eggs are fit for human consumption. We were unable to determine the specific cause that led to the August 2010 recall, but we concluded

that the USDA agencies and FDA could better coordinate to disseminate crucial information that could have potentially limited the scope of recall and related illnesses. Additionally, we found that FSIS' refrigeration policies and enforcement efforts and the Agricultural Marketing Service's (AMS) protection of USDA's grademark policies and enforcement efforts would not prevent eggs potentially contaminated with *Salmonella enteritidis* from reaching consumers.

We recommended that FSIS coordinate with FDA to implement a seamless farm-to-table approach to shell egg safety and ensure that crucial information related to shell egg safety is collected and shared between USDA agencies and with FDA. We also recommended that FSIS implement a scientifically based policy on shell egg refrigeration and that AMS take the necessary steps to prevent the USDA grademark from being placed on shell eggs potentially contaminated with *Salmonella enteritidis*. AMS agreed with our recommendations. Subsequent to report issuance, we worked with FSIS to reach management decision for our recommendations. (Audit Report 50601-0001-23, USDA Controls Over Shell Egg Inspections)

The Animal and Plant Health Inspection Service (APHIS) Should Improve its Controls for Regulating Dangerous Biological Agents and Toxins

To determine if APHIS improved its controls for regulating the movement of dangerous biological agents and toxins (referred to as "select agents"), OIG assessed whether entities licensed by APHIS complied with regulations governing the possession, use and transfer of these agents. Based on our review of 7 of 59 registered entities, we concluded that APHIS has made progress since our last audit, but that the agency needs to strengthen internal controls related to monitoring the movement of select agents to alternate facilities, controlling access to select agents, ensuring that individuals handling select agents have up-to-date security clearances, and ensuring that responsible officials are adequately trained. These control

deficiencies occurred because APHIS did not always ensure effective monitoring of ongoing activities, fully address identified risks, or ensure effective communication within the select agent program. As a result, there is an increased risk of the misuse of select agents and a potential for serious security violations going undetected.

We recommended that APHIS revise its inspection procedures, establish policies and procedures for handling select agent transfers in special circumstances, provide guidance to clarify the restricted access requirements, communicate more effectively on expirations of employee security assessments, and develop and conduct training for entity supervisors. APHIS agreed with 3 of the report's 12 recommendations. We will continue to work with APHIS to reach management decision on the remaining recommendations. (Audit Report 33701-0001-1-At, Follow Up on Animal and Plant Health Inspection Service's Implementation of the Select Agent or Toxin Regulations)

FSIS and APHIS Need to Improve Their Process for Hiring Qualified Veterinarians

Since several USDA agencies, most notably FSIS and APHIS, rely on qualified veterinarians to safeguard public and animal health, it is vital that these veterinarians have the appropriate level of education and experience needed to perform their jobs. Based on a review of how these agencies' human resources departments review applicants' credentials, OIG concluded that USDA needs to strengthen its hiring processes to ensure that candidates are qualified for Federal veterinarian positions. We found that APHIS and FSIS did not adequately verify prospective veterinarians' educational requirements, equivalent degrees, and specialized experience when they qualify the applicants for higher pay. For example, agencies often accepted photocopies of transcripts submitted by the applicant in lieu of official transcripts as proof of education. This occurred because the agencies relied primarily on the Office of Personnel Management's (OPM) generalized guidelines and did not establish agency-

specific guidance or procedures to verify and validate veterinarians' credentials. As a result, the Department may unknowingly hire unqualified employees to perform critical food safety duties. APHIS and FSIS generally agreed with our recommendations. (Audit Report 50601-0001-31, Verifying Credentials of Veterinarians Employed or Accredited by USDA)

Owner of Organic Fertilizer Company Sentenced to 78 Months in Federal Prison and Ordered to Pay \$9 Million Judgment

In November 2012, the owner of one of the largest organic fertilizer manufacturing companies in the country was sentenced in U.S. District Court, Eastern District of California, to 78 months in Federal prison, followed by 36 months' supervised release. In addition, the owner was ordered to forfeit several cars and pay a personal money judgment of \$9 million. In August 2012, the owner pled guilty to mail fraud and admitted that from 2003 to January 2009, he defrauded farmers and distributors by fraudulently labeling fertilizers as organic. He also admitted that he submitted false applications and documentation to have his fertilizers listed as organic by the Washington State Department of Agriculture (WSDA) and the Organic Materials Review Institute (OMRI). OMRI is a non-profit organization that provides independent review of materials to determine their suitability for use in the production, processing, and handling of products marketed for organic use. Once approved, the manufacturer is permitted to market its product as "OMRI Listed." Organic farmers rely on WSDA and OMRI listings

to ensure that products they use are permitted under the National Organic Program (NOP) requirements for organic agriculture. The owner failed to disclose that he used aqueous ammonia, ammonia sulfate, and urea—synthetic chemicals prohibited under NOP—to produce his organic-labeled fertilizer products. Gross sales of the fertilizers between 2003 and 2008 exceeded \$40 million.

Former President of Organic Fertilizer Company Sentenced to Prison for Selling Synthetic Fertilizer to Organic Farms

In November 2012, the former president of an organic fertilizer company was sentenced in U.S. District Court, Northern District of California, to serve 364 days in Federal prison and ordered to pay a fine of \$125,000 for defrauding organic farm customers. The former president pled guilty in February 2012 to selling a fertilizer product, produced in Salinas, California, that claimed to be approved for organic farming use when it actually contained chemical ingredients that were prohibited under NOP regulations. The president applied for organic certification from OMRI, submitting a fertilizer formula consisting of authorized ingredients to qualify as organic on his application; however, while producing the fertilizer, he included ammonium chloride, a material prohibited in organic agriculture. He failed to inform OMRI of the change in component and falsely told OMRI that nothing had changed in the product formulation. This product was sold as organic, and more than \$6.5 million in gross sales were realized.

RECOVERY ACT

The Natural Resources Conservation Service (NRCS) Should Have Better Implemented Recovery Act Funding for Dam Rehabilitation Projects

As part of the Recovery Act, NRCS selected 27 dam rehabilitation projects to receive \$44.8 million in funding through the Watershed Rehabilitation Program, which

assists sponsoring local organizations in rehabilitating high-hazard, aging flood control dams. OIG determined that, while NRCS was generally effective in implementing controls to monitor Recovery Act funds, it did not take necessary steps to inform the Office of Management and Budget (OMB), USDA, or the public of key information regarding the projects or to implement OIG's

recommendations from a prior audit. Specifically, NRCS did not accurately communicate to USDA and OMB the readiness of the selected projects and the impact of Recovery Act requirements on the program, which, by design, is not well suited to meet the accelerated timeframes and unique challenges posed by the Recovery Act. As a result, NRCS spent almost \$943,000 on eight projects that did not meet Recovery Act goals and, therefore, could not be completed. Funds allocated to these projects had to be deobligated or allocated to other

projects. Additionally, NRCS did not ensure that websites had complete or accurate information on watershed rehabilitation projects—such as project certifications and updated information about the 27 projects and their funding. Finally, NRCS has not fully corrected deficiencies with its dam inventory and cost monitoring tools that OIG identified in a prior audit. NRCS agreed with our recommendations. (Audit Report 10703-0001-At, Recovery Act—Rehabilitation of Flood Control Dams)

GOVERNMENTWIDE ACTIVITIES—GOAL 1***Review of Legislation, Regulations, Directives, and Memoranda****Firearms Trafficking Act of 2012.*

OIG provided comments on a draft U.S. Department of Justice bill entitled the “Firearms Trafficking Act of 2012.” The draft bill added a new provision to the Gun Control Act that would penalize “[a]ny person . . . who knowingly purchases any firearm . . . with intent to transfer it to any other person.” We noted that the United States, States, and their subdivisions routinely purchase firearms for the official use of their law enforcement personnel. Recognizing that the United States, States, and their subdivisions are generally exempted from provisions in the Gun Control Act, OIG recommended that the exemption’s language could be revised slightly to make it very clear that the United States, States, and their subdivisions are exempted from the new proposed section as well.

Participation on Committees, Working Groups, and Task Forces*The Federal Bureau of Investigation’s (FBI) National and Local Joint Terrorism Task Forces.*

One OIG special agent is assigned full time to the national task force, and other special agents work with local task forces. While the national task force special agent attends threat briefings and provides terrorist intelligence products to OIG and other USDA agencies and offices, local task forces work on matters that involve both the investigation of criminal activity and intelligence-gathering concerning individuals or entities that may have connections to terrorist activity or may provide support for terrorist activity. 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.

The 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.

U.S. Marshals Service Fugitive Task Forces.

OIG agents in Minnesota, Mississippi, and Ohio participate on these task forces, which were established under the Presidential Threat Protection Act of 2000. The purpose of these task forces is to locate and apprehend the most dangerous fugitives and assist in high-profile investigations. In addition to providing assistance in locating fugitives, task forces can provide help in serving warrants.

Arrowhead Counter-Terrorism Task Force.

OIG participates in 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 to share information on various terrorist organizations, as well as related topics such as crisis response scenarios.

Anti-Terrorism Advisory Councils.

OIG participates on Anti-Terrorism Advisory Councils in many judicial districts throughout the country. These councils are umbrella organizations including local, State, and Federal agencies and private-sector security representatives that 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.

San Bernardino Rural Crimes Task Force and San Bernardino Animal Cruelty Task Force.

OIG is one of several law enforcement agencies participating on task forces to combat crimes in rural areas in southeastern California, with a special focus on animal-fighting investigations.

ONGOING REVIEWS FOR GOAL 1

- inspection and enforcement activities at swine slaughterhouses (FSIS),
- FSIS’ and AMS’ field-level workforce challenges (FSIS, AMS),
- oversight of research facilities (APHIS),
- implementation of PHIS for domestic inspection (FSIS),
- Plant Protection and Quarantine Preclearance Program (APHIS),
- NOP organic milk operations (AMS).

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 or restore integrity in various USDA benefit and entitlement programs, including a variety of programs that provide payments directly and indirectly to individuals or entities. Some of the programs are among the largest in Government: SNAP alone accounted for approximately \$80 billion in FY 2012 benefits, while over \$19 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and other rural residents. These programs support nutrition, farm production, and rural development.

OIG is also working to conclude its oversight work of the \$28 billion in funding USDA received under the Recovery Act. The Recovery Act provided OIG with \$22.5 million for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture.” As of March 31, 2013, OIG has completed 75 Recovery Act projects. Five projects are in process, focused on how well USDA is fulfilling the law’s transparency and reporting requirements.

In the first half of FY 2013, we devoted 25 percent of our total direct resources to Goal 2, with 94 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 82 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued nine audit reports under Goal 2 during this reporting period. OIG’s investigations under Goal 2 yielded 325 indictments, 259 convictions, and about \$72 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 2

- Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 3, and 4)
- Material Control Weaknesses in Civil Rights Should Be Mitigated
- Efforts to Identify, Report, and Reduce Improper Payments Need to Be Strengthened (also under Goal 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

The Food and Nutrition Service (FNS) Should Improve Its Oversight of WIC State Agencies

FNS management evaluations did not identify and correct significant issues in the vendor management processes at two State agencies operating WIC. These State agencies lacked sufficient controls to track vendor violations for 42 vendors (2 in Illinois and 40 in Florida) and ensure timely and appropriate sanctions. As a result, these

vendors were not disqualified as required and could redeem an estimated \$6.6 million in WIC benefits during their required periods of disqualification. Also, the Florida State agency did not conduct compliance investigations on 24 of its 35 high-risk vendors and did not treat smaller vendors in an equitable manner compared to large chain stores. These deficiencies could allow vendor violations, including excessive charges and the sale of unauthorized food items, to go undetected. We also found that, contrary to program regulations, the Illinois State agency

did not disqualify 3 of the 11 WIC vendors that were also disqualified from SNAP during a 3-year period. FNS generally agreed with our recommendations. (Audit Report 27601-0038-Ch, Vendor Management in the Food and Nutrition Service’s Special Supplemental Nutrition Program for Women, Infants, and Children)

FNS Should Improve Controls Over the National School Lunch Program (NSLP) and Food Service Management Company Contract Services

In response to a congressional request, OIG evaluated FNS’ oversight of NSLP and food service management companies’ contracts. While FNS has implemented several controls to ensure that NSLP funds and USDA-donated foods are used solely to benefit the program, it has not taken sufficient steps to ensure that those controls are followed. Our review of 18 school food authorities (SFAs) showed that 11 did not exercise sufficient management oversight to ensure they received the full benefit of purchase discounts and rebates and the value of USDA-donated foods. Although FNS regulations list the SFA as the responsible entity for ensuring compliance with NSLP requirements, the majority of SFAs reviewed did little or no monitoring of food service management companies’ operations or their compliance with contract terms. FNS was not aware of the SFAs’ inadequate monitoring because it did not require its regional officials to assess the State agencies’ oversight of, or the SFAs’ compliance with, NSLP requirements or contract terms. As a result, we questioned almost \$1.7 million in unallowable costs and USDA-donated foods that could not be accounted for.

We recommended that FNS work with the State agencies to determine if the \$1.2 million in questioned program costs should be collected from food service management companies and determine whether the approximately \$0.5 million in USDA-donated foods were properly credited or used in the SFAs’ school food service. FNS should also evaluate its overall management evaluation process and oversight system and take steps to

improve the implementation and monitoring of food service management company contracts. FNS agreed with our recommendations. (Audit Report 27601-0001-23, NSLP Food Service Management Company Contracts)

The Risk Management Agency (RMA) Needs to Improve How It Administers Crop Insurance for Organic Crops

Our review of how RMA designed Federal crop insurance coverage for crops produced through organic farming practices found that transitional yields offered to organic producers overstated the actual production capabilities of farmers producing crops using organic farming practices. Due to excessive insurance coverage and higher indemnity payments for 35 of 48 crop policies with losses, RMA paid at least \$952,000 of \$2.56 million in additional indemnities to insured producers for these policies. We also found that approved insurance providers (AIP) violated RMA policy and did not require their adjusters to use the insured producers’ organic crop documents to assess good organic farming practices. We recommended that RMA reduce transitional yields for crops produced using organic farming practices, and also reiterate that loss adjusters should carry out additional loss adjustment procedures for crops produced using organic farming practices, such as requiring them to maintain supporting documents. RMA agreed with our recommendations. (Audit Report 05601-0006-KC, Risk Management Agency, RMA: Federal Crop Insurance—Organic Crops)

The Office of Advocacy and Outreach (OAO) Needs to Improve How it Manages its Grant Program for Socially Disadvantaged Farmers and Ranchers

OIG reviewed how well OAO was monitoring its grantees and found that OAO selected applicants to receive FY 2012 grants through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program even though these applicants may not have been the most meritorious and deserving candidates. OAO officials disregarded regulatory requirements and guidelines cited in the Funding Opportunity Announcement in making those selections. Also, OAO had no documentation to

support its decisions and could not explain why some applicants that appeared more deserving were not selected to receive grant funds. In response to our work, OAO reselected applicants for the Secretary's consideration in July 2012. We evaluated the process used to reselect applicants and concluded that it was more impartial and transparent than the process used to select the initial applicants. We also found that OAO needs to strengthen and document the policies, procedures, and internal controls related to its grant management process. OAO agreed with our recommendations. (Audit Report 91099-0001-21, Office of Advocacy and Outreach—Controls Over the Grant Management Process of the Office of Advocacy and Outreach)

Several More Sentenced to Long Prison Terms and Millions in Restitution in North Carolina Tobacco Crop Insurance Cases

As we previously reported in other *SARCs*, a large number of farmers in North Carolina sold tobacco in nominee names to hide their production and then filed false crop insurance claims. Farmers, warehouse operators, crop insurance agents, crop insurance adjusters, and check cashers assisted in the filing and concealment of the false claims and the cashing of the nominee checks.

- In January 2012, an insurance adjuster was charged in U.S. District Court, Eastern District of North Carolina, with conspiracy to make false statements, make material false statements, and commit mail and wire fraud; wire fraud; and retaliation against a witness. From 1996 to 2007, the adjuster accepted cash payments to falsify crop insurance claims regarding the scope of crop losses. During the investigation, the adjuster threatened to do bodily harm to a cooperating defendant and his wife because of information the defendant provided investigators regarding the adjuster's role in the crop insurance conspiracy. In February 2012, the adjuster pled guilty to all of the charges. In February 2013, the adjuster was sentenced to 48 months in prison, to be followed

by 36 months of probation. He was also ordered to pay \$21 million in restitution (approximately \$6.7 million of the restitution was owed jointly and severally with three co-defendants who were previously sentenced).

- The investigation also disclosed that a tobacco broker purchased tobacco with cash or sold it using nominee names through his independent receiving stations in North Carolina and Kentucky, and then resold it to a national tobacco company. The broker was charged in October 2012 with conspiracy to make materially false statements and to commit mail and wire fraud, and conspiracy to commit money laundering. He pled guilty to the charges in December 2012. In March 2013, he was sentenced to 66 months in prison and ordered to pay more than \$13 million in restitution. This investigation was worked jointly with the Internal Revenue Service-Criminal Investigation (IRS-CI) and RMA's Special Investigations Branch.
- As the result of a related case, the owner of a tobacco warehouse was sentenced in December 2012 in U.S. District Court, Eastern District of North Carolina, for conspiracy to commit mail and wire fraud. The investigation revealed that, between August and October 2007, the warehouseman conspired with unknown producers and a tobacco company employee to conceal the owners of approximately \$578,379 worth of tobacco. The warehouseman and the tobacco company employee created tobacco contracts in nominee names to sell and falsely identify more than 393,969 pounds of tobacco. The owner was sentenced to 60 months' probation with the first 18 months spent in home confinement and ordered to pay an \$80,000 fine.
- Another related investigation disclosed that, between September 2005 and September 2011, a crop insurance agent assisted his clients in hiding tobacco production and filing false crop insurance claims. His

actions caused \$7.4 million in fraudulent Federal crop insurance indemnity payments and \$1.0 million in fraudulent crop hail indemnity payments to be paid to his insured clients. In February 2013, in U.S. District Court, Eastern District of North Carolina, he was sentenced to 108 months' imprisonment, followed by 36 months' supervised release, and ordered to pay \$7.4 million in restitution to RMA and \$1 million in restitution to various private insurance companies.

Strawberry Farmer and Wife in Northern California Filed False Crop Losses to Receive Funds from the Crop Disaster Program

In February 2013, a strawberry farmer was sentenced in U.S. District Court, Northern District of California, to 12 months and 1 day in prison, followed by 36 months of supervised release and ordered to pay restitution (jointly and severally) in the amount of \$223,484. The farmer was also debarred from participating in all USDA programs, as well as prohibited from contracting specifically with the Farm Service Agency (FSA). In 2005, the farmer falsely claimed crop losses by a joint venture business to increase the payment he could receive for disaster losses. In addition, the farmer and his spouse were responsible for an additional \$63,484 loss attributable to a false claim relating to the Non-Insured Crop Disaster Assistance Program. In July 2009, the couple was charged with two counts of conspiracy to make false statements to the Commodity Credit Corporation (CCC) and one count of making a false statement to the CCC. In June 2012, the farmer's spouse was placed on pre-trial diversion and found to be jointly and severally liable for the \$223,484 in false disaster aid claims.

Georgia Businessman Sentenced for Submitting False Cost Reimbursement Claims for Overseas Promotional Activities

An investigation, conducted jointly with IRS-CI, disclosed that the owner of a food company in Georgia submitted

fraudulent invoices to the State Regulatory Trade Group responsible for administering the Foreign Agricultural Service's (FAS) Market Access Program. The goal of this program is to develop, maintain, or expand commercial export markets for U.S. agricultural products by cost sharing overseas marketing activities. From February 2007 to August 2009, this individual submitted claims to the trade group for reimbursement for overseas television advertising along with copies of checks which purportedly documented payments to two television networks. The investigation determined that one of the television networks did not air any commercials or receive any payments for advertising. In January 2012, the owner was charged in U.S. District Court, Northern District of Georgia, with wire fraud, false statements, conspiracy to launder money, and money laundering. The owner pled guilty to wire fraud charges and, in November 2012, was sentenced to 12 months and 1 day in prison and 6 months of home confinement, and was ordered to pay \$342,500 in restitution.

Maine Property Management Company Official Guilty of Equity-Skimming

A joint investigation with the U.S. Department of Housing and Urban Development (HUD) OIG and the FBI revealed that, between August 2005 and August 2007, a residential property management company that managed housing projects funded through RD's Section 515 program and HUD's Section 236 program removed at least \$987,268 in funds from project accounts and tenant security deposit accounts without authorization and in violation of program regulations. The investigation also revealed that the company charged ineligible expenses to the projects, made payments that lacked sufficient supporting documentation, did not disclose relationships with companies that shared financial or other interests, maintained financial records that were incomplete and inaccurate, and falsely reported account activity. The company's chief executive officer and part-owner pled guilty to equity-skimming. He was sentenced to 6 months'

home confinement and 36 months' probation and ordered to pay \$25,000 in restitution and a \$200 special assessment.

Businessmen Involved in a Fraudulent Scheme to Obtain an RD-Guaranteed Loan

As we previously reported in the *SARC, First Half of FY 2012*, a group of individuals committed a number of illegal acts to obtain a \$27.3 million RD-guaranteed loan to purchase a rural Mississippi hospital. Other crimes were committed while they operated the hospital. The hospital loan went into default in 2007, resulting in a multi-million-dollar loss to RD. As a result of our investigation, five individuals were charged in U.S. District Court, Northern District of Mississippi, with making false statements, mail fraud, theft, bribery, embezzlement, and health care fraud. A physician who pled guilty to mail fraud, theft, and bribery was sentenced in November 2012 to serve 24 months of home confinement and 36 months of probation, and was ordered to pay \$400,000 in restitution. A county administrator who pled guilty to the same charges was sentenced in February 2013 to 14 months'

incarceration and ordered to pay \$33,564 in restitution and a \$40,000 fine. Two businessmen were found guilty by a Federal jury in March 2012 of multiple offenses, including embezzlement, kickbacks, and lying to investigators. One of these men has been sentenced to 55 months' incarceration and 36 months of probation and was ordered to pay a fine of \$10,000. Sentencing is pending for the other businessman. The fifth individual charged died after he was indicted.

Louisiana Woman Embezzled Funds from RD-Financed Water System

Our investigation disclosed that a former employee of a local Louisiana water system committed felony theft by converting funds to her own personal use that were pledged as security to RD for a community facilities loan. The former employee fraudulently obtained the funds from the bank accounts of the water system. In January 2013, in a Louisiana State court, she was sentenced to 36 months' incarceration and 60 months of probation and was ordered to pay \$411,354 in restitution.

SNAP TRAFFICKING CASES

A significant portion of OIG's investigative resources are dedicated to ensuring the integrity of SNAP by combating the practice of exchanging benefits for cash. Working closely with FNS, OIG has concluded the following SNAP-related investigations and prosecutions in the first half of FY 2013:

- **Wife of Deported Felon Admits Role in SNAP Trafficking Scheme.** In 1996, as a result of an OIG investigation, a Connecticut store owner was convicted of SNAP trafficking and deported. He illegally re-entered the United States and, in 2009 and 2010, OIG conducted another investigation after the store owner opened several stores in Hartford, Connecticut, using other individuals' names. As

previously reported in the *SARC, Second Half of FY 2011*, the owner and his brother were charged with SNAP trafficking, pled guilty, and were sentenced to terms of imprisonment and ordered to pay restitution. In recent activity, the owner's wife pled guilty to aiding and abetting SNAP trafficking. In November 2012, she was sentenced to 36 months' probation, the first 6 months to be spent in home confinement, and ordered to pay \$1.6 million in restitution jointly and severally with her husband.

- **Four Sentenced to Prison for Crimes Committed at Dayton Market.** After a joint investigation with an Ohio Organized Crime Investigations Commission task force disclosed that a market in Dayton, Ohio, was trafficking large amounts of SNAP benefits, selling firearms and narcotics, and trafficking in counterfeit

merchandise, four individuals associated with the market were charged in U.S. District Court, Southern District of Ohio, with a variety of criminal offenses for their roles in the \$3.8 million SNAP trafficking and money laundering scheme. All four pled guilty. One of the individuals was sentenced in October 2012 to 12 months and 1 day in prison, followed by 36 months' probation, fined \$200, and ordered to pay a \$3.8 million money judgment. In December 2012 and February 2013, three individuals received sentences of 12 months and 1 day in prison, 36 months' supervised release, and 100 hours of community service; they were ordered to forfeit \$76,209 and pay a \$3.8 million money judgment, as well as \$200 in special assessments.

- **Owner of Specialty Market in Flint, Michigan, Sentenced to Prison and Restitution.** The owner of a SNAP-authorized specialty market in Flint was found guilty of conspiracy to commit food stamp fraud at trial in U.S. District Court, Eastern District of Michigan. Our investigation determined the owner of the market developed a network of individuals who obtained Michigan Bridge Cards (Michigan's SNAP electronic benefit transfer (EBT) cards) from recipients, and then made phone calls to the store where manual SNAP transactions were conducted. During January 2013, the owner of the market was sentenced to 51 months' incarceration and 36 months' supervised release and was ordered to pay \$612,981 in restitution to FNS. During December 2012, a co-conspirator was sentenced to 60 months' incarceration and 36 months' supervised release and was ordered to pay \$612,981 in restitution joint and several with the owner. This investigation was conducted jointly with the FBI.
- **Convicted Minnesota Store Owner Flees the Country and is Sentenced to More Prison Time.** After a Minnesota store owner who had been sentenced to 41 months in prison and ordered to pay \$2.4 million

in restitution failed to surrender himself to the Bureau of Prisons in June 2012, he fled the country and was apprehended in Belize. When officials in Belize learned that he was wanted in the United States, they turned him over to U.S. law enforcement. He later pled guilty to failure to appear charges and was sentenced in November 2012 to 12 months and 1 day for this new charge, to be served consecutively with his previous 41-month sentence for food stamp trafficking.

- **Chicago Couple Ordered to Repay USDA Over \$1.6 Million in Stolen SNAP Benefits.** From June 2004 through June 2008, a Chicago couple conspired to commit a variety of offenses, including SNAP fraud, wire fraud, and money laundering. In June 2010, the couple was indicted in U.S. District Court, Northern District of Illinois, on eight counts of wire fraud. The man and woman were sentenced separately in May 2011 and October 2012. They were given 60 and 30 months' imprisonment, respectively, and ordered to pay restitution to USDA for over \$1.6 million. They were also ordered to forfeit assets in the same amount.
- **Chicago Fugitive Returns to Face Consequences While Partner in Crime Remains at Large.** Two small business store owners in Chicago exchanged SNAP benefits for cash with estimated fraud amounts exceeding \$900,000. In February 2012, agents from the U.S. Secret Service and OIG executed a Federal search warrant at the business in Chicago where approximately \$131,000 was seized. Shortly thereafter, the two business owners fled the United States. In March 2012, one of the store owners returned to Chicago and was arrested while the other remained overseas. In April 2012, each was indicted in U.S. District Court, Northern District of Illinois, on seven counts of wire fraud. In October 2012, one store owner was sentenced to 36 months'

imprisonment and ordered to pay \$921,649 in restitution. On the same day, a preliminary order of forfeiture was granted for over \$140,000. The other store owner remains a fugitive.

- **Indiana Store Owner and Sons Plead Guilty to Wire Fraud and Theft.** From February 2009 through December 2010, the owners of a Gary, Indiana, convenience store conspired to commit a variety of offenses, including SNAP fraud and wire fraud. In March 2011, agents from OIG, IRS-CI, and the Indiana State Police conducted search warrants at the store and the store owner's residence where they seized over \$1 million in cash and jewelry. In April 2012, in U.S. District Court, Northern District of Indiana, the store owner pled guilty to one count of wire fraud and his two sons pled guilty to one count each of theft of SNAP benefits. In September 2012, each son was sentenced to 12 months of probation and ordered to pay \$181 in restitution and a \$50 special assessment. In December 2012, the owner was sentenced to 41 months in prison and 24 months' supervised release and ordered to pay \$1.4 million in restitution and a \$100 special assessment.
- **North Texas Store Owner Sentenced for SNAP Trafficking and Operating an Illegal Money Transmitting Business.** In January 2013, a north Texas grocery store owner was sentenced in U.S. District Court, Northern District of Texas, after he pled guilty to SNAP trafficking, wire fraud, and running an illegal money transmitting business. The store owner was sentenced to 57 months' imprisonment and 36 months' supervised release and was ordered to pay \$1.4 million in restitution. During the investigation, SNAP recipients admitted to exchanging SNAP benefits for cash and to using SNAP benefits to wire money to friends and family members in North Africa.
- **California Grocery Store Owner Sentenced to 168 Months in Prison Upon Return From Russia.** In October 2012, a store owner was sentenced in U.S. District Court, Central District of California, to serve 168 months in prison, followed by 36 months' supervised release, and was ordered to pay \$6.1 million in restitution and a \$500 assessment. The owner, one of multiple defendants in this investigation, had pled guilty in May 2007 to one count each of conspiracy, wire fraud, food stamp trafficking, money laundering, and false statements, as well as forfeiting assets, and then fled the country to Russia. The OIG case agent coordinated the owner's arrest with the U.S. Marshals after being notified by the Attaché Resident Agent in Charge of the U.S. Secret Service in Moscow that the owner was requesting re-entry into the United States. In March 2011, the U.S. Marshals arrested the owner at the Los Angeles International Airport. As previously reported in the *SARC, First Half of FY 2008* and the *SARC, First Half of 2009*, two store employees who participated in the scheme were sentenced to 57 months and 36 months in prison and ordered to pay \$2.7 million and \$238,000 in restitution, respectively. One co-conspirator remains a fugitive.
- **California Owner Sentenced to 12 Months for Role in SNAP Trafficking.** In October 2012, a store owner pled guilty in U.S. District Court, Central District of California, to SNAP trafficking and was sentenced to 12 months and 1 day in prison and 36 months of supervised release and was ordered to pay \$1.3 million in restitution. In addition to exchanging SNAP benefits for cash, the owner accepted SNAP benefits for ineligible items and allowed SNAP recipients to have credit accounts at the store that they later paid with their SNAP benefits, which violates program rules.

- Five Individuals in Georgia Sentenced to Lengthy Prison Terms in a \$5 Million Fraud Conspiracy.** As we first reported in the *SARC, Second Half of FY 2012*, our investigation determined that an organized group of individuals opened 13 storefront operations in Georgia to defraud SNAP and WIC. From February 2009 to June 2011, this group illegally purchased over \$5 million in SNAP and WIC benefits. To date, 16 individuals have been charged in U.S. District Court, Southern District of Georgia, with conspiracy or theft of Government funds. In November 2012, one store owner was sentenced to 63 months in prison and

ordered to pay \$6.3 million in restitution jointly and severally with the other codefendants; another store owner was also sentenced to 60 months in prison and ordered to forfeit three sports cars and \$113,980 in bank holdings. In February 2013, a store owner was sentenced to 51 months in prison, another owner was sentenced to 57 months in prison, and the mother of two of the store owners was sentenced to 37 months in prison. This case was worked jointly with the Savannah-Chatham Metropolitan Police Department, IRS-CI, and the U.S. Secret Service.

RECOVERY ACT REVIEWS

RD Should Ensure that Lenders Adequately Service Business and Industry (B&I) Loans

RD should strengthen its controls to ensure that lenders receiving Recovery Act-funded B&I loan guarantees complete all servicing actions and correctly report data used to determine program performance. Specifically, lenders are not properly servicing Recovery Act-funded B&I guaranteed loans, and RD State office personnel are not adequately monitoring the loan servicing. Based on issues identified with 37 of 53 loans in our statistical sample, we estimate that lenders did not correctly service 72 percent of the loans. In addition, RD did not adequately monitor the lenders of 33 of the 53 loans, or 64 percent of the loans in the audit universe. As a consequence, there is a greater risk that problem loans are going undetected. RD generally agreed with our recommendations, and we accepted management decision for most of the recommendations. (Audit Report 34703-0001-32, American Recovery and Reinvestment Act—Business and Industry Guaranteed Loans—Phase 3)

RUS Needs to Improve Controls for Deobligating Funds After Projects Are Completed

RUS designed and implemented performance measures for Water and Waste Disposal System (WWD) loans and grants that effectively measured how RUS used Recovery Act funds to achieve Recovery Act goals. We found that RUS had an effective system for gathering data specific to the reported measures and could reasonably ensure reporting was proper. We also assessed controls over project expenditures and concluded that they were reasonably effective to ensure that RUS used Recovery Act funds to complete projects as intended. However, our review disclosed that RUS needs to improve controls over grant funds remaining after projects are complete. Specifically, we identified a borrower with multiple WWD projects that improperly transferred grant funding from one completed project to another project, which is prohibited. This occurred due to weaknesses in controls for deobligating funds remaining after projects are completed, and also, in part, because RD does not currently track project expenditures at the national level. RUS generally agreed with our recommendations. (Audit Report 09703-0001-22, Rural Utilities Service Controls Over Recovery Act

Water and Waste Loans and Grants Expenditures and Performance Measures)

Idaho Construction Company Owner Sentenced in Shell Company Scheme to Receive Recovery Act Funds

In January 2013, an Idaho construction company owner was sentenced in U.S. District Court, District of Idaho, for masterminding the establishment of two shell corporations used to obtain Small Business Administration (SBA) set-aside status in order to be awarded Recovery Act and other Federal contracts that his company and the shell corporations would otherwise not have qualified for. In September 2012, the owner was charged with and pled guilty to one count of wire fraud and criminal forfeiture allegations in the amount of \$250,000; he was sentenced to 8 months of home confinement, 80 hours of community service followed by 24 months of probation; criminal forfeiture of \$150,000, and ordered to pay a \$20,000 fine. We previously reported in the *SARC, Second Half of FY 2012*, on the sentences imposed on the owners of the two other Idaho construction shell companies who submitted false statements to the Agricultural Research Service (ARS), SBA, and the Department of the Interior. These owners misrepresented themselves as Historically Underutilized Business Zone set-aside firms to obtain contracts they were not entitled to. One of the contracts fraudulently obtained was an ARS Recovery Act contract totaling \$274,383.

RD Needs to Improve its Reviews of Single Family Housing Loans Before it Reimburses Lenders for Defaults

In order to provide low- and moderate-income people who live in rural areas with an opportunity to own homes, the Federal Government reimburses up to 90 percent of the original loan amount if a borrower defaults on a loan. Given increases in such loss claims—from \$103 million in FY 2008 to \$295 million in

FY 2011—OIG reviewed the program and determined that RD needs to strengthen its internal reviews.

Specifically, we found that the agency did not identify loans with questionable eligibility prior to paying loss claims, reduce loss claims when lenders improperly serviced loans, and pay lenders for only eligible expenses. The agency also did not have sufficient controls to fully justify approvals of pre-foreclosure sales, referred to as “short sales.” Given the results of our statistical sample of 102 loss claims, we project that the agency paid about \$87 million in loss claims that were at risk of being improper payments due to questionable loan eligibility, and paid about \$254 million in loss claims that were at risk of being improper payments due to questionable lender servicing. We also project that, across the program, RD overpaid \$6.28 million related to 6,607 claims submitted by lenders for loss reimbursement.

To improve program administration and better ensure that losses to the Government are minimized, RD should conduct a review of its loss claims process to address loans with questionable eligibility, lenders who improperly service delinquent loans, and loss claims that contain unallowable costs. RD agreed with 13 of the report’s 23 recommendations. We will work with the agency to resolve the outstanding recommendations. (Audit Report 04703-0003-Hy, Loss Claims Related to Single Family Housing Guaranteed Loans)

NRCS Needs to Improve its Operation of the Emergency Watershed Protection Program (EWPP)

In EWPP, NRCS acquires easements from owners of floodplain lands to restore and enhance the floodplain’s function and values. OIG determined that NRCS needs to target funds to those easements most consistent with program goals, require that documentation supports eligibility determinations, ensure easements are maintained consistent with

program goals, and compensate landowners appropriately. Without a clear definition of “natural conditions,” however, personnel did not always develop restoration plans adequately and ensure the restoration of floodplain functions and values to the greatest extent practicable. Further, NRCS did not always develop and maintain documents to support its determinations that offered lands were eligible and its decisions to prioritize among applications.

Additionally, NRCS did not provide adequate guidance to landowners regarding program rules, such as actions prohibited on easements; as a result, land was not always maintained in a manner consistent with the program’s goal of restoring floodplains to a natural condition. Finally, NRCS compensated five landowners in our sample improperly, with errors totaling \$139,474. NRCS agreed to six of the report’s seven recommendations. (Audit Report 10703-0005-KC, Recovery Act—NRCS’ Emergency Watershed Protection Program Floodplain Easements Field Confirmations)

NRCS Should Improve How It Operates and Reports on the Accomplishments of the Watershed and Floodplain Easements Programs

OIG determined that NRCS needs to establish outcome-oriented performance measures it can use to gauge the effectiveness of its watershed operations and floodplain easements programs. While the agency established output-oriented measures to track progress, these measures did not provide adequate information on how effective the programs were at accomplishing the goals of the Recovery Act, which include creating jobs, assisting those most impacted by the recession, and investing in environmental protection. In addition, NRCS did not allow the use of appraisals to determine the value of properties with buildings it acquired through the floodplain easements program, which led to the purchase of some properties at prices in excess of the established value. In one

State we reviewed, NRCS overcompensated the landowners for seven easements with structures. NRCS agreed with all recommendations. (Audit Report 10703-0001-31, Recovery Act—NRCS’ Emergency Watershed Protection Program Floodplain Easements and Watershed Operations Effectiveness Review)

GOVERNMENTWIDE ACTIVITIES—GOAL 2***Testimonies***

The House Committee on Appropriations' Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

On March 21, 2013, Inspector General Phyllis Fong testified on OIG's recent oversight of USDA programs. OIG's FY 2012 audit and investigative work garnered potential monetary results totaling over \$1.5 billion, with 76 audit reports issued and 538 convictions obtained. She reported that OIG's Recovery Act-related work is nearing completion, and because many of our recommendations concerning Recovery Act funds also apply to regular USDA programs, OIG's work will have lasting importance long after the Recovery Act funding is expended. The Inspector General also detailed OIG's achievements in building a leaner and more effective agency, enabling OIG to continue performing its oversight role despite functioning at its lowest level of authorized staffing since 1963.

Participation on Committees, Working Groups, and Task Forces***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 the first half of FY 2013, Talon operations were conducted in 4 States, resulting in more than 50 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest fugitives for such offenses as arson, assault, blackmail, drug charges, offenses against family and children, robbery, sex offenses, and weapons violations.

Ohio Organized Crime Investigations Commission Task Force.

An OIG investigator is participating on the Ohio Organized Crime Investigations Commission Task Force in Dayton. The task force provides assistance to local law

enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated on the task force since 1996 and have conducted investigations involving welfare recipients, food stamp trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, illegal drugs, and dog fighting.

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 Internal Revenue Service (IRS) investigators. During this reporting period, we have also worked with the Lansing Police Department's Special Operations Division and the Holland Police Department in Michigan. The FBI and U.S. Immigration and Customs Enforcement personnel also helped during search warrant operations. Since 2007, our teamwork has resulted in 132 arrests and 228 search warrants served. The U.S. Attorney's Offices for the Eastern and Western Districts of Michigan and the Michigan Attorney General's Office are pursuing multiple criminal prosecutions, with cases so far resulting in 115 guilty pleas. Sentences have included lengthy incarceration periods and \$24.2 million in court-ordered fines and restitution. The U.S. Attorney's Offices have initiated forfeitures totaling over \$4.2 million. OIG investigators have participated on the task force since 1996 and have conducted investigations involving welfare recipients, food stamp trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, illegal drugs, and dog fighting.

Suspicious Activity Reports Review Teams.

OIG agents in a number of States participate on suspicious activity review teams, which are coordinated by the U.S. Department of Justice (USDOJ) through the U.S. Attorney's Offices. These review teams systematically review all reports of suspicious activity that affect a specific geographic jurisdiction, identify individuals who may be engaged in criminal activities, and coordinate and

disseminate leads to appropriate agencies for follow-up. These teams generally include representatives from law enforcement and various regulatory agencies, with the U.S. Attorney's Office and IRS-CI typically in lead roles. OIG focuses specifically on reports of suspected criminal activities by business entities and individuals involved in USDA programs, including SNAP and WIC violations, stolen infant formula, and farm-related cases. Coordination among the respective agencies results in improved communication and efficient resource allocation.

Mortgage Fraud Task Forces.

OIG investigators participate in mortgage fraud task forces in California, Minnesota, and North Carolina, in addition to a national mortgage fraud working group that meets monthly in Washington, D.C. These task forces identify trends, share information, and coordinate investigations related to mortgage fraud. They are working to improve efforts across the Federal executive branch, and with State and local partners, investigate and prosecute significant mortgage crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. The task forces are headed by representatives from U.S. Attorney's Offices and the FBI. They are strategically placed in locations identified as high-threat areas for mortgage fraud. They include participants from Federal program agencies and regulatory agencies such as HUD, the IRS, the Social Security Administration, local district attorney's offices, and police departments.

Organized Retail Theft Task Forces.

As a member of the Retail Merchants Association of North Carolina Retail Theft Initiative, OIG agents coordinate, plan, and meet regularly with various retail merchants in North Carolina to discuss a proactive investigative strategy to develop cases involving retail theft. This working group coordinates investigations of convenience stores and retail outlets that may be involved in the theft and resale of infant formula, electronics, and other retail items. As members of the Northern California Organized Retail

Crime Association, OIG agents work with other area law enforcement agencies and organized retail crime investigators from major retailers to identify and coordinate action against organized retail theft rings, as well as to identify retail items susceptible to theft by such organized groups.

The Guardians.

USDA OIG is a member of this task force in Montana consisting of other Inspectors General (IG) and the FBI, which was convened by the U.S. Attorney's Office to coordinate and synchronize law enforcement efforts among various Departments that have a significant financial commitment in Native American communities in Montana. The participating agencies join forces; share assets and responsibilities; promote citizen disclosure of public corruption, fraud, and embezzlement in Federal programs, contracts, and grants; and investigate and prosecute crimes against Montana's Native American communities.

Western Regional Inspectors General Councils and Intelligence Working Groups.

OIG investigators work with various councils and groups to 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 among Federal, State, and local law enforcement agencies in the Pacific Northwest. IG councils meeting in other regions of the country also include USDA OIG representatives.

Council of the Inspectors General on Integrity and Efficiency (CIGIE), Emergency Management Working Group Meetings.

OIG participates in CIGIE's Emergency Management Working Group Meetings. The Department of Homeland Security's OIG, Emergency Management Oversight Division, is spearheading these meetings so that the IG community can discuss ways to identify benefits fraud that may have occurred after Hurricane

Sandy.

Interagency Fraud and Risk Data Mining Group.

The OIG Data Analysis and Special Projects group participates in this working group to learn from experts in the fields of data mining and risk analysis. This group brings together investigators and auditors within the Federal community in order to share fraud detection and prevention best practices, modeling tools and techniques, and emerging issues that can be integrated with existing data mining practices, tools, and techniques.

OIG agents participated in other task forces and working groups related to benefits fraud, including the *Northern California Financial Fraud Investigators Association*; the *Identity Theft Working Group* in New Hampshire; *Social Services/Welfare Fraud Working Groups* in Oregon and Washington State; and *SNAP fraud joint investigative groups* in Arizona and California, including a *Secret Service High Tech Crimes Task Force*.

ONGOING REVIEWS FOR GOAL 2

- economic adjustment assistance to users of upland cotton (FSA),
- compliance activities (FSA),
- controls over prevented planting (RMA),
- controls for authorizing SNAP retailers (FNS),
- procurement controls (RD),
- National School Lunch and Breakfast Programs (FNS),
- States' food costs for WIC (FNS),
- grant programs—duplication (Rural Business-Cooperative Service (RBS)),
- Environmental Quality Incentives Program (NRCS),
- Eligibility and Compliance Consideration for Section 2501 Grants Awarded FYs 2010-2011 (OAO),
- SNAP error rate (FNS), and
- single family housing direct loan servicing and payment assistance recapture (Rural Housing Service (RHS)).

**ONGOING REVIEWS FOR GOAL 2
UNDER RECOVERY ACT FUNDS**

- Recovery Act impacts on SNAP—Phase 2 (FNS),
- Trade Adjustment Assistance for Farmers Program (FSA, FAS, National Institute of Food and Agriculture (NIFA)), and
- Review of water and waste project (RUS).

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, information technology (IT) security and management, research, real property management, employee integrity, and the Government Performance and Results Act. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and 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

seeking to destroy unique databases or criminals seeking economic gain.

In the first half of FY 2013, we devoted 59 percent of our total direct resources to Goal 3, with 99 percent of these resources assigned to critical/high-impact work. A total of 89 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 57 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 21 audit reports under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 7 indictments, 9 convictions, and about \$1.8 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 3

- Interagency Communication, Coordination, and Program Integration Need Improvement (also under Goals 1 and 4)
- Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 4)
- IT Security Needs Continuing Improvement
- Proactive, Integrated Strategy is Necessary To Increase Agricultural Commerce and Trade
- Efforts to Identify, Report, and Reduce Improper Payments Need to Be Strengthened (also under Goal 2)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

USDA Needs to Resolve Longstanding Material Weaknesses in its IT Security

Although USDA has made improvements in its IT security over the last decade, many longstanding weaknesses remain. In FYs 2009, 2010, and 2011, OIG made 43 recommendations for improving the overall security of USDA's systems, but only 14 of those recommendations have been implemented. Many of these remaining

recommendations have been continuously reported by OIG since 2001 when we first detailed a material weakness in the design and effectiveness of USDA's overall IT security program. In order to mitigate the continuing material weakness, we recommended that USDA and its agencies work together to define and accomplish a manageable number of critical objectives before proceeding to the next set of priorities. When the Department received \$66 million in increased funding in FYs 2010 and 2011, the Office of the Chief Information Officer (OCIO) used the money to fund 16 separate

projects, some of which did not address the Department's most critical IT security concerns. We found that OCIO exceeded its proposed budget for projects or did not allot sufficient funding to key security areas. As a result, we found that some projects were not completely implemented. We also noted that projects were not sufficiently coordinated which, at times, resulted in projects with duplicate objectives.

Again this year, we continued to report a material weakness in USDA's IT security. The Department has not: established a continuous program for monitoring IT security or contractor systems; ensured that agencies securely configure their computers; mandated user multi-factor authentication; consistently reported security incidents; implemented a risk-based framework for handling security issues; adequately remediated weaknesses; implemented adequate contingency policies and procedures; and adequately planned for security costs. We are still waiting for a response to this report. (Audit Report 50501-0003-12, FY 2012 Federal Information Security Management Act Report)

AMS Should Improve its Management Reviews of the Cattlemen's Beef Promotion and Research Board

OIG determined that the relationships between the Cattlemen's Beef Promotion and Research Board (beef board) and other industry-related organizations, including the beef board's primary contractor, the National Cattlemen's Beef Association, complied with legislation. We also determined that AMS should strengthen its procedures for providing oversight to the beef research and promotion program. We found that AMS has not conducted periodic management reviews of the beef board, and the agency's procedures for conducting these reviews could be improved. For example, AMS had not identified weaknesses in the beef board's internal controls over project implementation costs. Sensitivity to these controls is important because the costs are incurred by the national marketing body the beef board is required to use.

Without AMS' independent oversight, it may not be clear to beef producers, importers, and the public that beef checkoff funds are collected, dispersed, and expended in accordance with legislation. Our audit also addressed concerns and specific allegations that beef checkoff funds may have been misused. We found no evidence to support allegations that the board's activities in those areas did not comply with legislation, as well as AMS guidelines and policies. AMS concurred with our two recommendations. (Audit Report 01099-0001-21, Agricultural Marketing Service Oversight of the Beef Research and Promotion Board's Activities)

FAS Should Refine its Performance Measures for Improving International Trade

The Government Performance and Results Act requires each executive agency to create a strategic plan with outcome-related goals and objectives, and the Government Accountability Office (GAO) recommends that agencies establish quantifiable performance measures in order to gauge progress. Although FAS recently updated its Strategic Plan to include measurable goals and objectives, these goals and objectives (which measure the dollar value of exports) do not present the whole picture of how FAS' actions are affecting the global market for American agricultural goods. FAS' measures are not outcome-based and do not show how the United States is performing in a given market compared to its competitors. OIG acknowledges that developing outcome-based performance measures for FAS' trade efforts is difficult, but we maintain that a change in U.S. market share is an outcome-based measure that would be of great use to policymakers. FAS generally agreed with all recommendations. (Audit Report 50601-0001-22, Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals)

NRCS Needs to Implement a Comprehensive Strategy for Ensuring that its Conservation Programs Are Functioning as Intended

OIG found that NRCS has not implemented a comprehensive, integrated compliance strategy designed to verify that conservation program funds totaling \$3.6 billion are serving their intended purpose. Over the past decade, a number of OIG audits demonstrated that NRCS has longstanding problems with verifying the eligibility of participants, their compliance with conservation agreements, and how easements are valued. OIG maintains that NRCS must strengthen its efforts to improve program compliance by, for example, reorganizing so that one person or entity at NRCS has the responsibility and authority to ensure that compliance and oversight activities are effective. We also found that NRCS never performed a risk assessment of its overall program operations. When NRCS performed compliance reviews, those reviews did not focus on the specific program vulnerabilities identified by prior OIG reports. Without an improved compliance effort, NRCS cannot ensure the integrity of its \$3.6 billion in program expenditures, nor can it ensure that its resources are used efficiently and effectively to reduce the risk of fraud, waste, and abuse. We recommended that NRCS perform an overall risk assessment of program operations and implement an integrated compliance strategy. NRCS agreed with our recommendations. (Audit Report 10601-0001-22, NRCS' Oversight and Compliance Activities)

USDA Needs to Bring its eAuthentication (eAuth) System into Full Compliance with National Institute of Standards and Technology (NIST) Standards

USDA uses eAuthentication (eAuth) to electronically authenticate access to its systems so that employees can access those systems securely. While eAuth generally operates effectively, efficiently, and in accordance with guidance, we found that USDA could improve the eAuth system's internal controls to make critical USDA program and financial information less vulnerable to compromise.

Federal agencies are required to use NIST's recommended controls to reduce risks to Federal systems, but we found that OCIO did not implement some of NIST's requirements. Although OCIO managers and staff were aware of these requirements, they did not incorporate the new requirements when they maintained the eAuth system. Without incorporating the applicable NIST control measures, the eAuth system could be at greater risk of security breaches or service outages that negatively impact access to over 400 USDA systems. Since OCIO is currently modernizing the eAuth system, the agency should address all NIST requirements as part of the system's upgrade. OCIO agreed with our recommendations. (Audit Report 88501-0001-12, Review of Selected Controls of the eAuthentication System)

USDA Must Comply With the Improper Payments Elimination and Recovery Act of 2010

We reviewed USDA's FY 2012 Agency Financial Report and accompanying information to determine whether the agency was compliant with the Improper Payments Elimination and Recovery Act of 2002 (IPERA), as amended in 2010. OIG determined that USDA did not comply with IPERA for a second consecutive year. Although USDA made progress to improve its processes to substantially comply with IPERA, the Department was not compliant with three of the seven requirements. Specifically, USDA and its component agencies did not always report sufficient estimates for high-risk programs, report error rates below specific thresholds, and meet annual reduction targets. These noncompliances illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately \$74 million in improper payments by meeting reduction targets. OIG is required to report to Congress that USDA did not comply with IPERA. For those programs that did not comply with IPERA for two consecutive fiscal years, USDA must consult with OMB to discuss further actions. The Office of the Chief Financial Officer (OCFO) provided a response and agreed with our recommendations; the other USDA agencies are in the

process of responding to the recommendations. (Audit Report 50024-0004-11, U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012)

USDA FY 2012/2011 Consolidated Financial Statements

USDA's FY 2012/2011 consolidated financial statements received an unqualified opinion. Our consideration of the internal control over financial reporting identified three significant deficiencies. Specifically, we identified weaknesses in USDA's overall financial management, information technology security and controls, and controls over financial reporting. We determined that the first two significant deficiencies were material weaknesses. Our consideration of compliance with laws and regulations disclosed substantial noncompliance relating to the Federal Financial Management Improvement Act of 1996 (FFMIA). (Audit Report 50401-0003-11, Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011)

In addition to auditing USDA's consolidated financial statements, OIG either performed or oversaw contractors as they performed audits of six USDA agencies' financial statements:

- **RD—Unqualified Opinion on FY 2012/2011 Financial Statements.** RD received an unqualified opinion on its financial statements for FYs 2012 and 2011. Our consideration of internal controls over financial reporting identified no significant deficiencies. Our consideration of compliance with laws and regulations did not disclose any instances of noncompliance. (Audit Report 85401-0002-11, Rural Development's Financial Statements for Fiscal Years 2012 and 2011)
- **FS—Unqualified Opinion on FY 2012/2011 Financial Statements.** FS received an unqualified opinion on its financial statements for FYs 2012 and 2011. An independent certified public accounting firm

conducted the FY 2012 audit and identified significant deficiencies in internal controls over information technology and issues related to the agency's property, plant, and equipment. They did not consider these deficiencies to be material weaknesses. The auditors reported that FS substantially complied with FFMIA, and did not disclose any instances of noncompliance with laws and regulations exclusive of FFMIA. (Audit Report 08401-0002-11, Forest Service's Financial Statements for Fiscal Years 2012 and 2011)

- **CCC—Unqualified Opinion on FY 2012/2011 Financial Statements.** An independent certified public accounting firm audited CCC's financial statements for FYs 2012 and 2011 and issued an unqualified opinion. The report identified two significant deficiencies, including CCC's funds control and controls over child agency financial reporting. The auditors considered the first significant deficiency to be a material weakness. Additionally, the auditors' tests of compliance with laws and regulations disclosed noncompliance with FFMIA for the United States Standard General Ledger at the transaction level. (Audit Report 06401-0002-11, Commodity Credit Corporation's Financial Statements for Fiscal Years 2012 and 2011)
- **NRCS—Disclaimer of Opinion on FY 2012 Financial Statements.** An independent certified public accounting firm audited NRCS' financial statements for FY 2012. Although the report noted improvements in information technology and purchase and fleet cards, the auditors issued the agency a disclaimer of opinion. The auditors' report identified weaknesses in NRCS' general accounting operations; financial reporting; property, plant, and equipment; accrued expenses; reimbursable agreements; information technology; and undelivered orders and new obligations. The auditing

firm considered the first five findings as material weaknesses and the last two findings as significant deficiencies. Additionally, the auditors tested for compliance with laws and regulations and disclosed instances of noncompliance with FFMIA. (Audit Report 10401-0002-11, Natural Resources Conservation Service Financial Statements for FY 2012)

- **Federal Crop Insurance Corporation (FCIC)/RMA—Unqualified Opinion on FY 2012/2011 Financial Statements.** An independent certified public accounting firm audited FCIC/RMA’s consolidated financial statements for FYs 2012 and 2011 and issued an unqualified opinion on the agency’s financial statements. The firm found no weaknesses related to internal controls or noncompliance with laws and regulations. (Audit Report 05401-0002-11, Federal Crop Insurance Corporation/Risk Management Agency’s Financial Statements for Fiscal Years 2012 and 2011)
- **FNS—Unqualified Opinion on FY 2012/2011 Financial Statements.** OIG audited FNS’ financial statements for FYs 2012 and 2011 and issued an unqualified opinion on the agency’s financial statements. Although our consideration of compliance with laws and regulations disclosed one instance of noncompliance with the Improper Payments Information Act of 2002, regarding the design of program internal controls related to reporting improper payments, we reported no weaknesses related to internal controls. (Audit

Report 27401-0002-21, Food and Nutrition Service’s Financial Statements for Fiscal Years 2012 and 2011)

ARS Employee Pleads Guilty to Scheme to Receive Unearned Paid Time Off Donated by Other Employees

In December 2012, a former ARS employee was sentenced to serve 36 months on probation, perform 60 hours of community service, repay \$9,027 in restitution, and write a letter of apology to each of her 19 victims. In July 2012, the employee pled guilty to scheming to receive unearned paid time off donated by other employees. The employee, who had worked in human resources and coordinated the leave donor program for ARS, admitted that she created false doctors’ notes to obtain donated paid leave, which resulted in her receiving leave to which she was not entitled. As a condition of the plea agreement, the employee resigned from Federal service.

RD Employee Sentenced to Prison for Wire Fraud

In November 2012, an area director with RD in Alabama pled guilty to committing wire fraud by depositing \$6.2 million in checks issued by 10 water authorities and 1 electric authority into a bank account for which he had the sole signatory authority. A joint investigation with the FBI disclosed that the employee then transferred those funds to his personal accounts. In March 2013, the employee was sentenced in U.S. District Court, Middle District of Alabama, to 60 months in prison, followed by 36 months of probation, with restitution to be determined within 90 days. The employee was separated from Federal employment in January 2013.

RECOVERY ACT REVIEWS

FNS SNAP Performance Measures Were Not Well Designed for the Recovery Act

FNS, with USDA and OMB approval, implemented four performance measures to evaluate its implementation of

the Recovery Act for SNAP. However, we found these measures were not designed to effectively evaluate how the additional funding achieved the Recovery Act goals of assisting those most impacted by the recession, stabilizing State government nutrition program budgets for essential

services, and stimulating the economy. FNS officials explained that they selected the four performance measures because OMB urged agencies to use measures they were already using for regular operations. FNS believed the Recovery Act goals naturally aligned with its pre-existing program goals for SNAP. Specifically, we found three of the four measures did not measure outcomes that assessed how well the additional funds achieved the Recovery Act goals. Instead, three of these performance measures reflected outputs, such as the dollar amount of benefits issued and administrative costs expended. The one outcome performance measure, which deals with food insecurity, did not directly measure the impact of Recovery Act funds because it did not measure how well SNAP assisted those most impacted by the recession. As a result, FNS performance measures did not assess or report on the use of the approximately \$45.5 billion in additional SNAP assistance during the economic downturn. Because of the complexity involved in developing outcome measures, FS agreed to the report's recommendation. (Audit Report 27703-0002-22, Recovery Act Performance Measures for the Supplemental Nutrition Assistance Program)

Departmental Management Should Have Paid Invoices for Building Modernization More Timely

The Recovery Act provided USDA's Departmental Management with approximately \$17 million to modernize a wing of USDA's South Building in Washington, D.C. To ensure that the transparency and accountability requirements of the Recovery Act are met, OIG contracted with an independent certified public accounting firm to assist in ensuring that Departmental Management performed Recovery Act procurement activities in accordance with Federal Acquisition Regulations, OMB guidance, and Recovery Act requirements. We found Departmental Management's contracting staff were experienced and qualified to monitor the contract.

However, we identified a chronic invoice payment issue and Recovery Act reporting issues. Specifically, we found that Departmental Management did not pay 16 of 17 invoices in a timely manner. Because Departmental Management did not effectively ensure that staff with sufficient warrant authority was available to approve invoices if, for instance, personnel assigned to the contract were on leave or transferred, USDA incurred late payment interest penalties of over \$18,000. We also found that information reported on Recovery.gov for the project contained inaccuracies. As a result of a previous audit, Departmental Management issued procedures for Recovery Act contracting. However, because the procedures do not clarify reporting for projects with multiple funding sources, staff reported the project's funding on Recovery.gov inaccurately. Departmental Management generally agreed with our recommendations. (Audit Report 50703-0001-12, Procurement Oversight Audit of South Building Modernization Project)

RUS Could Have Better Focused Broadband Funding on Rural Areas Without Access to Broadband

OIG reviewed how RUS awarded approximately \$3.5 billion in Recovery Act funding to provide sufficient access to high-speed broadband service to facilitate rural economic development. RUS complied with the provisions of the Recovery Act in how it implemented the program and OIG did not question the eligibility of any RUS-funded BIP projects in our sample. However, we did identify several issues with how RUS implemented BIP, including that RUS funded BIP projects that sometimes overlapped the service areas of preexisting RUS-subsidized broadband providers and approved 10 projects, totaling over \$91 million, even though the proposed projects would not be completed within the 3-year timeframe RUS established and published. We also found that the agency could have implemented the program so that it would have focused more exclusively on rural residents who did not already have access to broadband. We recommended

that, for future programs, RUS avoid funding broadband projects in areas that are already served by RUS-subsidized providers, publish and follow clearly defined project completion expectations, and focus broadband funding on rural areas that do not have access to this technology. RUS concurred with three of the seven recommendations. (Audit Report 09703-0001-32, American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre-Approval Controls)

RD Should Improve its Performance Measures for the Single-Family Housing Loan Programs to Better Reflect Program Goals

As the last stage of a multi-phase review of the Recovery Act's funding for RD's Single-Family Housing (SFH) loan programs, OIG examined whether the agency met performance goals meant to measure the program's overall effectiveness. We found that RD needs to establish outcome-oriented performance measures that it can use to gauge the effectiveness of SFH programs. While RD's primary strategic goal is to assist rural communities in repopulating and becoming self-sustaining and economically thriving, its Recovery Act Implementation Plan originally established one performance measure for both SFH loan programs: to increase the number of homeowners. OIG acknowledges that RD met this output-oriented performance measure by obligating about 11,000 direct loans and guaranteeing over 81,000 loans; however, one measure alone does not provide substantive information on outcomes, which is needed to establish whether program goals are being achieved or if the objectives of the Recovery Act are being carried out. Even though Recovery Act funding has ceased, we believe that RD should establish additional performance measures for both SFH loan programs funded with regular appropriations. RD agreed with our recommendations. (Audit Report 04703-0001-31, Rural Development's Single Family Housing Direct and Guaranteed Loans-Recovery Act—Effectiveness Review)

RBS Needs to More Carefully Review Rural Business Enterprise Grant (RBEG) Projects Before Disbursing Funds

As part of the Recovery Act, Congress appropriated \$20 million for RBEG to provide funding to facilitate the development of small and emerging rural businesses. By October 2009, RD had obligated funds for 145 RBEG projects, totaling over \$15.3 million in Recovery Act funding. As the second stage of a multi-phase review of how RD used these funds, OIG examined whether RBS had appropriate oversight over project compliance. We found that RBS was not sufficiently reviewing projects for compliance. Of the 47 grants we reviewed, we identified 20 where RBS personnel did not obtain or review required forms, 3 of which either had prior unspent grant funds or duplicated prior RBEG projects. Based on our overall sample results, we estimate that 70 grants (49 percent) may have similar issues, with a projected total value of \$4.6 million. These problems occurred because RBS employees were not trained adequately on RBEG-specific information. We recommended that RBS provide personnel in charge of overseeing RBEG projects with formal, comprehensive training, and recover RBEG Recovery Act funds for projects that lack sufficient support, were outside the scope of work, or were awarded to grant recipients that did not provide required matching funds from non-Federal sources. RBS generally agreed with our recommendations. (Audit Report 34703-0001-31, Business Enterprise Grants Recovery Act Controls Field Confirmations)

OCFO Needs to Improve its Process for Detecting and Correcting Errors in Recovery Act Reporting

As part of the Recovery Act, Congress provided USDA with \$28 billion, directing that the Department report how these funds were used clearly, accurately, and in a timely manner. To ensure transparency, agencies are required to generate reports that include almost 100 data elements, such as the type, date, and amount of award; project description; and the number of jobs created or retained by each project. In May 2011, OIG reviewed the 4,974 USDA

Recovery Act awards reported on FederalReporting.gov, as of March 31, 2011, to ensure that the data were accurate and complete. We found 1,202 errors in the information reported by recipients, including 368 misreported award numbers and amounts and 834 incorrect award dates. We also found five awards which were not included on USDA's comprehensive list of awards. These errors occurred because the agencies responsible for identifying errors utilize a tool, developed by OCFO, which does not capture all potential errors defined by OMB. Additionally, when agencies successfully identified errors, they generally did not take actions beyond the minimum requirements, which did not always result in the recipient correcting the error. USDA agency personnel stated that they did not consider the errors significant enough to impose penalties on the recipient. Without reliable data, USDA and others relying on this information cannot monitor the progress of awards that are reported or accurately determine the outcome of the Recovery Act funding.

We recommended that OCFO strengthen its data quality tool, work with agencies to develop consistent internal controls to ensure that all reportable awards are included on both the comprehensive list and FederalReporting.gov, and update OCFO guidance to include progressive steps that USDA agencies can take to ensure errors are corrected on FederalReporting.gov. OCFO agreed with our recommendations and implemented corrective actions. (Audit Report 50703-0001-13, American Recovery and Reinvestment Act—

USDA Federal Reporting.gov March 2011 Data Quality Review)

USDA Needs to Ensure the Accuracy of Reports on Jobs Created or Retained through Recovery Act Spending

As part of the Recovery Act, USDA agencies are to review the number of jobs created or retained, as reported on FederalReporting.gov. OIG determined, however, that USDA agencies were not performing adequate reviews of these figures, and that agencies need to develop additional data checks to improve their reviews. Of 99 USDA Recovery Act awards—which account for approximately 375 of the 1,200 Recovery Act jobs reported for the awards in our sample—we found errors on 33. For instance, we identified job numbers that were inflated because award recipients reported cumulative job numbers instead of the number of jobs created or saved during the quarter being reported. In other instances, job numbers were underreported. USDA agencies did not identify and remedy the significant errors that award recipients made because the analytical tools the agencies were using were inadequate to verify the numbers recipients reported. Without accurate data about the number of jobs retained or created through the use of Recovery Act funds, it is difficult to measure how effective the Department was in accomplishing a main Recovery Act objective, which was to create and retain jobs. OCFO generally agreed with our recommendation. (Audit Report 50703-0002-13, Data Quality Review of American Recovery and Reinvestment Act Jobs Reported for USDA Programs)

GOVERNMENTWIDE ACTIVITIES—GOAL 3***Review of Legislation, Regulations, Directives, and Memoranda******Review of OMB Draft Guidance on Audit Opinions of Internal Control Over Improper Payments.***

As required by IPERA, on February 11, 2013, OMB provided draft guidance to agencies and IG offices regarding when agencies should be required to obtain an audit opinion on internal control over programs susceptible to significant improper payments. On February 13, 2013, OIG expressed concerns regarding resource constraints for IGs, and the ambiguity of the prescribed steps and the analysis an auditor would be required to perform to opine on internal controls. On March 1, 2013, OMB and members of the CIGIE community further discussed concerns with the draft guidance. OMB agreed to consider the CIGIE community's comments prior to finalizing its guidance.

The Government Accountability Office Improvement Act.

OIG reviewed the proposed bill, which would enhance GAO's authorities to permit it to make and retain copies of an agency record, to obtain records through a civil action against an agency, and to administer oaths to agency witnesses in certain kinds of matters. We recommended that the bill include a provision requiring GAO, in the exercise of these authorities, to coordinate with the appropriate IGs in order to avoid any duplication of work.

Departmental Regulation—Cyber Security Incident Management.

OIG reviewed the draft departmental regulation on Cyber Security Incident Management, which provides that all information security incidents potentially related to criminal activity must be referred to OIG "and/or the appropriate law enforcement agency as soon as an incident is suspected of or identified as being criminal in nature." OIG recommended inserting into that provision a reference to Departmental Regulation 1700-2 (OIG Organization and Procedures) for the purposes of directing

the reader to particular instances in which OIG is the primary law enforcement contact and ensuring proper coordination among agencies.

Participation on Committees, Working Groups, and Task Forces***CIGIE Investigations Committee.***

The Assistant Inspector General for Investigations participates on CIGIE's Investigations Committee, and its Assistant Inspectors General for Investigation Subcommittee, which advise the IG community on issues involving criminal investigations, criminal investigations personnel, and establishing criminal investigative guidelines.

Whistleblower Ombudsman Working Group.

Pursuant to the recently enacted Whistleblower Protection Enhancement Act of 2012, OIG designated a Whistleblower Ombudsman (ombuds), whose role is to educate Department employees about prohibitions against retaliation for protected disclosures of fraud, waste, and abuse, and rights and remedies if retaliation does occur. OIG's ombuds is a member of a newly established OIG Whistleblower Ombudsman Working Group. The first meeting was held in March 2013 and included more than 25 ombuds from various Federal IGs. The focus of the discussion was on the role and responsibilities of the ombuds, implementation activities, coordination with the Office of Special Counsel, and the requisite notifications regarding non-disclosure agreements set forth in the new statute.

Financial Fraud Enforcement Task Force (formerly National Procurement Fraud Task Force).

OIG is a member of this task force, formed by USDOJ in October 2006 as a partnership among Federal agencies charged with investigating and prosecuting Government contracting and grant illegalities. The purpose of the task force has been expanded to include a wider variety of financial crimes, from securities fraud to identity theft.

The task force is working to better allocate resources, improve coordination in financial fraud cases, and accelerate their investigation and prosecution. OIG investigation field offices in all OIG regions participate in procurement fraud task forces.

The FBI's Public Corruption Working Group/Task Force.

OIG agents are members of these groups in Mississippi and Utah, which are focused on combating corruption involving Government officials and employees.

Intra-Departmental Coordinating Committee on International Affairs.

OIG auditors participate in this committee's meetings. Headed by FAS, the purpose of the committee (which includes most USDA agencies) is to coordinate international activities. Some of the committee's issues include USDA's role in implementing the President's national export initiative; country strategy statements; reconstruction and capacity building activities in Pakistan and Afghanistan; and international food security and assistance.

USDA Credit Reform Workgroup.

The Financial Audit Operations Division of OIG participates in this workgroup, which is composed of representatives from all USDA credit agencies. The purpose of this workgroup is to address accounting, auditing, budgeting, and reporting issues encountered by agencies subject to the Federal Credit Reform Act of 1990.

Financial Statement Audit Network (FSAN) Workgroup.

OIG auditors are members of the FSAN workgroup, whose main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits. In conjunction with FSAN, OIG annually hosts the CIGIE/GAO Financial Statement Audit Conference.

Reviews Coordinated With Other Government Entities

Special Inspector General for Afghanistan Reconstruction Coordination Efforts.

The Special Inspector General for Afghanistan Reconstruction (SIGAR) initiated a financial audit of a non-governmental organization (NGO) that received USDA funds for reconstruction activities in Afghanistan. To avoid potential duplication of efforts, OIG auditors coordinated with SIGAR to discuss OIG's current work with the same NGO. Throughout the course of fieldwork, OIG auditors continue to coordinate with SIGAR to discuss developing issues and potential findings.

Federal Audit Executive Council.

OIG participates in the Federal Audit Executive Council, whose main purpose is to discuss and coordinate issues affecting the Federal audit community with special emphasis on audit policy and operations of common interest to members. The council has six standing committees: Audit, Financial Statements, Information Technology, Professional Development, Contracting, and the Annual Conference. OIG's Assistant Inspector General for Audit serves as the Co-Chair of the Audit Committee. The Audit Committee is currently working on developing an approach to identifying and compiling internal and external metrics and performance measures used in the Federal audit community for evaluating audit quality and timeliness. They also plan to compile factors and best practices used in annual audit planning.

Reviews Performed for Other Government Entities

External Peer Review for USDOJ, Office of Inspector General.

We conducted a peer review of the system of quality control for this audit organization for FY 2012. Our responsibility was to express an opinion on the design of the system and USDOJ OIG's compliance with it. Our review was conducted in accordance with Government Auditing Standards and guidelines established by CIGIE.

We tested 12 of the 88 audit and attestation reports as well as the internal quality control reviews performed by USDOJ OIG. In our opinion, the system of quality control was suitably designed and complied with. Therefore, USDOJ OIG received a peer review rating of pass.

ONGOING REVIEWS FOR GOAL 3

- FY 2012 Executive Order 13520, Reducing Improper Payments, High Dollar Overpayment Report Review (OCFO),
- review of the Department's travel card data (OCFO),
- FY 2013 National Finance Center general controls (OCFO),
- review of USDA contractor databases (Office of Procurement and Property Management),
- USDA Strikeforce Initiative (OAO),
- classification management (Office of Homeland Security and Emergency Coordination),
- USDA and its agencies' financial statements for FY 2013 (OCFO),
- USDA conferences (OCFO),
- review of USDA contractor payments (OCFO),
- review of FSA's accounting for FY 2012—improper payment reporting (FSA),

- in re black farmers' discrimination litigation (USDA),
- overlap and duplication in FNS' nutrition programs (FNS),
- review of USDA's bank purchase card data (USDA),
- review of the Procurement Operations Division (OCIO),
- management and security over USDA's universal telecommunications network (OCIO),
- Section 632(a) transfer of funds for Afghanistan from U.S. Agency for International Development (USAID) to USDA (FAS, NIFA),
- review of an NGO in Afghanistan (FAS) private voluntary organization grant fund accountability (FAS),
- security review of lockup procedures (National Agricultural Statistics Service), and
- USDA controls over Economy Act transfers and Greenbook Program charges (OCFO).

ONGOING REVIEWS FOR GOAL 3 UNDER RECOVERY ACT FUNDS

- ARS' contract closeout process (ARS), and
- BIP—post-approval controls (RUS).

Stewardship Over Natural Resources

IG 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 grasslands.

USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the first half of FY 2013, we devoted 4 percent of our total direct resources to Goal 4, with 100 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 4 resulted in management decision within 1 year. No investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 4 during this reporting period.

Management Challenges Addressed Under Goal 4

- Interagency Communication, Coordination, and Program Integration Need Improvement (also under Goals 1 and 3)
- Forest Service Management and Community Action Needed to Improve Forest Health and Reduce Firefighting Costs
- Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 3)
- Planning Needed for Succession Planning and Reduced Staffing

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

FS Needs to Better Coordinate with BLM to Approve Applications to Drill for Oil and Gas on National Forest System Land

Rising energy prices have led to increased interest in the exploration and development of domestic oil and gas resources, some of which are found beneath public lands within national forests. When oil and gas companies apply to drill on National Forest System (NFS) land, FS works with BLM in the Department of the Interior to regulate their operations. OIG found that the two agencies need to improve how they work together so that oil and gas lease nominations and operations are approved expeditiously. Most of FS' communication with BLM has been informal—when problems obstructing cooperation occurred,

they were not always resolved. The two agencies also need to better track information, such as the number of days for nominated parcels to be processed, as we found that deadlines were often missed. We also found that FS could not validate whether all well sites were being inspected annually, as required. Permitting oil and gas drilling on NFS lands does pose an environmental risk, but FS does not require operators to submit a spill plan that would ensure that operators are prepared to quickly respond to any spills. Finally, OIG noted that FS established performance measures to assess the work done in the program, but those measures did not clearly record the outcomes of key program activities. As a result, FS officials were not receiving the data needed to make appropriate program decisions and were unable to determine which program activities were not performed timely. FS generally agreed with all of our recommendations. (Audit Report 08601-0001-21,

Management of Oil and Gas Resources on National Forest System Land)

RECOVERY ACT

FS Needs to Ensure that Recovery Act Reporting is Accurate

FS implemented performance measures that generally met the goals of the Recovery Act; however, we found FS field staff did not timely or accurately report the agency's Recovery Act accomplishments by the final cutoff date for six of the seven key performance measures selected for our review. This occurred because some field staff had competing priorities that superseded entering the accomplishment data into the tracking systems. Some field staff also made inadvertent data entry errors. As a result, FS misreported its accomplishments for 68 of 122 contracts and agreements we reviewed and, therefore, did not fully meet the Recovery Act's transparency objective. FS generally agreed and reinforced with its staff the importance of timely data entry. (Audit Report 08703-0001-41, Forest Service Performance Measures for Recovery Act Projects)

FS Should Strengthen Controls Over Wildland Fire Management (WFM) Activities on Non-Federal Land

FS allocated Recovery Act grants for WFM activities, such as hazardous fuels reduction, forest health, and ecosystem improvements. Overall, we found that FS lacked the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose—not just for Recovery Act grants, but for the entire grant program. We also found that FS did not enhance its existing controls, despite the Recovery Act's requirements for greater transparency and accountability. As a result, the grant recipients we reviewed charged a total of \$92 million in unallowable and questionable costs to both Recovery Act and non-Recovery Act grants. We also found that FS staff did not take the necessary steps to ensure that it met the Recovery Act's overall objective of

maximizing job creation and retention in the most cost-effective manner possible. OIG recommended that FS improve training, clarify staff responsibilities, and enhance its monitoring efforts. We also recommended FS recover \$27.5 million in unallowable costs charged to the grants, follow up on an additional \$33.6 million, and halt reimbursements to entities with persisting control weaknesses. We reached management decision on 48 of the report's 62 recommendations. We will work with the agency to resolve the outstanding recommendations. (Audit Report 08703-0005-SF, Recovery Act—Forest Service Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands)

GOVERNMENTWIDE ACTIVITIES—GOAL 4

Participation on Committees, Working Groups, and Task Forces

Environmental Crimes Working Groups.

OIG agents continue to participate in working groups convened by U.S. Attorney's Offices in the District of New Hampshire, the Eastern District of North Carolina, and the Western District of Washington State, to improve cooperation and coordination among Federal, State, and local law enforcement agencies enforcing environmental laws, as well as to exchange information and provide prosecutorial support and training opportunities.

Minnesota Pest Risk Committee.

OIG participates in this committee, which is composed of Federal, State, and local representatives who focus on efforts used in Minnesota to intercept and control invasive plants, insects, and animals that are detrimental to the State.

ONGOING REVIEWS FOR GOAL 4

- FS' firefighting cost-share agreements with non-Federal entities (FS).

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 strategic goals.

These are:

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-decision 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 2012 ACTUAL	FY 2013 TARGET	FY 2013 1st Half ACTUAL
OIG direct resources dedicated to critical-risk and high-impact activities.	97.7%	92%	96.9%
Audit recommendations where management decisions are achieved within 1 year.	96.8%	90%	95%
Audits initiated where the findings and recommendations are presented to the auditee within established or agreed-to timeframes.	91.9%	90%	100%
Closed investigations that resulted in a referral for action to USDOJ, State, or local law enforcement officials, or relevant administrative authority.	88.8%	75%	88.8%
Closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	71.2%	70%	76.5%

RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

PERFORMANCE MEASURES	FY 2012 ACTUAL	FY 2013 TARGET	FY 2013 1st Half ACTUAL
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	100%	100%	N/A**
Respond to Recovery Accountability and Transparency Board-sponsored requests and projects within established schedules or agreed-to timeframes.	94.4%	85%	100%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	N/A
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt. *	N/A	75%	N/A
Timely and accurate monthly Recovery Act funds reports submitted to the Recovery Board.	100%	95%	100%

* No Recovery Act whistleblower retaliation allegations were received or investigated.

** All remaining Recovery Act audits are nearing issuance of final reports. No further notifications anticipated.

SUMMARY OF AUDIT ACTIVITIES—OCTOBER 2012-MARCH 2013

Reports Issued: 38	Audits Performed by OIG	33
	Audits Performed Under the Single Audit Act	0
	Audits Performed by Others	5
Management Decisions Made: 201	Number of Reports	32
	Number of Recommendations	201
Total Dollar Impact (Millions) of Management-Decided Reports: \$138.9 million	Total Questioned/Unsupported Costs	\$15.4 ^{a, b}
	-Recommended for Recovery	\$0.1 ^c
	-Not Recommended for Recovery	\$15.4
	Funds to Be Put to Better Use	\$123.5
^a These were the amounts the auditees agreed to at the time of management decision.		
^b The recoveries realized could change as auditees implement the agreed-upon corrective action plans and seek recovery of amounts recorded as debts due the Department.		
^c Actual amount is \$84,596, shown as \$0.1 due to rounding. Total amount is correct at \$15.4.		

SUMMARY OF INTERIM REPORTS ISSUED—OCTOBER 2012-MARCH 2013

OIG uses *Interim Reports* to alert management to immediate issues during the course of an ongoing audit assignment.

Typically, they report on one issue or finding requiring management's attention. OIG did not issue any *Interim Reports* during this reporting period.

SUMMARY OF INVESTIGATIVE ACTIVITIES—OCTOBER 2012-MARCH 2013

Reports Issued: 180	Cases Opened	225
	Cases Referred for Prosecution	136
Impact of Investigations	Indictments	378
	Convictions ^a	298
	Searches	179
	Arrests	257
Total Dollar Impact (Millions): \$83.8	Recoveries/Collections ^b	\$0.9
	Restitutions ^c	\$62.6
	Fines ^d	\$0.9
	Asset Forfeitures ^e	\$12.2
	Claims Established ^f	\$1.7
	Cost Avoidance ^g	\$5.5
Administrative Sanctions: 192	Administrative Penalties ^h	\$0
	Employees	20
	Businesses/Persons	172
^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 298 convictions do not necessarily relate to the 378 indictments.		
^b Includes money received by USDA or other Government agencies as a result of OIG investigations.		
^c Restitutions are court-ordered repayments of money lost through a crime or program abuse.		
^d Fines are court-ordered penalties.		
^e Asset forfeitures are judicial or administrative results.		
^f Claims established are agency demands for repayment of USDA benefits.		
^g Consists of loans or benefits not granted as the result of an OIG investigation.		
^h Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.		

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS FROM OCTOBER 1, 2012 THROUGH MARCH 31, 2013

CATEGORY	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
Reports for which no management decision had been made by October 1, 2012. ^b	6 ^{1,2}	\$276,405,047 ¹	\$13,832,770 ²
Reports which were issued during the reporting period.	7	\$423,126,002	\$35,455,687
Total reports with questioned costs and loans	13	\$699,531,049	\$49,288,457
Of the 13 reports, those for which management decision was made during the reporting period.	4	<i>Recommended for recovery</i>	\$84,596
		<i>Not recommended for recovery</i>	\$15,362,041
		<i>Costs not disallowed</i>	\$1,522
Of the 13 reports, those for which no management decision has been made by the end of this reporting period.	9	\$684,082,890	\$36,558,918
Total current reports for which no management decision was made within 6 months of issuance.^b	4	\$263,588,748	\$1,103,231
^a Unsupported values are included in questioned values.			
^b Carried over from previous reporting periods (see footnotes 1 and 2 for adjustment to beginning balances).			

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

CATEGORY	NUMBER	DOLLAR VALUE	
Reports for which no management decision had been made by October 1, 2012. ^a	3	\$117,124,151	
Reports which were issued during the reporting period.	6	\$38,543,099	
Total reports with recommendations that funds be put to better use	9	\$155,667,250	
Of the 9 reports, those for which management decision was made during the reporting period.	7	<i>Disallowed costs</i>	\$123,493,334
		<i>Costs not disallowed</i>	\$16,300
Of the 9 reports, those for which no management decision has been made by the end of this reporting period.	2	\$32,157,616	
Total current reports for which no management decision was made within 6 months of issuance.^a	0	\$0	
^a Carried over from previous reporting periods.			

¹ Adjustment was made to beginning balance. Three interim reports (08703-0005-SF, interim reports 7, 8, and 9, totaling \$17,619,879) issued in prior SARC periods were incorporated into the final report issued March 28, 2013; additional findings associated with the interim reports were identified. New amounts are now reflected under the category "Reports which were issued during the reporting period."

² Adjustment was made to beginning balance. One interim report (08703-0005-SF, interim report 10, totaling \$2,700,000) issued in a prior SARC period was incorporated into the final report issued March 28, 2013. The new amount is now reflected under category "Reports which were issued during the reporting period."

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 230 program improvement recommendations, and management agreed to implement a total of 180 that were issued this period or earlier. Examples of those issued this period include the following (see the main text of this report for a summary of the audits that prompted these recommendations):

- FSIS should ensure that beef components likely to be used for ground beef by grocery stores, butchers, restaurants, and hotels are tested for *E. coli*.
- NRCS should perform an overall risk assessment of program operations and implement an integrated compliance strategy so that it can ensure that its \$3.6 billion in program expenditures are reaching eligible recipients and that its resources are not vulnerable to fraud, waste, and abuse.
- RUS should ensure that future broadband programs are better focused on providing access to that important technology to rural citizens who would not otherwise have access.

Audit and Investigation Peer

Reviews

- In November 2012, the Environmental Protection Agency OIG completed a peer review of USDA OIG's audit organization. USDA OIG received a rating of "Pass," the best evaluation an audit organization can receive.
- Because peer reviews are performed on a 3-year cycle, no peer reviews of OIG's investigation organization were performed during the current semiannual reporting period. Our most recent review was conducted in 2010 by the Department of Homeland Security OIG. The report, issued November 10, 2010, contained no recommendations and determined that OIG is in compliance with the quality standards established by CIGIE and the Attorney General.
- The Government Accounting Office (GAO) completed a review of USDA OIG FY 2009-2011 operations in comparison to other Cabinet-level OIGs in March 2013. GAO found that USDA OIG issued 212 audit reports and completed 878 investigations that provided oversight coverage for each of USDA's seven mission areas. In comparison to other OIGs, USDA OIG's estimated average return on investment for each budgetary resource dollar received was \$13.96 during the 3-year period compared to the other Cabinet-level OIGs' average return of \$12.63. They also found that USDA OIG budget resources decreased by about 8 percent compared to 6 percent by other Cabinet-level OIGs.

AUDIT REPORTS

From October 1, 2012, through March 31, 2013, OIG issued 38 audit reports, including 5 performed by others. During this same period, no *Interim reports* were issued. The following is a summary of those audit products by agency:

AUDIT REPORT TOTALS

Total funds that can be put to better use	\$38,543,099
Total questioned costs and loans ^a	\$423,126,002
^a Unsupported values of \$35,455,687 are included in the questioned values.	

SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2012 THROUGH MARCH 31, 2013

AGENCY TYPE	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
SINGLE AGENCY AUDIT	28	\$423,126,002	\$35,455,687	\$38,543,099
MULTIAGENCY AUDIT	10	\$0	\$0	\$0
TOTAL COMPLETED UNDER CONTRACT ^a	5			
ISSUED AUDITS COMPLETED UNDER THE SINGLE AUDIT ACT	0			
^a Audits performed by others.				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM OCTOBER 1, 2012 THROUGH MARCH 31, 2013

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Marketing Service: 1	01099-0001-21	03/29/13	Beef Research and Promotion Board Activities			
Animal and Plant Health Inspection Service: 1	33701-0001-AT	11/06/12	Follow-up on APHIS' Implementation of the Select Agent or Toxin Regulations			
Commodity Credit Corporation: 1	06401-0002-11	11/09/12	Fiscal Years 2012 and 2011 CCC Financial Statements			
Departmental Management: 1	91099-0001-21	02/28/13	Controls Over the Grant Management Process of the Office of Advocacy and Outreach			
Food and Nutrition Service: 4	27401-0002-21	11/09/12	Fiscal Years 2012 and 2011 FNS Financial Statements			
	27601-0001-23	01/03/13	National School Lunch Program—Food Service Management Companies and Cost Reimbursable Contracts	\$1,679,860		
	27601-0038-CH	03/29/13	Vendor Management and Participant Eligibility in the WIC Program			
	27703-0002-22	03/28/13	Recovery Act Performance Measures for the Supplemental Nutrition Assistance Program			
Food Safety and Inspection Service: 1	24601-0003-31	03/22/13	FSIS E.coli Testing on Boxed Beef			
Forest Service: 4	08401-0002-11	11/09/12	Fiscal Years 2012 and 2011 FS Financial Statements			
	08601-0001-21	03/12/13	Management of Oil and Gas Resources on National Forest System Land			
	08703-0001-41	03/28/13	FS Performance Measures for Recovery Act Projects			
	08703-0005-SF	03/28/13	Recovery Act—FS Hazardous Fuels Reduction/Ecosystem Restoration on Non-Federal Lands	\$65,994,351	\$33,582,028	\$25,779,197

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Multi-Agency: 10	50024-0004-11	03/14/13	USDA's Fiscal Year 2012 Compliance With the Improper Payments Elimination and Recovery Act of 2010			
	50401-0003-11	11/15/12	USDA's Consolidated Financial Statements for FYs 2012 and 2011			
	50401-0004-11	11/16/12	Fiscal Year 2012 Audit of USDA's Closing Package			
	50501-0003-12	11/15/12	Fiscal Year 2012 Federal Information Security Management Act Report (FISMA)			
	50601-0001-22	03/28/13	Effectiveness of USDA's Recent Efforts to Enhance Agricultural Trade			
	50601-0001-23	11/30/12	USDA Controls Over Shell Egg Inspections			
	50601-0001-31	01/30/13	Verifying Credentials of Veterinarians Employed or Accredited by USDA			
	50703-0001-12	03/25/13	Procurement Oversight Audit of South Building Modernization Project (Phase 4A, Wing 5)			
	50703-0001-13	10/26/12	Recovery Act—USDA FederalReporting.gov March 2011 Data Quality Review			
	50703-0002-13	11/30/12	Data Quality Review of Recovery Act Jobs Reported for USDA Programs			
Natural Resources Conservation Service: 5	10401-0002-11	11/09/12	Fiscal Year 2012 NRCS Financial Statements			
	10601-0001-22	02/07/13	NRCS' Oversight and Compliance Activities			
	10703-0001-31	03/14/13	Recovery Act—NRCS' Emergency Watershed Protection Program Floodplain Easements and Watershed Operations Effectiveness Review			\$231,100
	10703-0001-AT	03/25/13	Rehabilitation of Flood Controls Dams—Phase 2			\$1,440,028
	10703-0005-KC	03/14/13	Recovery Act—NRCS' Emergency Watershed Protection Program Floodplain Easements, Field Confirmations	\$121,302		

AUDIT TOTALS BY AGENCY	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: 1	88501-0001-12	01/31/13	Review of Selected Controls of the E-Authentication System			
Risk Management Agency: 2	05401-0002-11	11/07/12	Fiscal Years 2012 and 2011 FCIC Financial Statements			
	05601-0006-KC	02/22/13	Federal Crop Insurance—Organic Crops	\$952,000		\$4,260,000
Rural Business-Cooperative Service: 2	34703-0001-31	01/24/13	Recovery Act—Rural Business Enterprise Grants, Field Confirmations	\$4,844,655	\$326,639	
	34703-0001-32	03/29/13	Recovery Act—Business and Industry Guaranteed Loan Program—Phase 3	\$2,600,000		
Rural Development: 1	85401-0002-11	11/13/12	Fiscal Years 2012 and 2011 Rural Development Financial Statements			
Rural Housing Service: 2	04703-0001-31	12/12/12	Recovery Act—Single-Family Housing Direct and Guaranteed Loans, Effectiveness Review			
	04703-0003-HY	02/25/13	Recovery Act—Loss Claims Related to Single-Family Housing Guaranteed Loans	\$346,933,834	\$1,547,020	
Rural Utilities Service: 2	09703-0001-22	03/26/13	RUS Controls Over Recovery Act Water and Waste Loans and Grants Expenditures and Effectiveness Review			\$454,355
	09703-0001-32	03/29/13	Recovery Act—Broadband Initiatives Program, Pre-Approval Controls			\$6,378,419
Grand Total: 38				\$423,126,002	\$35,455,687	\$38,543,099

^aUnsupported values are included in questioned values.

NO MANAGEMENT DECISION

In total, OIG has 8 audits without management decision. Their details are provided in the tables below:

NEW FOR THIS REPORTING PERIOD

AGENCY	DATE ISSUED	TITLE OF REPORT	TOTAL VALUE AT ISSUANCE (in dollars)	AMOUNT WITH NO MGMT DECISION (in dollars)
FS	07/03/12	Recovery Act—Forest Service Capital Improvement and Maintenance Projects—Trail Maintenance and Decommissioning (08703-0004-SF)	\$406,534	\$317,741
OCIO	08/02/12	OCIO Fiscal Years 2010 and 2011 Funding Received for Security Enhancements (88401-0001-12)	\$0	\$0
	09/26/12	Review of Selected Controls at the National Information Technology Center (88401-0001-11)	\$0	\$0
Total New For This Reporting Period: 3				

The audits in the following table 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 or Assistant Secretaries have been notified of those audits without management decisions.

AUDIT REPORTS 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	Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-0023-KC)	\$1,866,412	\$427,276
Multi-agency	11/15/11	Fiscal Year 2011 Federal Information Security Management Act (50501-0002-12)	\$0	\$0
RMA	03/04/09	RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-0028-AT)	\$217,256,417	\$217,256,417
	09/16/09	RMA Compliance Activities (05601-0011-AT)	\$0	\$0
	09/07/11	Citrus Crop Indemnity Payments from Hurricane Wilma in Florida (05099-0029-AT)	\$44,059,385	\$44,059,385
Total Previously Reported But Not Yet Resolved: 5				

AUDITS WITHOUT MANAGEMENT DECISION—NARRATIVE FOR NEW ENTRIES**American Recovery and Reinvestment Act—Forest Service Capital Improvement and Maintenance Projects—Trail Maintenance and Decommissioning (08703-0004-SF), Forest Service, issued July 3, 2012**

In the one recommendation without management decision (Recommendation 3), OIG questioned costs totaling \$317,741, from eight subgrants for costs unrelated to Trail Maintenance and Decommissioning, Hazardous Fuels Reduction on Federal Land, or Hazardous Fuels on non-Federal Land programs (see exhibit B of the subject audit report). In a September 7, 2012 followup response, FS reported concurrence with the recommendation. FS agreed to review the questioned costs, prepare a summary report, and provide documentation supporting its findings. If the questioned costs are determined to be uncollectible because FS did not specify the conditions for the use of the funds in the grant, FS will consider waiving the uncollectible amount. The estimated completion date was May 31, 2013. To achieve management decision, FS officials need to provide detailed justification to support any portion of the questioned costs that FS determined to be allowable and supported. For the balance, FS needs to provide both a copy of the bills for collection and evidence that the bills for collection have been recorded as accounts receivable on FS accounting records, as well as the timeframes under which these would be implemented.

Audit of Office of the Chief Information Officer's FY 2010 and FY 2011 Funding Received for Security Enhancements (88401-0001-12), Office of the Chief Information Officer, issued August 2, 2012

In the two recommendations without management decision (Recommendations 2 and 4), OIG recommended that OCIO designate sufficient resources to adequately configure and monitor the security sensor array in order to defend USDA's information systems against external and internal threat. In addition, OCIO needs to strengthen communication and coordination between OCIO management, project managers [also known as control account managers], and contractors, allowing the different parties to work collaboratively and effectively.

To reach management decision for Recommendation 2, OCIO needs to provide a plan, which includes timeframes, detailing how it will ensure the Sensor Security Array is adequately monitored and properly configured. To reach management decision for Recommendation 4, OCIO needs to provide estimated completion dates and specifics as to how communication and coordination will be strengthened between contractors, management, and control account managers.

Review of Selected Controls at the National Information Technology Center (88401-0001-11), Office of the Chief Information Officer, issued September 26, 2012

In the one recommendation without management decision (Recommendation 2), OIG reported that OCIO needed to implement the Department's Plan of Action and Milestones process for critical vulnerabilities existing more than 30 days or, alternatively, obtain a waiver. In February 2013, the National Information Technology Center obtained an approved waiver from the Chief Information Security Officer approving the use of Remedy software to manage vulnerability scan findings. The National Information Technology Center is also implementing the oversight and compliance monitoring requirements prescribed within the waiver. Once OCIO provides a date by which this action will be completed, management decision can be reached.

INDICTMENTS AND CONVICTIONS

From October 2012 through March 2013, OIG completed 180 investigations. We referred 136 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 378 indictments and 298 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 298 convictions do not necessarily relate to the 378 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$83.8 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

AGENCY	INDICTMENTS	CONVICTIONS*
ARS	1	2
APHIS	43	29
FAS	0	1
FNS	284	233
FS	6	7
FSA	12	9
FSIS	17	0
Multi-Agency	2	0
NRCS	2	0
RBS	0	1
RHS	5	6
RMA	5	8
RUS	1	2
Totals	378	298
* 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 1,887 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. The following tables are a summary of the Hotline complaints for the first half of FY 2013.

NUMBER OF COMPLAINTS RECEIVED

TYPE	NUMBER
Employee Misconduct	113
Participant Fraud	1,435
Waste/Mismanagement	223
Health/Safety Problem	19
Opinion/Information	94
Bribery	2
Reprisal	1
Total Number of Complaints Received	1,887

DISPOSITION OF COMPLAINTS RECEIVED

METHOD OF DISPOSITION	NUMBER
Referred to OIG Audit or Investigations for Review	154
Referred to Other Law Enforcement Agencies	4
Referred to USDA Agencies for Response	397
Referred to FNS for Tracking	1,026
Referred to USDA or Other Agencies for Information—No Response Needed	251
Filed Without Referral—Insufficient Information	41
Referred to State Agencies	14

**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD
OCTOBER 1, 2012 THROUGH MARCH 31, 2013**

CATEGORIES	TYPE	NUMBER
FOIA/PA Requests Received/Processed	FOIA/PA Requests Received	59
	Granted	1
	Partially Granted	7
	Not Granted	16
	Total FOIA/PA Requests Processed	36
Reasons for Denial	No Records Available	5
	Referred to Other Agencies	1
	Requests Denied in Full Exemption 5	0
	Requests Denied in Full Exemption 7(A)	9
	Requests Denied in Full Exemption 7(C)	0
	Request Withdrawn	1
	Fee-Related	0
	Not a Proper FOIA Request	1
	Not an Agency Record	1
	Duplicate Request	0
Other	4	
Requests for OIG Reports from Congress and Other Government Agencies	Received	0
	Processed	0
Appeals	Appeals Received	7
	Appeals Processed	9
	Completely Upheld	4
	Partially Reversed	3
	Completely Reversed	2
	Requests Withdrawn	0
Other	0	
	OIG Reports/Documents Released in Response to Requests	8
NOTE 1: A request may involve more than one report.		
NOTE 2: During this 6-month period, 37 audit reports were posted online on the OIG website: 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
B&I	business and industry
beef board	Cattlemen's Beef Promotion and Research Board
BIP	Broadband Initiatives Program
BLM	Bureau of Land Management
CCC	Commodity Credit Corporation
CIGIE	Council of Inspectors General on Integrity and Efficiency
eAuth	eAuthentication
EBT	electronic benefits transfer
<i>E. coli</i>	<i>Escherichia coli</i> O157:H7
EWPP	Emergency Watershed Protection Program
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FFMIA	Federal Financial Management Improvement Act of 1996
FNS	Food and Nutrition Service
FOIA	Freedom of Information Act
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
FY	fiscal year
GAO	Government Accountability Office
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2002
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service-Criminal Investigation
IT	information technology
NFS	National Forest System
NGO	non-governmental organization
NIFA	National Institute of Food and Agriculture
NIST	National Institute of Standards and

Technology	
ABBREVIATION	FULL NAME
NOP	National Organic Program
NRCS	Natural Resources Conservation Service
NSLP	National School Lunch Program
OAO	Office of Advocacy and Outreach
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
Ombuds	Ombudsman
OMRI	Organic Materials Review Institute
OPM	Office of Personnel Management
PA	Privacy Act
PHIS	Public Health Information System
RBS	Rural Business-Cooperative Service
RBEG	Rural Business Enterprise Grant Program
RD	Rural Development
Recovery Act	American Recovery and Reinvestment Act of 2009
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
<i>SARC</i>	<i>Semiannual Report to Congress</i>
SBA	Small Business Administration
SFA	school food authorities
SFH	Single Family Housing Program
SIGAR	Special Inspector General for Afghanistan Reconstruction
SNAP	Supplemental Nutrition Assistance Program
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USDOJ	U.S. Department of Justice
WFM	wildland fire management
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children
WSDA	Washington State Department of Agriculture
WWD	Water and Waste Disposal System

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (180 TOTAL)

- FSIS should ensure that beef components likely to be used for ground beef by grocery stores, butchers, restaurants, and hotels are tested for *E. coli*.
- NRCS should perform an overall risk assessment of program operations and implement an integrated compliance strategy so that it can ensure that its \$3.6 billion in program expenditures are reaching eligible recipients and that its resources are not vulnerable to fraud, waste, and abuse.
- RUS should ensure that future broadband programs are focused on providing access to that important technology to rural citizens who would not otherwise have access.

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
www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste and Abuse

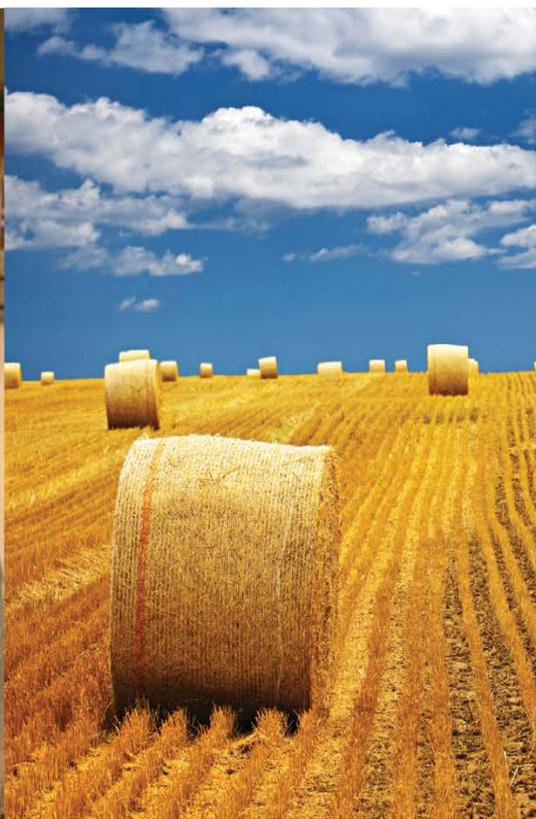
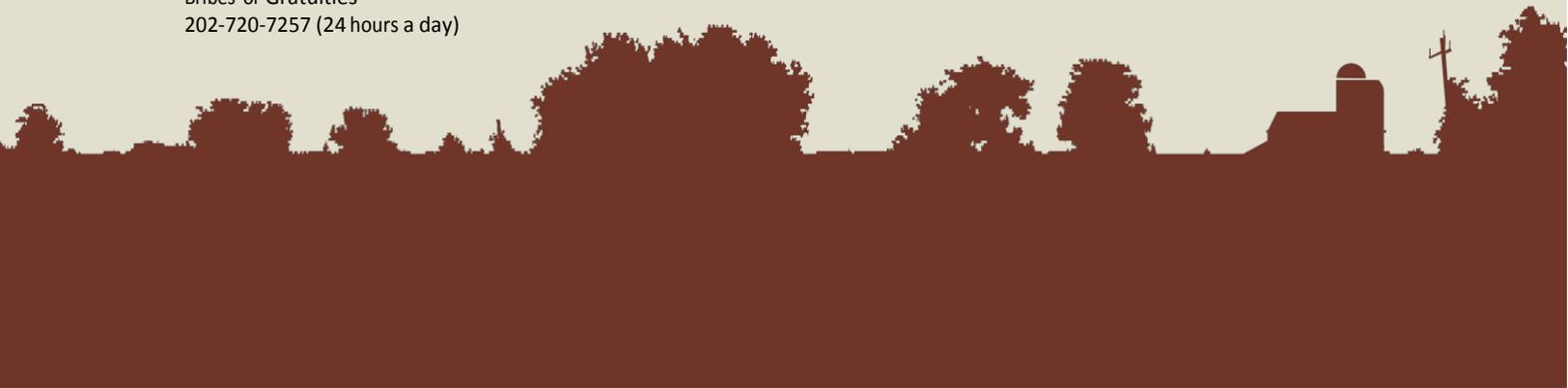
e-mail: USDA.HOTLINE@oig.usda.gov

phone: 800-424-9121

fax: 202-690-2474

Bribes or Gratuities

202-720-7257 (24 hours a day)



The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex (including gender identity and expression), marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410, or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal relay). USDA is an equal opportunity provider and employer.