



United States Department of Agriculture

Office of Inspector General



KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD—April 2013-September 2013

SUMMARY OF AUDIT ACTIVITIES

Reports Issued	
Number of Final Reports	17
Number of Interim Reports	0
Number of Final Report Recommendations (112 program improvement / 16 monetary)	128
Number of Interim Report Recommendations	0
Management Decisions Reached	
Number of Reports	19
Number of Recommendations* (137 program improvements / 20 monetary)	157
Total Dollar Impact of Reports with Management Decisions (Millions)	\$911.4
Questioned/Unsupported Costs	\$424.2
Funds To Be Put To Better Use	\$487.2

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	155
Impact of Investigations	
Indictments	539
Convictions	253
Arrests	586
Total Dollar Impact (Millions)	\$38.9
Administrative Sanctions	370

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2013)

- 1) Interagency Communication, Coordination, and Program Integration Need Improvement
Related material can be found on page 2.
- 2) USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs
Related material can be found on pages 1, 5, 14, 15, 16, and 17.
- 3) Information Technology Security Needs Continuing Improvement
No work reported during this period.
- 4) Departmental Outreach Efforts Need to be More Transparent
No work reported during this period.
- 5) A Proactive, Integrated Strategy Is Necessary to Increase Agricultural Commerce and Trade
No work reported during this period.
- 6) Action Needed to Improve Natural Resources Stewardship
No work reported during this period.
- 7) Food Safety Inspection Systems Need Improved Controls
Related material can be found on page 2.
- 8) Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs
Related material can be found on page 15.
- 9) USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources
Related material can be found on page 15.
- 10) FNS Needs to Strengthen SNAP Management Controls
Related material can be found on pages 4, 10, and 16.

*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 September 30, 2013, and summarizes the most significant accomplishments of the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG). During the last half of the year, our office has continued to work 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 allegedly abuse USDA programs.

During this period, we are in the process of concluding our work overseeing the \$28 billion in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds provided for USDA programs. Since 2009, we have completed 78 Recovery Act audit projects, and made monetary recommendations totaling about \$5 billion.

Our recent accomplishments have been significant. We conducted successful investigations and audits that led to 586 arrests, 253 convictions, \$38.9 million in recoveries and restitutions, 137 program improvement recommendations, and \$911.4 million in 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**—OIG performed notable work regarding food safety during this reporting period, finding that the Food Safety and Inspection Service (FSIS) needed to ensure that swine slaughter plants are not repeatedly violating the Federal Meat Inspection Act (FMIA). Of the 30 plants we visited, inspectors in 8 plants did not always examine the internal organs of carcasses in accordance with FSIS inspection requirements, nor did they take enforcement actions against plants that violated food safety regulations. Moreover, FSIS had not assessed whether its inspection process had measurably improved food safety at each plant, one of the program's key goals.
- **Integrity of Benefits**—OIG continues to focus much of its investigative resources on fighting fraud in the Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP). Since April, our work has resulted in 174 convictions and \$20 million in monetary results. In addition, an audit reviewing how FNS authorizes and disqualifies retailers that participate in SNAP found that FNS needs to improve its controls for preventing unscrupulous retailers from abusing and re-abusing SNAP. We identified 586 owners that FNS allowed to continue participating in SNAP at other locations after being permanently disqualified, and 90 retail locations that had two or more firms permanently disqualified.
- **Management Improvement Initiatives**—Although we found that USDA, in its third year of reporting high-dollar overpayments, significantly improved its reporting process, the Department's report could have been more timely and accurate. We recommended that the Office of the Chief Financial Officer (OCFO) provide additional oversight over component agencies' processes to ensure that high-dollar overpayment reports comply with USDA's guidance. OIG is also responsible for investigating allegations of wrongdoing by USDA employees. As a result of an OIG investigation, a former Rural Development (RD) director was sentenced to 60 months in prison and 36 months of probation for wire fraud and was ordered to pay \$3.9 million in restitution to seven water authorities and one electric authority.
- **Stewardship of Natural Resources**—OIG's 5-Year Strategic Plan (FY 2013-2018) no longer identifies oversight of the stewardship of natural resources as a separate and distinct goal. While audits and investigations into Forest Service (FS) and Natural Resources Conservation Service (NRCS) programs continue—and these reviews continue to involve oversight of the stewardship of natural resources—we have determined that the results of these reviews could be reported equally well under Goals 1, 2, and 3. Accordingly, we have no audits or investigations to report for this goal in this SARC reporting period.

OIG, like all Federal agencies, has been impacted by sequestration, the recent shut-down, and the general scarcity of resources. Since FY 2012, OIG's appropriations have fallen to their lowest level since FY 2008. Likewise, OIG's staffing is at its lowest level since the agency's inception. Given these resource constraints, OIG will need, in the future, to focus only on projects of the highest priority. Our productivity statistics will necessarily reflect difficult decisions about what audits and investigations we can reasonably undertake.

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 Vilsack, Deputy Secretary Harden, and their 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

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Safety, Security, and Public Health

OIG Strategic Goal 1:

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

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent 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.

In the second half of FY 2013, we devoted 6.7 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 85 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 77 indictments, 23 convictions, and approximately \$2 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 1

- **Interagency Communication, Coordination, and Program Integration Need Improvement**
- **USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (also under Goals 2 and 3)**
- **Food Safety Inspection Systems Need Improved Controls**

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

The Agricultural Marketing Service (AMS) Should Improve the Consistency with which Organic Dairy Producers Follow the Access to Pasture Rules for Organic Dairy Cattle

OIG generally found that AMS successfully implemented the access to pasture rule as part of its National Organic Program (NOP), but we did identify several areas where the agency could make improvements. For example, we noted that NOP officials had not clearly defined how producers should demarcate herds of organic milk-producing cattle, which meant that some certifying agents allowed producers to add cattle to organic herds, while others did not. We also noted that NOP needs to include organic feed brokers within the NOP certification process to ensure that organic feed is not commingled or contaminated. Since NOP relies on certifying agents who conduct yearly inspections of organic milk operations, the program needs to consistently respond when inspectors identify possible noncompliance issues with organic regulations. Finally, we found that smaller organic operations were often unaware of the recordkeeping requirements contained in rules regarding livestock confinement, grazing, or the cattle's dry matter intake. OIG made a series of recommendations to correct these issues,

and AMS concurred with all recommendations. (Audit Report 01601-0002-32, National Organic Program—Organic Milk Operations)

FSIS Needs to Ensure that Swine Slaughter Plants Comply with the Federal Meat Inspection Act (FMIA) and the Humane Method of Slaughter Act

FSIS' enforcement policies do not deter swine slaughter plants from repeatedly violating FMIA. OIG found that plants have repeatedly violated the same regulations, but experienced few consequences for their actions. Of the 30 plants we visited, inspectors in 8 plants did not always examine the internal organs of carcasses in accordance with FSIS inspection requirements, nor did they take enforcement actions against plants that violated food safety regulations. As a result, there is reduced assurance that FSIS inspectors are effectively identifying pork that should not enter the food supply. We also reviewed 158 humane handling noncompliance records issued to the 30 plants and found 10 instances of egregious violations where inspectors did not issue suspensions. Additionally, we found that FSIS could not determine whether the goals of a pilot program—the Hazard Analysis and Critical Control Point-based Inspection Models Project—were met because the agency did not adequately oversee the program. In the 15 years since the program's

inception, FSIS did not assess whether the new inspection process had measurably improved food safety at each plant, one of the program's key goals. FSIS concurred with all of our recommendations. (Audit Report 24601-0001-41, FSIS Inspection and Enforcement Activities at Swine Slaughter Plants)

FSIS and AMS Could Improve How They Manage Employees at Slaughter and Processing Plants

OIG found that FSIS and AMS generally managed their workforces effectively, but that the two agencies could make some improvements in how employees are managed at slaughter and processing plants. We found that FSIS inspectors often worked far more hours than their AMS colleagues, a situation that could impair food safety. Recently, AMS has allowed some beef plants to use an automated, camera-based system for grading meat. While the cameras can help AMS use its staff efficiently, we question if the new system was established in a way that is objective and transparent to all stakeholders. Since AMS graders and FSIS inspectors often work in the same plants, the two agencies have a memorandum of understanding in place to cross-utilize their personnel; we found the agreement was out of date and needed to be revisited. Finally, both agencies could improve how they monitor or bill

industry for their services, as FSIS could not adequately reconcile reimbursable overtime charges to industry and AMS was unable to charge industry for interest on overdue accounts due to problems with its accounting system. The two agencies generally agreed with our recommendations. (Audit Report 50601-0002-31, FSIS' and AMS' Field-Level Workforce Challenges)

New York Farmer Sentenced for Violating Meat and Poultry Inspection Act

In April 2011, a farmer was referred to OIG for investigation by FSIS' Office of Investigation, Enforcement and Audit. During the course of the investigation, the farmer provided false statements to investigators regarding the slaughter practices on his property. In addition, samples of product slaughtered by the farmer tested positive as being adulterated. In March 2012, in U.S. District Court, Western District of New York, the farmer was charged with violations of the Meat and Poultry Inspection Act and making false statements. He pled guilty and was sentenced in May 2013 to 12 months of probation and ordered to pay a \$500 fine.

GOVERNMENTWIDE ACTIVITIES—GOAL 1

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 FBI's and other law enforcement agencies' knowledge of how to conduct criminal investigations connected to food and agriculture.
- *FBI's Joint Interagency Agroterrorism Working Group.* OIG's Emergency Response Team continues to participate in this working group, which develops protocols and procedures for FBI, the Animal and Plant Health Inspection Service (APHIS), and OIG to coordinate their response to agroterrorism.
- *U.S. Marshals Service Fugitive Task Forces.* OIG agents in Michigan, Minnesota, Mississippi, North Dakota, 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

- implementation of the Public Health Information System (PHIS) for domestic inspection (FSIS),
- oversight of research facilities (APHIS), and
- Plant Protection Quarantine Preclearance Program (APHIS).

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 \$79 billion in FY 2013 benefits, while over \$23 billion annually is spent on USDA farm and commodity 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 concluding 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 October 1, 2013, OIG has completed 78 Recovery Act projects. Two projects remain and should be completed in the first quarter of FY 2014. OIG is also in the process of preparing a roll-up report summarizing lessons learned from its Recovery Act oversight.

In the second half of FY 2013, we devoted 53 percent of our total direct resources to Goal 2, with 93.8 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 81 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued four audit reports under Goal 2 during this reporting period. OIG’s investigations under Goal 2 yielded 452 indictments, 226 convictions, and about \$32.7 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 2

- **USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (also under Goals 1 and 3)**
- **FNS SNAP Management Controls (also under Goal 3)**

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

FNS Needs to Improve How It Authorizes and Disqualifies Retailers That Participate in SNAP

In light of news coverage of SNAP trafficking, OIG audited the process FNS uses for authorizing, reauthorizing, and disqualifying retailers that participate in SNAP. We found that FNS does not have clear procedures and guidance to carry out key oversight and enforcement activities to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud—either by a particular owner or at a particular location. In addition, FNS regional offices put their limited resources towards activities such as retailer authorization, rather than assessing and enforcing retailer

penalties. These issues occurred because FNS has not yet comprehensively updated its regulations and guidance to reflect the changed fraud risks that accompanied the transition from a stamp-based benefit system to the electronic benefit transfer system. This has led to a retailer authorization process with ambiguous roles and responsibilities for different FNS divisions, inadequate supervisory reviews, and fragmented access to important documents. Finally, FNS does not require retailers to undergo self-initiated criminal background checks. FNS has recently taken several steps to strengthen oversight—such as creating a new policy for high-risk retailers and increasing denial rates for business integrity issues—but without a proper authorization framework, problems often went undetected or unaddressed.

As a result, the integrity of SNAP is at risk because FNS does not consistently deter trafficking. From a sample of 316 locations, we found that FNS did not properly determine \$6.7 million in potential penalties, and authorized 51 ineligible store owners, who had redeemed over \$5.3 million in benefits since 2006. In addition, we identified 586 owners allowed to continue participating in SNAP at other locations after being permanently disqualified, and 90 retail locations that had two or more firms permanently disqualified. OIG recommended that FNS comprehensively review its policies and procedures, seek legislative change to retain a portion of retailer penalties, require background checks for retailers, strengthen internal guidance, make improvements to its automated retailer data system, and create and strengthen safeguards for high-risk stores. FNS generally agreed with our recommendations. (Audit Report 27601-0001-31, FNS: Controls for Authorizing SNAP Retailers)

NRCS Needs to Ensure that its Wyoming State Office Personnel Are Knowledgeable Enough to Process Easement Applications

In February 2013, after learning that the Wyoming State office disregarded policy requirements, as well as specific written instructions not to proceed with processing several Wetlands Reserve Program easements, NRCS conducted a functional review of the Wyoming State office's administration of the Farm and Ranch Lands Protection Program, Grassland Reserve Program, and Wetlands Reserve Program. NRCS subsequently pulled all easement program authority from Wyoming and initiated a remediation effort on easement activity in Wyoming. NRCS then requested that OIG review the Wyoming State NRCS office's administration of easement programs. Specifically, NRCS expressed concerns over potential employee misconduct and the causes of other serious issues noted in its recent functional review.

While we did not note any indication of fraud or purposeful misconduct, we found that NRCS needs to ensure that its employees are sufficiently knowledgeable to carry out their duties and to strengthen oversight and accountability of employees' work. Specifically, both the program specialist responsible for processing these easements and the officials responsible for supervising that employee demonstrated a lack of critical program knowledge. We also found that NRCS did not have an adequate system of review in place to ensure that employees were properly reviewed and held accountable. As a result, the Wyoming State office approved at least \$14.1 million in easements that were not correctly processed and did not ensure that the Government's interest in the easements would be served and secured. NRCS agreed with our finding and accepted all recommendations. (Audit

Report 10099-0001-31, Natural Resources Conservation Service's Administration of Easement Programs in Wyoming)

The Risk Management Agency (RMA) Needs to Improve How It Administers Insurance Based on the Prevented Planting Provisions

RMA administers the Federal Crop Insurance Program, which paid approximately \$4.6 billion in claims from producers who were prevented from planting insured crops from crop years 2008 through 2011. OIG determined that RMA needs to improve the prevented planting provisions to be more cost effective; to encourage producers to plant a crop, when possible; and to make eligibility criteria more objective and clear. Specifically, we found that, out of concern for covering a producer's pre-planting costs in all cases, RMA set current prevented planting coverage levels above the percentages of guarantees that insureds needed to cover average pre-planting costs. As a result, by establishing coverage levels that provided over \$480 million in potentially excessive payments, we believe that RMA inadvertently provided incentives to actively encourage prevented planting claims. Further, when RMA designed its policy for assigning a yield when a producer is prevented from planting a crop and opts to not plant a second crop, it may have misinterpreted whether being prevented from planting should impact certain insurance calculations. Under the current policy, producers planted a second crop on only 0.1 percent of prevented planting acres. Also, we found that loss adjusters did not fully document and support eligibility for over \$43 million in prevented planting payments. RMA needs to improve its guidance to better hold approved insurance providers accountable and prevent acres that are regularly too wet for crop production from receiving prevented planting coverage. RMA generally agreed with our recommendations. (Audit Report 05601-0001-31, RMA: Controls Over Prevented Planting)

Couple Conspired to Make False Statements to the Farm Service Agency (FSA)

A husband and his estranged wife submitted false statements in order to obtain a \$450,000 mortgage guaranteed by FSA and another \$100,000 mortgage directly from FSA. In addition, they converted to their own use collateral pledged to secure the \$100,000 FSA mortgage. In September 2012, they were both charged with conspiracy to make false statements. They both pled guilty. The husband was sentenced in May 2013 to 60 months' probation and ordered to pay \$176,005 restitution. In June 2013, his ex-wife was sentenced to 60 months' probation, to include 6 months'

home confinement, and was ordered to pay restitution jointly and severally with her ex-husband.

Wisconsin Dairy Farmer Guilty of Selling Mortgaged Property

In June 2013, a Wisconsin dairy farmer who pled guilty to selling cattle that were pledged as security for FSA loans was sentenced in U.S. District Court, Western District of Wisconsin, to 36 months' probation and \$197,156 restitution. The investigation determined that, between June 2006 and September 2008, the producer sold approximately 170 head of cattle and failed to provide sales proceeds to FSA as required as a term of his loan agreements. The cattle were held as security for \$290,000 in farm operating loans.

Iowa Producer Sentenced for Selling Loan Collateral

Several members of an Iowa family were charged in U.S. District Court, Northern District of Iowa, for their respective roles in selling livestock and equipment pledged as security on FSA loans. Instead of providing sales proceeds to FSA, as required by their loan agreement, the family members used the funds for personal expenses. Our investigation determined that the father conspired with his son, grandson, and wife to apply for and receive FSA operating loans and then sold livestock and equipment, in the name of another family member, in an effort to conceal the nature of the sales. In July 2013, the father was sentenced to 1 day in jail and ordered to pay restitution of \$263,015. His son and grandson each pled guilty to misprision of a felony in August 2013. They were sentenced to 18 months of probation and ordered to pay restitution of \$10,610 and \$24,483, jointly and severally with the father. Charges were dismissed against the wife and the relative whose name was used to sell the mortgaged collateral.

Arkansas Farmer Sentenced for Conversion of Mortgaged Cattle

This investigation disclosed that an FSA borrower in Arkansas unlawfully sold cattle mortgaged to FSA. Between August 2008 and January 2009, the farmer sold 127 head of FSA-mortgaged cattle for \$73,965 without FSA's consent or authorization. The man admitted to FSA employees that he sold the cattle using his name. In December 2011, he was indicted in U.S. District Court, Eastern District of Arkansas, for unauthorized disposition of mortgaged property. He pled guilty to the charge in August 2012. In April 2013, the farmer was sentenced to 5 months' imprisonment, followed by 36 months of supervised release, and was ordered to pay \$73,955 in restitution and a \$100 special assessment.

Iowa Men Defraud Grain Elevator by Falsifying Grain Weight Certificates

Our investigation into theft from an Iowa grain elevator determined that a local producer and an elevator employee created at least seven fictitious weight certificates between November 2008 and October 2009 and, in doing so, obtained over \$25,000 in fraudulent payments. The company victimized by this scheme is a federally licensed grain warehouse authorized by USDA under the U.S. Warehouse Act. The men were charged in U.S. District Court, Northern District of Iowa, with conspiracy and submitting false certificates. Additionally, the local producer was charged with bankruptcy fraud and interfering with Internal Revenue Service laws. (The subject engaged in activities to conceal his income for tax purposes.) Both individuals pled guilty and, in July 2013, the producer was sentenced to 46 months' imprisonment, 36 months of supervised release, and restitution totaling \$26,267. The elevator employee was sentenced to 60 months of probation and ordered to pay restitution of \$26,267.

Producer Exaggerated Grain Storage Claims to Receive a Faulty Loan Guarantee

Our investigation determined that an Iowa producer intentionally altered a corn contract to reflect a significantly greater amount of grain in storage than actually existed, which resulted in a local bank issuing a loan that was guaranteed by FSA. The producer eventually defaulted on the loan, causing a significant loss to the financial institution and USDA. In July 2013, the producer, who had previously pled guilty to making a false statement for the purpose of influencing a financial institution, was sentenced to 24 months' incarceration and was ordered to pay \$213,216 in restitution to FSA and \$157,587 in restitution to the financial institution.

Livestock Dealer Pleads Guilty in State and Federal Courts

A joint investigation with FBI and U.S. Postal Inspection Service disclosed that one of the largest livestock dealers in the United States operated a multi-million-dollar check kiting scheme that resulted in financial losses for hundreds of businesses and individuals. Between August 2004 and November 2010, the company engaged in check-writing and deposit practices that grossly inflated its account balances in order to induce a bank to release funds from a line of credit for purchasing livestock. The actual counts in the indictment were criminal syndication and complicity to theft by deception. In March 2012, four individuals pled guilty to State charges. Two of the individuals were sentenced to

10 years of imprisonment, to run concurrently with any Federal sentence imposed. Two other individuals were sentenced to 12 months of imprisonment, probated for 2 years. A total of \$890,000 in restitution was paid to approximately 200 victims in the Commonwealth of Kentucky. The probated sentences were contingent upon payment of the ordered restitution. In December 2012, two former company officials also pled guilty in U.S. District Court, Western District of Kentucky, to one count of mail fraud upon a financial institution. In May 2013, these two individuals were sentenced in Federal court to 57 and 70 months' imprisonment with each receiving 2 years of supervised release and a \$100 fine.

Georgia Businessman Sentenced to Prison for Illegally Obtaining Government Contracts Reserved for Service-Disabled Military Veterans

A joint investigation determined that a business owner falsely represented his company as a Service-Disabled Veteran Owned Small Business and received over \$1.7 million in government contracts, which were set aside specifically for disabled veterans, from May 2008 to September 2008. The business owner submitted bids for contracts, including a contract with the Agricultural Research Service (ARS), knowing that he did not qualify as a Service-Disabled Veteran Owned Small Business. In April 2013, the business owner pled guilty to making a materially false statement. In June 2013, he was sentenced to 24 months in prison, followed by 24 months of supervised release. Prior to his sentencing hearing, he paid \$181,556 in restitution to USDA, the U.S. Army, and the U.S. Coast Guard. This investigation was conducted jointly with the Small Business Administration OIG, Department of Veterans Affairs OIG, Department of Homeland Security OIG, and the Department of Defense—Defense Criminal Investigative Service.

Second Maine Property Management Company Official Sentenced for Equity Skimming

In the *Semi-Annual Report, First Half of FY 2013*, we reported that a joint investigation with the U.S. Department of Housing and Urban Development (HUD) OIG and FBI revealed that a residential property management company in Maine which 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 in violation of program regulations. The company also charged ineligible expenses to the projects and committed other financial recordkeeping and reporting improprieties. We previously reported that the company's chief executive officer and part-owner, who also pled guilty

to equity skimming, had been sentenced to 6 months' home confinement and 36 months' probation, and was ordered to pay \$25,000 in restitution and a \$200 special assessment. In April 2013, the president and company owner was sentenced to 6 months' imprisonment, followed by 36 months' supervised release, and was ordered to pay \$384,000 in restitution and a \$100 special assessment.

Maine Man and His Girlfriend Steal Identities of Their Minor Children to Commit Benefits Fraud

A Maine man and the mother of his child used their children's social security numbers to obtain employment and then failed to report their income to the various government agencies from which they were receiving benefits. The man received rental assistance from RD as well as SNAP benefits from USDA and Temporary Assistance for Needy Families (TANF) administered by the Maine Department of Health and Human Services; his girlfriend likewise received SNAP and TANF benefits. The pair were charged during 2012 with Social Security fraud, theft of Federal funds, aggravated identity theft, and making false statements. The man pled guilty in January 2013. In May 2013, he was sentenced to 48 months' imprisonment to be followed by 36 months' supervised release. He was also ordered to pay \$21,382 in restitution. His girlfriend pled guilty in June 2013 and awaits sentencing.

Wisconsin Businessman Convicted of Bank Fraud

A joint investigation with Internal Revenue Service-Criminal Investigation (IRS-CI) and FBI determined that a Wisconsin man made false representations to RD during the process of acquiring subsidized multi-family housing properties. After obtaining the properties, the individual embezzled reserve account monies and mismanaged loan funds, leading to a loss to USDA of approximately \$840,000, and \$2.5 million in losses to private lending institutions. In September 2012, the individual pled guilty to two counts of bank fraud in U.S. District Court, Eastern District of Wisconsin. In May 2013, he was sentenced to 45 months' incarceration and ordered to pay \$2.5 million restitution. The defendant further agreed to a 5-year voluntary debarment from participation in USDA programs.

South Dakota Apartment Complex Manager Sentenced for Embezzlement of Funds

An investigation of a former Farmers Home Administration loan specialist uncovered an embezzlement scheme which netted the individual approximately \$40,000. An individual, who worked for USDA from 1975 through 1986, left

Government employment and assumed responsibility for managing 10 low-income housing projects between 1988 and 2010. A review initiated by RD identified financial discrepancies at these projects, and the subsequent criminal investigation uncovered at least 21 inaccurate year-end reports which enabled the apartment manager to cover up her embezzlement scheme. In July 2013, in U.S. District Court, District of South Dakota, the individual pled guilty to filing false statements and was sentenced to 6 months' home confinement, 36 months' probation, and restitution of \$38,814.

Texas Mayor and Other City Employees Guilty of Fraud

As a result of our investigation, the mayor of a small Texas city and six other city employees were charged with various criminal offenses, including abuse of official capacity, misuse of official information, misapplication of fiduciary property, securing and executing documents by deception, and theft by a public servant. The investigation revealed that city officials had obtained grant and loan funds from RD in March 2010 to purchase and equip police cars and then, in violation of RD rules, used the police cars as collateral to obtain a loan from a local bank. There were also problems identified in use of the loan funds and in use of official information. In May 2012, two police officers and a city clerk entered guilty pleas and were sentenced to fines or probation. In April 2013, the mayor was found guilty by a jury and was immediately taken into custody. In May 2013, the mayor was sentenced to 60 months of incarceration in the Texas Department of Corrections. Charges were dismissed against three other individuals. This case was worked jointly with the Montgomery County District Attorney's Office-Public Integrity Division, FBI, the Texas Rangers, the Texas Department of Public Safety-Regulatory Crimes Bureau, and the Drug Enforcement Administration.

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 concluded the following SNAP-related investigations and prosecutions in the second half of FY 2013:

- **Southeast Michigan Retailer Defrauds SNAP of Approximately \$1.4 Million.** A long-term investigation with Immigration and Customs Enforcement-Homeland Security Investigations and the Michigan State Police resulted in the manager of a Detroit area retail establishment receiving a 24-month prison term and being ordered to pay \$1.4 million in restitution to FNS.

Our investigation determined that, from January 2009 through February 2012, the manager of the store (who was also the husband of the store owner) purchased SNAP benefits for 40 to 50 cents on the dollar.

- **Three Residents of Lansing, Michigan, Sentenced for Roles in SNAP Fraud Conspiracy.** A Lansing, Michigan, trio devised a SNAP trafficking scheme which resulted in over \$470,000 in illicit profits over a 3-year period. During the course of our investigation, the small grocery store averaged more than \$54,000 a month in SNAP redemptions. The owner, his wife, and another store associate exchanged SNAP benefits for cash on multiple occasions from September 2010 through March 2012. All three individuals ultimately pled guilty to felony charges in U.S. District Court, Western District of Michigan. In June 2013, the leader of the conspiracy was sentenced to 54 months' incarceration, 36 months' supervised release, and \$472,485 in restitution payable to FNS. His spouse was sentenced to 36 months' probation and was ordered to pay \$472,485 in restitution jointly with her husband. In August 2013, the third individual was sentenced to 12 months and 1 day of incarceration and \$306,897 in restitution payable jointly with his co-conspirators.
- **Chicago Retailer Sentenced for Role in SNAP Fraud.** From June 2009 to June 2010, a previously disqualified Chicago retailer continued to exchange SNAP benefits for cash and ineligible items while reaping thousands of dollars in profits. After being disqualified for SNAP trafficking during 2006, the individual reestablished the store in a different name and reported that ownership had been transferred to his spouse. During the course of our investigation, the individual operated the store and continued to defraud SNAP while his wife had no real role in operating the store. The individual pled guilty in U.S. District Court, Northern District of Illinois, and was sentenced, in May 2013, to 36 months' probation and \$159,000 in restitution.
- **Wisconsin Meat Delivery Route Vendor Convicted of SNAP Fraud.** Our investigation, conducted jointly with the Milwaukee County Sheriff's Department, determined that a meat delivery vendor defrauded SNAP by purchasing benefits from individuals residing in area homeless shelters. The subject of the investigation pled guilty to felony charges. In May 2013, he was sentenced in U.S. District Court, Eastern District of Wisconsin, to 24 months' incarceration, 36 months' supervised release, and \$716,371 in restitution payable to FNS.

- A Store Owner in Eastern California Defrauds SNAP of More than \$1 Million.** In May 2013, a Stanislaus County, California, store owner was sentenced in U.S. District Court, Eastern District of California, to 37 months in Federal prison, followed by 36 months of supervised release, and was ordered to pay more than \$1 million in restitution and a \$1,100 fine. He was also ordered to forfeit \$235,161 seized after he was found to have trafficked in SNAP benefits. In December 2012, the store owner pled guilty to defrauding SNAP of more than \$1 million between April 2009 and August 2011.
- Couple Sentenced for Defrauding Multiple Federal Aid Programs While Residing in the Country Illegally.** Although they had been deported to Mexico in 2004, a couple reentered the country and proceeded to apply for several kinds of Federal benefits in Michigan. A joint investigation with the Social Security Administration OIG and Immigration and Customs Enforcement-Homeland Security Investigations disclosed that the couple received more than \$85,000 from SNAP, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Medicaid, and TANF. The couple pled guilty to felony charges, including reentry of removed aliens and conspiracy in U.S. District Court, Western District of Michigan. In May 2013, the husband and wife were sentenced to 24 months' and 12 months' incarceration, respectively; they were also jointly and severally ordered to pay \$85,669 in restitution. Both will be deported upon completion of their prison terms.
- Oregon Department of Human Services Employee Steals Client Account Information in SNAP Scheme.** In April 2013, in U.S. District Court, District of Oregon, a former Oregon Department of Human Services (DHS) employee was sentenced to 24 months' imprisonment after she pled guilty to aggravated identity theft related to her theft and sale of SNAP benefits. In addition, she agreed to pay \$3,430 in restitution and was instructed to pay a \$100 court assessment. The Portland woman initially started working for DHS as a volunteer under a State-assisted work experience program. After briefly working as a paid employee, she used her account access privileges to access DHS client account information. Once she had the account information, she created fraudulent Oregon Trail electronic benefits transfer (EBT) cards from these accounts and then used or sold the clients' benefits without their consent. In December 2011, the woman and two other defendants were indicted in the U.S. District Court, District of Oregon, for aggravated identity theft and wire fraud. In November 2012, one of the accomplices pled guilty in U.S. District

Court, District of Oregon, to one felony count of conspiracy to commit wire fraud. In March 2013, the second accomplice pled guilty to a felony count of theft of Government funds in U.S. District Court, District of Oregon. As part of her plea, the accomplice agreed to permanent disqualification from SNAP.

Executive Director of Maine Non-Profit Organization Guilty of Embezzlement, Other Charges

An investigation conducted jointly with IRS-CI, the Department of Health and Human Services OIG, the Department of Housing and Urban Development (HUD) OIG, and the Department of Transportation OIG determined that U.S. Government funds, including USDA funding to administer WIC, were diverted to a consulting company, which then used the money to pay personal living expenses and cash kickbacks to the executive director of a Maine non-profit organization. The former executive director pled guilty in July 2012 to charges including conspiracy, embezzlement from a federally funded program, tax evasion, and signing false tax returns. In May 2013, he was sentenced to 30 months' imprisonment to be followed by 36 months' supervised release and was ordered to pay \$1.3 million in restitution.

Georgia Store Owner Sentenced to Prison for WIC Fraud

A joint investigation with the Immigration and Customs Enforcement-Homeland Security Investigations and the Georgia Department of Public Health Office of Inspector General determined that the owner of a small store in Georgia defrauded WIC of approximately \$400,000 between May 2009 and December 2010. During the investigation, the store owner and his employees purchased WIC vouchers for cash on 18 separate occasions. The store owner was charged in U.S. District Court, Northern District of Georgia, with 18 counts of WIC fraud and 83 counts of possession of forged securities. In May 2013, he pled guilty to all charges. In September 2013, he was sentenced to 22 months in prison, to be followed by 36 months of probation. He was ordered to pay \$14,000 in restitution and a special assessment of \$10,100. This case also resulted in the administrative seizure of \$82,000.

RECOVERY ACT

FNS Did Not Ensure that States Properly Accounted for Additional Recovery Act Funds for Administrative Costs

The Recovery Act provided additional funds for SNAP administrative costs, but OIG found that, while FNS made Recovery Act administrative funds available timely for States to use, the agency did not provide adequate accounting guidance, coordination, and oversight to ensure States fully complied with the transparency and accountability requirements of the Act. Four of six reviewed States did not separately account for Recovery Act funds for SNAP administrative expenditures. Although FNS did provide instruction on how to report Recovery Act funds used, it did not provide adequate guidance to assist States in separating Recovery Act expenditures. Due to the lack of separate accounting, we could not gather sufficient evidence to draw any conclusions on the propriety of how States used Recovery Act SNAP funds for administrative costs.

We did find that two States used funds from one fiscal year to pay for expenses incurred in a different fiscal year, and a third State used funds after the obligation periods had expired. In addition, one county inappropriately used funds for payroll costs not associated with SNAP. As a result, we identified \$470,272 in unallowable expenditures. We recommended that FNS take steps to improve how the States account for funds, and the agency agreed. (Audit Report 27703-0001-22, FNS Recovery Act Impacts on Supplemental Nutrition Assistance Program—Phase 2)

GOVERNMENTWIDE ACTIVITIES—GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

▪ *Proposed Regulations—Suspension of SNAP Benefit Payments to Retailers.* OIG reviewed and provided comments on the proposed rule regarding the suspension of SNAP benefit payments to retailers (78 Fed. Reg. 12245 (February 22, 2013)). The proposed rule would implement 7 U.S.C. § 2021(h), which authorizes the Department to suspend the payment of redeemed SNAP benefits to certain retail food stores or wholesale food concerns pending administrative action to disqualify the firms for fraudulent activity. OIG’s concerns related to the preamble’s statement regarding the total number of firms subject to concluded judicial action for SNAP fraud; the definition and application of the payment suspension remedy; and the disposition of the suspended payments. OIG suggested that FNS include factors in the regulation to inform what constitutes a “flagrant violation” warranting a payment suspension. In addition, we suggested that FNS consider amending the proposed regulation so that it conforms to the statute and allows suspensions to be imposed with respect to any “flagrant violations.” We also questioned FNS’ preamble statement regarding how many firms were subject to civil or criminal action for SNAP fraud, and we committed to working with FNS to ensure accurate information regarding such firms. Finally, we suggested that FNS clarify the proposed rule’s preamble and provisions regarding the disposition of any suspended payments where a sanctioned firm was also subject to related criminal or civil judicial proceedings.

Participation on Committees, Working Groups and Task Forces

▪ *Interagency Fraud and Risk Data Mining Group.* The OIG Data Analysis and Special Projects Division participates in this working group to learn from experts in the fields of data mining and risk analysis. The group brings together investigators and auditors within the Federal community 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.

▪ *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 second half of FY 2013, Talon operations were conducted in 7 States, resulting in more than

300 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 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. FBI and U.S. Immigration and Customs Enforcement personnel also helped during search warrant operations. Since 2007, our teamwork has resulted in 139 arrests and 235 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 137 guilty pleas. Sentences have included lengthy incarceration periods and \$26 million in court-ordered fines and restitution. The U.S. Attorney’s Offices have initiated forfeitures totaling over \$4.4 million.

▪ *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 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 followup. 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 more 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 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 including HUD, 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 Bay Area Organized Retail Crime Association in California, 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 OIGs and FBI. The task force 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. Inspector General (IG) councils meeting in other regions of the country also include USDA-OIG representatives.

▪ *Small Business Innovative Research Working Group.* OIG investigators and auditors participate in a working group hosted by the National Science Foundation OIG. The working group is focused on addressing Congress' concerns about the persistence of fraud in this research program, as well as the IGs' annual reporting requirements on their work in this program area.

▪ *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.

▪ OIG agents participated in other task forces and working groups related to benefits fraud, including the *Northern California Financial Fraud Investigators Association*; a bankruptcy fraud working group and white-collar crime working group in Kansas and Missouri; 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, California, and Mississippi, including a *Secret Service High Tech Crimes Task Force*.

ONGOING REVIEWS FOR GOAL 2

- Environmental Quality Incentives Program (NRCS),
- duplication in Rural Business-Cooperative Service Grant Programs (RD),
- Single Family Housing direct servicing and payment assistance recapture (RD),
- National School Lunch/Breakfast Programs (FNS),
- SNAP error rate (FNS),
- review of procurement controls (RD),
- economic adjustment assistance to users of upland cotton (FSA),
- compliance activities (FSA),
- Noninsured Crop Disaster Assistance Program (FSA),
- States' food costs for WIC (FNS),
- review of a Rural Utilities Service (RUS) Water and Waste Program hotline complaint (RD),
- eligibility and compliance consideration for Section 2501 grants, which fund outreach assistance for socially disadvantaged farmers and ranchers (Departmental Management), and
- trade adjustment assistance for farmers program, phase 2 (Foreign Agricultural Service (FAS), FSA, National Institute of Food and Agriculture (NIFA)).

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 second half of FY 2013, we devoted 38.8 percent of our total direct resources to Goal 3, with 98.9 percent of these resources assigned to critical/high-impact work. A total of 88.5 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 74 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 10 audit reports under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 10 indictments, 4 convictions, and about \$4.2 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 3

- **USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (also under Goals 1 and 2)**
- **FNS Needs to Strengthen SNAP Management Controls (also under Goal 2)**
- **Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs**
- **USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources**

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

The Office of Procurement and Property Management (OPPM) Needs to Better Oversee Procurements for Departmental Management

OPPM's Procurement Operations Division (POD) is responsible for processing procurements for Departmental Management (DM) and Staff Offices. OIG reviewed POD's controls over the procurement process and found several issues POD needed to address. We reported POD was not keeping sufficient documentation for DM and Staff Office IT procurements. We also found that DM and Staff Office personnel had not defined user roles and allowed users to have excessive access abilities within the procurement system. This report also included an issue previously disclosed to DM regarding a contracting officer who signed three contract actions that exceeded the contracting officer's warrant authority. POD did not detect these problems because it did not have formal policies and procedures to monitor contracting officers' actions. OPPM generally agreed

with OIG's findings and has taken corrective action to address 10 of the 12 recommendations in this report. (Audit Report 92501-0001-12, Review of Procurement Operations)

USDA Needs to Improve its System for Reviewing the Classification of Documents

As required by the Reducing Over-Classification Act, OIG reviewed USDA's compliance with Federal regulations designed to prevent information from being over-classified and to promote information sharing. While the Personnel and Document Security Division (PDSO) focuses on safeguarding national security information within USDA, our review found that PDSO lacks proper guidance for eight key areas relating to classification management and does not have a records management system that would identify documents that need to be declassified or reviewed for continued national security. We also found that USDA's classification guide was missing required elements needed for proper derivative classification decisions. PDSO also needs to improve its reviews of classified markings on documents.

Further, PDSD does not always obtain and maintain adequate statistics related to the security classification program, and USDA does not ensure that its subordinate agencies are conducting self-inspections in accordance with regulations and procedures. Finally, PDSD's classification management training content and documentation need to be improved, particularly in providing required information to individuals with security clearances. As a result, there is a greater potential for over-classifying or improperly releasing national security information. PDSD accepted several of our recommendations, but additional action from the agency is needed to address the other recommendations. (Audit Report 61701-0001-32, U.S. Department of Agriculture's Office of Homeland Security and Emergency Coordination—Classification Management)

OCFO/National Finance Center (NFC) Controls Were Suitably Designed and Operating Effectively

Based on the criteria described in OCFO/NFC assertions related to payroll personnel and application of hosting systems, we found the agency's descriptions of controls fairly present the systems that OCFO/NFC implemented. Also, the controls related to the control objectives stated in the descriptions were suitably designed and operating effectively to provide reasonable assurance that the control objectives would be achieved. (Audit Report 11401-0005-11, Statement on Standard for Attestation Engagements No. 16, Report on Controls at the National Finance Center for October 1, 2012 to July 31, 2013)

USDA Needs to Improve How It Reports High-Dollar Overpayments

To intensify efforts to eliminate payment error, waste, fraud, and abuse in Federal programs, the President issued Executive Order 13520, "Reducing Improper Payments." The Executive Order requires OIG to review USDA's quarterly high-dollar overpayment reports and make recommendations, as necessary, to help agencies improve their plans to recover and prevent high-dollar overpayments.

We found that in the third year of reporting, USDA reported more comprehensive information about high-dollar overpayments than it did in previous years. Specifically, due to improved reporting oversight and processes, USDA reported 239 overpayments, totaling approximately \$20.3 million, in FY 2012. This represents an increase of 67 percent over the number of overpayments reported the previous year. However, we determined that the quarterly reports included errors and were published up to 102 days after the due date. This occurred because, although agency

chief financial officers certified that information was accurate and met applicable criteria, component agencies' submissions required substantive review by OCFO to ensure USDA followed the high-dollar reporting guidance appropriately and that only payments that were supposed to be reported were included. We recommended that OCFO provide additional oversight over component agencies' processes to ensure that component agencies' high-dollar overpayment reports comply with Departmental high-dollar reporting guidance. OCFO agreed with our recommendation, and we have accepted management decision on the recommendation. (Audit Report 50024-0003-11, Executive Order 13520, Reducing Improper Payments—Fiscal Year 2012 High-Dollar Report Review)

OCFO and FS Need to Ensure that Employees Are Not Misusing Their Travel Cards

In our review of USDA's travel card data, OIG identified a low incidence of cardholder misuse, and determined that OCFO and five of six agencies reviewed were generally following guidelines. Of 80 statistically sampled FY 2011 travel card charges, we did determine that 14 were inappropriate because employees used the cards when they were not authorized for official travel. Although other USDA agencies identified such transactions and followed up appropriately, FS did not identify nine of the inappropriate charges because FS was not performing adequate reviews of employee transactions. An additional statistical sample of FS transactions revealed that 4.1 percent of the sampled FS transactions (all attributable to four employees) occurred during a time when the employees were not authorized for travel. These four employees' travel card accounts disclosed that they had used their travel cards approximately 500 times without a travel authorization and misused their travel cards to make personal charges totaling approximately \$13,700. We recommended that FS take steps to discipline these employees and prevent such problems from recurring. OCFO and FS agreed with our recommendations. (Audit Report 50024-0003-13, Review of the Department's Travel Card Data)

FSA Needs to Prevent Calculation Errors in its Program Payments

FSA did not properly record and adequately support all FY 2012 program payments. After reviewing 80 statistically selected FSA program payments, we identified errors in 12. These errors occurred primarily because FSA's internal controls over the Supplemental Revenue Assistance Payments program's manual payment calculation process did not prevent data errors. Personnel at county offices made

errors when inputting the data into the manual workbook used to calculate the payments, and second-party reviewers did not identify these errors. Based on the results of our sample, we estimated that a total of about \$17 million of FSA's program payments were improper. FSA's rate of improper payments was 2.3 percent, an increase from the 1.4 percent rate we identified in an audit of payments FSA made in FY 2011. FSA agreed that these 12 errors resulted in improper payments of \$80,480, and initiated or completed appropriate corrective actions for all errors. We have accepted management decision on the one recommendation. (Audit Report 03401-0002-11, Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments)

FNS Needs to Assess its Food Assistance Programs and Reduce any Potential Duplication

Over many years, Congress has directed FNS to establish a variety of separate nutrition assistance programs, with a variety of purposes, objectives, and client bases. With the growing rate of food insecurity among U.S. households and significant pressures on the Federal budget, it is important to understand how food assistance programs complement one another as a safety net and how services from these 15 individual programs may be inefficient due to potential overlap and duplication. While FNS has attempted to be more efficient, the agency has not performed overarching assessments to evaluate how the programs operate together as the Nation's nutritional safety net. OIG concluded that FNS could potentially achieve cost savings by taking actions to eliminate duplication and overlap in its nutrition assistance programs. FNS, however, contends that such an assessment would be costly. Since FNS could not quantify the cost, the agency should determine the resources that would be required to conduct such a study. Then FNS should determine whether it has the resources to conduct the study or whether additional appropriated funding will be required. Although FNS believes that the network of nutrition assistance programs that make up the national nutritional safety net reflects Congress' recognition of a diversity of needs, the agency generally acknowledged the need to conduct such an assessment. (Audit Report 27001-0001-10,

Overlap and Duplication in Food and Nutrition Service's Nutrition Programs)

NFC Generally Reported Employee Benefits, Withholdings, and Contributions Correctly to the Office of Personnel Management (OPM)

As required annually by OMB, we assisted OPM in assessing the reasonableness of retirement, health, and life insurance withholdings and employee data submitted by OCFO and NFC. We found instances of differences that exceeded the allowable OPM thresholds. In addition, when verifying Combined Federal Campaign deductions made by the payroll providers, we identified situations where the deductions were sent to different campaign areas than those designated by OPM. OCFO/NFC noted the low error rate overall when considered on a percentage basis and attributed most of the differences to human error by personnel at various agencies. (Audit Report 11401-0006-11, Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

Former RD Employee Ordered to Pay \$3.9 Million in Restitution

In the *Semi-Annual Report, First Half of FY 2013*, we reported that a former RD area director in Alabama was sentenced to 60 months in prison and 36 months of probation for wire fraud, with restitution to be determined. This individual pled guilty in November 2012 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 FBI disclosed that the employee then transferred those funds to his personal accounts. In June 2013, the man was ordered to pay \$3.9 million in restitution to seven water authorities and one electric authority. He had previously repaid some of the funds he had diverted. The employee was separated from Federal employment in January 2013.

Recovery Act

The Rural Utilities Service (RUS) Needs to Strengthen Future Broadband Programs by Establishing Additional Written Guidance

With the passage of the Recovery Act, Congress authorized RUS' Broadband Initiatives Program (BIP) to help bring broadband to rural areas of the United States where residents might otherwise not have access to this important technology. OIG reviewed 247 advances, totaling \$146.4 million, for 86 sampled awards and concluded that RUS' advances of BIP funds were generally supported. However, we did find that, while BIP primarily financed last mile projects that provide service to end-users such as households and businesses, RUS does not have adequate controls to measure and transparently report how effectively BIP is meeting its subscription goals. Additionally, RUS administered the program differently than as outlined in the Notice of Funds Availability, including allowing awards composed of greater than 75-percent grant components without required waivers, or substituting equity for the loan portion, without adequately informing all prospective applicants. These issues generally occurred because RUS did not develop procedures and guidance outlining how various processes were to be carried out. RUS agreed to strengthen BIP by establishing additional written guidance to address specific processes. (Audit Report 09703-0002-32, American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Post-Award Controls)

ARS Needs To Strengthen How It Closes Out Contracts

OIG assessed ARS procedures for closing out Recovery Act contracts which the agency used for repairs to critical systems at its research facilities. OIG found that ARS timely identified funds on physically completed contracts that could be put to better use. ARS did not allow any funds to expire and obtained the proper releases from the contractors. Further, ARS took additional measures to ensure that Recovery Act goals related to transparency and accountability were met. However, we determined that ARS should strengthen the effectiveness and efficiency of its controls for closing out contracts. For example, ARS' acquisition oversight did not ensure that it properly and timely implemented processes for evaluating contractor

performance and sharing information with the Federal acquisition workforce. Also, it did not ensure it achieved desired outcomes, such as the completion of contract closeout, within a 6-month period. This occurred because ARS lacked adequate management oversight over the contract closeout process to ensure that related contracting activities met intended goals. We recommended that ARS take action related to its internal reviews of the procurement process and develop its guidance for documenting that contracts are consistently and timely closed out. ARS also needs to complete its implementation of a contractor evaluation database and strengthen its oversight of the contract closeout process. ARS generally agreed with our recommendations, and we have accepted management decision on all recommendations. (Audit Report 02703-0001-12, Agricultural Research Service Contract Closeout Process—Recovery Act)

GOVERNMENTWIDE ACTIVITIES—GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Review of the Office of Management and Budget (OMB) Draft Guidance on Governmentwide Financial Reporting and Audits.* On July 3, 2013, OMB solicited comments on its proposed FY 2013 updates to OMB Circular A-136, Financial Reporting Requirements, and OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. OIG reviewed the draft and provided comments. Specifically, OIG suggested OMB Circular A-136 include language related to recovery targets that aligns with OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments.
- *OMB Guidance Frequently Asked Questions (FAQ)—Applying the Open Data Policy to Federal Awards.* OIG reviewed a draft FAQ guidance document on applying OMB’s Open Data Policy to Federal acquisition and grant-making processes and had one comment. OMB’s Open Data Policy requires government information to be structured in a way that enables it to be fully discoverable and usable by end users (machine readable/platform independent, i.e., no need for specific software to open the data). The draft FAQ included a reference to “Councils” that will be a resource for better understanding overall implementation of the Open Data Policy and for developing tools and information that can provide some consistency in implementation. OIG recommended that OMB consider specifying the “Councils” (Chief Acquisition Officers Council, the Chief Financial Officers Council, the Chief Information Officers Council, and/or the Federal Records Council) referred to in the document for a better understanding of which Councils will be involved in this effort.
- *OMB Draft Memorandum on Protecting Privacy While Reducing Improper Payments with the Do Not Pay Initiative.* OIG provided comments on a draft OMB memorandum entitled “Protecting Privacy While Reducing Improper Payments with the Do Not Pay Initiative.” OMB’s memorandum would help agencies reduce improper payments in compliance with the Privacy Act of 1974 and other laws and policies. OIG recommended deleting a statement in OMB’s memorandum relating to computer matching by Inspectors General, that would provide that “[a]lthough Inspectors General may take the initiative in proposing a matching program, all [Computer Matching Agreements (CMAs)] shall be written at the departmental or agency level. For example, the Social Security Administration would enter into a CMA on behalf of the Social Security

Administration’s Inspector General.” Deleting this provision would protect the independence of Inspectors General and align OMB’s memorandum with the language of the Improper Payments Elimination and Recovery Improvement Act of 2012 and the Inspector General Act of 1978. In addition, OIG recommended that OMB include the timeframe during which agencies must report to OMB the specific number of days that it takes agencies’ Data Integrity Boards to approve or disapprove each proposed “Do Not Pay” matching program. Including this information in the guidance would clarify agencies’ responsibilities. Finally, OIG recommended including the signed Authority to Operate document in the list of items that Treasury must post on the central “Do Not Pay” website, in order to demonstrate compliance with information technology security regulations.

- *Digital Accountability and Transparency Act (DATA) of 2013.* OIG reviewed and provided comments primarily on Section 3(g) (“Accountability for Federal Funding”) of this bill, which concerns OIG data quality reviews. Under the draft bill, IGs would be required to review a sampling of data submitted by their agencies under the DATA Act and to submit data to Congress on the completeness, timeliness, quality, and accuracy of the data samples and the implementation and use of consistent data standards by the agencies. In a prior version, the DATA Act would require OIGs to submit reports to Congress on their reviews. Under the proposed change, OIGs would only be required to submit data to Congress on their reviews. OIG noted the change from the word “report” to “data” provided OIGs with more flexibility in conducting reviews and in determining how that information needs to be communicated to Congress.
- *Secure Domain Name System (DNS) Policy.* In June 2013, USDA circulated a draft Departmental regulation entitled the “Secure Domain Name System (DNS) Policy.” The draft policy proposed to establish the minimum requirements for implementing DNS and Domain Name System Security Extensions services across all USDA networks. OIG submitted several substantive and technical comments on the item. First, OIG noted that the policy did not include all server checklist items that are required by National Institute of Standards and Technology (NIST) Special Publication 800-81 Revision 1, and suggested that the policy state that USDA servers must meet these guidelines. OIG also noted that the policy contained a DNS Policy Waiver Process, which arguably applied to OIG. Pursuant to Section 3 of the Inspector General Act of 1978, 5 U.S.C. app. 3, §§ 1-13, the Inspector General can only report to and be under the general supervision of the Deputy Secretary or Secretary, not the Chief Information Officer. The draft policy also contained a process for the registration of the DNS public-facing server,

which appeared to be a one-time event. OIG suggested that the process should be done on a periodic basis to ensure servers stay in compliance with current security requirements. OIG also included a general comment regarding the draft policy noting that, although public-facing DNS are more at risk than non-public-facing, NIST does not make a distinction. OIG recommended that the regulation should be clearer that all DNS, and not just public-facing DNS, must follow NIST Special Publication 800-81 guidance. Finally, we made a number of technical comments that were intended to clarify various provisions of the draft policy.

Participation on Committees, Working Groups and Task Forces

- *USDA Credit Reform Workgroup.* The Financial Audit Operations Division of OIG participates on 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. Through coordination with FSAN, annually OIG hosts the Council of the Inspectors General on Integrity and Efficiency (CIGIE)/Government Accountability Office (GAO) Financial Statement Audit Conference in the Department's Jefferson Auditorium.
- *Federal Audit Executive Council.* OIG participates in the Federal Audit Executive Council (FAEC), 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 recently identified and compiled internal and external metrics and performance measures used in the Federal audit community for evaluating audit quality and timeliness. It also compiled factors and best practices used in annual audit planning, and presented the results at the September 2013 FAEC conference.
- *Conference Spending Reporting Requirements.* OIG surveyed FAEC to assess the IGs' implementation of the conference reporting requirements outlined in Section 3003

of the Consolidated and Further Continuing Appropriations Act of 2013. We also communicated with OMB and CIGIE's Legislation Committee about the expectations of the IG community in implementing the requirement.

- *Hurricane Sandy Disaster Rebuilding Task Force.* OIG participated in and monitored USDA's efforts related to Hurricane Sandy recovery efforts.
- *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 initially coordinated with SIGAR to discuss OIG's current work with the same NGO. Throughout the course of the audit, OIG auditors continued to coordinate with SIGAR.
- *RESTORE Act.* OIG attended the initial planning meeting for a Governmentwide oversight activity of the Gulf Coast Restoration Trust that was established by the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012. The OIG of the Department of the Treasury is leading and coordinating this effort.
- *Whistleblower Ombudsman Working Group.* An OIG employee serves as USDA's Whistleblower Protection Ombudsman and continues to participate in the OIG Whistleblower Ombudsman Working Group. This group was established following the enactment of the Whistleblower Protection Enhancement Act of 2012 to assist newly designated ombudsmen with implementing the Act's requirements concerning the education of Federal employees about prohibitions against retaliation for protected disclosures of fraud, waste, and abuse, and their rights and remedies if retaliation does occur.
- *Financial Fraud Enforcement Task Force (formerly the National Procurement Fraud Task Force).* OIG is a member of this task force, formed by the Department of Justice 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.

- *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.

ONGOING REVIEWS FOR GOAL 3

- Livestock Forage Program (FSA),
- review of USDA contractor payments (OCFO),
- USDA and its agencies' financial statements for FY 2013 (OCFO),
- In re Black Farmers Discrimination Litigation (USDA),
- USDA's controls over Economy Act transfers and Greenbook program charges (OCFO),
- controls over land valuations for conservation easements (NRCS),
- effectiveness of the export credit guarantee program (FAS),
- Noninsured Crop Disaster Assistance Program (FSA),
- FY 2013 Federal Information Security Management Act review (OCIO),
- management security over USDA's telecommunication network (OCIO),
- Hispanic and women farmers and ranchers claim resolution process (USDA),
- national program operations reviews (RMA),
- security review of National Agricultural Statistics Service lockup procedures (NASS),
- Section 632(A) transfer of funds from U.S. Agency for International Development to USDA (FAS),
- Strikeforce Initiative, a Departmental outreach effort to provide information and assistance to minority and women farmers (Departmental Management),
- conservation easement compliance (NRCS),
- firefighting cost share agreements with non-Federal entities (FS),
- review of USDA's bank purchase card data (OPPM),
- review of USDA contractor databases (OPPM),
- data quality review of beef research and promotion board (AMS),
- USDA research initiatives (ARS, NIFA, FS), and
- private voluntary organization grant fund accountability (FAS).

Stewardship of Natural Resources

OIG Strategic Goal 4:

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

OIG's 5-Year Strategic Plan (FY 2013-2018) no longer identifies oversight of the stewardship of natural resources as a separate and distinct goal. While audits and investigations of FS and NRCS programs continue, and these reviews involve oversight of the stewardship of natural resources, we have determined that the results of these reviews could be reported equally well under Goals 1, 2, and 3. Accordingly, we have no audits or investigations to report for this goal in this SARC reporting period.

In addition to the direct time OIG spent on Goals 1, 2, and 3, 1.5 percent of the agency's direct time was spent on Goal 4 and an investigative administrative action.

Appendix—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.

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 2nd Half ACTUAL	FY 2013 Full Year ACTUAL
OIG direct resources dedicated to critical-risk and high-impact activities.	97.7%	92%	96.3%	96.6%
Audit recommendations where management decisions are achieved within 1 year.	96.8%	90%	93.6%	94.4%
Audits initiated where the findings and recommendations are presented to the auditee within established or agreed-to timeframes.	91.9%	90%	100%	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%	84.8%	86%
Closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	71.2%	70%	81%	79.7%

RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

PERFORMANCE MEASURES	FY 2012 ACTUAL	FY 2013 TARGET	FY 2013 2nd Half ACTUAL	FY 2013 Full Year 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**	N/A**
Respond to Recovery Accountability and Transparency Board-sponsored requests and projects within established schedules or agreed-to timeframes.	94.4%	85%	100%	100%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	N/A	N/A
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt.*	N/A	75%	N/A	N/A
Timely and accurate monthly Recovery Act funds reports submitted to the Recovery Board.	100%	95%	100%	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.

Recognition of OIG Employees by the Secretary and IG Community

Secretary's Honor Award (announced in September 2013, presented in December 2013)

Secretary's Award for Ensuring Access to Safe and Nutritious Food

Food Safety Audit Team
Audit

Secretary's Award for Personal and Professional Excellence

North Carolina Crop Insurance Investigative Team
Investigations

Silver Presidential Volunteer Service Award

Aaron Oatley
Audit

Council of the Inspectors General on Integrity and Efficiency (CIGIE) Awards (announced in September 2013, presented in November 2013)

Award for Excellence

Beef Safety Testing Team
Audit

North Texas SNAP Prosecution Team
Investigations

SNAP Fraud Audit and Investigations Team
Combined

Controls over the Grant Management Process of the Office of Advocacy and Outreach
Audit

Gaston L. Gianni, Jr., Better Government Award

Organic Fertilizer Investigation Team
Investigations

SUMMARY OF AUDIT ACTIVITIES—APRIL-SEPTEMBER 2013

Reports Issued: 17	Audits Performed by OIG	17
	Audits Performed Under the Single Audit Act	0
	Audits Performed by Others	0
Management Decisions Made: 157	Number of Reports	19
	Number of Recommendations	157
Total Dollar Impact (Millions) of Management-Decided Reports: \$911.4 million	Total Questioned/Unsupported Costs	\$424.2 ^{a, b}
	-Recommended for Recovery	\$12.2
	-Not Recommended for Recovery	\$412.0
	Funds to Be Put to Better Use	\$487.2
^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.		

SUMMARY OF *INTERIM REPORTS* ISSUED—APRIL-SEPTEMBER 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—APRIL-SEPTEMBER 2013

Reports Issued: 155	Cases Opened	195
	Cases Referred for Prosecution	240
Impact of Investigations	Indictments	539
	Convictions ^a	253
	Searches	210
	Arrests	586
Total Dollar Impact (Millions): \$38.9	Recoveries/Collections ^b	\$1.1
	Restitutions ^c	\$29.8
	Fines ^d	\$0.5
	Asset Forfeitures ^e	\$5.0
	Claims Established ^f	\$2.3
	Cost Avoidance ^g	\$0.2
Administrative Sanctions: 370	Administrative Penalties ^h	\$0
	Employees	41
	Businesses/Persons	329

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 253 convictions do not necessarily relate to the 539 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.

Full FY 2013 Results in Key Categories—October 1, 2012-September 30, 2013

SUMMARY OF AUDIT ACTIVITIES¹

Reports Issued:	
Number of Reports	54
Number of Recommendations (340 program improvement, 63 monetary)	403
Management Decisions Made:	
Number of Reports	50
Number of Recommendations (315 program improvement, 41 monetary)	356
Total Dollar Impact (Millions) of Management-Decided Reports:	\$1050.3
Questioned/Unsupported Costs	\$439.6
Funds To Be Put To Better Use	\$610.7

SUMMARY OF INVESTIGATIONS ACTIVITIES

Reports Issued	335
Indictments	917
Convictions	551
Arrests	843
Total Dollar Impact (Millions)	\$122.7
Administrative Sanctions	562

¹ In April 2013, we received a complaint that questioned the quality of Report 01099-0001-21, Beef Research and Promotion Board Activities, issued on March 29, 2013. As a result, in June 2013, we processed the complaint under the guidelines of the Data Quality Act (Section 515 of Public Law 106-554). In summary, we determined that the audit team did not perform all necessary procedures related to the statistical sample. Also, certain aspects of our quality control system were not fully completed. Consequently, we removed the original report from our website. We then re-engaged with AMS and conducted additional audit and quality control procedures from July through September 2013 to assess the finding and recommendations in the March 29, 2013 report. We plan to publish a revised report based on the recommendations resulting from this re-engagement. The FY 2013 annual statistics were reduced by one report and two program improvement recommendations due to the removal of the audit cited.

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS FROM APRIL 1, 2013 THROUGH SEPTEMBER 30, 2013

CATEGORY	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
Reports for which no management decision had been made by April 1, 2013. ^b	9	\$684,082,890	\$36,558,918
Reports which were issued during the reporting period.	5	\$143,469,876	\$10,640,000
Total reports with questioned costs and loans	14	\$827,552,766	\$47,198,918
Of the 14 reports, those for which management decision was made during the reporting period.	7	<i>Recommended for recovery</i>	\$12,173,387
		<i>Not recommended for recovery</i>	\$412,027,011
		<i>Costs not disallowed</i>	\$2,698,997
Of the 14 reports, those for which no management decision has been made by the end of this reporting period.	7	\$400,653,371	\$34,685,259
Total current reports for which no management decision was made within 6 months of issuance. ^b	5	\$329,583,099	\$34,685,259

^a Unsupported values are included in questioned values.
^b Carried over from previous reporting periods.

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 April 1, 2013. ^a	2	\$32,157,616	
Reports which were issued during the reporting period.	3	\$637,998,780	
Total reports with recommendations that funds be put to better use	5	\$670,156,396	
Of the 5 reports, those for which management decision was made during the reporting period.	2	<i>Disallowed costs</i>	\$487,173,760
		<i>Costs not disallowed</i>	\$0
Of the 5 reports, those for which no management decision has been made by the end of this reporting period.	3	\$182,982,636	
Total current reports for which no management decision was made within 6 months of issuance. ^a	1	\$25,779,197	

^a Carried over from previous reporting periods.

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 112 program improvement recommendations, and management agreed to implement a total of 137 recommendations 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 swine slaughter plants comply with the Federal Meat Inspection Act and are penalized when they violate the Act.
- FNS should undertake an assessment of its food assistance programs to ensure that there is no overlap and duplication from these 15 individual programs.
- RMA should improve its prevented planting provisions to make them more cost-effective, encourage producers to plant a crop when possible, and make eligibility criteria more objective and clear.

AUDIT AND INVESTIGATIVE PEER REVIEWS

In June 2013, the Treasury Inspector General for Tax Administration completed a peer review of OIG's investigation organization. The report determined that OIG is in compliance with the quality standards for investigations established by CIGIE and the Attorney General.

During the current semi-annual reporting period, there were no audit peer reviews of OIG's audit organization. OIG received a grade of pass, the best evaluation an audit organization can receive, from our most recent peer review report, issued by the Environmental Protection Agency-OIG in November 2012.

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1, 2013 THROUGH SEPTEMBER 30, 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	01601-0002-32	07/15/13	National Organic Program–Organic Milk Operations			
Agricultural Research Service: 1	02703-0001-12	08/14/13	Agricultural Research Service’s Contract Closeout Process (Recovery Act)			
Farm Service Agency: 1	03401-0002-11	07/02/13	Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments	\$17,400,000		
Food and Nutrition Service: 3	27001-0001-10	06/13/13	Overlap and Duplication in FNS’ Nutrition Programs			
	27601-0001-31	07/31/13	FNS: Controls for Authorizing Supplemental Nutrition Assistance Program Retailers	\$70,600,000		\$6,700,000
	27703-0001-22	06/13/13	Recovery Act Impacts on Supplemental Nutrition Assistance Program–Phase Two	\$470,272		
Food Safety and Inspection Service: 1	24601-0001-41	05/09/13	FSIS–Inspection and Enforcement Activities at Swine Slaughter Plants			
Homeland Security and Emergency Coordination: 1	61701-0001-32	09/27/13	Classification Management			
Management Services: 1	92501-0001-12	09/27/13	Review of the Procurement Operations			
Multi-Agency: 3	50024-0003-11	08/22/13	Fiscal Year 2012 Executive Order 13520, Reducing Improper Payments, High Dollar Overpayment Report Review			
	50024-0003-13	06/10/13	Review of the Department’s Travel Card Data			
	50601-0002-31	07/31/13	FSIS’ and AMS’ Field-Level Workforce Challenges	\$11,740,000	\$10,640,000	

AUDIT TOTALS BY AGENCY	AUDIT NUMBER	RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Natural Resources Conservation Service: 1	10099-0001-31	09/27/13	NRCS' Administration of Easement Programs in Wyoming			
Office of the Chief Information Officer: 2	11401-0005-11	09/27/13	SSAE No. 16 Report on Controls at the National Finance Center for October 1, 2012, to July 31, 2013			
	11401-0006-11	09/27/13	Agreed-Upon Procedures: Employee Benefits, Withholdings, Contributions, and Supplemental Semiannual Headcount Reporting Submitted to the Office of Personnel Management			
Risk Management Agency: 1	05601-0001-31	09/03/13	RMA: Controls Over Prevented Planting	\$43,259,604		\$480,795,341
Rural Utilities Service: 1	09703-0002-32	08/22/13	Recovery Act: Broadband Initiatives Program—Post Award Controls			\$150,503,439
Grand Total: 17				\$143,469,876	\$10,640,000	\$637,998,780

^aUnsupported values are included in questioned values.

NO MANAGEMENT DECISION

In total, OIG has eight 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	03/28/13	Recovery Act—Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (08703-0005-SF)	\$91,773,548	\$58,229,927
Multi-agency	11/15/12	FY 2012 Federal Information Security Management Act Report (50501-0003-12)	\$0	\$0
	03/28/13	Effectiveness of the Department's Recent Efforts to Enhance Agricultural Trade (50601-0001-22)	\$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 the 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)
FS	07/03/12	American Recovery and Reinvestment Act—Forest Service Capital Improvement and Maintenance Projects—Trail Maintenance and Decommissioning (08703-0004-SF)	\$406,534	\$317,741
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	FY 2011 Federal Information Security Management Act Report (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
	09/07/11	Citrus Indemnity Payments Resulting from 2005 Florida Hurricanes (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 Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (08703 0005 SF), Forest Service, issued March 28, 2013

OIG found that FS lacked the necessary controls to ensure that 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. We accepted management decision for 53 of the 62 recommendations. In the 9 recommendations without management decision, OIG recommended that FS recover unallowable and unsupported costs. While FS generally concurs with the recommendations, FS is conducting its own review of the challenged costs. To reach management decision, FS will need to provide OIG a copy of the bill for collection for the amount owed to the Government and show that the amount has been entered as a receivable on the agency’s accounting records.

FY 2012 Federal Information Security Management Act Report (FISMA) (50501-0003-12), issued November 15, 2012

OIG found that, although USDA has made improvements in its information technology (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 these have been closed for final action. OIG has reported many of these remaining recommendations since 2001, when we first reported a material weakness in the design and effectiveness of USDA’s overall IT security program. The 2012 report contained six additional recommendations, and we accepted management decisions on four of the new recommendations.

Effectiveness of FAS’ Recent Efforts to Implement Measurable Strategies Aligned to the Department’s Trade Promotion and Policy Goals (50601-0001-22), issued March 28, 2013

In the one recommendation without management decision, OIG recommended that FAS improve the linkage of billions of dollars of U.S. agricultural exports with jobs created by validating the number of rural jobs created due to these exports. FAS agreed to approach the Office of the Chief Economist to develop the data needed to independently measure the economic benefits increased trade has to the rural sector. In order to reach management decision, FAS needs to explain how it will use the data to periodically validate the performance measures and to include a timeline for when these efforts will be made.

INDICTMENTS AND CONVICTIONS

From April 1, 2013 through September 30, 2013, OIG completed 155 investigations. We referred 240 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 539 indictments and 253 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 253 convictions do not necessarily relate to the 539 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$38.9 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

AGENCY	INDICTMENTS	CONVICTIONS*
ARS	0	1
APHIS	76	13
FAS	0	1
FNS	400	198
FS	3	2
FSA	17	13
FSIS	9	10
GIPSA	0	2
Multi-Agency	0	2
NRCS	2	0
RBS	8	0
RHS	21	10
RMA	3	1
RUS	0	0
TOTAL	539	253
* 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 2,269 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 second half of FY 2013.

NUMBER OF COMPLAINTS RECEIVED

TYPE	NUMBER
Employee Misconduct	168
Participant Fraud	1,787
Waste/Mismanagement	236
Health/Safety Problem	25
Opinion/Information	52
Bribery	0
Reprisal	1
Total Number of Complaints Received	2,269

DISPOSITION OF COMPLAINTS RECEIVED

METHOD OF DISPOSITION	NUMBER
Referred to OIG Audit or Investigations for Review	131
Referred to Other Law Enforcement Agencies	7
Referred to USDA Agencies for Response	478
Referred to FNS for Tracking	1,359
Referred to USDA or Other Agencies for Information—No Response Needed	267
Filed Without Referral—Insufficient Information	17
Referred to State Agencies	10

FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD APRIL 1, 2013 THROUGH SEPTEMBER 30, 2013

CATEGORIES	TYPE	NUMBER
FOIA/PA Requests Received/Processed	FOIA/PA Requests Received	65
	Granted	2
	Partially Granted	14
	Not Granted	21
	Total FOIA/PA Requests Processed	41
Reasons for Denial	No Records Available	9
	Referred to Other Agencies	3
	Requests Denied in Full Exemption 5	7
	Requests Denied in Full Exemption 7(A)	1
	Requests Denied in Full Exemption 7(C)	12
	Request Withdrawn	0
	Fee-Related	1
	Not a Proper FOIA Request	2
	Not an Agency Record	0
	Duplicate Request	0
	Other	2
Requests for OIG Reports from Congress and Other Government Agencies	Received	1
	Processed	1
Appeals	Appeals Received	4
	Appeals Processed	6
	Completely Upheld	3
	Partially Reversed	1
	Completely Reversed	2
	Requests Withdrawn	0
	Other	2
	OIG Reports/Documents Released in Response to Requests	6

NOTE 1: A request may involve more than one report.

NOTE 2: During this 6-month period, 26 audit reports were posted online on the OIG website: <http://www.usda.gov/oig>

Abbreviations

ABBREVIATION	FULL NAME
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BIP	Broadband Initiatives Program
CIGIE	Council of Inspectors General on Integrity and Efficiency
CMA	Computer Matching Agreements
DATA	Digital Accountability and Transparency Act of 2013
DHS	Department of Human Services
DNS	Domain Name System
EBT	electronic benefits transfer
FAQ	Frequently asked questions
FAEC	Federal Audit Executive Council
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FMIA	Federal Meat Inspection Act
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
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service-Criminal Investigation
IT	information technology
NASS	National Agricultural Statistics Service
NGO	non-governmental organization
NIFA	National Institute of Food and Agriculture
NIST	Institute of Standards and Technology
NOP	National Organic Program
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General

ABBREVIATION	FULL NAME
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPPM	Office of Procurement and Property Management
PA	Privacy Act
PDSD	Personnel and Document Security Division
PHIS	Public Health Information System
RBS	Rural Business Cooperative Service
POD	Procurement Operations Division
RD	Rural Development
Recovery Act	American Recovery and Reinvestment Act of 2009
RMA	Risk Management Agency
RUS	Rural Utilities Service
SARC	<i>Semiannual Report to Congress</i>
SIGAR	Special Inspector General for Afghanistan Reconstruction
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
USDA	U.S. Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (137 TOTAL)

- FSIS should ensure that swine slaughter plants comply with the Federal Meat Inspection Act and are penalized when they violate the Act.
- FNS should undertake an assessment of its food assistance programs to ensure that there is no overlap and duplication from these 15 individual programs.
- RMA should improve its prevented planting provisions to make them more cost-effective, encourage producers to plant a crop when possible, and make eligibility criteria more objective and clear.

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 three 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.

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