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MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to provide the semiannual report for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA). I am new to USDA OIG, having been sworn in on December 2, 2002, so the work presented in this report is the result of outstanding efforts by Acting Inspector General Joyce Fleischman and the dedicated professional staff of OIG. I am excited by the new challenges I face and favorably impressed by what I have seen thus far in OIG and the Department.

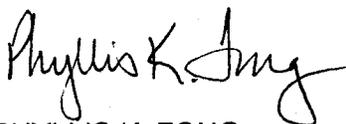
The report is organized according to some of the most significant management challenges facing USDA. Ongoing OIG homeland security work addresses security on our borders, controls over chemical and radioactive materials at USDA and USDA-funded research facilities, the alleged theft of virulent swine pneumonia bacteria from a university, and security over incendiary devices. We also detail investigations of the smuggling of a dangerous agricultural product, two food stamp cases with implications of international terrorism, and an individual caught stealing ground-penetrating radar devices. OIG activities in the area of information technology include two cases of child pornography in the workplace, as well as audits of Departmental Administration and the Rural Development mission area.

The food safety management challenge features our work in protecting the food supply and addresses ongoing work concerning meat and poultry recalls. Public corruption investigations involve a corruption/murder case and a highly publicized forest fire in Colorado. We also feature investigations related to dog fighting. In the area of Federal crop insurance, an OIG audit disclosed questionable crop insurance indemnities exceeding \$20 million. The management challenge for the Food Stamp Program has been expanded to cover our work in USDA's feeding programs as a whole. We complete this period's reporting with audits relating to the Department's financial management.

Publication of this report has been delayed because of detailed reviews to ensure that the report breaches no security concerns and contains no sensitive information that could be used against our country.

At OIG, we are constantly seeking to improve our own operations and increase our positive effect on the Department's programs and operations. We have completed a Business Process Reengineering strategic plan to equip and train our employees for the future, with streamlined processes and state-of-the-art information technology as key.

We are proud of OIG's accomplishments this semiannual period. I am also grateful for the strong support of Secretary Veneman and program officials at all levels of the Department. I hope your reading of this report will provide a better understanding of USDA and OIG, and how they work together for the good of program participants, taxpayers, and the American people as a whole. I also hope you gain a deeper appreciation for the continuing efforts of OIG and its dedicated employees.



PHYLLIS K. FONG
Inspector General

Overview of USDA and OIG

To help the reader better understand the context in which we audit and investigate the programs and operations of the Department, this section outlines the missions of USDA's agencies and the role OIG fulfills. Agriculture provides tangible products that are essential to sustain life, health, and happiness. The overriding USDA mission is to enhance the quality of life for the American people by supporting agriculture. At OIG, we perform a complementary function that is integral to USDA's mission—we take as our motto and our purpose, "Ensuring the Integrity of American Agriculture."

This Department plays a role of great breadth and magnitude in American life, both at home and abroad. USDA's hundreds of programs often appear in unexpected places and ways. OIG is a vital organization whose mission dovetails with that of the Department. While we do not make policy or run programs, our auditors do their best to ensure that both policy and programs are formulated and carried out properly, and our investigators, as the primary law enforcement arm of the Department, investigate significant criminal activities involving USDA programs, operations, and personnel.

HIGHLIGHTS OF USDA AGENCIES

When President Abraham Lincoln signed the legislation creating USDA in 1862, he called it the "The People's Department." It touches all of our lives, every day, from city to suburb, and small town to farm.

- USDA helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. The Farm Service Agency (FSA) helps ensure the well-being of U.S. agriculture through the administration of farm commodity programs; farm operating, ownership, and emergency loans; conservation and environmental programs; emergency and disaster assistance; domestic and international food assistance; and international export credit programs. The Foreign Agricultural Service (FAS) opens, expands, and maintains global market opportunities through international trade, cooperation, and sustainable development activities. The Risk Management Agency (RMA) provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools, such as crop insurance.
- The Department works to harness the Nation's agricultural abundance with a goal of ending hunger and improving nutrition and health in the United States and in many other places around the world. It administers the food stamp and other nutrition assistance programs, and links scientific research to nutritional needs. The Food and Nutrition Service (FNS) works to increase food security and reduce hunger by providing children and low-income people with access to food, a healthy diet, and nutrition education. The Center for Nutrition Policy and Promotion develops and promotes science-based dietary guidance and economic information for consumers and professionals in health, education, industry, and the media.
- USDA ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled. It also plays a key role in the President's Council on Food Safety and has been instrumental in coordinating a national food safety strategic plan. The Food Safety and Inspection Service (FSIS) sets standards for food safety; inspects meat, poultry, and egg products; and informs the public about food safety issues. FSIS also facilitates the management of U.S. activities pertaining to the Codex Alimentarius Commission, an international organization created by the United Nations to promote the health and economic interests of consumers while encouraging fair international trade in food. FSIS belongs to a number of national and international organizations, including the Meat and Poultry Advisory Committee Staff and National Advisory Committee on Meat and Poultry Inspection, as well as the National Advisory Committee on Microbiological Criteria for Foods.
- USDA facilitates the domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. The Agricultural Marketing Service (AMS) facilitates the strategic marketing of agricultural products in domestic and international markets, while ensuring fair trading practices and promoting a competitive and efficient marketplace. USDA agencies are active participants in setting international and national standards, through international organizations and Federal-State cooperation. For example, AMS provides services to promote quality, including grading, quality standards, and certification.

The Animal and Plant Health Inspection Service (APHIS) protects America's animal and plant resources by safeguarding them from exotic invasive pests and diseases, monitoring and managing pests and diseases existing in the United States, resolving trade issues related to animal and plant health, and ensuring the humane care and treatment of animals. The Grain Inspection, Packers and Stockyards Administration (GIPSA) facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and promotes fair and competitive trading practices. GIPSA also provides Federal grading standards and a national inspection and weighing system for grain and oilseeds.

- USDA provides help to farmers and ranchers to promote the health of the land through conservation programs administered by the Natural Resources Conservation Service (NRCS) and FSA. NRCS provides national leadership in a partnership effort to help people conserve, maintain, and improve America's natural resources and environment. NRCS provides leadership for conservation activities on the Nation's 1.6 billion acres of private and other non-Federal land. USDA is directly involved with 191 million acres of national forests and grasslands under the stewardship of the Forest Service (FS), the largest agency in the Department.
- USDA provides research, analysis, and education to assist individuals and communities, and improve agricultural products. The Agricultural Research Service (ARS) works to provide the scientific knowledge and technologies needed to ensure the viability of American agriculture. The Cooperative State Research, Education, and Extension Service (CSREES) works with land-grant universities, historically black colleges and universities, Hispanic-serving institutions, Native American institutions, and other universities and public and private organizations to advance research and education in the food and agricultural and related sciences. The Economic Research Service (ERS) is USDA's principal social science research agency. The National Agricultural Statistics Service (NASS) serves the basic agricultural and rural data needs of the country by providing statistical information and services to farmers, ranchers, agribusinesses, public officials, and others.

- If we are to have a strong agricultural sector, indeed, a strong Nation, we need to have vibrant rural communities. Approximately 60 million people live in rural America. USDA enhances their ability to develop, grow, and improve their quality of life by targeting financial and technical resources to areas of greatest need, through activities of greatest potential. The Rural Business-Cooperative Service (RBS) provides financing and technical assistance to help build competitive businesses and establish and sustain agricultural cooperatives. The Rural Housing Service (RHS) provides financing and technical help for needed community facilities and housing for very low to moderate income areas. The Rural Utilities Service (RUS) provides financial and technical assistance so rural areas can have modern, affordable electricity, telecommunications, public water, and waste removal services.

OIG'S ROLE IN USDA

Helping to identify and correct questionable practices and bring criminals to justice adds value to the Department's programs and operations. OIG conducts and supervises audits and evaluations, as well as investigations and law enforcement efforts relating to USDA's programs and operations. Auditors are most interested in promoting economy, efficiency, and effectiveness. Investigators concentrate on preventing, detecting, and thwarting crimes.

We perform an array of work that is as diverse as USDA itself. Audit work might include visiting food stamp retailers, reviewing crop insurance claims, reviewing inspection controls at meat packing plants, and analyzing financial statements and reports. We also audit programs to ensure that disaster assistance goes to those who suffered losses and need help. As Federal law enforcement officers, special agents in OIG carry firearms, make arrests, and conduct searches. Criminal investigators may work on cases involving assault and threats (including workplace violence), theft, smuggling, bribery, extortion, embezzlement, child pornography, food tampering and threats against the food supply, false claims, misuse of loan funds, or other fraud against the Government.

Overall, our activities better ensure the Department's protection of the consumer, production agriculture, the public, and USDA employees, and we save the Government money. Criminal activity in USDA programs, waste, and abuse are our enemies. Taxpayers expect and deserve to have their money benefit those who are entitled to it. Funds for improperly implemented programs can otherwise be properly used. Every misused dollar could have gone to someone truly deserving or been returned to the U.S. Treasury. Based on our audit work this reporting period, management officials agreed to recover \$21 million and put an additional \$144 million to better use. Our investigative efforts resulted in \$30 million in recoveries, fines, restitutions, claims established, and cost avoidance. Our investigations produced 255 indictments and 233 convictions. This report covers the period April 1 through September 30, 2002.

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Homeland Security

As described in our last two Semiannual Reports to Congress, one of OIG's chief missions is to ensure that the Department maintains the safety and security of the American food supply and protects the U.S. agricultural infrastructure from possible harm due to the accidental or intentional introduction of foreign pests and diseases. The events of September 11, 2001, and the subsequent anthrax attacks gave new urgency to the issues of security over USDA's infrastructure and the agricultural economy.

We continued to work on a number of Homeland Security reviews to assess the vulnerability of agencies' assets and evaluate their responses and preemptive actions after the events of September 11, 2001. In addition to the work described below, we have a number of ongoing Homeland Security reviews that involve Rural Development (RD), FS, NRCS, and USDA grain and other commodity inventories.

APHIS is responsible for inspecting agricultural products entering this country from abroad to detect and intercept foreign pests or diseases that could threaten U.S. agriculture. We are in the process of completing a review of this APHIS activity, focusing on the adequacy and effectiveness of its operations to prevent or minimize the introduction of harmful, exotic pests and diseases into the United States. After the events of September 11, 2001, we expanded our review to consider the possibility of an intentional introduction into this country of organisms harmful to the food supply. We continued to examine the departmental permit controls over the transshipment—both domestically and from abroad—of biohazardous agents.

We began fieldwork to test controls at USDA facilities throughout the country in two major areas. One effort is assessing security controls over chemical and radioactive materials, and the other is assessing controls over plant variety protection and germplasm storage, addressing particularly the possible terrorist threat to those repositories. We also began the second phase of evaluating security over biological agents (and chemical and radioactive materials) at research facilities, specifically those receiving funding from USDA, which include both institutions of higher learning and private laboratories. As part of the latter effort, we met and solicited assistance from a task force established by the Experimental Station Committee on Organization and Policy, which is a committee of the

National Association of State Universities and Land-Grant Colleges. The task force acknowledged the need for Federal Governmentwide policies and guidance. We have coordinated this review and our other efforts with an interagency task force of OIG personnel from the U.S. Departments of Health and Human Services (HHS), Defense, and Veterans Affairs. We coordinated most closely with HHS, which has been conducting similar reviews at universities.

Further, after extensive coordination with and feedback from OIG, USDA issued a departmental regulation on security policies and procedures at its biosafety level-3 facilities. This is the first major effort by USDA to issue departmentwide biosecurity policies and procedures. (The Department is also working on the draft policies and procedures for its other laboratories and technical facilities excluding biosafety level-3 facilities.) The affected USDA agencies have been developing corrective actions in response to our report and in response to the new departmental policies and procedures on biosecurity. Moreover, any effective implementation of these corrective actions will entail a major change in the approach by the agencies' staff. To ensure that the current impetus is carried forth effectively, we have planned followup reviews to evaluate and verify whether these facilities have properly implemented their corrective actions.

FRONT-LINE VULNERABILITIES

Smuggler Convicted

We seized 65 pounds of Witchweed (*Striga asiatica*) when we executed search warrants at the warehouse and retail establishment of a man still on probation for a prior felony smuggling conviction. The smuggler is awaiting sentencing after he pled guilty in August 2002 to conspiracy to commit a variety of offenses, including smuggling and violating probation. Witchweed is a parasitic noxious weed that attacks corn, sorghum, sugarcane, and other grass crops and that would have devastated agriculture in the Western United States if dispersed. We worked this case as part of our ongoing involvement in the Interagency Import Task Force directed by the U.S. Attorney for the Northern District of California.

Man With Terrorist Links Sentenced in Multiprogram Fraud Case

As part of the Joint Terrorism Task Force directed by the U.S. Attorney for the District of Oregon, we worked with the Bureau of Alcohol, Tobacco and Firearms (BATF) to follow up on a search warrant that BATF had previously served on the residence of a Palestinian man from Lebanon. He stated that he had trained with Palestinian guerilla groups, made references to the terrorist group Hamas, and had prominently circled September 11, 2001, on his calendar. The search found \$20,000 in cash and personal financial records that conflicted with information he provided when he applied for food stamps and other welfare benefits in Oregon.

Our investigation showed that, while on public assistance and claiming to be unemployed, the man made five overseas trips in 18 months, including trips to Denmark, Italy, and Lebanon. He became the target of investigations by several other law enforcement agencies as other crimes were detected, and we determined a loss to the Government of approximately \$65,000, including \$18,000 in food stamp and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) benefits. The subject was convicted on 10 counts of fraud against various Federal programs in addition to the weapons charges. The subject was sentenced to 30 months in prison and ordered to make restitution of almost \$42,000. The subject's naturalized citizenship was revoked, and the Immigration and Naturalization Service (INS) flagged his immigration status.

Former Grocery Store Owners Ordered To Pay Over a Half Million Dollars in Restitution

Two former Jordanian owners of a small grocery store in South Bend, Indiana, were sentenced to 41 and 27 months' incarceration and restitution of \$585,000 after they were found guilty of food stamp trafficking and conspiracy to commit food stamp fraud. One owner was an illegal alien, the other was in the United States on a student visa, and neither was permitted to work. In a 3-year period, the store redeemed over \$700,000 in food stamp coupons, while paying only \$272,000 to suppliers. The former owner with the student visa has married a U.S. citizen and, according to INS, is not deportable. The other is deportable but has appealed his sentence and is awaiting the conclusion of his appeal. INS has been made aware of this matter.

INVESTIGATING SABOTAGE AND THEFTS

- OIG conducted an investigation of an attempt to sabotage the potable water system at the Plum Island Animal Disease Center (PIADC), where dangerous animal diseases are studied. Water is crucial for operating the boilers, creating steam to run the decontamination system on the island and ensuring waste is sanitized and environmentally safe, as well as for fire fighting and animal care. The water problem was corrected at an estimated cost of about \$37,000, but circumstances surrounding it warranted our further investigation. The Federal Bureau of Investigation (FBI) later joined the investigation. An employee of a contractor at PIADC eventually confessed to having turned off the valves to 9 of the 10 fresh water wells on the island and subsequently pled guilty to Federal charges of tampering with operations at PIADC.
- The news media reported that a highly virulent strain of *Actinobacillus pleuropneumoniae* (APP)—which causes swine pneumonia—was stolen from a laboratory at Michigan State University which had received about \$750,000 in USDA funding since 1996 to develop vaccines against the bacteria. OIG agents, the FBI, and university police found that no theft had actually occurred and that the APP strain reported to be stolen is no more virulent than naturally occurring APP. The agents continue to work with the U.S. attorney's office in pursuing Federal charges.



Michigan State University lab on the day of the reported theft. Photo courtesy of the Michigan State University Police Department.

- In November 2001, a routine early morning patrol found incendiary devices placed against the walls of an FS research building and a university forestry building at Michigan Technological University. Both devices were deactivated without incident and sent to the Michigan State Police crime lab. A joint investigation with many agencies found a detailed manual on how to build and deploy this kind of device posted on an Internet Web site supported by a direct action environmental terrorist group.
- A joint NRCS and FSA office in Florida was burglarized of computers, related accessories, and a

Government-owned vehicle that contained ground-penetrating radar equipment. The stolen equipment was used to detect underground rock formations, water tables, and utilities. The estimated value of the stolen equipment and vehicle was \$60,400. A man was subsequently apprehended in Georgia driving the stolen vehicle. The man, who was on State probation in Georgia at the time of the Florida theft, pled guilty to interstate transportation of a stolen vehicle. He was sentenced to 13 months in jail, 3 years' probation, and \$9,465 in restitution. His probation was also revoked, and he was sentenced to 2 years in a Georgia prison.

Information Technology (IT)

SPOTLIGHT ON ... INFORMATION TECHNOLOGY

The dependence on IT and Internet technologies has exposed USDA's billions of dollars in assets and its critical infrastructure to extraordinary vulnerabilities stemming from automated intrusions. Office of Management and Budget (OMB) Circular A-130 (Management of Federal Information Resources) and the Government Information Security Act directed Federal agencies to ensure that adequate and appropriate security measures are in place to protect these assets, as well as to ensure the continuity of normal operations. After the events of September 11, 2001, protecting IT assets is even more important as attacks against our technology infrastructure are capable of crippling organizations.

USDA's IT assets include sensitive information that could negatively affect millions of people, such as market-sensitive data on the agricultural economy and commodities, signup and participation data for programs, personal information on customers and employees, and confidential financial data. Though the Department has been proactive in strengthening its information security, OIG continues to identify deficiencies in various security measures.

Information technology audits are a necessary function in ensuring the safeguarding of data and the integrity of systems. OIG worked closely with the Office of the Chief Information Officer (OCIO) to buttress existing controls, as well as to improve the existing departmentwide security plan. OIG also actively audits individual agencies within USDA to confirm the adequacy of IT protections. Following an audit of

USDA's Departmental Administration (DA), OIG noted several material weaknesses and an overall inability to adequately protect assets and sensitive information from fraud and misuse. Implementation of OIG's recommendations will protect DA's Privacy Act-protected data, as well as bring DA into compliance with OMB Circular A-130 and Presidential Decision Directive 63 (Critical Infrastructure Protection).

Rural Development manages over \$85 billion in direct and guaranteed loans; as expected with this huge amount of funds, RD must ensure that its IT infrastructure is protected against intrusion or misuse. Since 1997, OIG has issued various audit findings to RD regarding its IT security weaknesses, which have included 470 high- and medium-risk security vulnerabilities. Our recommendations were agreed to following a January 16, 2002, Management Alert to RD.

It is also necessary for OIG to maintain an IT skill base to investigate crimes against USDA. OIG investigators often seize computers and data files for evidence. Excellent examples include two joint investigations with the FBI to find USDA employees accessing child pornography on Government computers. In these cases, the OIG Computer Forensics Unit worked with our criminal investigators and found that, in two unrelated investigations in Arkansas and Texas, two NRCS employees were accessing child pornography via computer at work. The Arkansas employee, a District Conservationist, pled guilty to possession of child pornography. His sentencing is pending. The Texas NRCS employee has been charged in Federal court with the receipt of child pornography, and his trial is pending. OIG has seven other ongoing investigations of USDA employees for suspected possession of child pornography on their Government computers.

Food Safety

PROTECTING THE FOOD SUPPLY

Ongoing Work Concerning Meat and Poultry Recalls

In June 2000, we issued our Food Safety Initiative, a series of audits to determine whether the Food Safety and Inspection Service's meat and poultry inspection program remains effective under the science-based Hazard Analysis and Critical Control Point (HACCP) system. We reviewed HACCP implementation, laboratory analyses, foreign imports, and the compliance program that carried over from the previous system. FSIS had taken positive steps, but more needed to be done in all 4 areas reviewed, and we made 80 recommendations in total to that end. We now have work underway to determine what actions FSIS has taken to address these recommendations and their effectiveness. We also have work underway focusing on FSIS's Recall Operations where meat or poultry products are found to be adulterated. The need for this review was highlighted by recent recalls in one plant of 19 million pounds of ground beef adulterated with an E. coli strain and 27.4 million pounds of ready-to-eat poultry products in another plant adulterated with *Listeria monocytogenes*.

Company Convicted and Fined for Distributing Adulterated Meat Product

A joint investigation by OIG and the FSIS compliance staff revealed that, on multiple occasions, a large meat-distributing warehouse in North Carolina sold adulterated meat and poultry product to a salvage meat dealer, who then reconditioned it to sell for human consumption. A surprise inspection by OIG and FSIS also revealed unsanitary conditions at the warehouse. Two criminal informations were filed for Federal Meat Inspection Act violations. The warehouse agreed to pay a \$100,000 fine, donate 40,000 pounds of unadulterated product to a not-for-profit organization, and establish a quality control program in coordination with FSIS.

Nebraska Man Convicted and Sentenced to Prison for Tampering With Food

As followup of a matter previously reported, a Nebraska man was sentenced to 40 months in prison. He had been found guilty in Federal court of tampering with food products by inserting sewing machine needles in meat, fruit, and bakery items in an Iowa grocery store.

Korean Food Wholesaler Sentenced for Importing Misbranded Food

Our investigation determined that a Korean food wholesaler illegally imported thousands of pounds of meat dumpling products from South Korea, mislabeled as vegetable dumplings, and distributed them to retailers in New York City, California, and Maryland. Importing meat products from South Korea is prohibited due to possible Foot and Mouth Disease contamination. The corporation pled guilty, was sentenced to probation, and was ordered to pay a \$100,000 fine. In addition to the current case, from 1988 to 1996 the corporation had been caught five times by USDA regulatory agencies for illegally importing meat products. These prior instances had resulted in destroyed product and small fines.

Overtime Controls Need Improvement

FSIS did not have adequate controls in place for overtime charged by field inspectors. The FSIS national office had not updated policies on overtime claims and had given each district the autonomy to establish its own policies and controls. Supervisory approvals of time and attendance reports were not performed or documented, and prior written approval of overtime worked was not required. As a result, there was a lack of assurance that the inspectors' overtime claims were accurate and that the overtime reported was actually worked.

FSIS had not established adequate controls for billing plants for reimbursable overtime for inspections and was not taking aggressive or effective collection action on overdue bills for overtime services. We found that FSIS continued to provide overtime and holiday inspection services for delinquent plants in violation of current regulations. In the 3 districts we visited, we found that 40 plants with delinquent accounts totaling \$990,000 were still receiving overtime inspection. We found that aggressive collection actions were not taken on plants with delinquent accounts, including those that were suspended or which had been withdrawn from inspection service. As a result, FSIS did not have an adequate collection system to aggressively pursue delinquencies of \$7 million.

We recommended that FSIS strengthen its procedures for monitoring, reporting, and collecting for overtime services.

Public Corruption

Another continuing priority for OIG is the investigation of criminal acts committed by USDA employees. The percentage of wrongdoers is small, but to maintain the public trust, those who commit crimes must be brought to justice. During the past 6 months, public corruption investigations resulted in 17 convictions of current or former USDA employees and 48 personnel actions. Descriptions of some recent investigations follow.

APHIS Employee, Guilty of Several Crimes, Awaits Trial for Murder

An OIG investigation of an alleged accidental shooting of an APHIS maintenance employee at an APHIS facility in Utah developed into an investigation of a teenage girl's murder. The employee had reported that he had been shot by an unknown assailant while on duty. Our investigation found that the employee had shot himself with a Government-owned weapon he had taken from the APHIS facility without authorization. We further found that the employee had stolen about \$50,000 worth of Government property.

During the investigation, through coordination with the Sheriff's Department, the APHIS employee became a suspect in the disappearance of a 15-year-old female whom he knew. Continued investigation revealed that the employee had inexplicably dug and refilled several deep holes on the APHIS research facility grounds around the time the girl disappeared. Excavation of the dig sites found dismembered remains, later determined to be those of the missing teen. Based on this discovery and other relevant evidence, the APHIS employee was arrested and charged with murdering the girl. The joint OIG and Sheriff's Department investigation revealed that the employee had also committed several sexual assaults on the APHIS research grounds and had sexually assaulted at least 35 women and girls over the past 15-year period.

The employee initially pled guilty to theft of Government property and unlawful sexual activity with a minor, and was sentenced in Utah State Court to serve 10 years in prison, fined \$14,595, and ordered to pay restitution of \$49,621. He subsequently pled guilty to murder in the first degree and is awaiting sentencing.



OIG employees assisting in excavation of APHIS site where homicide evidence was found. OIG photo.

FS Employee Guilty of Setting Devastating Colorado Fire

As widely reported in the news media, an FS forestry technician was indicted in June 2002, and has since pled guilty to both Federal and State charges, for setting the largest forest fire in Colorado history. Before it was contained, the fire, known as the Hayman Fire, covered over 137,000 acres, an area greater than the Denver metropolitan area. This fire is estimated to have cost the Government more than \$23 million just in timber losses, with long-term forest rehabilitation costs and private property losses estimated at many millions of dollars more.

During the investigation by OIG and FS investigators, the employee's account of how the fire started was questioned. When investigators confronted her, the employee admitted that she had lied about the origin of the fire and how it was discovered, and that she had indeed started the fire. The employee was arrested by OIG and removed from her FS employment. Sentencing is pending in both Federal and State court.



Hayman Fire, summer 2002. FS photo.

Three Embezzlers Sentenced

- In Henry County, Kentucky, a former FSA farm loan manager was sentenced to 18 months' imprisonment, 3 years' supervised release, and \$242,500 in restitution after he pled guilty to making four farm loans to fictitious persons over a 2-1/2 year period and concealing his illegal activity by creating phony promissory notes and deposit agreements. He used the embezzled funds primarily to pay personal loans and invest in the stock market.
- An FS secretarial assistant in Pennsylvania was sentenced in Federal court to 13 months' incarceration and ordered to make \$233,576 in restitution after she pled guilty to embezzling about that amount of FS funds over a 3-year period. Our investigation found that, from April 1996 through September 2000, the employee embezzled funds from 17 different FS procurement accounts by using the names of other FS employees on checks from those accounts and depositing them in four bank accounts she set up. The employee resigned.
- A former Agricultural Research Service supervisor in Maryland was convicted of grand theft for embezzling over \$20,000 during a 6-month period in 2000. She used Government-issued travel cards to obtain cash advances from ATMs and make other purchases. She paid the resultant travel card bills from Government convenience check accounts assigned to two employees she supervised and tried to disguise some of the expenditures as training expenses. The supervisor was terminated from Federal employment, sentenced to probation, and ordered to pay restitution.

ARS and APHIS Employees Plead Guilty to Work-Related Drug Charges

- During a search of a methamphetamine lab near Pocatello, Idaho, the Idaho State Police recovered lab paraphernalia and discovered shipping boxes with address labels made out to the USDA Research Lab in Aberdeen, Idaho. The methamphetamine lab operator admitted that an ARS laboratory technician had supplied him with glassware and iodine. OIG worked with the State Police to identify seized items as USDA property, as well as other possible receivers of stolen USDA property. The ARS employee resigned, pled guilty to one count of manufacturing and possessing a controlled substance, and was sentenced to 6 months' incarceration followed by 3 years' probation, including 6 months' home detention.
- A New Mexico former APHIS employee who was involved in a scheme to smuggle marijuana into the United States from Mexico pled guilty to possession of marijuana with the intent to distribute. Fifty-five pounds of marijuana was concealed in truck tires after being smuggled from Mexico through a cattle-crossing facility where the employee worked. The employee routinely crossed the Mexican border to inspect cattle in gathering pens. This was a joint investigation with the U.S. Customs Service and the Southwestern New Mexico Drug Task Force.



Concealed in tires, bulk marijuana retains shape after removal. OIG photos.

Federal Crop Insurance

RISK MANAGEMENT AGENCY (RMA)

Extending Insurance Coverage to a High-Risk Crop Costs USDA \$21.1 Million

RMA approved crop insurance coverage for fall watermelons in its 1999 watermelon crop insurance pilot program for three south Texas counties. RMA did this even though our audit report this period disclosed evidence that this crop was not suitable to south Texas and was unlikely to produce a harvestable fruit. As a result, questionable indemnities totaling about \$21.1 million were made on fall watermelons in the three Texas counties.

Virus infestation caused by a whitefly and cooler temperatures in the fall season reduced to only 5 to 10 percent the chances of a fall watermelon crop making it to harvest. Because RMA personnel did not perform adequate research, the issue of fall watermelon suitability in south Texas was not addressed in the Texas program development package. By offering protection on this high-risk crop, RMA created a "moral hazard," which resulted in significant increases in plantings of watermelons in 1999 in south Texas. RMA officials had estimated that 2,430 acres would be insured in Texas; the ultimate total was almost 50,000 acres.

One producer in Hidalgo County, Texas, whose spring watermelon acreage did not exceed 790 acres, claimed a loss on over 6,600 acres of fall watermelons. This producer entered into written leases and custom farming agreements with 19 Hidalgo County landlords for the extra acreage but misrepresented his share in the fall crop. The written leases showed the producer

had a 100-percent share of the crop, but some of the landlords admitted they also had oral agreements with the producer to share in the crop or the insurance proceeds. These oral agreements violated the crop insurance contract. Based on the written leases, the producer received 100 percent of more than \$5.5 million in insurance proceeds. Because the producer's policy covered both spring and fall plantings, we questioned both the producer's spring indemnities (\$1.4 million) and fall indemnities (\$5.5 million).

The insurance agent who sold the producer his watermelon insurance policy had also leased land to the producer. The agent was aware that his agreement would require him to report his participation in the insured farming operation to the insurance company, but he did not. His business relationship with the producer netted his farming business over \$1 million, three times the average payment received by the other custom farmers growing watermelons for the producer. The insurance agent's son also acted on behalf of the producer, pursuing additional land for the producer to lease for fall watermelons that were insured through the father's insurance agency.

RMA officials agreed to seek an Office of the General Counsel (OGC) opinion to determine whether the producer's insurance contract should be considered void and RMA should collect the \$6.9 million that was paid to the producer for crop year 1999 losses. If the interaction of the insurance agent and the producer is considered a conflict of interest, appropriate action should be taken against the agent and his son. In addition, RMA officials agreed to add a provision to the common crop insurance policy to require evidence that the producer incurred expenses to grow the crop.

Feeding Programs

FOOD STAMP PROGRAM (FSP)

Monitoring of EBT System Continues

Currently, 47 States and the District of Columbia use Electronic Benefits Transfer (EBT) systems to deliver food stamp benefits. Forty-two of the systems have been implemented statewide, including the District of Columbia. Nearly 85 percent of all FSP benefits are being issued via EBT. During this semiannual period, we completed EBT systems audit work in Arkansas and Michigan. The EBT systems were successfully implemented in both States; however, controls needed to be strengthened in some areas.

- **Arkansas**—The State agency needed to improve its controls to (1) provide for routine oversight of EBT system activity, including reviewing management reports; (2) reconcile FSP benefits the State authorized daily to benefits the EBT system deposited in recipients' accounts and to reconcile daily the requests retailers made for FSP reimbursements to the disbursements the EBT system made to retailers; (3) maintain adequate documentation for user authorizations, remove terminated employees' access in a timely manner, assign appropriate access levels to users, and review the continued need for EBT system access; and (4) label expunged benefits (benefits removed for nonuse) properly on management reports submitted to the Food and Nutrition Service.
- **Michigan**—Controls were needed to ensure system security by denying access to the system by former employees—three former employees of the State agency still had an active logon identification. The State agency also needed to have a permanent process in place to monitor its EBT system. Although the EBT system went statewide on July 1, 2001, the State agency has not yet decided which of the processor or State-generated reports would be needed to effectively manage the EBT system and FSP. Adding to this indecision was the lack of oversight and guidance by the FNS regional office in ensuring that a system was established or a timeframe was agreed to when the process would be implemented. We made a series of recommendations to address these issues.

Three Sentenced in \$15 Million Food Stamp and WIC Fraud Case

In a case previously reported, a man in Cleveland, Ohio, was sentenced to prison for 3 years 5 months, and his wife was sentenced to 3 years' probation after they both pled guilty to their involvement in a scheme to commit an estimated \$15 million in food stamp and WIC fraud since 1995. A third participant in this scheme has been sentenced to 41 months' imprisonment. These individuals also forfeited approximately \$2.5 million in assets to the Government. Two other individuals indicted in the scheme became fugitives; one was recently arrested in Detroit. This investigation was worked jointly with nine other Federal and State law enforcement agencies.

In other large-scale food stamp trafficking cases this reporting period:

- **Newark, New Jersey:** The owner of a business claiming to be a wholesale warehouse club was sentenced to 4 months in prison, was ordered to pay over \$660,000 in restitution to USDA, and forfeited \$25,000 to the Government after he pled guilty to food stamp fraud. The business redeemed more than \$1.3 million in paper food stamps in a 19-month period, largely for other food stamp traffickers. Wholesale operations cannot redeem food stamps. The owner had lied on the food stamp application about the nature of his business (as well as his previous history when he said he had never been disqualified from FSP when he actually had).
- **Michigan City, Indiana:** Two brothers, a father and a son, and two owners of two grocery stores were sentenced to various prison terms and ordered to pay restitution of \$515,000. The two stores conspired from 1994 through 2000 to redeem more than \$3 million in food stamp benefits illegally.
- **Bessemer, Alabama:** The owner of a discount meat market forfeited \$100,000 in cash to the Government when he pled guilty to conspiring to traffic in EBT benefits worth between \$500,000 and nearly \$700,000 from May 2000 through November 2001. The owner was sentenced to serve 1 year 1 day in Federal prison and 24 months' supervised probation, and pay over \$49,000 in restitution to USDA. A former store employee has also entered a plea and was sentenced to serve 10 months in Federal prison and 24 months' supervised release. He was also

ordered to pay over \$49,000 in restitution jointly and severally with the owner.

- **Augusta, Georgia:** A co-owner of a store was sentenced in U.S. district court to 15 months in prison and ordered to pay \$366,000 in restitution to USDA after he pled guilty to EBT fraud and trafficking charges. During the investigation, approximately 40 EBT recipients admitted to trafficking at the store on occasion.

Woman Uses False Identity To Fraudulently Obtain Food Stamp Benefits

As a result of a joint investigation with the U.S. State Department, a woman and her husband were found guilty of using another woman's identity to obtain \$24,000 in duplicate food stamp benefits and medical assistance from Maryland and Washington, D.C. They were also involved in a scheme to falsely obtain a birth certificate from the District of Columbia to claim minor children dependents for welfare benefits and to obtain U.S. passports for a minor child. Both subjects were sentenced to prison and given fines and restitution totaling \$22,600. INS is considering deportation upon their release. (The husband had become a U.S. citizen fraudulently, and the wife is a permanent resident.)



One of two homes, valued at \$600,000, owned by a woman and her husband who used false identity to obtain food stamps illegally. OIG photo.

Arrests Continue in Operation Talon

Operation Talon was designed and implemented by OIG to locate and apprehend fugitives who are food

stamp recipients. As of September 30, 2002, Operation Talon had resulted in 8,281 arrests of fugitive felons during joint OIG, Federal, State, and local law enforcement operations throughout the country. Serious crimes perpetrated by those arrested include homicide-related offenses (murder, attempted murder, manslaughter), sex offenses (child molestation, rape, attempted rape), kidnapping/abduction, assault, robbery, and drug/narcotics violations.

Inaccurate and Unsupportable FSP Administrative Costs Claimed by California

We conducted an audit in California to determine the accuracy of FSP administrative costs claimed by the State and the allowability of those costs. We found that claims were not always accurate and the costs were not always supportable. The California State agency claimed about \$8.5 million in prior fiscal years' expenditures in fiscal year (FY) 2000, resulting in an overstatement of its FY 2000 claim. Although the State agency may retroactively submit a claim, funds appropriated for those years may not be available. In addition, the State agency could not provide documentation to support its claim of about \$518,000 for management evaluations. Furthermore, at two of the three county offices that we reviewed, we identified over \$67,000 of unallowable costs charged to FSP. Examples of these costs included microwave ovens, catering costs for celebrations, training costs unrelated to FSP, settlements for lawsuits against the county, and "marriage license fees." The FNS regional office concurred with our recommendations for corrective action.

CHILD NUTRITION PROGRAMS

Food Service Management Companies Unduly Profit

The lack of clear instructions from FNS, in conjunction with inadequate oversight by State agencies and school food authorities, allowed food service management companies to reduce their costs by retaining benefits intended for school food authorities. Five of the eight management companies we reviewed nationwide improperly received over \$6 million in benefits, either in the form of purchase discounts or USDA-donated commodities, which were intended to benefit the school food authorities' nonprofit food services.

The management companies profited by using USDA-donated commodities without properly crediting the school food authorities for the commodities' value. FNS did not require States and school food authorities to include contract provisions requiring the companies to credit the value of the commodities, even though Federal regulations required that commodities solely benefit and be used in a school food authority's nonprofit food service operation. The management companies also benefited by retaining the discounts and rebates they received on purchases made for their food service operations. The companies amended, eliminated, or ignored terms included in the requests for proposal issued by the school food authorities. Contrary to FNS regulations, the management companies were able to include contract terms that favored them because FNS did not mandate specific contract terms and provisions.

In addition, although school food authorities were required to maintain oversight of management company operations, we found that 16 of the 24 we visited did not have adequate controls in place to ensure accurate meal claims or to prevent the companies from being reimbursed for nonprogram costs. The meal accountability systems claimed meals inaccurately and reimbursed school food authorities for almost 84,000 unsupported meals. School food authorities also improperly used \$1.2 million in National School Lunch Program (NSLP) funds to reimburse three management companies for unallowable nonprogram costs.

We recommended that the FNS regional offices require the State agencies to collect the \$5.8 million for USDA-donated commodities and the \$280,000 in discounts and rebates from the management companies. FNS also needs to establish specific requirements for appropriate contract terms for States and school food authorities to follow to ensure that they, not the management companies, benefit from the value of USDA-donated commodities, purchase discounts, and rebates. FNS generally agreed with our findings, has implemented some of the corrective actions, and has indicated that it will continue to pursue restitution of the school food authorities' accounts for the value of USDA-donated commodities, purchase discounts, and rebates.

Additional Database Analysis of Large CACFP Sponsors Would Improve Integrity of Program

We performed a database analysis for six large Child and Adult Care Food Program (CACFP) sponsors. Our

analysis showed that improvements were needed in the computer system controls over program payments and operations. The systems did not always identify or prevent claims from being paid when it appeared that they were based on enrollment rather than actual meals served (block claiming). We found indications of block claiming at all six sponsors reviewed. We identified provider payments, totaling about \$2.4 million, where all or part of the claimed amounts were apparently block claims. In addition, the computer systems did not always identify questionable claims where providers claimed meals every single day in the month, including weekends and holidays. We also identified claims paid where they (1) were for the wrong payment rate, (2) were for the wrong meal category, and (3) exceeded the maximum number of meals possible based on enrollment multiplied by the number of days in the month. FNS officials agreed corrective action was warranted based on the conditions we identified.

Strengthened Controls Over Applicant Eligibility and Meal Counts Needed To Ensure School District's Entitlement to School Lunch Program Funds

As part of our ongoing reviews, we evaluated the New York City school district's meal accountability system and management controls that were designed to provide reasonable assurance as to the accuracy of its meal claims at over 1,460 schools that were reimbursed about \$204 million in NSLP funds for school year 1998/1999. We observed over 23,000 meals served at 35 schools and analyzed 6,673 monthly meal claims. The school district had not implemented controls, or controls were ineffective in preventing invalid payments. We identified the following material control weaknesses.

- The school district's eligibility verification process did not provide reasonable assurance that children served meals were correctly classified as eligible for free or reduced-price meals because it did not take prudent corrective actions when a large error rate was disclosed. About 55 percent of the applications sampled had to be reclassified either because the household did not respond or the household response disclosed that the original classification was in error. The error rate has continued to climb. The school district's verification process identified a 59.5 percent error rate for school year 1999/2000, a 65.1 percent error rate for school year 2000/2001, and a 69.5 percent error rate for school year 2001/2002.

- For those applications found to be in error during the eligibility verification process, the school district did not establish controls to ensure the applications were corrected at the school level. We identified 17 schools that did not correct the applications and adjust meal claims. As a result, the school district received excess reimbursement of about \$19,000.
- The school district did not perform the required average daily attendance to daily meal count edit check to provide reasonable assurance that each school was not claiming more meals served than children in attendance. A computer analysis of 6,673 monthly claims found that, in 1,647 claims, the schools claimed over 590,000 meals served in excess of children in attendance. As a result, the school district received excess reimbursement of at least \$982,000 and obtained excess USDA-donated foods valued at about \$87,000.
- The school district did not assign sufficient resources to timely or effectively monitor its over 1,460 schools' meal counting and claiming systems, resulting in the cited overclaims. Further, at only 21 of 94 schools surveyed were the applications used as a basis for calculating NSLP reimbursement retained for the required period to support the meal claims.

We made a series of recommendations to address these control weaknesses. If the school district does not take timely action to implement management controls over the eligibility verification process, FNS should consider withholding administrative funding.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

Participants in Stolen Baby Formula Scheme Prosecuted

Two reputed organized crime families in Cincinnati and Columbus, Ohio, were found to be conspiring to traffic food stamps and purchase large quantities of stolen WIC program infant formula and other stolen merchandise, much of which was then transported to warehouses in Lexington, Kentucky. A total of 17 individuals have been indicted on charges ranging from racketeering and food stamp trafficking to money laundering and trafficking in the prescription drug

Viagra. Twelve have pled guilty; two have been found guilty at trial and were sentenced to 57 months' imprisonment and 78 months' imprisonment. Assets totaling approximately \$2.1 million were seized from the bank accounts of these subjects. These assets and an additional \$800,000 were later criminally indicted in the Government's action against this property. This investigation was conducted jointly with the Ohio Organized Crime Investigations Commission, the FBI, and the Food and Drug Administration.

Four Individuals Sentenced in WIC Scam

Four people were indicted by a Federal grand jury in Atlanta on charges of conspiracy to defraud the WIC Program and theft of Government funds. During an 18-month period, 9,391 WIC vouchers, valued at \$268,237, were stolen from an Atlanta clinic by an employee and then sold by another individual to the owners of a local grocery store. All four pled guilty and have been sentenced to terms ranging from 4 months' home detention followed by probation to 21 months in prison. They were also ordered to make full restitution, which the store owners did prior to sentencing.

Program Integrity Investigations

In addition to the cases highlighted in previous sections, OIG agents, as always, have been working on a wide variety of investigations affecting the entire gamut of USDA programs. A few of those cases follow.

Former FSA State Committeeman and Brother Sentenced for Making False Statements to FSA

A former Mississippi FSA State Committeeman and his brother were found guilty by a Federal jury for making false statements to FSA to obtain 1998 cotton disaster payments totaling more than \$225,000. The brothers certified that they had planted the cotton within the FSA-established planting period when, in fact, the planting occurred much later. The former chairman was sentenced to 18 months in prison and fined \$20,000. His brother was sentenced to 12 months in prison and fined \$5,000.

New York Attorney Sentenced to Jail and Ordered To Pay \$864,500 in Restitution

A Long Island, New York, attorney was sentenced to 2 years 9 months in Federal prison and ordered to pay \$864,500 in restitution for wire fraud. A Rural Development loan applicant had retained the attorney to close a single-family housing loan in Riverhead, New York. When the purchase of the property did not occur as scheduled, RD instructed the attorney to return the \$147,050 that had been transferred to his escrow account. The attorney instead transferred the USDA funds overseas via wire to a fraudulent investment scheme operating out of Lagos, Nigeria, along with \$717,450 in funds he stole from the estates of several clients and obtained from victims he had convinced to participate. This investigation was worked jointly with the FBI.

Georgia Businessman and Equipment Broker Plead Guilty to \$5 Million B&I Loan Fraud Scheme

A Federal grand jury returned a 31-count superseding indictment against a Georgia businessman for his role in a fraudulent scheme to obtain a \$5 million USDA RD Business and Industry (B&I) guaranteed loan for a catfish processing plant in a poverty-stricken rural Georgia county. He was given the loan after he fraudulently claimed to have purchased \$2,950,000 in processing equipment for collateral for the loan. He and an equipment broker signed affidavits falsely certifying that he had given the money to the broker when, in fact,

no money had exchanged hands and no equipment had been purchased. The businessman used about half of the \$5 million loan to have the plant built and used the other half for his personal use. Both the businessman and equipment broker entered guilty pleas to conspiracy charges. The broker was sentenced to 32 months in prison and 3 years' supervised release, and ordered to pay \$7,500 in restitution. The businessman is awaiting sentencing.

Major Virginia Dog Fighter and Associates Convicted

Three individuals were convicted for illegally promoting and fighting dogs in Virginia and the Mid-Atlantic Region. The main promoter was sentenced to 30 months in Federal prison and received a \$17,000 fine for fighting dogs, as well as producing and selling videotapes and a magazine on how to train and fight dogs. His associate was sentenced to 9 months in State prison and given a \$3,000 fine. He had 70 dogs he was training at the time a search warrant was served on his property. A third individual was sentenced to probation and received a \$2,000 fine for fostering the illegal activity. Multiple search warrants served in this case by OIG special agents and State and local police agencies also resulted in the seizure of records; training equipment, such as tread mills; many legal and illegal drugs for treating the dogs; and a bloody fighting pit. This investigation was worked with the Franklin County Sheriff's Department, the Virginia State Police, the Franklin County Department of Public Safety and Animal Control, the Pittsylvania County Sheriff's Department, the Humane Society of the United States, and the Virginia Department of Forestry.



A dog used for fighting, and training treadmills utilized to increase dog endurance. OIG photos.

Financial Management and Accountability

GOVERNMENT PERFORMANCE AND RESULTS ACT

Implementation of GPRA in FSA

In 1993, Congress passed, and the President signed into law, the Government Performance and Results Act (GPRA). In response to a congressional request, we initiated an ongoing examination of agencies' activities pursuant to GPRA. This period, we concluded an audit of GPRA in FSA. We found that some improvements were needed.

For example, we found errors in the results reported in the Annual Program Performance Report (annual report) for 3 of 21 performance measures. Further, 18 of the 21 performance measures were output-oriented (expressed in terms of a quantitative result) rather than outcome-oriented (expressed in terms of a programmatic result), and the results reported did not indicate the degree to which long-term goals were being met.

The results FSA reported for these 18 measures would not permit readers of the annual report to gauge the impact of its programs' products or services. FSA was making efforts to develop outcome-oriented performance measures to replace 4 of the 18 performance measures but had not completed development of reporting systems that would provide accurate and supportable results at the time of our review.

FSA had not implemented controls or developed written procedures over some of the activities related to the reporting of performance results. Therefore, FSA reported data on loans that did not match the description of the data in its annual plan and annual report. As a result, FSA reported some performance results that did not reflect its actual accomplishments.

We recommended that FSA develop performance measures that are outcome-oriented, linked to the achievement of its long-term goals, and for which results reported would indicate the degree to which the long-term goals are being met. FSA also needed to ensure that written procedures were established and implemented, including internal controls over the collection, calculation, and reporting of performance data. We also recommended that FSA ensure that

annual plans include specific verification and validation methods that will ensure the accuracy of performance results, and that those methods be fully implemented.

FSA officials agreed with the recommendations and have initiated corrective actions. FSA stated that it is continuing efforts to improve the development of performance information that is more outcome-oriented. It has added three recently developed outcome-oriented performance measures to the FY 2003 annual performance plan. The FY 2004 annual performance plan guidance will include requirements to document internal control methodologies. This guidance will also include specific instructions for preparing the verification and validation sections of the annual performance plan.

FINANCIAL-RELATED AUDITS

Audit of Selected FFIS Operations

The Foundation Financial Information System (FFIS) is a highly significant and much needed undertaking by the Office of the Chief Financial Officer (OCFO) and USDA, prompted by the longstanding financial management problems OIG has reported over the last 10 years. As of October 1, 2001, FFIS had been implemented for approximately 98 percent of the Department. FFIS will provide the Department with a materially strengthened accounting system, strengthened financial controls, and better financial reporting. When coupled with other financial management improvements planned or underway by OCFO, the Department's overall financial management system should be substantially improved.

We tested access and document processing controls, funds control, and the audit trail processes for each agency participating in FFIS as of October 1, 2002, and found that accounting policies and internal control procedures, established by each agency, frequently did not adhere to the OCFO guidance or other authoritative sources. In our opinion, the weaknesses we found, in aggregate, constitute a material internal control weakness. Examples follow.

- The corporate-level control and processing structure, established by OCFO for the agencies to follow, needed to be expanded, and agencies frequently were not following OCFO's guidance.

- Departmental agencies had not adequately limited access granted to users, appropriately segregated duties, or sufficiently controlled changes to “feeder” system documents.
- There were five types of FFIS payment documents where agencies did not require “approvals” before the payment was processed, as required by OCFO guidance.
- Budgetary controls, inherent in the FFIS system, were not implemented or were implemented inconsistently by the agencies.
- Agencies implemented internal control settings and edits inconsistently and/or did not comply with OCFO requirements. For example, the interest rate applied to overdue receivables varied from 5 percent to 6.375 percent among eight agencies reviewed; the correct rate was 6 percent.

We recommended that OCFO require agencies to obtain training on internal control processes and to immediately eliminate unauthorized or unnecessary accesses to FFIS, including users who are no longer USDA employees. Agencies also should be required to fully use the controls available in FFIS, including establishing full control for all appropriated funds and setting budgetary spending limits on all appropriated funds. OCFO agreed with all findings and recommendations and has begun corrective action.

USDA’S FMFIA Act Guidance Is Lacking

We performed a review of the Department’s Federal Managers’ Financial Integrity Act (FMFIA) reporting requirements. Our objective was to assess the adequacy of the Department’s guidance regarding what constitutes a material internal control weakness and, thus, warrants disclosure in the Department’s FMFIA report to Congress.

Materiality is based on the concept that items of little importance, which do not affect the judgment or conduct of a reasonable user, do not require investigation. As stated by the U.S. General Accounting Office, “materiality has both quantitative and qualitative aspects.” Pursuant to FMFIA, each agency is required to review its system of internal controls and report any material internal control weaknesses. Without viable criteria, however, known internal control weaknesses

that potentially should be considered material may go unreported, and the existence of additional material internal control weaknesses may not be detected.

The Department had not established clear instructions for determining whether an identified weakness was sufficiently material to be included in its FMFIA report. This condition was caused primarily by an absence of quantitative criteria set forth by OCFO in its regulations, something agencies need in order to classify or describe a weakness as being material. OCFO incorporated a very broad definition of material weakness, put forth by OMB, without adding supplemental criteria. As a result, USDA agencies may not be considering dollar impact in determining whether to report weaknesses as material. For example, the Rural Housing Service identified a weakness internally which estimated that the cost of repairs to its Multi-Family Housing portfolio was underfunded by about \$850 million. This weakness, however, was not reported by the agency because it was deemed to be immaterial.

We recommended that the Department develop and implement a definition of a material weakness that contains quantitative characteristics and properly reflects the relative risk and significance of deficiencies. OCFO did not concur with the report’s recommendations, stating that “management’s opinion, based on their experience, is adequate to ensure material deficiencies are disclosed....” OIG’s opinion is that USDA agencies have internally generated very few reportable conditions, in part, because prescribed quantitative criteria are absent. Relying on the subjectivity inherent in management’s opinion results in lack of uniformity and, as can be discerned historically, minimal disclosures of what are, in fact, significant deficiencies in the administration of programs and operations of the Department.

Summary of Audit Activities

Reports Issued		42
Audits Performed by OIG	33	
Evaluations Performed by OIG	1	
Audits Performed Under the Single Audit Act	4	
Audits Performed by Others	4	
Management Decisions Made		
Number of Reports		35
Number of Recommendations		247
Total Dollar Impact (Millions)		\$173.8
Questioned/Unsupported Costs	\$29.5 ^{a,b}	
Recommended for Recovery	\$21.0	
Not Recommended for Recovery	\$8.5	
Funds To Be Put to Better Use	\$144.3	

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

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

Summary of Investigative Activities

Reports Issued		222
Cases Opened		254
Cases Closed		340
Cases Referred for Prosecution		99
Impact of Investigations		
Indictments		255
Convictions		233 ^a
Searches		73
Arrests		472 ^b
Total Dollar Impact (Millions)		\$30.7
Recoveries/Collections	\$ 3.4 ^c	
Restitutions	\$14.6 ^d	
Fines	\$ 0.8 ^e	
Claims Established	\$ 8.4 ^f	
Cost Avoidance	\$ 3.5 ^g	
Administrative Sanctions		
Employees		48
Businesses/Persons		363

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 233 convictions do not necessarily relate to the 255 indictments.

^b Includes 300 Operation Talon arrests and 172 arrests not related to Operation Talon.

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

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

^e Fines are court-ordered penalties.

^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.

Statistical Data

AUDITS WITHOUT MANAGEMENT DECISION

The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

New Since Last Reporting Period

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
CCC	02/26/02	1. FY 2001 CCC Financial Statements (06401-4-KC)	19,586	19,586
FNS	11/09/01	2. Florida FSP (27004-3-At)	15,933,950	15,933,950
	11/21/01	3. CACFP – Wildwood, Inc., Phase II (27010-6-KC)	36,895,611	36,895,611
	11/21/01	4. CACFP – Oversight of Sponsor (27010-8-KC)	27,484	27,484
	01/14/02	5. States' Oversight of CACFP Sponsors (27002-14-Ch)	0	0
	03/29/02	6. NSLP – Chartwell's Food Service Management Company (27601-13-KC)	307,711	307,711
FS	11/14/01	7. MATCOM – Contract Audit (08017-10-KC)	66,899	66,899
Multi	03/29/02	8. Controls Over Accidental and Clandestine Release of Biohazards (50099-13-At)	0	0
RD	03/20/02	9. Compliance With FMFIA Requirements (85401-4-Ch)	0	0
	03/22/02	10. KY Highland Empowerment Zone (04801-10-At)	34,419	34,419
RMA	03/15/02	11. Monitoring of RMA's Implementation of Manual 14 (05099-14-KC)	0	0

Previously Reported but Not Yet Resolved

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

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
ARS	02/08/99	12. Audit of J.A. Jones Management Services, CY 1994 and 1995 (02017-4-AT)	160,233	160,233
CR	09/30/98	13. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-Hq)	0	0
	03/24/99	14. Evaluation of CR Management of Settlement Agreements (60801-2-Hq)	0	0
	03/10/00	15. Office of CR Management of Employment Complaints (60801-3-Hq)	0	0
	03/10/00	16. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-Hq)	0	0
CSREES	03/27/97	17. Use of 4-H Program Funds - University of Illinois (13011-1-Ch)	5,633	0
FNS	03/22/00	18. CACFP – National Initiative To Identify Problem Sponsors - Wildwood (27010-3-KC)	319,279	0
	05/11/01	19. NSLP – Food Service Management Companies (27601-12-KC)*	3,572,137	3,572,137
	09/06/01	20. NSLP – Food Service Management Companies, MWR (27601-24-Ch)*	3,537,912	3,198,926

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FS	03/31/97	21. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	468,547	468,547
	09/24/98	22. Assistance Agreements to Nonprofit Organizations (08601-2-Te)*	7,098,026	0
	05/04/01	23. FY 2000 FS Financial Statements (08401-11-At)	1,305,600,000	1,305,600,000
	05/29/01	24. Northeastern Research Station Accounting for Timber Sales (08007-1-At)	2,388,107	0
FSA	09/28/95	25. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)	1,805,828	1,672,929
	05/02/96	26. Disaster Assistance Program—1994, Thomas County, GA (03006-13-At)*	2,177,640	2,145,533
	03/30/99	27. Payment Limitation - Mitchell County, Georgia (03006-20-At)	881,924	881,924
	08/22/00	28. LaFlore County FSA Office Disaster Programs (03006-20-Te)*	228,764	228,764
	05/24/01	29. FSA Payment Limitations Majority Stockholders of Corporations (03099-27-Te)	0	0
	07/30/01	30. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
FSIS	06/21/00	31. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	32. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
Multi	09/30/98	33. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	2,651,292
	03/31/99	34. Private Voluntary Organization Accountability (50801-6-At)	18,629,558	18,501,064
	09/28/00	35. Crop Loss Disaster Assistance Program (50801-3-KC)	10,728,872	149,178
OCIO	03/03/01	36. Security Over USDA IT Resources Needs Improvement (50099-27-FM)	0	0
RBS	10/01/99	37. Business and Industry Loan - Indiana Farms (34099-3-Ch)*	595,511	595,511
	09/12/01	38. Lender Servicing of B&I Guaranteed Loan, State of Arizona, Lender B (34601-4-SF)	2,365,060	2,365,060
	01/28/02	39. Lender Servicing of Business and Industry Guaranteed Loans – Florida (34601-3-At)	1,536,060	1,536,060
RHS	01/08/99	40. RRH Program - Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	04/20/99	41. RRH Program - Owner/ Manager, Olympia, WA (04801-6-SF)*	346,685	346,685
	05/25/00	42. RRH Nationwide Initiative, in MO, St. Louis, MO (04801-2-KC)	4,922,879	4,919,579
	12/18/00	43. RRH Program, Insurance Expenses, Washington, D.C. (04801-6-KC)	924,751	753,448
	09/28/01	44. RRH Program, Insurance Expenses, Phase II (04601-4-KC)	596,665	562,515

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
RMA	09/30/97	45. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	12/16/98	46. Crop Insurance on Nurseries (05099-2-At)*	3,963,468	0
	02/28/01	47. FY 2000 FCIC Financial Statements (05401-1-Hq)	0	0
	03/12/01	48. RMA/FCIC FY 2000 Financial Statements Report on Management Issues (05401-2-Hq)	0	0
	03/14/01	49. Crop Insurance for Specialty Crops (05601-4-At)	2,254,014	2,254,014
	05/21/01	50. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	08/17/01	51. Risk Management Agency Watermelon Claims in South Texas (05601-7-Te)	1,506,620	1,506,620

1. Commodity Credit Corporation (CCC) – FY 2001 Financial Statements, Issued February 26, 2002

We issued an unqualified opinion on CCC's Financial Statements. However, as in prior years, we continued to find significant errors in CCC's accounting records for its foreign loan and domestic accounting operations. As a result, transactions are not properly recorded, processed, and summarized to permit the preparation of reliable financial statements without numerous and substantial adjustments. We recommended that CCC (1) make improvements to its accounting and reporting systems, (2) improve the timeliness and accuracy of its financial information, and (3) strengthen supervisory management over financial account reconciliation, accounting entries, and adjustments. We continue to work with CCC to resolve these issues.

2. Florida Food Stamp Program, Issued November 9, 2001

The audit identified about 128,700 unworked food stamp claims with an estimated value of \$14.7 million. The State had agreed to a plan to reduce the backlog by June 30, 2002, or face fiscal sanction actions. FNS scheduled an onsite review to begin July 28, 2002, to validate that the State has met target reduction goals and assigned sufficient resources to the effort. We are awaiting the results of the FNS review findings and determination of whether sanction actions will be pursued.

3. CACFP – Wildwood, Inc., Phase II, Issued November 21, 2001

The recommendations for this report are still open. In order to achieve management decision, we need to be informed of the timeframes for corrective actions, and provided information on the specific actions to be taken, along with billings on the unauthorized costs. The FNS regional office gave the State agency additional time to reply to the report due to appeals and court orders.

4. CACFP – Oversight of Sponsor, Issued November 21, 2001

The recommendations for this report are still open. In order to achieve management decision, we need to be informed of the timeframes for corrective actions and provided information on the specific actions to be taken, along with billings on the unauthorized costs. The FNS regional office gave the State agency additional time to reply to the report due to appeals and court orders.

5. States' Oversight of CACFP Sponsors, Issued January 14, 2002

Management decisions have not been reached on 4 of 11 recommendations. We are working with FNS to resolve one recommendation dealing with the identification of subrecipients whose total Federal funding reaches the threshold that would require an audit in accordance with OMB Circular A-133. In order to resolve a second recommendation, we are awaiting the completion of an FNS financial review at one State agency that included an evaluation of FY 1999 administrative audit fund expenditures that was scheduled to be performed by September 30, 2002. We expect to reach management decision on the remaining two recommendations in the near future when we receive clarification of actions FNS has initiated.

6. National School Lunch Program – Chartwell's Food Service Management Company, Issued March 29, 2002

Two recommendations remain open in this report. For Recommendation No. 1, clearance must be obtained from OIG before action can be taken. For Recommendation No. 2, Chartwell's should be required to begin crediting school food authorities (SFA) with the dollar amount of commodities used during the 2002 school year. If that has not been done, then any recovery of amounts that should have been credited should be cleared with OIG. Also, the State agency is to ensure that the bid process and contracts are developed so that SFAs receive credit for USDA-donated commodities and revise the checklist provided to SFAs to include the contract language needed.

7. MATCOM Contract Audit, Issued November 14, 2001

The report has one recommendation requiring the contracting officer to resolve the questioned costs. After issuance of the report, and as a part of the management decision process, the Defense Contract Audit Agency (DCAA) informed us that an additional audit of a company purchased by MATCOM was necessary to determine the amount of the questioned costs, because the USDA contracts covered several years. This needed audit is scheduled to be performed sometime in FY 2003. We are working with DCAA and the contracting officer to obtain the required information.

8. Controls Over Accidental and Clandestine Release of Biohazards, Issued March 29, 2002

We found that security of biological agents at USDA laboratories was inconsistent and generally in need of improvement. The Department had issued no policies and procedures for agencies to implement to manage security at the laboratories and to centralize control of field unit practices involving the use and storage of biological agents. To reach management decision, the agencies need to put forth a determined effort to improve communications with their laboratories and to implement the Department's new policies and procedures. We also concluded that more needed to be done in several key areas. The most prominent area is a centralized database. Such a database is critical to Department-level management of biological agents, and we urge the agencies to finish consolidating their inventories at the agency and Department levels. We also need all agencies to adhere to the doctrines of the task force policies and implement those policies at all laboratories with biological agents, not just those classified as high risk.

9. Rural Development Compliance With FMFIA Requirements, Issued March 20, 2002

We found that RD's process did not ensure that all material weaknesses would be identified and reported. In the past 10 years, RD found only 3 of the 23 (13

percent) material internal control weaknesses identified in Section 2 of the FMFIA report. We recommended that RD develop clear and comprehensive control objectives and techniques, and establish risk level assessments for individual control objectives in order to adequately monitor the effectiveness of its programs and identify nationwide trends. We are working with RD to achieve management decision.

10. RD – The Kentucky Highland Empowerment Zone - Issued March 22, 2002

We recommended that the Clinton County Empowerment Zone Community, Inc. (CCEZCI), collect \$34,418.92 from a former board member. The board member had improperly authorized the disbursement of funds without the approval of other board members and had diverted funds for his personal use.

11. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control (QC) Review System, Issued March 15, 2002

We recommended that the RMA Administrator seek legislation to mandate a QC review system to evaluate private sector delivery of the Federal Crop Insurance Program, implement basic program policy decisions to include meaningful performance measures, and develop a long-term QC plan of action. We also recommended that RMA define and describe its QC system authoritatively by regulation and report the absence of a reliable system as a material internal control weakness under FMFIA. RMA believes that a legislative process is lengthy and time-consuming and has proposed to award a contract to study its delivery process and the underlying agreement. RMA also plans to study and analyze its contractual agreements for program delivery, which includes the QC system, and has indicated that the new system will include goals and objectives to evaluate performance and measure results. RMA agrees that improvements can be made to the current system but disagrees with reporting its unreliability as a material weakness. We maintain our opinion on that matter and continue to work with the agency to resolve the issue.

Indictments and Convictions

Between April 1 and September 30, 2002, OIG completed 222 investigations. We referred 99 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 255 indictments and 233 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 233 convictions do not necessarily relate to the 255 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$30.7 million.

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

Indictments and Convictions April 1 - September 30, 2002

Agency	Indictments	Convictions*
AMS	0	21
APHIS	13	6
ARS	2	1
CSREES	0	1
FNS	189	153
FS	4	3
FSA	22	20
FSIS	5	6
GIPSA	0	6
NRCS	2	1
OIG	1	1
RBS	4	0
RHS	9	8
RMA	1	5
RUS	2	0
SEC	1	1
Totals	<u>255</u>	<u>233</u>

*This category includes pretrial diversions.

Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,134 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1

Hotline Complaints

April 1 to September 30, 2002
(Total = 1,134)

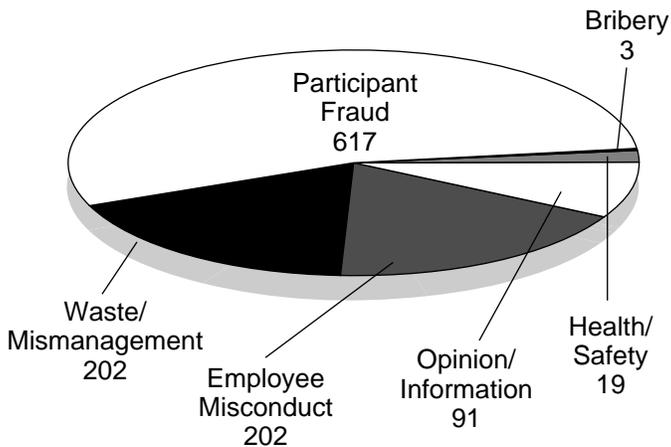
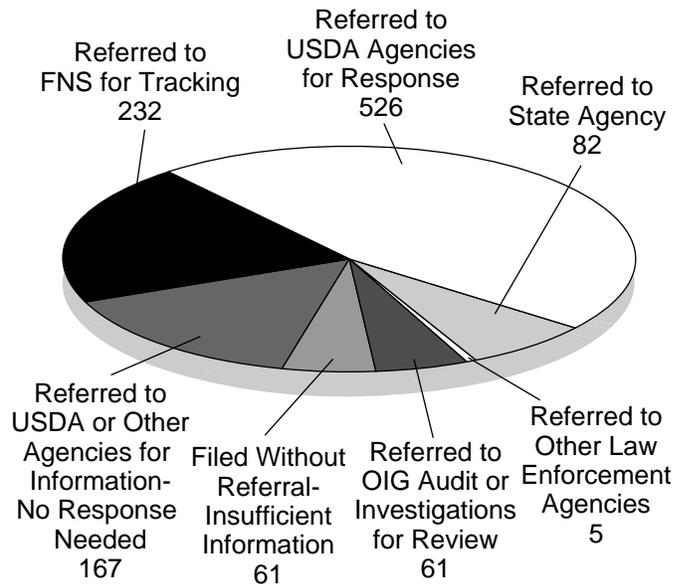


Figure 2

Disposition of Complaints

April 1 to September 30, 2002



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period April 1 to September 30, 2002

Number of FOIA/PA Requests Received 175

Number of FOIA/PA Requests Processed: 185

Number of Requests Granted in Full 58
 Number of Requests Granted in Part 47
 Number of Requests Not Granted 42

Reasons for Denial:

No Records Available 18
 Requests Denied in Full 11
 Referrals to Other Agencies 13

Requests for OIG Reports From Congress and Other Government Agencies

Received 65
 Processed 61

Appeals Processed 7

Appeals Completely Upheld 4
 Appeals Partially Reversed 3
 Appeals Completely Reversed 0

Number of OIG Reports/Documents Released in Response to Requests 114

NOTE: A request may involve more than one report.

During this 6-month period, 27 audit reports were published on the Internet at the OIG Web site: www.usda.gov/oig.

Appendix I

INVENTORY OF AUDIT REPORTS ISSUED WITH QUESTIONED COSTS AND LOANS BETWEEN APRIL 1 AND SEPTEMBER 30, 2002

DOLLAR VALUES

	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED^a COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2002	45	\$152,787,146	\$85,037,884
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	13	33,800,577	1,359,545
TOTALS	58	\$186,587,723	\$86,397,429
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	15		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$20,975,461	
NOT RECOMMENDED FOR RECOVERY		8,487,723	
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		5,288,945	\$2,350,965
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	43	152,367,976	84,046,464
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	32	126,863,237	82,686,919

^aUnsupported values are included in questioned values.

Appendix II

**INVENTORY OF AUDIT REPORTS ISSUED
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
BETWEEN APRIL 1 AND SEPTEMBER 30, 2002**

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2002	14	\$163,424,541
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	8	41,378,711
TOTALS	<u>22</u>	<u>\$204,803,252</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	6	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$144,258,882
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	16	60,544,370
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	10	19,231,958

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1 AND SEPTEMBER 30, 2002

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1 AND SEPTEMBER 30, 2002, THE OFFICE OF INSPECTOR GENERAL ISSUED 42 AUDIT REPORTS, INCLUDING 4 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FARM SERVICE AGENCY	4	\$4,943,782		
RURAL HOUSING SERVICE	1	193,699		\$15,500,000
RISK MANAGEMENT AGENCY	3	7,033,115		21,100,000
FOREST SERVICE	2			2,049,653
RURAL UTILITIES SERVICE	1	2,940,838		
NATURAL RESOURCES CONSERVATION SERVICE	5			580,000
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE	1	1,246,161	841,762	
OFFICE OF OPERATIONS	1			
FOOD SAFETY AND INSPECTION SERVICE	1			
FOOD AND NUTRITION SERVICE	7	10,185,258	517,783	
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1	1,430,522		268,950
RURAL BUSINESS-COOPERATIVE SERVICE	2	5,827,202		
MULTIAGENCY	10			1,813,809
RURAL DEVELOPMENT	3			66,299
TOTALS	42	\$33,800,577	\$1,359,545	\$41,378,711
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	32			
MULTIAGENCY AUDIT	9			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	1			
TOTAL RELEASED NATIONWIDE	42			
TOTAL COMPLETED UNDER CONTRACT^b	4			
TOTAL SINGLE AUDIT ISSUED^c	4			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FARM SERVICE AGENCY				
03-099-0004-SF 2002/08/26	LIMITED CALIFORNIA COOPERATIVE INSOLVENCY PAYMENT PROGRAM - TRI VALLEY GROWERS	\$304,398		
03-099-0005-SF 2002/08/29	CROP DISASTER PROGRAM PAYMENTS TO PEACH GROWERS SUTTER/YUBA COUNTY, CA	\$55,587		
03-099-0050-KC 2002/04/02	QUALITY LOSS PROGRAMS			
03-099-0164-AT 2002/09/30	ASSESSMENTS ON IMPORTED TOBACCO	\$4,583,797		
TOTAL: FARM SERVICE AGENCY		<u>4</u>	<u>\$4,943,782</u>	
RURAL HOUSING SERVICE				
04-601-0005-KC 2002/08/08	RURAL RENTAL HOUSING PROGRAM SERVICING OF INSURANCE EXPENSES	\$193,699		\$15,500,000
TOTAL: RURAL HOUSING SERVICE		<u>1</u>	<u>\$193,699</u>	<u>\$15,500,000</u>
RISK MANAGEMENT AGENCY				
05-099-0010-SF 2002/08/26	INDEMNITY PAYMENTS TO PEACH GROWERS IN CALIFORNIA	\$34,336		
05-601-0008-TE 2002/09/30	VIABILITY OF 1999 FALL WATERMELON CROP INSURANCE IN TEXAS			\$21,100,000
05-601-0009-TE 2002/09/30	REVIEW OF LARGE INSURANCE CLAIM FOR WATERMELONS	\$6,998,779		
TOTAL: RISK MANAGEMENT AGENCY		<u>3</u>	<u>\$7,033,115</u>	<u>\$21,100,000</u>
FOREST SERVICE				
08-017-0004-HY 2002/08/30	KAJAX ENGINEERING, INC., INCURRED COST - FISCAL YEARS 1998 & 1999			
08-017-0011-KC 2002/07/17	OMNI DEVELOPMENT CORPORATION - CONTRACT			\$2,049,653
TOTAL: FOREST SERVICE		<u>2</u>		<u>\$2,049,653</u>
RURAL UTILITIES SERVICE				
09-001-0001-HQ 2002/09/27	SALE OF CAPITAL ASSETS BY RUS COOPERATIVES	\$2,940,838		
TOTAL: RURAL UTILITIES SERVICE		<u>1</u>	<u>\$2,940,838</u>	
NATURAL RESOURCES CONSERVATION SERVICE				
10-017-0003-HY 2002/08/30	KAJAX ENGINEERING, INC., INCURRED COST - FISCAL YEARS 1998 AND 1999			
10-099-0008-KC 2002/09/10	COMPLIANCE WITH HIGHLY ERODIBLE LAND PROVISIONS			
10-099-0009-KC 2002/08/08	EFFECTIVENESS OF STATUS REVIEW PROCESS IN KANSAS			
10-601-0005-TE 2002/08/05	SURVEY OF FARMLAND PROTECTION PROGRAM-REPORT			\$580,000
10-601-0006-TE 2002/09/24	CONTROLS OVER FUNDS CONGRESSIONALLY EARMARKED FOR CONSERVATION PROJECTS			
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		<u>5</u>		<u>\$580,000</u>

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE				
13-099-0002-TE 2002/08/06	GRANTS TO NATIONAL CENTER FOR RESOURCES INNOVATIONS	\$1,246,161	\$841,762	
TOTAL: COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE		<u>1</u>	<u>\$1,246,161</u>	<u>\$841,762</u>
OFFICE OF OPERATIONS				
23-099-0002-FM 2002/05/22	SECURITY OF INFORMATION TECHNOLOGY RESOURCES AT USDA DEPARTMENTAL ADMINISTRATION			
TOTAL: OFFICE OF OPERATIONS		<u>1</u>		
FOOD SAFETY AND INSPECTION SERVICE				
24-099-0004-AT 2002/09/30	OVERTIME CONTROLS			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		<u>1</u>		
FOOD AND NUTRITION SERVICE				
27-010-0007-KC 2002/04/23	PHASE II, ANALYSIS OF LARGE CACFP SPONSORS			
27-010-0028-HY 2002/09/30	NATIONAL SCHOOL LUNCH PROGRAM OPERATIONS IN NEW YORK CITY	\$1,088,403		
27-099-0011-TE 2002/09/24	ARKANSAS EBT SYSTEM DEVELOPMENT			
27-099-0018-SF 2002/07/03	FOOD STAMP PROGRAM ADMINISTRATIVE COSTS - CALIFORNIA	\$9,096,855	\$517,783	
27-099-0019-SF 2002/07/24	FOOD STAMP PROGRAM ADMINISTRATIVE COSTS - ARIZONA			
27-099-0023-CH 2002/08/21	CONTINUED MONITORING OF EBT SYSTEM DEVELOPMENT FISCAL YEAR 2002 - MICHIGAN			
27-601-0027-CH 2002/04/30	NSLP - FOOD SERVICE MANAGEMENT COMPANIES			
TOTAL: FOOD AND NUTRITION SERVICE		<u>7</u>	<u>\$10,185,258</u>	<u>\$517,783</u>
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
33-099-0002-AT 2002/08/08	APHIS CITRUS CANCKER MONITORING EFFORTS - SOUTH FLORIDA	\$1,430,522		\$268,950
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		<u>1</u>	<u>\$1,430,522</u>	<u>\$268,950</u>
RURAL BUSINESS-COOPERATIVE SERVICE				
34-601-0006-SF	BUSINESS AND INDUSTRY DIRECT LOAN PROGRAM - HAWAII	\$5,355,000		
34-601-0014-TE 2002/09/27	BUSINESS AND INDUSTRY DIRECT LOAN PROGRAM - ARKANSAS	\$472,202		
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		<u>2</u>	<u>\$5,827,202</u>	

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN APRIL 1 AND SEPTEMBER 30, 2002**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
MULTIAGENCY				
50-021-0001-CH 2002/08/13	SINGLE AUDIT OF THE ILLINOIS DEPARTMENT OF AGRICULTURE			
50-021-0002-CH 2002/07/03	SINGLE AUDIT OF THE MICHIGAN DEPARTMENT OF AGRICULTURE			
50-022-0005-HY 2002/08/02	PUERTO RICO DEPARTMENT OF AGRICULTURE, A-133, SFYE JUNE 30, 1997			
50-022-0006-HY 2002/08/02	PUERTO RICO DEPARTMENT OF AGRICULTURE, A-133, SFYE JUNE 30, 1998			
50-099-0005-HQ 2002/06/27	REVIEW OF POLICIES AND PROCEDURES FOR NEW OFFICES AND FACILITIES			
50-099-0050-FM 2002/09/10	FY 2002 USDA GOVERNMENT INFORMATION SECURITY REFORM ACT REPORT			
50-401-0042-FM 2002/06/24	AUDIT OF FFIS OPERATIONS			
50-601-0004-CH	IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE & RESULTS ACT IN THE FARM SERVICE AG FY 2000			
50-601-0004-HQ 2002/08/06	REVIEW OF USDA AGENCIES' OFFICIAL WEBSITES FOR SENSITIVE CONTENT			
50-801-0012-AT 2002/09/09	MANAGEMENT OF USDA HAZARDOUS WASTE MANAGEMENT FUNDS			\$1,813,809
TOTAL: MULTIAGENCY		<u>10</u>		<u>\$1,813,809</u>
RURAL DEVELOPMENT				
85-099-0002-FM 2002/08/05	SECURITY OF INFORMATION TECHNOLOGY RESOURCES - RURAL DEVELOPMENT			
85-401-0001-HY 2002/04/26	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT-NER ASSIST			\$39,249
85-401-0005-CH 2002/04/19	FISCAL YEAR 2001 RURAL DEVELOPMENT FINANCIAL STATEMENT AUDIT - FIELD CONFIRMATIONS, WISCONSIN			\$27,050
TOTAL: RURAL DEVELOPMENT		<u>3</u>		<u>\$66,299</u>
TOTAL: RELEASE - NATIONWIDE		<u>42</u>	<u>\$33,800,577</u>	<u>\$1,359,545</u> <u>\$41,378,711</u>